Federal
Deposit
Insurance
Corporation

1934

1994

1994
Annual
Report

protecting
depositors
and the
banking
system
for
60 years

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress to maintain stability and public confidence in the nation's banking system.

In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other federal and state regulatory agencies, the FDIC promotes the safety and soundness of insured depository institutions and the U.S. financial system by identifying, monitoring, and addressing risks to the deposit insurance funds.

The FDIC promotes public understanding and sound public policies by providing financial and economic information and analyses. It minimizes disruptive effects from the failure of banks and savings associations. It assures fairness in the sale of financial products and the provision of financial services.

The FDIC's long and continuing tradition of public service is supported and sustained by a highly skilled and diverse workforce that responds rapidly and successfully to changes in the financial environment.

FEDERAL DEPOSIT
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INSURANCE CORPORATION

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Annual Report

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FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429

Office of the Chairman

July 17, 1995

Sirs:

In accordance with the provisions of section 17 (a) of the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation is pleased to submit its Annual Report for the calendar year 1994.

Sincerely,

Ricki Helfer
Chairman

The President of the U.S. Senate

The Speaker of the U.S. House of Representatives

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Chairman's Statement

The banking crisis of recent years is now behind us. After reporting repeated record earnings, the banking industry as a whole last year was in the best financial condition it has ever experienced.

Thirteen banks insured by the FDIC Bank Insurance Fund (BIF) failed in 1994, compared to the historical high of 206 in 1989. These 13 banks held about $1.4 billion in assets, compared to the historical high of $63 billion in failed bank assets in 1991. As of December 31, 1994, the BIF had a balance of $21.8 billion. It was expected to hold reserves of $1.25 for every $100 of insured deposits, a target mandated by Congress, during the second quarter of 1995.

Main Challenges

Given the end of the banking crisis, the FDIC faces some of the same challenges as the military faces when war ends and peace begins.

One of these challenges is the need to cut our costs to reflect the greatly improved health of the banking industry.

In 1994, we began to reshape our workforce. Staff levels at the FDIC declined dramatically. From a historical high of 15,585 employees in the second quarter of 1993, staffing declined to 11,627 employees at year-end 1994, which is about 25 percent in just six quarters. In 1994 alone, staff was reduced by 2,592, or 18 percent.

A second, and greater, challenge is to redefine our mission and our role from closing failed banks to keeping banks open and operating in a safe and sound manner.

Given the changes in the financial marketplace over the past decade, banks and savings associations are exposed to types and levels of risk different from anything the financial system has ever experienced. New categories of risk seem to emerge every day. The FDIC must broaden its focus and increase its expertise to understand and address these risks. It must work effectively with financial institutions to ensure they have controls in place for monitoring and limiting risks.

By the end of 1994, we had begun to shift the FDIC from an organization skilled in crisis management to an organization dedicated to crisis prevention, which is to say an organization dedicated to identifying and addressing risks to the banking industry and the deposit insurance funds.

In 1994, I began several initiatives that will lead us toward an FDIC that is dedicated to identifying and addressing risk so that we can keep banks open instead of closing them.

We began developing a strategic plan. This will be the first formal, corporate-wide strategic plan that the FDIC has adopted in its 61-year history.

I created an internal task force on capital markets to analyze the potential risks posed by capital markets activities and instruments,

Barbara Ries

FDIC Chairman
Ricki Helfer

such as financial derivatives, and to make recommendations on the ways the FDIC can be better prepared to analyze and address the potential risks that these instruments pose to individual institutions, the banking system, and the insurance funds. The task force will begin reporting its findings and recommendations to me in the spring of 1995.

We began processing data on bank failures from the past 15 years into a form that will enable us to develop more effective models for predicting bank failures and to have a better understanding of what factors lead to losses to the insurance funds.

We developed a new survey of examiners on credit underwriting practices of banks in our eight supervisory regions. This survey may serve as an "early warning" system for banking problems.

I should emphasize that the focus on risk cuts another way: to eliminating or reducing regulation where it no longer reflects risk to the insurance funds. I have asked the FDIC staff to identify regulations that are not necessary from the perspective of safety and soundness or are not otherwise mandated by the Congress.

FDIC Independence

I am determined to keep the FDIC an independent agency, in fact as well as name. As the deposit underwriter for all banks and savings associations, the FDIC must be able to make underwriting decisions independently. We also have the responsibility to assure that the institutions we insure are operated in a safe and sound manner.

The FDIC's independence often has been tested, but it has never been compromised. Congress has made it clear that the FDIC should have the necessary power to protect the deposit insurance funds, and by extension, the American taxpayer, from the kinds of losses that depleted the BIF and that decimated the savings and loan fund in the 1980s.

To protect the insurance funds and to retain the public's trust, the FDIC must make unbiased judgments and we must act upon them without fear or favor. Independence gives us credibility and legitimacy.

The integrity of the insurance funds rests ultimately on the integrity of the people who manage them and who assess the risks in the financial system to which the funds are exposed. Attempts to compromise our independence are necessarily attempts to compromise the FDIC's ability to do its job.

A History of Service

Throughout our more than 60 years of distinguished service to the nation, in calm and in crisis, the FDIC has provided the public with solid grounds for confidence in the banking system. In a changing banking environment, the FDIC has represented continuity. In a financial system built on risk, the FDIC has afforded security. We at the FDIC can say with pride that no bank depositor has lost a penny of money that we have insured and that no U.S. taxpayer has paid a single cent for this protection.

At the FDIC, three generations of men and women have worked to build this record of distinguished service. We have all benefitted from their devotion to the public interest and their high standards of professionalism in a job that promises much hard work, but little glory. It is an honor for me to serve with them and, particularly, to serve with my predecessor, Andrew C. Hove, Jr., Acting FDIC Chairman from August 1992 to October 1994.

Ricki Helfer

Ricki Helfer
Chairman

The State of the Banking Industry

Insured commercial banks and savings institutions posted a third consecutive year of solid earnings in 1994. Commercial bank earnings set a new record in 1994 primarily due to strong loan growth and continued improvement in credit quality. Thrift industry profits, while high by recent standards, were kept below their 1993 level by restructuring charges and the absence of any securities gains. Both industries were able to strengthen their balance sheets in 1994 by increasing capital and reducing troubled assets. These improvements increase the likelihood of continued favorable earnings in the near future. The following is an overview of conditions in these two segments of the financial industry.

Commercial Banks

Insured commercial banks reported record net income of $44.7 billion in 1994, an increase of 3.7 percent from the $43.1 billion earned in 1993. The average return on assets (ROA) was 1.15 percent in 1994, down from 1.20 percent the year before. These are the only two years in the history of the FDIC that commercial banks have posted an average ROA above one percent. More than 96 percent of all commercial banks were profitable in 1994. The main sources of improved earnings were higher net interest income and lower provisions for future loan losses.

A $7.3 billion increase in net interest income was attributable to strong growth in interest-earning assets, particularly loans, which helped offset a slight decline in net interest margins. Loans grew by $208.4 billion (9.7 percent) in 1994 — the largest dollar increase of any year in the industry's history and the largest percentage increase since the 14.5 percent growth in 1984.

Provisions for future loan losses totaled $10.9 billion in 1994, a decrease of $5.9 billion from 1993 and the lowest full-year total since 1983. Noncurrent loans and other real estate owned shrank by 31.7 percent, to $40.3 billion, which is the lowest level since 1983. At the end of 1994, troubled assets represented 1.01 percent of industry assets, the lowest proportion in the 13 years that banks have reported noncurrent loan amounts. Although reserves for future loan losses declined for the fourth consecutive year, the more substantial reduction in noncurrent loans meant that the industry's "coverage ratio" of reserves to noncurrent loans rose to $1.69 in reserves for every $1.00 of noncurrent loans.

Bank Insurance Fund (BIF) Problem Institutions, 1990-1994 (Year-end)*	1994	1993	1992	1991	1990
Total BIF-Member Institutions	10,809	11,331	11,852	12,343	12,788
Problem Institutions	264	472	856	1,089	1,046
Total Assets of Problem Institutions ($ billion)	$ 42	$ 269	$ 464	$ 610	$ 409
Problem Institutions as Percent of Total	2.4	4.2	7.2	8.8	8.2
Changes in BIF Problem Institution List, 1990-1994					
Deletions	261	505	648	456	447
Additions	53	121	415	499	384
Net Change	(208)	(384)	(233)	43	(63)
Savings Association Insurance Fund (SAIF) Problem Institutions, 1990-1994 (Year-end)*					
Total SAIF-Member Institutions	1,847	1,993	2,121	2,269	2,546
Problem Institutions	54	100	207	337	446
Total Assets of Problem Institutions ($ billion)	$ 31	$ 65	$ 128	$ 209	$ 231
Problem Institutions as Percent of Total	2.9	5.0	9.8	14.9	17.5

*BIF-member institutions are predominantly commercial banks supervised by one of the three federal banking agencies, and SAIF-member institutions are predominantly savings institutions supervised by the Office of Thrift Supervision.

Equity capital, a basic measure of the industry's net worth, experienced a net increase of $15.7 billion in 1994. This is a marked reduction from the $33.1 billion increase posted in 1993. However, the year-end 1994 total reflected an $11.5 billion deduction for unrealized losses in banks' "available-for-sale" securities, due to a new accounting rule that took effect in 1994. Higher dividend payments were another reason capital growth slowed in 1994. Banks paid $28.1 billion in dividends in 1994, an increase of $6.1 billion over 1993. Net retained earnings of $16.6 billion were $4.4 billion less than in 1993. Also affecting capital growth was the fact that almost all insured commercial banks already exceeded the most stringent capital requirements, with 98.4 percent being "well capitalized" at year-end based on regulatory capital requirements.

The number of insured commercial banks fell to 10,450 at the end of 1994, a net reduction of 508 during the year. Only 50 new bank charters were issued, the fewest since 1943. Mergers and consolidations accounted for a reduction of 550 banks. Only 11 commercial banks failed during the year, the fewest since 10 failed in 1981. The number of commercial banks on the FDIC's "problem list" declined for the third consecutive year, shrinking by 179 banks and $209 billion in assets, to 247 banks with assets of $33 billion at year-end.

Savings Institutions

At the end of 1994 there were 2,152 private-sector savings institutions* insured by the FDIC. Together, these institutions held assets totaling just over $1 trillion, or 20 percent of all assets of FDIC-insured depository institutions. Total assets for the industry increased by $7.8 billion during 1994, the first annual increase in assets since 1988.

Net income for 1994 was $6.4 billion, a decline of $431 million from 1993. Earnings were helped by a $1.9 billion decline in provisions for future loan losses, but this improvement was largely offset by a $1.7 billion drop in net interest income. Securities sales, which produced $400 million in gains in 1993, yielded $28 million in net losses in 1994 due to higher interest rates. Extraordinary losses were $433 million greater than in 1993, as a number of large institutions took charges to strengthen their balance sheets. Although more than 93 percent of all savings institutions reported a net profit for the year, one of every four large thrifts (those with more than $5 billion in assets) lost money.

Asset quality continued to improve. Troubled assets fell from 2.10 percent of industry assets at the end of 1993 to 1.38 percent at the end of 1994. Net loan losses were almost one-quarter lower in 1994 than in 1993. Reserves for future loan losses declined by more than 11 percent in 1994, but due to the much greater shrinkage in troubled assets, savings institutions held 81 cents in reserves for each dollar of non-current loans at year-end, up from 65 cents at the end of 1993. The number of insured savings institutions fell by 110 in 1994, to 2,152 at year-end. Acquisitions by commercial banks and conversions to commercial bank charters absorbed 80 savings institutions, and consolidation within the thrift industry accounted for most of the remaining reduction. Only four savings institutions failed in 1994, down from eight in 1993. Of the four, two were Savings Association Insurance Fund members and were resolved by the Resolution Trust Corporation.

A total of 71 savings institutions (54 insured by the SAIF and 17 insured by the BIF) with combined assets of $40 billion were on the FDIC's "problem list" at year-end 1994. This was a sharp improvement from year-end 1993, when 146 savings institutions (100 SAIF-insured, 46 BIF-insured) with combined assets of $92 billion were on the "problem list."

*Figures do not include member institutions of the Savings Association Insurance Fund (SAIF) in Resolution Trust Corporation conservatorship, and one SAIF-member self-liquidating institution.

Condition of the Insurance Funds

The following is an overview of the two deposit insurance funds administered by the FDIC, along with a third fund fulfilling the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC).

Bank Insurance Fund

With the continuing recovery of the banking industry and institutions' earnings at record levels, 1994 was another positive year for the Bank Insurance Fund (BIF). After dipping to a record year-end low in 1991 (a negative $7 billion), the BIF grew to a record high of $21.8 billion at the close of 1994. That represents a 66 percent increase from the year-end 1993 balance of $13.1 billion. The previous year-end high was $18.3 billion in 1987.

The FDIC is required to publish a recapitalization schedule showing the BIF reaching the statutory target of 1.25 percent of insured deposits within 15 years from the date of publication. The Division of Research and Statistics (DRS) staff monitors economic and industry conditions to determine if an adjustment to the recapitalization schedule or the range of premium assessment rates is warranted.

The year-end 1994 BIF balance represents 1.15 percent of insured deposits, just 10 basis points shy of the 1.25 percent level mandated by Congress. This level of capitalization is expected to be achieved during mid-year 1995.

The BIF's growth of $8.7 billion in 1994 was composed primarily of assessment revenue of $5.6 billion and a reduction of $2.9 billion in the provision for insurance losses. Only 13 banks with $1.4 billion in assets and $139 million in estimated losses to the BIF were closed during 1994 — the lowest level of bank failures since 1981. The BIF's assessment revenues have exceeded its outlays for expenses and insurance losses for the past three years.

The composition of the assets in the fund changed significantly in 1994. The major portion of the assets over the past few years had been the money owed to the Corporation from failed bank receiverships. As these receivables were reduced through the sale of assets and other recoveries from failed banks, they became a smaller portion of the BIF's assets and fund liquidity increased dramatically. The result was that, by year-end 1994, the major part of the BIF's assets consisted of investments in U.S. Treasury obligations. Cash and investments increased to 62 percent of total assets at year-end, from 29 percent at year-end 1993. The interest from these investments will be an important and growing component of the BIF's future operating income. For more information about the BIF, see the financial statements that begin on Page 57.

Savings Association Insurance Fund

The Savings Association Insurance Fund (SAIF), which the FDIC administers primarily to protect depositors of thrift institutions, grew to $1.9 billion at year-end 1994. This represents a 58 percent increase over the $1.2 billion balance at year-end 1993.

The SAIF's reserves equaled 0.28 percent of insured deposits, up from 0.17 percent at year-end 1993. As with the BIF, the SAIF's designated reserve ratio is 1.25 percent of insured deposits, as mandated by Congress. Based on industry deposit levels at year-end 1994, the SAIF would require an additional $6.7 billion to reach that mandated level. DRS staff assisted the FDIC Chairman's Office, the Treasury Department and the congressional banking committees by analyzing a variety of "what if" scenarios regarding SAIF recapitalization.

SAIF's growth has been slow for several reasons. One factor was the diversion of SAIF assessments to pay for the federal cleanup of the thrift industry. From 1989 through 1992, nearly all assessment income was used to pay various cleanup costs, including interest on bonds issued by the Financing Corporation (FICO). Since then, approximately 40 percent of the SAIF's assessment income has continued to be used for the FICO bond payments.

Interest payments are required until the FICO bonds mature in the years between 2017 and 2019. Still another factor limiting the SAIF's growth was a continuing decline in thrift industry deposits, which are used to determine premium income.

Many variables make it difficult to predict accurately when the SAIF will be fully capitalized, but that date is several years away. Given the likely recapitalization of the BIF in 1995, it is possible that insurance rates for BIF-insured institutions will be reduced some time that year. This would mean a disparity between what BIF- and SAIF-insured institutions pay for deposit insurance because, by law, the FDIC Board of Directors must set premiums for each fund separately based on the circumstances facing each fund. At year-end, FDIC staff was exploring the agency's options under the law, the disparate rates of recapitalization of the two insurance funds, and the likely effects on the thrift industry of a rate disparity. On July 1, 1995, the SAIF is scheduled to assume from the Resolution Trust Corporation the authority for handling failing savings institutions. For more information about the SAIF, see the financial statements that begin on Page 79.

FSLIC Resolution Fund

The FSLIC Resolution Fund (FRF) was established by law in 1989 to assume the remaining assets and obligations of the former FSLIC. Congress placed the FRF under the management of the FDIC.

The FRF's internal sources of cash, primarily from liquidating failed thrift assets, were adequate to cover the fund's disbursements for the year, making new congressional appropriations unnecessary for the first time since the FRF's inception. The FRF has $827 million of appropriated funding available on an ongoing basis to meet any future cash shortfalls. For more information, see the financial statements for the FRF that begin on Page 95.

Insurance Assessments

On December 20, 1994, the Board of Directors approved a final rule that will make the process of calculating and collecting deposit insurance premiums more efficient and less burdensome. The new rule, effective April 1, 1995, puts the burden of calculating assessments on the FDIC rather than on each institution. In addition, the current paper-based collection process will be replaced with assessments collected electronically via direct debits through the Automated Clearing House network. Each institution's semiannual insurance assessment will be paid in quarterly installments, based on an invoice prepared by the FDIC. This new rule follows a successful pilot project on electronic collection started in 1994 that involved 183 financial institutions and nearly $400 million in assessment collections. For more details about this rule, see Page 45.

FDIC staff will continue to look at the assessment system to make refinements as needed. For example, the FDIC sought preliminary comments and suggestions on the variety of approaches to defining the assessment base used to determine the amount of insurance premiums paid by each insured institution. The current assessment base definition has remained substantially the same since 1935. The FDIC now is able to review the definition because of recent changes in the law and other developments, including the implementation of risk-related deposit insurance premiums. Substantial additional analyses are contemplated before changes in the definition of the assessment base could be proposed or considered. For more details about this Advance Notice of Proposed Rulemaking, see Page 50.

Board of Directors

Ricki Helfer

Ms. Helfer became the 16th Chairman of the Federal Deposit Insurance Corporation (FDIC) on October 7, 1994, and the first woman to head a federal banking agency. Before her appointment by President Clinton, Ms. Helfer had been a partner in the Washington office of the law firm of Gibson, Dunn & Crutcher specializing in banking and finance.

Ms. Helfer has held positions in all branches of the federal government and in the private sector. From 1985 to 1992, she was the chief international lawyer for the Board of Governors of the Federal Reserve System. Prior to working at the Federal Reserve Board, she served two years as senior counsel for international finance at the Treasury Department. From 1978 to 1979 she was counsel to the Judiciary Committee of the U.S. Senate.

Born in North Carolina and raised in Tennessee, Ms. Helfer graduated with honors from Vanderbilt University with a B.A. and from the University of North Carolina with an M.A. She clerked for U.S. Court of Appeals Judge John Minor Wisdom after graduating with honors from the University of Chicago Law School. She is a member of the American Law Institute, the Council on Foreign Relations, and the Visiting Committee of the University of Chicago Law School. She is past chairman of the Committee on International Banking and Finance of the American Bar Association. Ms. Helfer's various civic activities include membership on the board of the Girl Scouts of the USA.

Andrew C. Hove, Jr.

Mr. Hove was appointed for a second term as Vice Chairman of the FDIC in 1994. He served as Acting Chairman from August 1992, following the death of William Taylor, until the confirmation of Ricki Helfer as the Chairman in October 1994. Prior to his first appointment as Vice Chairman in 1990, Mr. Hove was Chairman and Chief Executive Officer of the Minden Exchange Bank & Trust Company, Minden, Nebraska, where he served in every department during his 30 years with the bank.

Also involved in local government, Mr. Hove was elected Mayor of Minden from 1974 until 1982 and was Minden's Treasurer from 1962 until 1974.

Other civic activities included President of the Minden Chamber of Commerce, President of the South Platte United Chambers of Commerce and positions associated with the University of Nebraska. Mr. Hove also was active in the Nebraska Bankers Association and the American Bankers Association.

Mr. Hove earned his B.S. degree at the University of Nebraska-Lincoln. He also is a graduate of the University of Wisconsin-Madison Graduate School of Banking. After serving as a U.S. Naval Officer and Naval Aviator from 1956-60, Mr. Hove was in the Nebraska National Guard until 1963.

Eugene A. Ludwig

Mr. Ludwig became the 27th Comptroller of the Currency on April 5, 1993. As the Comptroller, Mr. Ludwig also serves as an FDIC Board member.

Prior to becoming Comptroller, Mr. Ludwig had been with the law firm of Covington and Burling in Washington, DC, since 1973, where he specialized in intellectual property law, banking and international trade. He became a partner in 1981.

Mr. Ludwig earned his B.A. magna cum laude from Haverford College in Pennsylvania. He also received a Keasbey scholarship to attend Oxford University, where he earned a B.A. and M.A. Mr. Ludwig holds an LL.B. from Yale University, where he served as editor of the Yale Law Journal and chairman of Yale Legislative Services.

Barbara Ries

(seated) **Ricki Helfer**
(standing l-r) **Eugene A. Ludwig**
Andrew C. Hove, Jr.
Jonathan L. Fiechter

Jonathan L. Fiechter

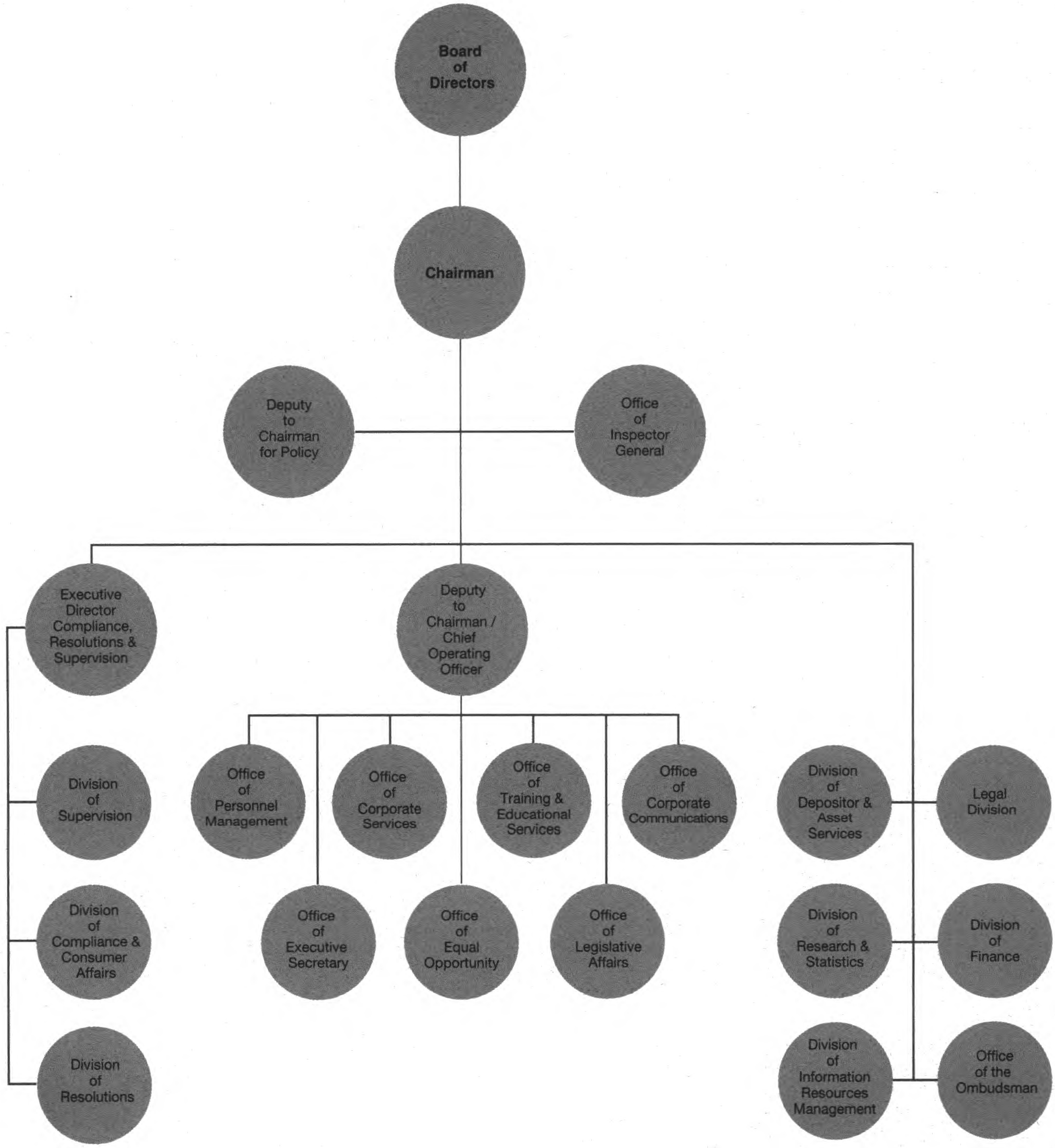
Mr. Fiechter has been Acting Director of the Office of Thrift Supervision (OTS) since December 1992 and has spent the past 24 years in government service. As Acting Director of the OTS, Mr. Fiechter also serves as an FDIC Board member.

Prior to becoming Acting Director of the OTS, Mr. Fiechter was one of two deputy directors of the agency. In that capacity, he was responsible for overseeing the OTS's Washington, DC, operations and the closing of nonviable thrifts. Mr. Fiechter came to the OTS in 1987 from the Office of the Comptroller of the Currency, which he joined in 1978. At the OCC, Mr. Fiechter served as Deputy Comptroller in charge of research.

Mr. Fiechter began his government service in 1971 in the Office of the Secretary at the U.S. Treasury Department, working on issues related to international finance, Treasury debt policy and financial institutions reform.

A graduate of Rockford College, Rockford, Illinois, Mr. Fiechter has done graduate work in economics at the University of Virginia.

Organization Chart



Officials

Leslie A. Woolley	Deputy to the Chairman for Policy
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William A. Longbrake	Chief Financial Officer; Deputy for Financial Policy
William F. Kroener, III	General Counsel
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William R. Watson	Director, Division of Research and Statistics
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Carmen J. Sullivan	Director, Division of Information Resources Management
Roger A. Hood	Deputy to the Vice Chairman
Thomas E. Zemke	Deputy to the Director (Comptroller of the Currency)
Walter B. Mason	Deputy to the Director (Office of Thrift Supervision)
James A. Renick	Acting Inspector General
Robert E. Feldman	Acting Executive Secretary
Johnnie B. Booker	Director, Office of Equal Opportunity
Alan J. Whitney	Director, Office of Corporate Communications
Jane Sartori	Director, Office of Training and Educational Services
Alice C. Goodman	Director, Office of Legislative Affairs
Alfred P. Squerrini	Director. Office of Personnel Management
James A. Watkins	Director, Office of Corporate Services

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1994

Operations of the Corporation

Highlights

January 25

The FDIC announced steps to help rebuild areas affected by California's Northridge earthquake by encouraging banks in the state to work constructively with borrowers experiencing difficulties due to conditions beyond their control. Other initiatives included temporary waivers of certain regulatory requirements.

February 8

In response to growing concerns over conversions of mutual savings banks to stock ownership, the FDIC adopted an interim rule that will enable the agency for the first time to review all conversion applications. Some concerns are that a mutual institution's Board or other insiders may set the stock offering price well below the true value, obtain more than a fair share of the stock subscription or receive excessive compensation packages.

February 15

Regulators issued uniform guidance on mutual fund sales by banks and thrifts to ensure that customers are fully informed that the products are not FDIC-insured and involve other risks, including possible loss of principal.

March 14

Deloitte & Touche, an accounting firm, agreed to pay $75.2 million to the FDIC and $236.8 million to the Resolution Trust Corporation (RTC) to settle claims based on alleged accounting and auditing failures at banks and savings associations. The settlement resolved 18 pending suits as well as all other potential FDIC and RTC claims.

March 17

In its first securitized loan offering, the FDIC sold $762 million in performing commercial real estate loans. The loans included an FDIC guaranty for a limited amount of credit losses and interest rate risk, with subsequent losses borne by the holders of the securities.

March 31

No banks failed in the first three months of 1994, the first quarterly period without a failure since the second quarter of 1978.

June 17

The FDIC imposed fines against six lending institutions for late or inaccurate submissions of data used by federal regulators to check for possible mortgage loan discrimination. The fines were the first imposed by a financial institution regulatory agency under the Home Mortgage Disclosure Act.

July 7

The FDIC placed The Meriden Trust and Safe Deposit Company, Meriden, Connecticut, in receivership in the agency's first exercise of self-appointment powers granted by Congress in 1991. It marked the first time the FDIC, not a chartering authority, closed a bank.

July 19

The FDIC announced steps intended to help rebuild areas in the Southeast damaged by floods. The measures were similar to those announced January 25 to help areas in California affected by an earthquake.

July 20

A new brochure, *Insured or Not Insured— A Guide to What Is and Is Not Protected by FDIC Insurance*, was made available to all insured financial institutions and the public free of charge. Mutual funds, Treasury securities and safe deposit boxes are discussed as not being FDIC-insured.

August 3

The agency published a guide to help bankers and others detect and prevent illegal lending discrimination. The 56-page guide, *Side By Side – A Guide to Fair Lending,* includes suggestions for bankers on implementing successful fair lending programs.

August 9

The Bank Insurance Fund (BIF) increased to $17.5 billion at mid-year 1994. This was a turnaround of $24.5 billion since year-end 1991, when the fund had a negative $7 billion balance. The BIF had a balance of $13.1 billion at year-end 1993.

Peat Marwick, an accounting firm, agreed to pay $58.5 million to the FDIC and $128 million to the RTC to settle claims based on alleged accounting and auditing failures at banks and savings associations. The settlement resolved seven pending suits and all claims for professional work the accounting firm did for financial institutions that failed on or before April 4, 1994.

August 30

The FDIC created the Division of Compliance and Consumer Affairs (DCA) to expand the agency's long-standing commitment to consumer, civil rights and fair housing laws.

September 26

The four federal regulators of banks and thrifts issued for public comment a revised proposal to change the way institutions are evaluated under the Community Reinvestment Act (CRA). The proposal addresses concerns raised in public comments on a proposal in December 1993, while retaining the basic structure and objectives of the previous plan.

October 7

Ricki Helfer was sworn in as the 16th Chairman of the FDIC and the first woman to head a federal banking agency. Andrew C. Hove, Jr., who served as the agency's Acting Chairman since August 20, 1992, was sworn in for a second term as Vice Chairman.

October 21

Ludlow Savings Bank, Ludlow, Massachusetts, became the 13th, and last, failure of the year. The last time fewer banks failed was in 1981 when 10 banks were closed.

November 7

A special FDIC task force was created to analyze and make recommendations regarding the potential risks posed to banks by derivatives and other investment products. The task force is developing strategies to manage these risks and respond to potential problem situations.

November 9

The new Chairman, Vice Chairman and senior staff of the FDIC began development of a five-year strategic plan for the Corporation.

December 13

The FDIC plans to establish an early warning system designed to identify any relaxation in the underwriting standards for bank lending. In early 1995, agency examiners will be asked to report on the prevalence of specific lending and investment practices that have led to difficulties in the past, such as commercial real estate loans based on unrealistic cash flow projections.

The FDIC hired a market research firm to begin testing whether banks and thrifts are doing a good job explaining to consumers the distinctions between FDIC-insured deposits and uninsured products being offered for sale, such as mutual funds. e survey is expected to take six months.

December 20

The FDIC Board approved the use of an electronic collection process for deposit insurance assessments. Under the new system, the FDIC will compute the assessment owed each quarter and directly debit the institution electronically through the Automated Clearing House network. The new system will go into effect in the second half of 1995 after a pilot testing program.

Selected Statistics

Bank Insurance Fund (Dollars in Millions)	For the year ended December 31		
	1994	1993	1992
Financial Results			
Revenue	$ 6,467	$ 6,431	$ 6,301
Operating Expenses	423	388	361
Insurance Losses and Expenses	(2,682)	(7,180)	(1,197)
Effect of Accounting Change for Post-retirement Benefits*	0	0	(210)
Net Income	8,726	13,223	6,927
Insurance Fund Balance	$ 21,848	$ 13,122	$ (101)
Fund as a Percentage of Insured Deposits	1.15%	0.69%	(0.01)%
Selected Statistics			
Total BIF-Member Institutions+	10,809	11,331	11,852
Problem Institutions	264	472	856
Total Assets of Problem Institutions	$ 42,213	$ 269,201	$ 464,253
Institution Failures	13	41	120
Assisted Banking Organizations	0	0	2
Total Assets of Failed and Assisted Institutions	$ 1,392	$ 3,539	$ 44,232
Number of Active Failed Institution Receiverships	802	877	972

Savings Association Insurance Fund (Dollars in Millions)	For the year ended December 31		
	1994	1993	1992
Financial Results			
Revenue	$ 1,215	$ 924	$ 179
Operating Expenses	20	30	39
Insurance Losses and Expenses	414	17	(15)
Effect of Accounting Change for Post-retirement Benefits°	0	0	(5)
Funding Transfer from the FSLIC Resolution Fund (FRF)	0	0	35
Net Income	781	877	185
Insurance Fund Balance	$ 1,937	$ 1,156	$ 279
Fund as a Percentage of Insured Deposits	0.28%	0.17%	0.04%
Selected Statistics			
Total SAIF-Member Institutions#	1,847	1,993	2,121
Problem Institutions	54	100	207
Total Assets of Problem Institutions	$ 30,630	$ 65,162	$ 128,000
Institution Failures<	2	9	59
Total Assets of Failed Institutions	$ 137	$ 6,132	$ 44,197
Number of Active Failed Institution Receiverships	1>	1>	0

*New reporting item required by the Financial Accounting Standards Board for 1992. See Note 14 to the BIF Financial Statements.

+Commercial banks, savings banks and U.S. branches of foreign banks.

°New reporting item required by the Financial Accounting Standards Board for 1992. See Note 11 to the SAIF Financial Statements.

#Commercial banks, savings institutions and Resolution Trust Corporation (RTC) conservatorships.

<No SAIF-insured institutions that failed were the financial responsibility of the SAIF. The RTC is responsible for the resolution and related costs of SAIF-insured institutions that fail before July 1, 1995. The SAIF is responsible for resolutions thereafter.

>This represents the receivership for Heartland Federal Savings and Loan Association, Ponca City, Oklahoma, which was closed on October 8, 1993. See Note 6 to the SAIF Financial Statements.

Note: the number of active failed thrift receiverships for the FRF was: 76 in 1994; 83 in 1993; and 91 in 1992.

Supervision and Enforcement

The banking industry's third straight year of record high earnings and capital, coupled with declining levels of troubled assets, has allowed the FDIC to further streamline and strengthen supervisory operations. At the same time, however, the FDIC in 1994 used this relatively calm period to explore ways to expand the agency's early warning systems that help identify potential risks in bank lending and other investment activities before they become problems for individual institutions or the banking system.

Identifying, Controlling Risks

The FDIC is the primary federal regulator of about 6,400 state-chartered banks that are not members of the Federal Reserve System as well as about 600 state-chartered savings banks. The FDIC also has back-up supervisory responsibility for safety and soundness purposes over all federally insured banks and savings associations. The Division of Supervision (DOS) leads the FDIC's supervisory efforts, in conjunction with other Divisions and Offices.

With the banking industry healthy, the FDIC placed new emphasis on developing ways to better recognize problems at an early stage. The goal is to be prepared to act decisively to protect depositors, minimize disruptions in financial markets and reduce deposit insurance costs before risks reach the magnitude of those that led to hundreds of bank failures in the 1980s.

The most recent financial practices that raise concerns are related to the risks posed by "derivatives" and other financial instruments. Derivatives include: (1) interests in collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs); (2) structured note obligations usually issued by government agencies with yields or principal redemption schedules that vary with an independent index or are derived from complex formulas; and (3) off-balance-sheet derivative contracts, such as swaps, options and futures. The value of these instruments fluctuates with the value or level of some underlying asset or index. These securities and contracts can expose an institution to losses from both credit and market risk.

Regulatory attention to derivatives has been directed to individual institutions as well as the banking system as a whole. The FDIC supervision staff monitors these markets daily. DOS specialists advise regional and field offices on capital market and derivative issues as they arise. DOS is continually developing and updating its directives to the industry and to examiners.

Chairman Helfer in November established a special task force to understand, address and respond to the risks posed to the deposit insurance funds by capital market instruments. The internal task force is expected to develop recommendations in 1995.

FDIC Examinations
1992-1994

	1994	1993	1992
Safety and Soundness:			
State Nonmember Banks	3,931	4,439	4,258
Savings Banks	386	375	188
National Banks	11	255	309
State Member Banks	3	92	62
Savings Associations	9	523	810
Subtotal	4,340	5,684	5,627
Consumer and Civil Rights	3,528	3,749	3,555
Trust Departments	684	782	668
Data Processing Facilities	1,882	1,910	1,506
Total	10,434	12,125	11,356

Other actions undertaken by the FDIC in 1994 to address concerns about derivatives and interest rate risk included:

- Participating with representatives from the "Group of 10" industrialized nations in the development of proposed new capital treatments for market risk associated with derivatives and other trading instruments;

- Amending risk-based capital standards to recognize the benefits of "bilateral netting agreements" that reduce credit risk in interest rate and exchange rate contracts;

- Issuing guidance to examiners on structured notes, derivatives and interest rate risk;

- Revising the quarterly Report of Condition and Income (Call Report) for the purpose of gathering better information on each bank's participation in derivatives markets;

- Participating in interagency initiatives on how to incorporate interest rate risk when evaluating capital adequacy; and

- Analyzing the potential for systemic risk from derivatives as part of the President's Working Group on Financial Markets, a high-level government task force established following the stock market decline in 1987.

The FDIC's effort to improve the quality of supervision is illustrated by several other initiatives during 1994:

- Conducting periodic surveys of examiners to identify changes in underwriting standards. FDIC field personnel will be asked to report on the prevalence of specific lending and investment practices that have led to difficulties in the past.

- Use by all federal bank and thrift regulators of the same examination report forms for key information and conclusions. This change is expected to make examinations more uniform and to promote consistency in the way institutions are supervised.

- Automation upgrades that will allow field examiners to communicate electronically with headquarters and other FDIC staff and to access key information from the FDIC's database. As a result, staff can plan examinations with the most current information available.

While the numbers of enforcement actions and problem banks have decreased, the volume and complexity of applications processed have increased. This is due largely to requests from savings associations for FDIC approval to convert from mutual to stock form of ownership (see description following) or for deposit insurance for new institutions created as part of a mutual-to-stock conversation. In addition, under 1991 amendments to the Federal Deposit Insurance Act, there has been a large increase in applications for state banks to engage in activities not permissible for national banks. (See the applications table on the next page for more details.)

Mutual-to-Stock Conversions

In recent years a number of mutually owned state savings banks have converted to stockholder-owned state savings banks. Public and congressional concerns related to inconsistent state and federal standards, and the potential for abuse in the conversion process, prompted the FDIC to become more involved in the process during 1994.

In February, the FDIC issued guidance and regulations addressing the conversion of state savings banks from mutual to stock ownership. Advance notice of an institution's conversion plans now must be submitted to the FDIC. If a conversion plan raises concerns about safety and soundness, violations of law or possible breaches of fiduciary duty, the FDIC will object to the transaction. The new rules also include protections in areas such as the setting of the value of the initial stock offering, requiring depositors' votes to approve the conversion, and preventing windfall profits to management. The FDIC also reviews requests for deposit insurance for reorganizations of a mutual savings association's conversion to ownership by a mutual holding company, a form of mutual-to-stock conversion. The FDIC Board in 1994 considered 22 notices of conversion of mutual institutions and objected to five.

Reduced Regulatory Burden

As part of its ongoing efforts to eliminate unnecessary or excessive regulatory burden, the agency amended its rules on real estate appraisals in order to reduce costs and encourage lending without compromising safety and soundness. The revised rules reduced the number of loans requiring an appraisal by a certified or licensed appraiser and simplified the standards for conducting required appraisals.

The FDIC continued to implement regulations that reduce regulatory burden by linking supervision more closely to risk by, for example:

- Coordinating examinations with state and other federal regulators to eliminate supervisory overlap and to extend the examination cycle for institutions with less than $100 million in total assets that are rated "1" or "2" under the interagency CAMEL rating system;
- Continuing the risk-based insurance program whereby well-capitalized and well-managed institutions are charged considerably less for deposit insurance than institutions that are undercapitalized and exhibit other weaknesses;
- Exempting well-capitalized and well-managed institutions from prohibitions, restrictions or application requirements for undercapitalized institutions; and
- Permitting well-run institutions to identify a portion of small- and medium-sized business and farm loans that would be evaluated by examiners solely on performance criteria, not loan documentation and other technical matters.

FDIC Applications 1992-1994

	1994	1993	1992
Deposit Insurance	106	89	85
Approved	103	89	84
Denied	3	0	1
New Branches	1,715	1,224	994
Approved	1,713	1,223	994
Branches	1,017	786	637
Remote Service Facilities	696	437	357
Denied	2	1	0
Mergers	451	326	359
Approved	451	326	358
Denied	0	0	1
Requests for Consent to Serve*	1,364	1,772	1,810
Approved	1,357	1,759	1,788
Section 19	127	99	93
Section 32	1,230	1,660	1,695
Denied	7	13	22
Section 19	1	1	1
Section 32	6	12	21
Notices of Change in Control	50	56	79
Letters of Intent Not to Disapprove	50	56	74
Disapproved	0	0	5
Conversions of Insurance Coverage+	10	7	16
Approved	10	7	16
Denied	0	0	0
Brokered Deposit Waivers	42	68	124
Approved	42	64	119
Denied	0	4	5
Savings Association Activities	7	6	42
Approved	7	6	42
Denied	0	0	0
State Bank Activities/Investments°	118	583	2
Approved	118	581	2
Denied	0	2	0
Conversions of Mutual Institutions#	22	-	-
Non-Objection	17	-	-
Objection	5	-	-

* Under Section 19 of the Federal Deposit Insurance Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that has been chartered less than two years, has undergone a change of control within two years, is not in compliance with capital requirements, or otherwise is in a troubled condition.

+ Applications to convert from the SAIF to the BIF or vice versa.

° Section 24 of the FDI Act in general precludes an insured state bank from engaging in an activity not permissible for a national bank and requires notices be filed with the FDIC. The large number of applications and notices during 1993 results primarily from banks that wished to continue holding "grandfathered " equity investments.

A new requirement in 1994 for banks to provide such notice.

In issuing and implementing the many banking rules required by law, the FDIC has sought to fashion the least intrusive and least burdensome regulations possible to achieve the purposes intended by Congress. Flexible but effective regulations and guidelines were developed or were under consideration by the FDIC in 1994 in areas such as independent audits, real estate lending, and safety and soundness standards. The FDIC coordinated with the other federal regulators on such measures as uniform interagency application forms and, as noted earlier, uniform examination report forms.

Progress to reduce regulatory burden also extended to legislation. The Riegle Community Development and Regulatory Improvement Act of 1994 includes provisions that require the banking agencies to consider the benefit and burden of new regulations and to review existing regulations and policies to improve efficiency and reduce unnecessary costs.

Risk-Related Premiums

The following table shows the number and percentage of institutions insured by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), according to their risk classification and insurance assessment rate, as of December 31, 1994.

	Supervisory Groups		
	A	B	C
Well Capitalized:			
Rate	$ 0.23/$100	$ 0.26/$100	$ 0.29/$100
BIF	9,820 (91%)	634 (6%)	168 (2%)
SAIF	2,268 (88%)	153 (6%)	37 (1%)
Adequately Capitalized:			
Rate	$ 0.26/$100	$ 0.29/$100	$ 0.30/$100
BIF	79 (1%)	29 (0%)	47 (0%)
SAIF	41 (2%)	34 (1%)	22 (1%)
Undercapitalized:			
Rate	$ 0.29/$100	$ 0.30/$100	$ 0.31/$100
BIF	2 (0%)	1 (0%)	34 (0%)
SAIF	0 (0%)	0 (0%)	11 (0%)

Average assessment rate: 23.3 cents per $100 of domestic deposits for BIF members; 23.8 cents per $100 of domestic deposits for SAIF members.

Note: BIF data exclude 51 insured branches of foreign banks and include 56 SAIF-member "Oakar" institutions that hold BIF-insured deposits. SAIF data include 719 BIF-member "Oakar" institutions that also hold SAIF-insured deposits. SAIF percentages do not add to 100 percent due to rounding.

Chairman Helfer has asked the staff to review all outstanding regulations of the FDIC to identify areas where the regulation is unnecessary for safety and soundness purposes, to protect bank customers, or to ensure the effective functioning of the market. This review will be conducted every five years.

Investment Advisory Concerns

The FDIC has supervisory concerns about any contingent liability that might arise from banks participating in the sale of non-deposit products, such as mutual funds and annuities, and the potential impact such liability might have on the safety of insured institutions. This issue was exemplified in instances involving banks and bank holding companies that act as investment advisers to money market mutual funds.

As interest rates rose during 1994 and certain securities recommended by bank investment advisers depreciated in value, some banks or holding companies bought the securities from the money market funds at a loss to themselves in order to maintain the stability of those mutual funds. While none of these purchases was large enough to adversely affect the institutions, the FDIC expressed concern for the precedent that might have been set and how large purchases in the future would be treated.

Significant Enforcement Actions

The FDIC's supervisory enforcement tools include terminations of insurance, cease-and-desist orders, and actions to remove or prohibit individuals from the banking industry. In 1994, the FDIC took its first enforcement actions under regulations finalized in late 1993 citing violations of the statutory prohibition against insured state-chartered banks engaging in activities and holding investments that are impermissible for a national bank. The Legal Division and DOS work together in pursuing all enforcement actions. (See the enforcement actions table on the next page for more details.)

Two court cases from 1994 involving enforcement actions are particularly noteworthy:

- **Grubb v. FDIC**
This case involved the removal of a director from a bank, pursuant to Section 8(e) of the Federal Deposit Insurance Act. The director challenged the removal and brought the matter before the 10th Circuit Court of Appeals. The FDIC initiated removal proceedings against the director due to his involvement in numerous extensions of credit to himself that constituted violations of law restricting and limiting extensions of credit to insiders. The director, who had repaid some of the criticized extensions of credit to himself, argued in the appellate court that the removal and prohibition sanction was too harsh. The FDIC was able to show that the director had been warned over a substantial period of time to cease the criticized practice. Consequently, the court ruling that the director had demonstrated a "willful" disregard for the safety and soundness of the bank provides additional insight on this topic.

- **In re Doolin Security Savings Bank, FSB, New Martinsville, West Virginia**
Doolin, disputing its risk-based deposit assessment rating, withheld a portion of its deposit insurance premium. The FDIC initiated insurance termination proceedings for Doolin's violation of Section 7 of the Federal Deposit Insurance Act. The FDIC Board affirmed an administrative law judge's recommended decision and issued a termination of insurance order to Doolin. Doolin appealed the matter to the 4th Circuit, and obtained a stay on the termination order. Oral arguments were made. At year-end, the court had not yet ruled.

Compliance, Enforcement and Other Related Legal Actions, 1992-1994

	1994	1993	1992
Sect. 8 (a) Termination of Insurance Orders:			
Notices to Primary Regulator	3	4	40
*Notices of Hearing	1	2	24
Orders Accepting Voluntary Termination Issued	2	1	2
*Insurance Termination Orders Issued	1	2	3
Sect. 8 (b) Cease-and-Desist Orders:			
Notices of Charges Issued	1	11	21
*Orders Issued With Notice	7	8	14
Orders Issued Without Notice	41	67	148
*Sect. 8 (c) Temporary Orders	0	2	5
Sect. 8 (e) Removal/Prohibition of Director or Officer:			
Notices Issued	17	20	17
*Orders Issued With Notice	23	30	23
Orders Issued Without Notice	33	44	27
Sect. 8 (g) Suspension/Removal for Felony	0	2	0
Sect. 8 (p) Termin. of Insurance Orders (No Deposits)	2	11	17
Sect. 8 (q) Termin. of Insurance Orders (Deposits Assumed)	9	8	7
Civil Money Penalties Issued	10	15	13
Sect. 5 (e) Cross-guaranty Assessments/Waivers:			
Notices of Assessment of Liability Issued	0	2	5
Waivers Issued	1	4	3
Sect. 7 (j) Notices Disapproving Acquisition/Control	0	0	4
Sect. 19 Requests to Serve After Criminal Conviction:			
Denials Issued	1	1	1
*Final Orders After Hearing Issued	1	0	1
Sect. 32 Notices of Addition of Officer/Director:			
Notices of Disapproval Issued	5	11	20
*Rulings on Appeal Issued	0	3	14
Regulation Z Requests for Relief from Reimbursement:			
Orders Denying Relief Issued	3	10	3
*Reconsiderations of Orders Denying Relief	0	1	3
Orders Granting Relief Issued	0	0	0
Prompt Corrective Action:+			
Dismissal Notice	0	3	-
*Dismissal Directive	0	0	-
Capital Plan Notice	0	2	-
Capital Plan Directive	0	1	-
Notice of Intent to Reclassify	0	0	-
*Order of Final Disposition as to Reclassification	0	0	-
Supervisory Notice	5	7	-
*Supervisory Directive	4	3	-
Supervisory Directive-Immediate	1	0	-
*Self Appointment-Conservator	0	0	-
*Self Appointment-Receiver	1	0	-
Other Actions Not Listed Above	9	5	10
Total Number of Actions Initiated by FDIC	144	228	338

*Not counted as separate proceedings and therefore not included in total actions initiated.

+Recently enacted enforcement power. No data available for 1992.

Bank Supervision 1934–1994

The current system of federal bank supervision traces its beginning to 1863, when national banks were authorized under the National Currency Act (which became the National Bank Act in 1864). The newly formed Office of the Comptroller of the Currency was empowered to supervise national banks and was generally credited with more effective supervision than were the existing state supervisory systems. Most banks soon became subject to the more stringent federal supervision when the taxation of state bank notes prompted many institutions to switch from state to federal charters. By the late 1800s, however, state banking systems had rebounded and the overall quality of state supervision improved significantly. In 1863, only five states examined banks regularly; by 1914, every state performed this function.

Despite improvements in the overall quality of bank supervision, intermittent high rates of failure continued. These failures often resulted in contractions in credit and the money supply, which prolonged recovery from recessionary periods. In 1913, as a response to this problem, Congress created the Federal Reserve System. State banks were given the option of Federal Reserve membership, which permitted direct federal supervision of state banks for the first time. Thus, by year-end 1913, the bank regulatory apparatus included two federal agencies as well as the state supervisory systems. This situation was particularly noteworthy considering that government regulation of businesses other than banks at that time was extremely limited. Initially, however, the Federal Reserve was more concerned with its responsibilities as the central bank, and it was not until the 1930s that it examined banks regularly.

Under the political compromise that led to the creation of the FDIC in 1933, no supervisory authority was taken away from existing federal or state agencies. The FDIC became the third federal bank regulatory agency, with primary supervisory responsibility for about 6,800 insured state banks that were not members of the Federal Reserve System. In addition to the supervisory goals of the other federal and state banking agencies, the FDIC had the more clearly defined goal of minimizing the risk of loss to the deposit insurance fund, but that role was more limited than it is today.

The Early Years

The financial debacle of the 1930s and the cautious atmosphere that subsequently characterized banking and the regulatory environment significantly influenced the FDIC's examination policies during its first several decades. Bank examiners reviewed bank balance sheets in a comprehensive manner, focusing particular attention on problem loans even when their potential impact on the insurance fund was likely to be minimal.

During the years following World War II, the economy was relatively strong, loan losses were modest and bank failures were rare. In the 1960s and 1970s, though, bank competition began to increase, and so, too, did the exposure of the insurance fund. The analysis of individual loans became coupled to assessment of the risk exposure associated with overall bank loan and investment policies.

The '70s and '80s

Beginning in the late 1970s, the frequency of on-site FDIC examinations, particularly for well-managed banks, was reduced, and greater reliance was placed on the off-site analysis of financial reports submitted by banks. The goal was to direct scarce examiner resources to dealing with existing and potential problem situations. The FDIC's supervisory role also expanded to include monitoring compliance with a growing body of consumer protection laws.

The 1980s brought dramatic changes to both bank profits and bank supervision itself. In an environment of prolonged economic expansion and increasingly volatile interest rates, the industry experienced one lending disaster after another. The decade began with crises in agriculture and loans to lesser developed countries. As the decade progressed, unrepaid energy loans began to take their toll, leading to the downfall of some major banks, including Continental Illinois in Chicago and First RepublicBank in Texas. As the decade came to a close, highly leveraged transactions and commercial real estate loans depleted the capital structures of some major banks in the East and the Far West. The number of troubled and failed institutions rose to post-Depression highs.

The FDIC's Division of Supervision (DOS) responded to the challenge of the 1980s by:

- Strengthening off-site monitoring through new data analysis systems;

- Greatly expanding the examination staff, with the number of field examiners increasing to 3,130 in 1992 from 1,389 in 1984; and

- Examining banks more frequently, as 5,627 safety and soundness examinations were conducted in 1992 compared to 3,339 in 1984.

Legislation enacted in response to the severe banking problems of the 1980s radically changed bank supervision. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) assigned to the FDIC a new role as insurer of savings associations with accompanying back-up supervisor responsibilities. In exercising this authority, the FDIC either independently examined or participated in the examination of every savings institution insured by the Savings Association Insurance Fund (SAIF) in the first year or so after FIRREA.

Supervision Today

Today, the FDIC relies primarily on the reports of the Office of Thrift Supervision for information on savings associations, just as it relies on the Comptroller of the Currency and the Federal Reserve for information on national and state member banks. Under a long-established relationship with state bank supervisory authorities, the FDIC alternates examinations with the state, or the FDIC and the state conduct them simultaneously to reduce unnecessary burden on the bank.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) emphasized increased supervision to reduce risk to the insurance funds. FDICIA's statutory provisions directly affecting bank supervision include: "prompt corrective action" measures to be taken when an insured institution's capital falls below prescribed levels, increased examination frequency, and mandated standards for safety and soundness, real estate lending, and interest rate risk management.

In response to a growing emphasis on consumer protection, including community reinvestment and fair lending, the FDIC in 1994 separated the compliance function from DOS and created the new Division of Compliance and Consumer Affairs (DCA). DCA has its own cadre of managers and examiners to conduct examinations for compliance with a wide range of consumer protection matters.

Consumer Protection Activities

Insuring bank and thrift deposits up to the $100,000 limit is the most visible of the FDIC's consumer protection activities. (See the Failures and Resolutions chapter for information on how the FDIC protected failed bank depositors in 1994.) However, the FDIC has a strong consumer protection responsibility in other areas as well.

Along with other agencies, the FDIC enforces regulations that promote sound banking practices and compliance with consumer protection and civil rights laws. These protections include: prohibitions against discriminatory lending practices; initiatives to prevent unfair or deceptive practices in deposit-taking or lending; and rules that encourage institutions to help meet the credit needs of their local communities, consistent with safe and sound operations.

New Division Created

In August of 1994, the FDIC established the Division of Compliance and Consumer Affairs (DCA) to consolidate the compliance examination function of the Division of Supervision (DOS) with the duties of the former Office of Consumer Affairs (OCA).

For many years, DOS conducted examinations for compliance with fair lending and other consumer laws and regulations, and also was responsible for initiating consumer-related enforcement actions. OCA managed community outreach efforts and served as a resource for consumers, examiners and financial institutions in such matters as fair lending and community development. Both DOS and OCA contributed to areas such as developing consumer protection rules and responding to consumer complaints and inquiries.

Consolidating these activities within DCA highlights the FDIC's commitment to expanding the agency's community affairs activities and meeting its statutory responsibilities to consumers in an effective and efficient manner.

Fair Lending

In August of 1994, the FDIC published a 56-page "self-help guide" to compliance with fair lending laws, entitled *Side By Side — A Guide to Fair Lending*. It suggests various ways that an institution can compare its treatment of loan applicants, detect and prevent illegal lending discrimination, improve customer service and meet fair lending goals. More than 30,000 copies of this publication were distributed to financial institutions, trade groups and other interested parties.

As part of its outreach program, the FDIC sponsored or co-sponsored several training conferences, roundtable discussions and meetings on the Community Reinvestment Act (CRA), community development and fair lending initiatives. The sessions helped open communication lines between the FDIC, financial institution officials, consumer advocates and community leaders.

In April, the FDIC joined with nine other agencies, including the Department of Justice and the Department of Housing and Urban Development, in adopting a uniform policy statement on discrimination in lending. The statement is intended to provide clear and consistent guidance to all lenders on matters such as what constitutes illegal lending discrimination, how it can be prevented, and how the agencies will remedy abuses.

Starting in June, the FDIC became the first financial institution regulatory agency to order lending institutions to pay fines for late or inaccurate submissions of Home Mortgage Disclosure Act (HMDA) data. Lenders subject to HMDA are required to report on the outcome of home mortgage applications. These data, combined with other information about an institution's lending activities, can be useful in detecting lending discrimination. Penalties were imposed in 1994 against 31 institutions for late or inaccurate reporting of 1992 and 1993 mortgage lending data. The penalties totaled $79,500 and averaged $2,565 per institution.

In 1994, various statistical analyses and interpretation of the HMDA data were carried out by the Division of Research and Statistics (DRS) in support of DCA policy formulation and monitoring for lending bias.

CRA Reform

The FDIC continued working with the other federal bank and thrift regulatory agencies on proposed revisions to the Community Reinvestment Act (CRA), which encourages banks and thrifts to meet the credit needs of their communities.

The proposed revisions, the most extensive under consideration since the law was enacted in 1977, are intended to develop more objective, performance-based assessment standards that would minimize regulatory burdens while encouraging lending to creditworthy borrowers.

In December of 1993, the agencies issued for public comment a CRA proposal that would have substituted a more performance-based evaluation system for the 12 assessment factors in the existing CRA regulation. Under the proposal, the agencies would evaluate an institution based on results of actual lending, service and investment performance, rather than on the processes used to achieve those results. The agencies received more than 6,700 written comments on the 1993 proposal, with the FDIC alone receiving nearly 2,400. In October of 1994, the agencies issued a revised proposal that addressed concerns raised in the public comments while retaining the basic structure and objectives of the 1993 proposal. Many of the revisions would make the performance tests more flexible and more meaningful, simplify data reporting requirements and increase the importance of community development lending. The comments received on the revised proposal — about 7,100 by the agencies combined and 2,100 by the FDIC alone — were being evaluated at year-end with a goal toward issuing a final regulation in the spring of 1995.

Sales of Mutual Funds and Other Nondeposit Investments

The recent period of low interest rates caused many depositors to consider the potentially higher returns offered by mutual funds and annuities. FDIC-insured institutions increasingly became involved by directly selling these uninsured products in their lobbies and allowing third parties to sell these products on bank premises. Various efforts were undertaken by the FDIC and other regulators reaffirming their belief that customers must be fully informed about the risks associated with mutual funds and other nondeposit investment products.

On February 15, 1994, the four federal bank and thrift regulatory agencies issued a joint statement that banks and thrifts should:

- Advertise and disclose that nondeposit investment products are not insured by the FDIC, are not guaranteed by the bank and may be subject to loss of principal;
- Sell these products in a location separate from the area where deposits are taken;
- Ensure that investment sales personnel are properly qualified and trained; and
- Ensure that sales personnel recommend investments that are suitable for the individual customer.

In April, DOS issued guidelines for examiners and the industry about how to evaluate compliance with the interagency statement on nondeposit investment sales. At year-end, the FDIC and other federal bank and thrift regulators had completed an agreement with the National Association of Securities Dealers to share information where appropriate.

In order to assess compliance with the interagency guidelines and to better understand what might be leading to customer confusion, the FDIC in December 1994 announced the hiring of a market research firm to study banks' sales practices. Starting in early 1995, trained representatives of Market Trends, Inc., based in Bellevue, Washington, will call or visit FDIC-insured institutions and pose as consumers asking typical questions about mutual funds, annuities and other nondeposit investments. It is expected that 3,000 to 4,000 branches will be contacted during the six-month study. The statistically verifiable random survey, which was developed by the FDIC, is not intended to be used as an enforcement tool against individual institutions. However, if significant problems are found at an FDIC-supervised institution, the FDIC will seek appropriate corrective measures. Problems found at other institutions will be referred to their primary regulator for follow-up.

To further reduce customer confusion, the FDIC published in July a free brochure entitled *Insured or Not Insured — A Guide to What Is and Is Not Protected by FDIC Insurance.* The brochure lists what is and is not insured, advises purchasers to obtain definitive information and explains the difference between FDIC coverage of deposits and certain other types of insurance from other sources that may be available on non-deposit products. At year-end, about seven million of the brochures had been provided to institutions and individuals.

Responses to Consumer Inquiries

The Division of Compliance and Consumer Affairs maintains a toll-free 24-hour telephone hotline (1-800-934-3342 or 202-898-3773 in the Washington, DC, area) to handle complaints and inquiries from the public. More than 55,000 telephone calls were made to DCA's Washington headquarters and eight regional offices. As in the past, the majority of the calls dealt with deposit insurance issues. The number of calls received during 1994 was dramatically lower than the 90,700 in 1993, mirroring the significant decline in the number of bank failures during 1994.

DCA responded to approximately 6,100 written consumer complaints and inquiries during 1994. The FDIC's Office of Legislative Affairs (OLA) coordinated with other Divisions and Offices on responses to nearly 2,400 written inquiries from members of Congress, most on behalf of constituents wanting to know about FDIC policies and practices. Many inquiries of OLA raised consumer-related issues such as financial institution compliance with consumer protection laws, questions about deposit insurance coverage and bank or thrift disputes with individual consumers over services and prices.

Inquiries and complaints involving failed institutions generally are handled by the Division of Depositor and Asset Services. Its activities are described in the Failures and Resolutions chapter.

Other Educational Efforts

The FDIC continues to offer a variety of publications to consumers on topics that include fair lending, the Community Reinvestment Act and the deposit insurance rules.

FDIC Consumer News, a quarterly newsletter started in November of 1993 by the FDIC's Office of Corporate Communications in conjunction with other Divisions and Offices, continued to be well-received by consumers, bankers and the media. Using this publication, the FDIC's goal is to provide timely and ongoing assistance in plain English about consumer protection laws and regulations, the deposit insurance rules and many other topics.

The FDIC in 1994 also expanded its efforts to make consumer information available to the public electronically. After an initial testing period, the FDIC entered the "information highway" by going on-line with the worldwide computer network known as the Internet. FDIC offerings available on the Internet include: banking industry statistics; consumer publications; FDIC press releases; and lists of real estate and other assets available for sale to the public from the FDIC. This information can be accessed on the Internet via the FDIC's "gopher" address (fdic.sura.net 71) or through its World Wide Web address (www.fdic.gov).

Failures and Resolutions

The heart of the FDIC's mission is to protect depositors of insured banks and savings associations. No depositor has ever suffered a loss of insured funds from the failure of an FDIC-insured institution. The FDIC manages the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) but currently is responsible for resolving only those institutions with deposits insured by the BIF. The Resolution Trust Corporation (RTC) is responsible for resolving SAIF-insured institutions through June 30, 1995, after which the FDIC will assume this responsibility. The FDIC also manages the assets and liabilities of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF).

An institution can be closed by its chartering authority when it is insolvent, critically undercapitalized or is unable to meet deposit outflows. The chartering authority — the state for state-chartered institutions, the Comptroller of the Currency for national banks, or the Office of Thrift Supervision for federal savings associations — informs the FDIC when one of its insured institutions is going to be closed. The FDIC begins to arrange the best resolution — one that is the least costly to the insurance fund (as required by the FDIC Improvement Act of 1991) and the least disruptive for customers.

The FDIC's Division of Resolutions (DOR) works with other Divisions to gather information about the failing institution, estimate the potential loss from a liquidation, solicit and evaluate bids from potential acquirers, and recommend the least costly resolution to the FDIC's Board of Directors. If a buyer for a failing institution is not found, the Division of Depositor and Asset Services (DAS) is responsible for making insurance payments to closed bank depositors as soon as possible, often as early as the next business day following a failure, and for managing the receivership functions, including selling the remaining assets and paying creditors of the failed bank. The Legal Division assists DOR and DAS for these various duties and, where merited, pursues claims against individuals whose misconduct led to the failure of an institution.

During 1994, the number and size of failures of BIF-insured institutions continued to decline. Thirteen commercial and savings banks failed in 1994 with assets of $1.4 billion, including eight failures in California. These are the fewest failures since 1981, when 10 banks failed. In contrast, in 1993, a total of 41 banks with $3.5 billion in assets failed. In 1992, there were 120 bank failures with $44.2 billion in assets, and two institutions were given financial assistance under Section 13(c) of the Federal Deposit Insurance Act.

Protecting Depositors

The FDIC in 1994 arranged for the insured deposits at each of the 13 failed banks to be assumed by other institutions, thereby avoiding any direct "payouts" of insured deposits. As in recent years, however, some of the 1994 bank failures involved losses for depositors with funds in excess of the $100,000 insurance limit. In eight of the 13 failures during 1994, or 62 percent of the cases, depositors received less than 100 cents on each dollar above the $100,000 insurance limit at the time of closing; these depositors are likely to receive further distributions as their failed banks' assets are liquidated by the FDIC. Eighty-five percent of the failures in 1993 involved an initial loss for uninsured depositors at the time of closing. In 1992, this figure was 55 percent.

To reduce the hardship on uninsured depositors, the FDIC often makes "advance dividend" payments soon after the bank's closing. Payments typically are between 50 and 80 percent of the uninsured amounts. The advance dividend is based on the FDIC's estimated recoveries from liquidating the failed bank's assets. The FDIC made a total of $8.3 million in such payments to uninsured depositors who suffered losses in the eight bank failures in 1994. The FDIC does not pay an advance dividend in cases where the value of the failed institution's assets cannot be reasonably determined at closing.

Where appropriate, as assets are liquidated, DAS makes dividend payments to uninsured depositors and general creditors of failed banks, including payments to the FDIC as a creditor for advancing payments for insured deposits at the time of bank failures. Dividend payments during 1994 totaled $7.2 billion for bank failures that year and previous years.

Failed Banks*
1992-1994

	1994	1993	1992
Arizona	0	0	3
Arkansas	0	0	1
California	8	19	12
Colorado	0	1	0
Connecticut	2	1	10
District of Columbia	0	1	2
Florida	0	0	2
Georgia	0	0	2
Hawaii	0	0	1
Illinois	0	1	2
Indiana	0	0	1
Iowa	0	1	0
Kansas	0	2	2
Louisiana	0	0	2
Maryland	0	0	1
Massachusetts	2	0	16*
Minnesota	0	0	1
Mississippi	0	0	1
Missouri	1	0	7⁺
Montana	0	0	1
New Hampshire	0	0	3
New Jersey	0	0	5
New York	0	1	7
North Carolina	0	1	0
Oklahoma	0	0	2
Pennsylvania	0	0	2
Puerto Rico	0	0	1
Rhode Island	0	0	2°
Texas	0	10	29#
Vermont	0	1	0
Virginia	0	1	2
Washington	0	1	0
Total	**13**	**41**	**120**

*Commercial and savings banks insured by the Bank Insurance Fund. Excludes open bank assistance transactions.

⁺ Includes five bank subsidiaries of First Exchange Corporation, Cape Girardeau, Missouri.

°One institution based in Rhode Island but chartered in Massachusetts (Attleboro Pawtucket Savings Bank, Pawtucket, Rhode Island) is counted as a Massachusetts bank failure.

#Includes 20 bank subsidiaries of First City Bancorporation, Houston, Texas.

As an additional service after closings, DAS provides community assistance in the form of an ombudsman program. In 1994, the program handled 90,000 inquiries and 2,000 complaints in connection with the approximately 900 active receiverships the FDIC oversees. Inquiries ranged from routine questions to more complex matters such as lien and mortgage releases, claims and deposit questions and information about properties available for purchase. Complaints related to such matters as debt settlements, foreclosures, litigation, asset sales and servicing disputes. For a list of 1994 bank failures and their resolution, see Table B in the back of this Annual Report.

Cross-Guaranty Transactions

To recover all or part of the losses in liquidating or aiding a troubled insured institution, the FDIC was authorized by law in 1989 to seek reimbursement from other commonly controlled insured institutions. The FDIC used this "cross-guaranty" authority on several occasions in 1994.

- **Coastal Savings Bank**
  Portland, Maine
  Coastal Savings Bank, with $160 million in assets, was part of the same two-bank holding company structure as Suffield Bank, Suffield, Connecticut, which was declared insolvent in 1991 at an estimated cost to the Bank Insurance Fund of $90 million. The FDIC exercised its cross-guaranty authority against Coastal and, in November of 1994, agreed to release its claim in exchange for a $9 million interest-bearing, two-year promissory note — collateralized by 100 percent of Coastal's stock — from the holding company, First Coastal Corporation. Thus, the FDIC is able to recoup part of its loss while allowing the institution to continue to serve its community. This agreement was approved by First Coastal Corporation shareholders on January 31, 1995.

- **Meriden Trust and Safe Deposit Company Meriden, Connecticut**
  Meriden Trust was an affiliate of Central Bank of Meriden. Both institutions were owned by Cenvest, Inc. Meriden Trust had total assets of approximately $3.4 million and primarily operated a trust department that managed $180 million in over 500 accounts. Meriden was an insured institution based on past deposit activities although it no longer made loans or took deposits from the public. It did, however, maintain two accounts from related institutions. The FDIC determined it was in the best interest of the Bank Insurance Fund to assess Meriden Trust for the $152 million loss from the failure of Central Bank. Cenvest challenged the FDIC in court, partly on the basis that Meriden Trust was not an insured depository institution. The U.S. District Court in Connecticut ruled in favor of the FDIC on June 30, 1994. On July 7, 1994, the FDIC closed Meriden Trust, marking the first time the FDIC closed an insured institution and appointed itself as receiver under powers granted by Congress in 1991 (in contrast to being appointed receiver by the chartering authority). The bank reopened as an FDIC-owned "bridge bank," which was later sold in November for $7.8 million. This money will be used by the FDIC to offset losses incurred from the resolution of Central Bank. As of year-end, Cenvest's appeal of the district court decision was still pending.

- **Maine National Bank Portland, Maine**
  A cross-guaranty assessment was levied against Maine National for the January 6, 1991, failure of its affiliate, Bank of New England, N.A., Boston. The cross-guaranty assessment rendered Maine National insolvent, and it was closed by its chartering authority on January 6, 1991. The trustee for the holding company of the bank sued the FDIC, arguing that the assessment was the taking of property without just compensation in violation of the Fifth Amendment. The U.S. Court of Federal Claims in Washington, DC, found there would be a taking of property without compensation by the FDIC because Maine National could not have reasonably expected it would be liable for Bank of New England's debts, unless the FDIC could establish that Maine National did not operate as a corporation independent from the Bank of New England. The FDIC has appealed this decision. Several other cross-guaranty assessment cases at year-end 1994 await the outcome of this appeal.

Resolution Strategies

The FDIC uses several strategies to dispose of the assets and liabilities of a closed bank, either at the time of closing (as described later in this chapter) or after they have been retained by the FDIC for a period of time (see the Asset Disposition chapter for more details).

At the time of closing, acquirers typically pay a premium to acquire a failed bank's deposits and certain assets, primarily loans. This type of resolution is referred to as a "purchase and assumption" (P&A) transaction. The least desirable resolution option for the FDIC is a payout — a direct payment of insured deposits to depositors, with the FDIC retaining primarily all of the assets for later sale. It is considered least desirable because it normally is more costly and causes the most disruption to customers of the failed institution. The FDIC also may offer a loss-sharing arrangement, in which the agency typically agrees to pay 80 percent of losses on loans later charged off while the acquirer assumes the other 20 percent. Loss-sharing is intended to give the acquirer an incentive to manage problem assets prudently and to address acquirers' concerns about unanticipated losses in the loan portfolio. As of December 31, 1994, approximately $6.5 billion of assets owned by acquiring institutions were covered by loss-sharing agreements. No loss-sharing transactions were entered into in 1994.

The FDIC may use its bridge bank authority to take interim control of a failed bank. In these cases, the bank is closed and a new federally chartered institution is operated under FDIC control until a sale can be completed. This method was used in the Meriden Trust failure discussed earlier.

The FDIC may provide "shared equity" in a resolution, in some form of preferred stock or debt, to help the acquiring bank capitalize its new assets for a limited time. These capital instruments are issued at risk-adjusted rates and are structured with incentives for early redemption. Both the BIF and the FSLIC Resolution Fund own such securities. The FDIC did not provide any capital instruments in 1994; however, DOR which is responsible for managing and selling these capital instruments for the FDIC, sold $42 million during 1994 from six prior resolution transactions.

The FDIC's efforts to dispose of assets at the time of closing resulted in the immediate return to the private sector of approximately a third of the assets from the 13 banks that failed during 1994 (about $400 million out of the $1.4 billion total). Otherwise, these assets would have been retained by the FDIC for disposition.

At year-end, DOR was managing 51 assistance agreements nationwide. Of these, 16 involve open bank assistance transactions, 23 involve loss-sharing agreements with 15 different acquirers, 10 comprise other types of assistance and the remaining two are limited partnership agreements.

FSLIC Resolution Fund

The FSLIC Resolution Fund (FRF) is charged with carrying out agreements that the former FSLIC entered into before August 9, 1989. The FRF receives federally appropriated funds and Congress provided $827 million to fund the FRF for fiscal year 1995. Previous appropriations were $15.9 billion in fiscal year 1992, $2.6 billion in fiscal 1993 and $1.2 billion in fiscal 1994 (none of which was used in 1994). The FRF's main mission is to manage acquiring institutions' orderly disposition of "covered assets" within the terms of the assistance agreements. Currently, the largest use of FRF funds continues to be the payment of contractual assistance to acquiring institutions.

Much of the FDIC's focus on the FRF has been the orderly and early termination of FSLIC agreements. The last agreement is scheduled to terminate in December 1998.

DOR, which is responsible for managing the assets and liabilities of the FRF, reduced the fund's active cases during the calendar year to 11 from 20. Of the nine cases closed, five assistance agreements were terminated before the expiration dates in the contracts. These "early terminations" are expected to yield cost savings of $13 million. Covered assets were reduced to $1.0 billion from $2.4 billion through asset sales and other adjustments. Additionally, DOR is responsible for administering 43 terminated FRF agreements that have outstanding issues, and 45 agreements that require the monitoring of tax benefits due the FRF beyond the contractual termination of the agree-ments. During 1994, approximately $135 million in tax benefits were realized by the FRF.

Separate from the assistance agreements are the FRF assets managed by DAS. At year-end 1994, the FRF portfolio of assets in liquidation had a book value of $1.8 billion, down from $2.7 billion at the end of 1993. FRF net liquidation collections totaled $843 million in 1994.

The FRF will receive the remaining assets and liabilities of the Resolution Trust Corporation when it closes at year-end 1995 as scheduled. The FRF will continue until all of its assets are sold or otherwise liquidated, and all of its liabilities are satisfied. If any funds remain, they will revert to the U.S. Treasury.

Bank Failures 1934–1994

In the years before the Federal Deposit Insurance Corporation was created, bank failures were widespread. On average, more than 600 banks per year failed between 1921 and 1929. By 1933, bank failures had reached a zenith of 4,000 institutions for the year. On June 16, President Roosevelt signed the Banking Act of 1933, creating the FDIC and establishing a safety net that would build confidence for the nation's bank depositors. The FDIC began insuring deposits on January 1, 1934.

The Early Years

The agency began operating at a time when faith in the safety of banks had reached a low mark, exacerbating the economic stresses of the Great Depression. Over the decades since then, depositors of failed banks have received their funds through the efforts of the FDIC. On July 3, 1934, as a jubilant crowd waited outside an East Peoria, IL, bank, newsreel and other cameras captured a historical event inside. Mrs. Lydia Lobsiger, accompanied by her daughter and three-year-old granddaughter, received the first check from the FDIC for the reimbursement of deposit funds. Legal wrangling by stockholders of Fond du Lac State Bank, East Peoria, IL, over the appointment of a receiver when it was closed on May 25, 1934, prolonged Mrs. Lobsiger's wait for her $1,250 by five weeks before the FDIC was able to return the badly needed money. While Mrs. Lobsiger's $1,250 may seem a small sum today, 60 years ago it was half of the $2,500 insurance limit. It was all she had.

Much has changed since Mrs. Lobsiger received that first check when the FDIC was just six months old. Today, when a bank closes, the FDIC is immediately appointed receiver and depositors receive their funds with little or no delay. The FDIC now insures deposits for up to $100,000, which is 40 times the original limit.

In the early years of the FDIC, as the nation's economy continued to struggle, banks continued to fail. In its first decade, the FDIC handled 400 bank failures. Directly following the end of World War II, it was believed that the United States would again plunge into economic depression, and the nation's banks would begin to fail in large numbers. Instead, the country began its longest economic boom and the banking industry settled into a 30-year period of calmness and stability. Between 1945 and 1974, just 114 insured banks were closed, about four per year.

Problems Emerge

The FDIC handled its first comparatively large failures in the early 1970s, as banking became increasingly competitive and the economic environment became less stable. The mid-70s saw an increase in the number of bank failures following the OPEC oil embargo of 1973 and the recession of 1973-75. Thirteen banks were closed in 1975 because of financial difficulties, the first time since World War II that the annual bank failure count reached double digits.

As bank troubles grew throughout the 1980s, the FDIC met its most severe test since the 1930s. From 1977 through 1981, a total of 43 banks were closed because of financial difficulties — about eight per year. For 1982 alone, the figure jumped to 42. From 1982 to 1988, a total of 811 banks failed, an average of 116 a year. The boom-bust cycle of three economic sectors — agriculture, energy and real estate — contributed largely to the collapse of these institutions.

The next wave of difficulties after the oil crisis and recession of the '70s hit the heartland of America. Agricultural banks began to have problems by 1984, as the value of farmers' land — their main asset — plunged. Farm debt had doubled between 1976 and 1981, and interest rates spiraled upward, imposing higher debt servicing requirements on farmers. Those banks in which agricultural loans amounted to 25 percent or more of total loans experienced large loan losses, and many began to fail as farmers who had used rising real estate values to finance operations had trouble repaying loans. Between 1982 and the end of 1988, a total 245 agricultural banks failed.

At just about the same time, problems began in the "oil-patch" states. The possibility of ever-increasing oil prices implied strong economic growth for energy-related industries. Many banks had increased lending to businesses that stood to benefit from these trends, principally oil and gas producers, construction firms, and real estate developers. These banks were caught short after oil prices, which peaked in 1981, began falling.

Energy-related lending and the difficulties it encountered contributed to the collapse of a nationwide real-estate boom. The problems began in Texas and spread to other "oil-patch" states, and included Alaska and Colorado. A total of 566 non-agricultural banks failed between 1982 and 1988.

Failures Today

In the late '80s, real estate problems began to develop outside of the energy states — in the Northeast, Southeast and, to some extent, California. In a four-year span covering 1989-92, a total of 618 banks failed due to a variety of factors. Since then, the failure rate has dropped off considerably. Forty-one banks failed in 1993, and in 1994, only 13 banks failed — a 14-year low. Eight of the 13 failures were small institutions in California, four were in the Northeast and none were in the "oil-patch" states.

Throughout its 60-year history of insuring deposits, the FDIC, which began as a temporary agency, has proved its value by protecting depositors at 2,069 insured banks that have failed, and 80 others that received assistance from the FDIC to keep them from closing. The FDIC remains today the symbol of banking confidence.

Asset Disposition

The FDIC's ability to provide incentives for healthy institutions to assume deposits and purchase assets of failed banks allows a significant portion of assets to be returned to the private sector immediately. The remaining assets are retained by the FDIC for later sale, loan workouts or other disposition. The Division of Depositor and Asset Services (DAS) is responsible for this function. During 1994, DAS successfully settled, sold or otherwise resolved a significant portion of its asset inventory from failed institutions, as follows:

- The book value of assets in liquidation was reduced about 40 percent during the year, to $16.7 billion from $28 billion. Gross collections totaled about $8.9 billion.
- 5,319 real estate properties, which were sold for a total of $1.2 billion, yielded a recovery of 91 percent of the average appraised value.
- DAS sold $762 million of performing commercial mortgage loans through securitization. The FDIC provided purchasers a partial guaranty backed by the Bank Insurance Fund (BIF) to cover credit losses. Net cash proceeds, after expenses, were $746 million or 98 percent of book value.
- Over 63,780 loans and other assets, totaling $4.6 billion in book value, were sold in sealed bid offerings and other asset marketing events. Net sales proceeds represented 101 percent of the appraised value.

Affordable Housing

Under the FDIC's Affordable Housing Program, created by a 1991 law, single-family properties have been sold successfully to qualified buyers in need of affordable housing. The program provides assistance in the form of credits or grants to low- and moderate-income households to buy eligible homes from the FDIC's inventory. The credits or grants can be used to pay for closing costs, down-payment assistance or discounts in a way that provides the most benefit to the purchaser.

With a congressional appropriation of $7 million for fiscal year 1994, the qualified buyers were assisted with the purchase of 681 one-to-four family properties. In addition, the program sold 10 multi-family properties, consisting of 286 units, to non-profit organizations and public agencies that provide rental housing to low-income households. Notable transactions include:

- The donation of a six-unit apartment building in Kansas City, MO, to a non-profit group for rehabilitation and use as transitional housing for homeless people or permanent housing for low-income senior citizens.
- The gift of a single-family property in Atlanta, Georgia, to Habitat for Humanity, which will house out-of-state volunteers working on the construction of 100 homes in the Atlanta area. After the work is completed, the property will be rehabilitated and sold to a low-income household.

Liquidation Highlights
1992-1994

(Dollars in Billions)

	Total Failed Banks*	Assets of Failed Banks*	Total Collections+	Total Assets in Liquidation (year-end)+
1994	13	$ 1.4	$ 8.9	$ 16.7
1993	41	3.5	12.9	28.0
1992	120	44.2	15.1	43.3

*Excludes open bank assistance transactions. The 1993 items exclude one SAIF-insured failure resolved by the Resolution Trust Corporation.

+Includes assets from failed banks and from failed thrifts formerly insured by the Federal Savings and Loan Insurance Corporation. These assets are serviced by the FDIC as well as by asset management contractors and national servicers.

The FDIC also reached an agreement with the Resolution Trust Corporation (RTC) to lay the groundwork for consolidating the two agencies' affordable housing programs in 1995. Aspects of this agreement relating to property marketing and sales already are being implemented to help the FDIC better reach eligible buyers. For example, the FDIC began using RTC underwriters to provide seller-financing on single-family properties in the FDIC's affordable housing inventory. Also, to assist low-income households requiring rental housing, the FDIC began working with RTC staff to help market eligible multi-family properties to non-profit organizations and public agencies under an RTC sales program.

Significant Court Cases

Among its services, the FDIC's Legal Division provides legal support to DAS for recovering and liquidating the assets of failed institutions.

During 1994, the Legal Division handled several significant cases involving claims and litigation related to asset disposition, including:

- **FDIC as Receiver of Merchants Bank v. Knights Lodging, Inc.**
  A case upholding the FDIC's special powers under the Crime Control Act of 1990 to prohibit people who borrowed from a failed bank from fraudulently shielding their assets from the FDIC. In this case, officials of a hotel franchising business had pledged stock in their company in order to receive $28 million in loans from Merchants Bank of Kansas City, MO. After the bank failed in 1992, these borrowers fraudulently transferred their company's most valuable assets to a successor company, rendering the FDIC's collateral virtually worthless. At the FDIC's request, the U.S. District Court in Kansas City appointed a trustee to take control of both companies to avoid further dissipation of the assets while the FDIC seeks recoveries for the failed bank's receivership.

- **Sunshine Development, Inc. v. FDIC**
  A case clarifying the ability of the FDIC to foreclose on collateral held by a failed bank's borrower who filed bankruptcy. In this case, the FDIC as liquidating agent for First Service Bank for Savings, Leominister, MA, was granted relief from the automatic stay by the bankruptcy court. The FDIC moved to foreclose on the collateral. On the debtor's request, however, the bankruptcy court reimposed the stay and the district court affirmed. On appeal, the U.S. Court of Appeals for the First Circuit ruled that the courts had no authority to reimpose the bankruptcy automatic stay because reimposing the stay would interfere with the FDIC's collection on failed bank assets.

- **Connecticut v. FDIC**
  A case involving a state's claim that it, and not the FDIC, was entitled to a failed bank's "dormant accounts" (deposit accounts that had no activity for many years). At issue were unclaimed deposits at Citytrust of Bridgeport, CT, which failed in 1991. The state contended it was entitled to FDIC insurance coverage on these accounts based in part on an ownership claim under Connecticut's abandoned property law. In May 1994, the U.S. District Court in Hartford ruled in favor of the FDIC. The court found that federal law, which gives depositors of failed banks 18 months to claim their funds, pre-empted state law treatment of abandoned property. The court also ruled that Connecticut did not comply with the FDIC's receivership claims process. This favorable ruling was significant for the FDIC because the agency at year-end faced similar suits by New York and Massachusetts involving 45 failed banks.

Asset Disposition 1934 –1994

Before Congress established the FDIC in 1933, the Comptroller of the Currency was named receiver for failed national banks and state banking authorities for failed state banks. But depositors received their funds slowly and communities suffered from the rapid disposition ("dumping") of assets of the failed bank. The FDIC, in contrast, was expected to pay depositors quickly and without dumping assets.

The sale of assets from failed banks originally was handled by the New and Closed Bank Division. It was renamed the Division of Liquidation in 1936, and in 1993 it was renamed the Division of Depositor and Asset Services (DAS) to reflect its commitment to serving the public. DAS has operated under a wide variety of economic conditions over the last 60 years, resulting in several different approaches to asset disposition. The Division has two basic requirements: to dispose of assets without upsetting local markets, and to maximize returns from disposing of closed institutions' assets. The factors and methods used to decide when to hold versus sell assets, or litigate versus compromise, have evolved in response to the circumstances of the times.

Changing with the Times

Until the 1970s, banks that failed were generally small, with under $100 million in assets. Long-term performing assets were generally retained by the FDIC. In the 1970s, with the first large bank failures (over $100 million in assets) brought about by the real estate-related recession, the FDIC began selling those long-term performing assets, not only because they are the most marketable type of asset, but also because the FDIC developed a policy to return assets to the private sector as soon as possible. Moreover, the FDIC's investment portfolio was intended to be limited to U.S. Treasury securities.

To further these goals, the Division contracted with a third-party national mortgage servicer in 1984 to handle performing residential mortgage loans from failed banks in 1981-1983. In 1985, the vast majority of those performing mortgage loans were sold in a private sale and obtained a 15-20 percent higher recovery than for similar loans that the FDIC serviced directly.

This philosophy continued in the '90s as the FDIC held bulk sales of performing residential and commercial mortgage loans, including the FDIC's first public securitization sale of $762 million in performing commercial real estate loans in 1994. In 1992, the FDIC also contracted with an outside servicer to handle the sale of nonperforming small loans (under $50,000 in size) and performing consumer loans. The vast majority of those assets were disposed of in bulk sales within 18 months.

Nonperforming loans and foreclosed real estate owned (REO) held prior to the mid-1980s generally have been managed by FDIC personnel located in field offices. Reflecting the workload over several decades, the Division's personnel levels have fluctuated from year to year, from a post-Depression high of 1,600 in 1942 to a staff of about 30 in the post-war early 1950s, to more than 6,600 in 1993. Before 1983, the FDIC managed the asset disposition process from Washington, with individual field liquidation sites established in areas experiencing the highest number of failed banks. The sites were kept open as long as necessary to resolve receiverships. In 1983, to cope with the highest bank failure rate since 1939, the Division decentralized its management and decision-making process, creating five area offices where liquidation sites could be consolidated for economies of scale and faster decision-making in resolving assets.

A sixth area office was opened in 1984 as failures continued to set records. Additionally, the FDIC for the first time arranged for problem assets from a resolution ($5.1 billion acquired from Continental Illinois National Bank, Chicago) to be managed by a private institution rather than be managed directly by the FDIC. The development of the Liquidation Asset Management Information System (LAMIS), a computerized system supporting collection activity, servicing and delinquency analysis, also improved asset management. A nationwide automated asset marketing system and investor profile database were developed to enhance the FDIC's ability to sell assets in bulk to specially targeted markets. Personnel in the field were given increased delegated authority in order to expedite the disposition process so that by 1988, only about one percent of all credit decisions required approval by Washington.

Workload Increases

By 1987, managing over $11 billion in assets, the FDIC began to emphasize settlements and other alternatives over litigation in problem loan situations. The Division experimented with public auctions for selling loans and used national publications to advertise the availability of large REO properties for sale. Teams of asset-marketing specialists were formed to aggressively seek potential purchasers of loans and real estate. In 1988, the Division conducted public auctions of large real estate properties as well as whole site liquidation sales, resulting in the closing of two liquidation sites.

In 1989, the influx of assets that came to the FDIC from the FSLIC as a result of legislation and from increased bank failures, forced the FDIC to again reevaluate its liquidation processes. The FDIC turned to more third-party asset managers and formed the Assistance Transaction Branch, now known as the Contractor Oversight and Management Branch, to oversee their disposition efforts. The Division established specialized REO sales offices and initiated a telemarketing system to provide information to investors.

The value of assets managed by the FDIC peaked in 1991 at $44.8 billion, with $13.3 billion of the total managed by third-party contractors. Bulk sales of 143,000 assets resulted in receipts of $1.5 billion. In December 1991, the FDIC held its first nationwide auction by satellite of large REO commercial properties, selling 115 properties for $240 million. In 1992, over 105,000 loans were sold for $3.3 billion, and the FDIC held its second national REO auction, selling 218 properties for $412 million.

Private-Sector Involvement

Since 1991, efforts have focused on keeping assets in the private sector and providing loss protection. The FDIC began entering into loss-sharing arrangements for disposing of assets in bank failures of over $500 million in assets, agreeing to cover 80-to-85 percent of subsequent losses on those assets for three to five years. Loss-sharing arrangements provided an incentive for the private sector to acquire assets at the time of failure, and acquirers were able to continue meeting the credit needs of the borrower, thus addressing concerns about causing a "credit crunch." Recoveries also were shared with the FDIC. Loss-sharing agreements to date have kept $18.5 billion in assets in the private sector.

During 1993, a total of 136,000 loans were sold for $3.3 billion. The first two bulk sales of nonperforming commercial real estate loans were conducted on a pilot basis. Traditionally the FDIC disposed of nonperforming loans through restructuring, workouts, compromise or litigation. The Division initiated its small-asset sales policy in an effort to free up staff to focus on the larger nonperforming loans where the bulk of the Division's loss exposure exists. Small assets, previously defined as under $25,000, were redefined as those under $250,000. The disposition policy was to sell those small nonperforming assets within nine months of acquisition. At that time, approximately 82 percent of the loans fell within this category; yet they constituted only 17 percent of the dollar exposure to the Corporation.

The Division has moved and continues to move toward consolidating field sites into five area service centers as well as downsizing its staff as the workload decreases.

The FDIC's philosophy and approach to asset disposition have evolved since its inception, balancing its goals to maximize returns to the receiverships and the insurance funds, and minimize expenses, while at the same time serving the needs of its customers and the public.

Internal Operations

Throughout the FDIC, staff efforts have focused on planning for change and implementing new initiatives that affect how the agency does business.

Issues that predominated in 1994 included the downsizing of offices due to a decreased workload from bank failures, and the transfer to the FDIC of Resolution Trust Corporation (RTC) operations and personnel.

In November, Leslie Woolley was appointed Deputy to the Chairman for Policy. This new position was established to focus on external policy matters relating to Congress, the banking community and the general public.

Downsizing

Nationwide employment at the FDIC decreased 18 percent during the year, to 11,627. RTC staffing declined by 13 percent, to 5,899. FDIC staffing has been on the decline after reaching a historical high of 15,585 in the second quarter of 1993.

The most recent reductions at the FDIC are due primarily to the improved health of the banking industry and the subsequent sharp decline in the number of bank failures. The Division of Depositor and Asset Services (DAS), which is responsible for most of the agency's work in liquidating failed bank assets, reduced its staff by one-third. DAS had 3,796 permanent employees at year-end 1994, compared to 5,664 a year earlier. Also, 4,874 temporary liquidation-graded employees in the Southeast, Southwest, Western and Northeastern Service Center regions competed through a negotiated selection procedure for 3,300 temporary jobs to extend beyond January 1995. DAS also reduced the number of field locations to 10 from 19 at year-end 1993.

To reduce excess staffing of permanent employees and to trim relocation costs, a buyout was offered to targeted groups of employees corporate-wide in late summer. Seventy-two FDIC employees accepted the offer, including 47 who otherwise would have been relocated. The average cost of the buyout was about half the average relocation costs to the Corporation.

Number of Officials and Employees of the FDIC
1993 - 1994 (Year-end)

	Total		Washington		Regional/Field	
	1994	1993	1994	1993	1994	1993
Executive Offices+*	178	217	169	186	9	31
Division of Supervision*	3,369	3,971	159	178	3,210	3,793
Division of Depositor and Asset Services	3,796	5,664	79	86	3,717	5,578
Legal Division	1,531	1,994	434	459	1,097	1,535
Division of Compliance and Consumer Affairs*	398	0	24	0	373	0
Division of Finance	692	820	311	297	381	523
Division of Information Resources Management	548	351	382	351	166	0
Division of Research and Statistics	60	58	60	58	0	0
Division of Resolutions	253	325	74	69	179	256
Office of Inspector General	192	195	192	175	0	20
Office of Personnel Management	196	220	185	214	11	6
Office of Equal Opportunity	31	39	31	39	0	0
Office of Corporate Services	383	365	209	216	174	149
Subtotal, FDIC	11,627	14,219	2,309	2,328	9,318	11,891
Resolution Trust Corporation	5,899	6,775	1,649	1,576	4,250	5,199
Total	17,526	20,994	3,958	3,904	13,568	17,090

*Executive Offices include the Offices of the Chairman, Vice Chairman, Director (Appointive), Executive Secretary, Corporate Communications, Legislative Affairs, and Training and Educational Services. The 1993 total includes the Office of Consumer Affairs.

+ In August 1994, the FDIC announced the merger of the former Office of Consumer Affairs and the compliance examination function from the Division of Supervision into a new Division of Compliance and Consumer Affairs.

Assistance in this downsizing effort was provided by the Office of Corporate Services (primarily involving the closing of DAS field offices and the consolidation of personnel into five regional Service Centers) and the Office of Training and Educational Services (which offered nearly 300 classes on topics like career planning, job searches and stress management for liquidation staff and attorneys).

As a result of efforts to streamline, consolidate and reduce its operations, the FDIC was able to cut spending by nine percent below its 1994 budget. The agency spent $1.78 billion for salaries, outside contracting, facilities, travel and other expenses for such activities as examining banks and thrifts, enforcing banking laws, insuring deposits and liquidating failed banks. This compares to the approved budget of $1.95 billion.

Looking ahead to continued downsizing, the FDIC Board in December approved a 1995 budget of $1.49 billion, or 16 percent below 1994 spending levels.

In a related development, the FDIC and the National Treasury Employees Union (NTEU) created a joint Senior Executive Council that negotiated issues regarding pay and benefits, downsizing, and other matters. The NTEU represents approximately 56 percent of FDIC employees nationwide.

FDIC-RTC Transition

The FDIC and RTC made significant progress in planning for the return of RTC employees to the FDIC. This is related to the transfer of RTC operations and employees by year-end 1995, as mandated by a 1993 law.

Transition leaders at the two agencies established joint committees, task forces and working groups that gave FDIC and RTC representatives equal responsibility in the development of transition strategies. The FDIC also continued to accept available permanent employees of the RTC as vacancies occurred. A total of 132 permanent employees of the RTC returned to the FDIC during the year. Each placement was coordinated to ensure that ongoing needs of the RTC were addressed. Also, a freeze on permanent hiring that began at the FDIC in 1992 remained in effect in 1994 to make room for personnel returning from the RTC. At year-end 1994, there were 1,428 permanent RTC employees, down from 1,615 at year-end 1993.

Minority- and Women-Owned Businesses

The FDIC continued its work with minority- and women-owned businesses (MWOBs). These efforts included the awarding of contracts to MWOBs for a variety of goods and services, and the use of minority- and women-owned law firms as outside counsel.

As a result of national and regional outreach efforts, the FDIC achieved considerable success in awarding contracts to MWOBs in 1994.

Of the more than 31,000 FDIC contracts awarded during the year in areas other than legal affairs, MWOBs received 9,489 (about 30 percent of the total) valued at about $74.3 million (about 26 percent of the total dollar amount). Even while FDIC office closings and the trend toward doing more work in-house reduced the number of all such contracts awarded in 1994 compared to 1993, the agency increased the total dollar share of those awarded to MWOBs by three percent.

Regarding the use of outside legal counsel, the FDIC increased the percentage of fees and expenses paid to minority- and women-owned law firms to 22.2 percent, from 15 percent in 1993. That represents an increase of $1.4 million, to a total of $17.8 million, even while total expenses for outside counsel costs decreased by $25.4 million.

The FDIC also provides training and technical assistance to expand and preserve minority-owned banking institutions. In 1994, the FDIC provided guidance in areas such as financial reports, consumer affairs, civil rights and accounting. The FDIC also designated Minority Banking Coordinators to participate in an array of activities, including guidance to minorities regarding the acquisition of financial institutions.

Training Initiatives

The Office of Training and Educational Services began a "Management Excellence Program," announced in 1993, that changes the way hundreds of FDIC managers share ideas and information, and helps them be more effective managers.

The program provides training in 20 success factors specially designed for the FDIC. Each participant is evaluated by supervisors and subordinate based on these 20 factors. The program also promotes cross-divisional discussions that resulted in several innovations. A total of 355 FDIC officials received this training in 1994, and another 800 are expected to participate in 1995.

Separately, the FDIC updated the training and performance evaluation procedures for its examiners, and created a committee to guide future initiatives in examiner training and performance.

1994

Regulations and Legislation

Final Rules

Mutual-to-Stock Conversions

The FDIC amended Parts 303 and 333 of its regulations to address concerns about some aspects of mutual savings banks' conversions to stock ownership. Under the new rule, the FDIC requires advance notice of an institution's conversion plans and will object to the proposed conversion if it raises concerns about safety and soundness, violations of law, or possible breaches of fiduciary duty. The new rule, which includes elements of an interim rule adopted in February 1995, also adds investor protections and allows for preferences to local depositors. Effective January 1, 1995.

Approved:	November 22, 1994
Published:	**Federal Register** November 30, 1994

Collection of Assessments

The FDIC amended Part 327 of its regulations to provide for the quarterly collection of deposit insurance premiums by direct debit through the Automated Clearing House network. Under the amendments, effective April 1, 1995, the FDIC will calculate the quarterly amount due from each institution based on data provided by the institution in its most recent Report of Condition. The rule will ease the burden on institutions and improve the efficiency of the collection process. The assessments regulation also included an amendment clarifying the obligation of acquiring institutions to pay assessments from institutions that terminate their insured status.

Approved:	December 20, 1994
Published:	**Federal Register** December 29, 1994

Real Estate Appraisals

The FDIC, along with the other federal bank and thrift regulators, agreed to amendments to its rules on real estate appraisals that are intended to reduce costs and encourage lending without diminishing safe and sound banking practices. Included in the revised Part 323 are provisions that increase the threshold to $250,000 from $100,000 for loans that: require a real estate appraisal by a certified or licensed appraiser; exempt from appraisal requirements business loans of $1 million or less where the sale of, or rental income derived from, real estate is not the primary source of repayment; expand and clarify other exemptions from appraisal requirements; and reduce and simplify the standards for conducting appraisals. Effective June 7, 1994.

Approved:	May 3, 1994
Published:	**Federal Register** June 7, 1994

Multifamily Housing Loans

The FDIC adopted changes to the agency's risk-based capital standards (Part 325) that are intended to facilitate prudent lending for multifamily housing. This rule implements Section 618(b) of the Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991. The rule lowers to 50 percent from 100 percent the "risk weight" accorded loans secured by multifamily residential properties that meet certain criteria as well as securities collateralized by such loans. The rule also addresses the treatment of loss-sharing arrangements on sales of multifamily housing loans. Effective January 27, 1994.

Approved:	December 14, 1993
Published:	**Federal Register** January 27, 1994

Branch Relocations

The FDIC amended Part 303 of its regulations to define the term "branch relocation" for purposes of application and publication requirements. The amendment defines a branch relocation in the same terms as the FDIC's policy statement on branch closings and reduces the number of times a relocation application must be published in a general circulation newspaper. In the new definition, the term applies only to the moving of a branch to another site in the immediate community. A relocation outside the immediate community will be treated as a separate branch closing and request to establish a new branch. Automated teller machines are not affected by this rule. Effective March 2, 1994.

Approved:	January 24, 1994
Published:	**Federal Register** January 31, 1994

Remote Service Facilities

The FDIC adopted an amendment to Part 303 of its regulations, which relates to applications and publication requirements to establish or relocate remote service facilities. The intended effect of the amendment is to lessen the regulatory burden on state nonmember banks by reducing the number of days an institution must wait for approval of its application and by eliminating, in most cases, the need to publish notice of the application. To utilize these expedited procedures, the bank's Community Reinvestment Act (CRA) rating must be at least "Satisfactory," and there can be no protests to the application on file with the FDIC.

Approved:	August 9, 1994
Published:	**Federal Register** August 23, 1994

Depository Institution Investment Contracts

The FDIC amended Part 327 of its regulations governing computation of the base on which deposit insurance premiums are assessed. Under the rule, certain liabilities under depository institution investment contracts, including Bank Investment Contracts or "BICs," are excluded from the base, thereby reducing assessment payments for affected institutions. Effective July 11, 1994.

Approved:	May 24, 1994
Published:	**Federal Register** June 9, 1994

Foreign Banks

The FDIC implemented Section 202(a) of the Federal Deposit Insurance Corporation Improvement Act of 1991 by requiring foreign banks, with certain exceptions, to obtain approval from the FDIC and the Federal Reserve Board for an insured state branch to engage in or continue an activity that is not permissible for a federally licensed branch of a foreign bank. The amendment to Part 346 also provides guidelines for an insured branch that is required to divest or cease an activity.

Approved:	November 22, 1994
Published:	**Federal Register** November 28, 1994

Unsafe and Unsound Banking Practices

The FDIC amended Section 337.3 of its regulations to except loans that are fully secured by certain types of collateral from the general limit on "other purpose" loans to executive officers of insured nonmember banks.

Approved:	December 20, 1994
Published:	**Federal Register** December 28, 1994

Concentrations of Credit and Nontraditional Activities

The FDIC amended Part 325 of its regulations to identify two types of risks — from concentrations of credit and from nontraditional activities — as important factors in assessing an institution's overall capital adequacy. No mathematical formulas or explicit capital requirements were adopted; rather, a case-by-case approach will be used. Effective January 17, 1995.

Approved:	August 9, 1994
Published:	**Federal Register** December 15, 1994

Merger Applications

The FDIC amended Part 303 of its regulations for publishing notice of an application under the Bank Merger Act. The revised regulation requires applicants to publish only twice during the statutory 10-day period, and in non-emergency situations publication is required only three times at two-week intervals. The regulation also clarifies the rules on the public comment period. Effective December 28, 1994.

Approved:	December 20, 1994
Published:	**Federal Register** December 28, 1994

Securities of Nonmember Insured Banks

Section 12(i) of the Securities Exchange Act of 1934 requires that the FDIC issue regulations similar to those of the Securities and Exchange Commission or publish its reasons for not doing so. The SEC has amended its Exchange Act regulations relating to small-business initiatives, executive compensation disclosure, and regulation of communications among shareholders. The FDIC amended Part 335 of its regulations to incorporate those changes.

Approved:	December 20, 1994
Published:	**Federal Register** December 29, 1994

Bilateral Netting

The FDIC amended its risk-based capital standards (Part 325) to recognize the risk-reducing benefits of qualifying bilateral netting contracts, implementing a recent revision to the Basle Accord signed by bank supervisors worldwide. Under the rule, state nonmember banks may net positive and negative mark-to-market values of interest and exchange rate contracts in determining the current exposure portion of the credit equivalent amount of such contracts to be included in risk-weighted assets.

Approved:	December 20, 1994
Published:	**Federal Register** December 28, 1994

Delegations of Authority

The FDIC adopted amendments to Parts 303 and 338 of its regulations concerning delegations of authority and other technical amendments to reflect the duties and powers of the FDIC's new Division of Compliance and Consumer Affairs. The new Division was created by combining the FDIC's Office of Consumer Affairs and the compliance unit of the Division of Supervision. The amendments provide officials of the new division with appropriate delegated authority and make other technical and conforming changes.

Approved:	September 27, 1994
Published:	**Federal Register** October 19, 1994

Proposed Rules

Community Reinvestment Act

The FDIC, the Federal Reserve Board, the Office of the Comptroller of the Currency and the Office of Thrift Supervision agreed to seek public comment on a revised proposal to change the way institutions are evaluated under the Community Reinvestment Act (CRA). This proposed amendment to Part 345 modifies one issued in December 1993. The revised proposal would provide guidance to financial institutions on the nature and extent of their CRA obligation, and the methods of performance assessment and enforcement. The proposed procedures seek to emphasize performance, promote consistency in assessments and reduce unnecessary compliance burdens.

Approved:	September 26, 1994
Published:	**Federal Register** October 7, 1994

Derivatives and Other Off-Balance-Sheet Contracts

The FDIC issued proposed changes to its risk-based capital standards (Part 325) that would expand the factors used in calculating an institution's future exposure from derivatives and other off-balance-sheet contracts. In addition, under the proposal, institutions would be permitted to recognize a reduction in potential future exposure for transactions subject to qualifying bilateral netting arrangements.

Approved:	September 27, 1994
Published:	**Federal Register** October 19, 1994

Management Official Interlocks

The FDIC issued proposed exemptions from Part 348 of its regulation prohibiting management official interlocks. The amendment would provide an exemption from the general prohibition against any management interlock between two depository institutions, depository holding companies or their affiliates located in a relevant metropolitan statistical area (RMSA) or other community if their combined share of the total deposits in the RMSA or community is under 20 percent.

Approved:	February 22, 1994
Published:	**Federal Register** April 20, 1994

Risk-Based Capital

The FDIC, along with the Office of the Comptroller of the Currency, the Federal Reserve Board and the Office of Thrift Supervision, issued a joint proposal for changes regarding risk-based capital (Part 325). The proposed rule would limit the amount of risk-based capital for "recourse arrangements" and "direct credit substitutes" where the maximum exposure is contractually less than the risk-based charge. The proposal would also require the same risk-based capital treatment for recourse arrangements and certain direct credit substitutes that present equivalent risk. Along with its proposal, the Board also issued an Advance Notice of Proposed Rulemaking (For more details, see Page 50).

Approved:	April 12, 1994
Published:	**Federal Register** May 25, 1994

Ethical Standards

The FDIC proposed to issue regulations (Part 336) for its employees that would supplement the Standards of Ethical Conduct for Employees of the Executive Branch issued by the Office of Government Ethics. The proposed rule would expand: prohibitions on borrowing and extensions of credit; prohibitions on the ownership of certain financial interests; prohibitions on the purchase of property controlled by the FDIC or Resolution Trust Corporation; limitations on dealings with former employers and clients; disqualification requirements relating to employment of family members outside the Corporation; and limitations on outside employment activities.

Approved:	June 14, 1994
Published:	**Federal Register** July 12, 1994

Uniform Rules of Practice and Procedure

The FDIC proposed to amend a provision of the Uniform Rules of Practice and Procedure (Part 308) pertaining to ex parte contracts. The proposal is intended to clarify that the rules relating to ex parte communications conform to the requirements of the Administrative Procedure Act. In particular, the proposed amendment would clarify that the ex parte provisions apply to communications between interested persons "outside the agency" and the agency head rather than to intra-agency communications which are governed by a different provision of the APA requiring a separation of functions within the agency.

Approved:	November 22, 1994
Published:	**Federal Register** November 29, 1994

Contractor Conflicts of Interest

The FDIC proposed adoption of a new regulation, Part 366, that would implement provisions of the Resolution Trust Corporation Completion Act (the Completion Act). The Completion Act amended section 12 of the Federal Deposit Insurance Act to prohibit certain persons and companies from entering into contracts or providing services to the FDIC and directed the FDIC to prescribe regulations for those who enter into contracts with the FDIC governing conflicts of interest, ethical responsibilities, and the use of confidential information.

Approved:	June 14, 1994
Published:	**Federal Register** June 24, 1994

Advanced Notice of Proposed Rulemaking

Assessments

The FDIC approved the publication of an advance notice of proposed rulemaking to Part 327 to solicit comments on whether the deposit insurance assessment base should be redefined and, if so, how. Because of recent changes in the law and other developments, the FDIC believes that it is desirable to review whether the assessment base definition, substantially the same since 1935, should be revised. The FDIC will consider the comments received to determine whether to propose specific changes for additional public comment.

Approved:	September 27, 1994
Published:	**Federal Register** October 5, 1994

Risk-Based Capital

In conjunction with a proposed rule issued on risk-based capital for recourse arrangements (see Page 48), the FDIC Board of Directors issued an advance notice of proposed rulemaking on the possible use of private-sector credit ratings when assigning risk weights for certain securitizations under Part 325.

Approved:	April 12, 1994
Published:	**Federal Register** May 25, 1994

Other Actions

Rapid Growth

The FDIC rescinded Section 304.6 of its regulations, which required insured banks, with the exception of so-called "bankers' banks," to give notice to the FDIC of any planned rapid growth through the solicitation of fully insured deposits obtained through brokers or affiliates. Also deleted are the section's requirements for advance notice before soliciting fully insured deposits outside a bank's normal trade area, or secured borrowings, including repurchase agreements. The change is intended to lessen the regulatory burden on banks, which are also required to comply with other rules that address risks resulting from rapid growth.

Approved:	September 27, 1994
Published:	**Federal Register** October 6, 1994

Capital Maintenance — FASB 115

The FDIC decided not to proceed with a proposal to include net unrealized holding gains (losses) on available-for-sale securities in Tier 1 capital. Instead, the FDIC adopted only technical wording changes to conform the language in its leverage and risk-based capital standards to the terminology used in the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 115. For regulatory capital purposes, this rule continues to require net unrealized holding losses on available-for-sale equity securities with readily determinable fair values to be deducted in determining the amount of Tier 1 capital. All other net unrealized holding gains (losses) on available-for-sale securities are excluded from the definition of Tier 1 capital.

Approved:	December 20, 1994
Published:	**Federal Register** December, 28, 1994

Conflicts of Interest

The FDIC withdrew a proposed rule to Part 356 governing business dealings other than extensions of credit between an insured nonmember bank and its directors, executive officers, principal shareholders and related interests. Several factors led to the withdrawal of the proposed rule, including an intervening federal statute (the FDIC Improvement Act of 1991) and its required regulations that address many of the concerns contained in the proposal. The Board may revisit the issue at a later date if necessary.

Approved:	December 20, 1994
Published:	**Federal Register** December 28, 1994

Significant Legislation Enacted

Three bills of significance to the FDIC were enacted during 1994 — two added to the authorities of banking institutions and one provided funding for certain FDIC activities. The agency's Office of Legislative Affairs, in conjunction with other FDIC Divisions and Offices, worked with the FDIC's leadership and with Congress in the development of these new statutes and on other legislation affecting the FDIC and the institutions it insures.

Riegle Community Development and Regulatory Improvement Act of 1994

The Riegle Community Development and Regulatory Improvement Act of 1994 (P.L. 103-325) was signed into law by President Clinton on September 23, 1994. The Act authorizes funding for community development financial institutions, provides regulatory and paperwork relief for financial institutions, encourages development of secondary markets for loans to small businesses, revises flood insurance programs and makes changes to money laundering reporting requirements.

The following provisions of the Act are likely to have the greatest impact on the FDIC:

- **Streamlining of Existing Regulations**
  Requires the federal banking agencies to review and eliminate outmoded regulations and policies within two years.

- **Duplicative Filings**
  Directs the federal banking agencies to work together to eliminate requests for duplicative information.

- **Coordinated and Unified Examinations**
  Directs the federal banking agencies to coordinate their examinations and develop a system for selecting a lead agency to manage unified examinations.

- **Revised Examination Schedule**
  Extends examination schedules for small CAMEL 1- and 2-rated institutions to every 18 months, from every 12 months.

- **Call Report Simplification**
  Requires the federal banking agencies to adopt a single form for the filing of core Call Report information and permits the filing of Call Reports electronically.

- **Regulatory Appeals Process**
  Directs the federal banking agencies to establish an internal appeals process to review material supervisory determinations.

- **Agency Ombudsman**
  Directs the federal banking agencies to appoint an ombudsman to act as liaison between the agency and any person affected by the agency's regulatory activities.

- **Alternative Dispute Resolution**
  Directs the federal banking agencies to implement a pilot program for using alternative means to resolve disputes.

- **Holding Company Audit Requirements**
  Allows certain audit and reporting requirements to be satisfied at the holding company level for certain CAMEL 1- and 2-rated institutions.

- **Collateralization of Public Deposits**
  Prohibits the FDIC from invalidating collateralization agreements involving certain public deposits.

- **Modification of Regulatory Provisions**
  Allows the federal banking agencies to establish safety and soundness standards relating to operational and managerial areas, asset quality, earnings and stock valuation by guideline instead of regulation.

- **Depository Institution Mergers**
  Reduces the 30-day post-approval waiting period for depository institution mergers and only requires the federal banking agencies to file a competitive factors report if the merger raises any competitiveness issues.

- **Credit Card Accounts Receivables**
  Allows the FDIC to waive its right to repudiate an institution's sale of its credit card accounts receivables.

- **Liability on Foreign Deposits**
  Limits a bank's liability for deposits in a foreign branch in cases of war, insurrection, civil strife or sovereign action by the country in which the branch is located.

- **Insider Lending**
  Eliminates certain restrictions on loans to an institution's executive officers and other insiders.

- **Revision of Capital Standards**
  Requires the federal banking agencies to take into account the size and activities of an institution in revising its risk-based capital standards.

- **Management Interlocks**
  Extends for an additional five years the "grandfather" period for exceptions to the general prohibition against management interlocks.

- **Agency Consideration of Completed Applications**
  Requires the federal banking agencies to take final action on completed applications within a year of receipt.

- **Data Collection**
  Directs the FDIC to minimize the burden on well capitalized institutions in connection with the collection of deposit data.

- **Regulations Relating to Transfers of Assets with Recourse**
  Requires the banking agencies to review regulations relating to transfers of assets with recourse and issue new regulations that better reflect exposure to credit risk.

- **Flood Insurance**
  Requires the federal banking agencies to examine institutions for compliance with the national flood insurance program.

- **Money Laundering Schemes**
  Requires the federal banking agencies to review and enhance training and examination procedures to improve the identification of money laundering schemes involving depository institutions.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (P.L. 103-328) was signed into law by President Clinton on September 29, 1994. The Act authorizes interstate banking and branching to U.S. and foreign banks over a three-year period.

The following provisions of the Act are likely to have the greatest impact on the FDIC:

- **Interstate Banking**
  Authorizes a bank holding company to acquire a bank located in any state beginning one year after enactment.

- **Interstate Branching**
  Authorizes an insured bank, beginning June 1, 1997, to merge across state lines unless the affected states have "opted out" of interstate branching by enacting laws that prohibit interstate branching. Alternatively, states may enact laws permitting interstate branching prior to June 1, 1997.

- ***De Novo* Branching**
  Authorizes an insured bank to establish a *de novo* out-of-state branch if the host state expressly permits interstate branching through the establishment of *de novo* branches.

- **Branching by Foreign Banks**
  Authorizes foreign banks to branch to the same extent as U.S. banks.

- **State Cooperative Agreements**
  Authorizes state bank supervisors to enter into cooperative agreements to facilitate state supervision of out-of-state state banks.

- **State Examination and Enforcement Authority**
  Authorizes the state bank supervisor of a host state to examine and take enforcement action against a branch operated in the host state of an out-of-state bank.

- **Branch Closings in Interstate Banking Operations**
  Requires the appropriate federal banking agency to consult with community organizations regarding the proposed closing by an interstate bank of a branch in a low- or moderate-income area.

- **Prohibition Against Deposit Production Offices**
  Requires the federal banking agencies to prescribe uniform regulations prohibiting a bank from engaging in interstate branching primarily for the purpose of deposit production.

- **CRA Evaluation of Banks with Interstate Branches**
  Requires the appropriate federal banking agency to prepare a written evaluation of an interstate institution's overall Community Reinvestment Act (CRA) performance and a separate written evaluation of the institution's CRA performance in each state in which it maintains a branch.

- **Statute of Limitations**
  Permits the FDIC and the Resolution Trust Corporation, as receiver or conservator of a failed depository institution, to revive claims for intentional misconduct and fraud that had expired under a state statute of limitations within five years of the appointment of the receiver or conservator.

Appropriations

Congress appropriated funds for specific activities of the FDIC as part of the Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations Act of 1995 (P.L. 103-327).

One such appropriation involves the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC). The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) created the FSLIC Resolution Fund (FRF), which is managed by the FDIC, to assume most of the assets and liabilities of the FSLIC. In the fiscal year 1995 appropriation, Congress appropriated $827 million, available to the FDIC as manager of FRF until the money is expended.

Separately, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required the FDIC to carry out an affordable housing program. The 1991 law also authorized annual appropriations to cover any losses under the program (but not to exceed $30 million in any fiscal year) and for any other costs of the program. For fiscal year 1995, Congress appropriated $15 million to pay for any losses resulting from the sale of properties under the program and for all administrative and holding costs.

1994

Financial Statements

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Revenue		
Assessments (Note 11)	$ 5,590,644	$ 5,784,277
Interest on U.S. Treasury obligations	521,473	165,130
Revenue from corporate-owned assets	140,821	258,858
Other revenue	214,086	222,536
Total Revenue	**6,467,024**	**6,430,801**
Expenses and Losses		
Operating expenses	423,196	388,464
Provision for insurance losses (Note 10)	(2,873,419)	(7,677,400)
Corporate-owned asset expenses	137,632	190,641
Interest and other insurance expenses (Note 12)	53,493	306,861
Total Expenses and Losses	**(2,259,098)**	**(6,791,434)**
Net Income	**8,726,122**	**13,222,235**
Fund Balance (Deficit) - Beginning	**13,121,660**	**(100,575)**
Fund Balance - Ending	**$ 21,847,782**	**$ 13,121,660**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1994	1993
Assets		
Cash and cash equivalents (Note 3)	$ 1,621,456	$ 483,239
Investment in U.S. Treasury obligations, net (Note 4)	12,896,856	5,308,476
Interest receivable on investments and other assets	260,702	80,776
Receivables from bank resolutions, net (Note 5)	8,327,517	13,220,628
Investment in corporate-owned assets, net (Note 6)	242,628	726,584
Property and buildings, net (Note 7)	155,079	158,418
Total Assets	**$ 23,504,238**	**$ 19,978,121**
Liabilities and the Fund Balance		
Accounts payable and other liabilities	$ 393,222	$ 191,831
Liabilities incurred from bank resolutions (Note 8)	81,945	3,345,736
Estimated Liabilities for: (Note 9)		
Anticipated failure of insured institutions	875,000	2,972,000
Assistance agreements	163,164	326,383
Asset securitization guarantee	128,417	0
Litigation losses	14,708	20,511
Total Liabilities	**1,656,456**	**6,856,461**
Commitments and contingencies (Notes 15 and 16)		
Fund Balance	**21,847,782**	**13,121,660**
Total Liabilities and the Fund Balance	**$ 23,504,238**	**$ 19,978,121**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 5,709,912	$ 5,789,779
Interest on U.S. Treasury obligations	458,606	160,697
Recoveries from bank resolutions	5,355,542	8,739,202
Recoveries from corporate-owned assets	694,401	1,241,305
Miscellaneous receipts	18,433	32,927
Cash used for:		
Operating expenses	(451,961)	(538,081)
Interest paid on liabilities incurred from bank resolutions	0	(169,872)
Disbursements for bank resolutions	(2,796,204)	(4,198,035)
Disbursements for corporate-owned assets	(173,601)	(368,564)
Miscellaneous disbursements	(45,386)	(15,779)
Net Cash Provided by Operating Activities (Note 19)	**8,769,742**	**10,673,579**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations	800,000	1,700,000
Cash used for:		
Purchase of U.S. Treasury obligations	(8,431,525)	(5,322,969)
Net Cash Used by Investing Activities	**(7,631,525)**	**(3,622,969)**
Cash Flows from Financing Activities		
Cash used for:		
Repayments of Federal Financing Bank borrowings	0	(10,160,000)
Net Cash Used by Financing Activities	**0**	**(10,160,000)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,138,217**	**(3,109,390)**
Cash and Cash Equivalents - Beginning	**483,239**	**3,592,629**
Cash and Cash Equivalents - Ending	**$ 1,621,456**	**$ 483,239**

The accompanying notes are an integral part of these financial statements.

1. Legislative History and Operations of the Bank Insurance Fund

Legislative History
The U.S. Congress created the Federal Deposit Insurance Corporation (FDIC) through enactment of the Banking Act of 1933. The FDIC was created to restore and maintain public confidence in the nation's banking system.

More recently, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF) and the FSLIC Resolution Fund (FRF). It also designated the FDIC as the administrator of these three funds.

The BIF insures the deposits of all BIF-member institutions (normally commercial or savings banks) and the SAIF insures the deposits of all SAIF-member institutions (normally thrifts). The FRF is responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC). All three funds are maintained separately to carry out their respective mandates.

Other legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 11) and borrowing authority (see "Operations of the BIF" below). The FDICIA also requires the FDIC to resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds and provide a schedule for bringing the reserves in the insurance funds to 1.25 percent of insured deposits.

Operations of the BIF
The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of insured banks and 2) finance the resolution of failed banks, including managing and liquidating their assets. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System and provides and monitors assistance to troubled banks.

The BIF is funded from the following sources: 1) BIF-member assessment premiums; 2) interest earned on investments in U.S. Treasury obligations; 3) income earned on and funds received from the management and disposition of assets acquired from failed banks; and 4) U.S. Treasury and Federal Financing Bank (FFB) borrowings.

The 1990 Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the BIF known as the maximum obligation limitation (MOL). Under the MOL, the BIF cannot incur any additional obligation if its total obligations exceed the sum of: 1) the BIF's cash and cash equivalents; 2) the amount equal to 90 percent of the fair market value of the BIF's other assets; and 3) the total amount authorized to be borrowed from the U.S. Treasury, excluding FFB borrowings.

For purposes of calculating the MOL, the FDIC's total U.S. Treasury borrowing authority was allocated between the BIF and the SAIF based upon the projected borrowing needs of the respective funds. Since the SAIF did not have primary resolution authority for thrifts or projected borrowing needs as of December 31, 1994, none of the U.S. Treasury borrowing authority was allocated to the SAIF. At December 31, 1994, the MOL for the BIF was $51.6 billion.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations and cash flows of the BIF and are presented in accordance with generally accepted accounting principles. These statements do not include reporting for assets and liabilities of closed banks for which the BIF acts as receiver or liquidating agent. Periodic and final accountability reports of the BIF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

U.S. Treasury Obligations
Securities are intended to be held to maturity and are shown at book value. Book value is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity. Interest is calculated on a daily basis and recorded monthly using the effective interest method.

Allowance for Losses on Receivables from Bank Resolutions and Investment in Corporate-Owned Assets
The BIF records as a receivable the amounts advanced and/or obligations incurred for assisting and closing banks. The BIF also records as an asset the amounts advanced for investment in corporate-owned assets. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on the estimated cash recoveries from the assets of assisted or failed banks, net of all estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Escrowed Funds from Resolution Transactions
In various resolution transactions, the BIF paid the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considered the amount of the deduction for assets purchased to be funds held on behalf of the receivership (an obligation). The funds remained in escrow and accrued interest until such time as the receivership used the funds to: 1) repurchase assets under asset putback options; 2) pay preferred and secured claims; 3) pay receivership expenses; or 4) pay dividends.

The FDIC policy of holding escrowed funds was terminated during 1994. The BIF continues to pay the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF then pays the receivership for the assets purchased by the assuming institution, plus or minus the premium or discount paid.

Litigation Losses
The BIF accrues, as a charge to current period operations, an estimate of probable losses from litigation against the BIF in both its corporate and receivership capacities. The FDIC's Legal Division recommends these estimates on a case-by-case basis. The litigation loss estimates related to receiverships are included in the allowance for losses for receivables from bank resolutions.

Receivership Administration
The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the BIF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The BIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC adopted the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" in 1992. This standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis).

The FDIC elected to immediately recognize the accumulated postretirement benefit liability (transition obligation). The transition obligation represents that portion of future retiree benefit costs related to service already rendered by both active and retired employees up to the date of adoption.

The FDIC established an entity to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF and the Resolution Trust Corporation (RTC). The BIF funds all of its liabilities for these benefits directly to the entity.

Depreciation
The FDIC has designated the BIF administrator of facilities owned and used in its operations. Consequently, the BIF includes the cost of these facilities in its financial statements and provides the necessary funding for them. The BIF charges other funds sharing the facilities a rental fee representing an allocated share of its annual depreciation expense.

The Washington, DC office buildings and the L. William Seidman Center in Arlington, Virginia, are depreciated on a straight-line basis over a 50-year estimated life. The San Francisco condominium offices are depreciated on a straight-line basis over a 35-year estimated life.

Related Parties
The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1993 financial statements to conform to the presentation used in 1994.

3. Cash and Cash Equivalents

The BIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. In 1994, cash restrictions included $12.3 million for health insurance payable and $737 thousand for funds held in trust. In 1993, cash restrictions included $13.8 million for health insurance payable and $3.2 million for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31 1994	December 31 1993
Cash	$ 18,227	$ 52,999
One-day special Treasury certificates	1,603,229	430,240
Total	**$ 1,621,456**	**$ 483,239**

4. Investment in U.S. Treasury Obligations

All cash received by the BIF is invested in U.S. Treasury obligations unless the cash is: 1) used to defray operating expenses; 2) used for outlays related to assistance to banks and liquidation activities; or 3) invested in one-day special Treasury certificates.

U.S. Treasury Obligations at December 31, 1994

Dollars in Thousands

Maturity	Description	Yield at Purchase	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes & Bills	4.83%	$ 3,821,758	$ 3,775,131	$ 3,830,000
1-3 years	U.S. Treasury Notes	5.37%	8,034,591	7,763,422	8,000,000
3-5 years	U.S. Treasury Notes	4.72%	1,040,507	945,562	1,000,000
Total			**$ 12,896,856**	**$12,484,115**	**$12,830,000**

U.S. Treasury Obligations at December 31, 1993

Dollars in Thousands

Maturity	Description	Yield at Purchase	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes	3.38%	$ 906,328	$ 906,573	$ 900,000
1-3 years	U.S. Treasury Notes	4.02%	2,292,267	2,286,586	2,200,000
3-5 years	U.S. Treasury Notes	4.59%	2,109,881	2,091,443	2,000,000
Total			**$ 5,308,476**	**$ 5,284,602**	**$ 5,100,000**

The unamortized premium, net of unamortized discount, for 1994 and 1993 was $66.9 million and $208.5 million, respectively.

5. Receivables from Bank Resolutions, Net

The FDIC resolution process results in different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover insured depositors' claims and represent a claim against the receivership's assets.

In an effort to maximize the return from the sale or disposition of assets and to minimize realized losses from bank resolutions, the FDIC, as receiver for failed banks, engages in a variety of strategies to dispose of assets held by the banks at time of failure.

A failed bank acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit and risk related to such assets. In certain cases, the receiver offers a period of time during which an acquirer can sell assets back to the receivership at a specified value (i.e., an asset "putback" option). The receiver can also enter into a loss-sharing arrangement with an acquirer whereby, for specified assets and in accordance with individual contract terms, the two parties share in credit losses and certain qualifying expenses. These arrangements typically direct that the receiver pay to the acquirer a specified percentage of the losses triggered by the charge-off of assets covered by the terms of the loss-sharing agreement. The receiver absorbs the majority of the losses incurred and shares in the acquirer's future recoveries of previously charged-off assets. Failed bank assets can also be retained by the receiver to either be managed and disposed of by in-house FDIC liquidation staff or managed and liquidated by contracted private-sector servicers with oversight from the FDIC.

As stated in Note 2, the allowance for losses on receivables from bank resolutions represents the difference between amounts advanced and/or obligations incurred and the expected repayment. This is based upon the estimated cash recoveries from the management and disposition of the assets of the assisted or failed bank, net of all estimated liquidation costs.

As of December 31, 1994 and 1993, the BIF, in its receivership capacity, held assets with a book value of $18.3 billion and $30.1 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $4.2 billion in 1994 and $7.0 billion in 1993) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could reduce the claimants' (including the BIF's) actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

Receivables from Bank Resolutions, Net		
Dollars in Thousands	**December 31**	
	1994	**1993**
Assets from Open Bank Assistance:		
Redeemable preferred stock	$ 993,500	$ 51,045
Subordinated debt instruments	119,500	124,000
Notes receivable	22,037	62,037
Other open bank assistance	29,773	33,593
Deferred settlement [(a)]	229,525	180,000
Accrued interest receivable	1,921	1,865
Allowance for losses (Note 10)	(1,155,680)	(215,446)
	240,576	**237,094**
Receivables from Closed Banks:		
Loans and related assets	1,528,443	1,376,597
Resolution transactions	28,873,864	35,158,476
Capital instruments	25,000	25,000
Depositors' claims unpaid	13,561	18,758
Deferred settlement [(b)]	0	(403,901)
Allowance for losses (Note 10)	(22,353,927)	(23,191,396)
	8,086,941	**12,983,534**
Total	**$ 8,327,517**	**$ 13,220,628**

[(a)] The December 31, 1993 deferred settlement reflected in the Assets from Open Bank Assistance was netted in the statements of financial position line item "Liabilities incurred from bank resolutions" in the 1993 BIF financial statements. During the term of the assistance to the institution, it became apparent that the BIF would receive a recovery because gains exceeded losses on the sale of the assets covered by the agreement. Therefore, this recovery (referred to as a deferred settlement in the agreement) was reclassified as an asset to properly reflect the present character of the transaction.

[(b)] Proceeds from the sale of equity investments related to the Continental Bank, Chicago, IL were deferred in 1993 and recognized in 1994.

6. Investment in Corporate-Owned Assets, Net

The BIF acquires assets in certain troubled and failed bank cases by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The majority of corporate-owned assets are real estate and mortgage loans.

The BIF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

Investment in Corporate-Owned Assets, Net		
Dollars in Thousands	**December 31**	
	1994	**1993**
Investment in corporate-owned assets	$ 902,304	$ 1,468,399
Allowance for losses (Note 10)	(659,676)	(741,815)
Total	**$ 242,628**	**$ 726,584**

7. Property and Buildings, Net

Dollars in Thousands	**December 31**	
	1994	**1993**
Land	$ 29,631	$ 29,631
Office buildings	151,442	151,442
Accumulated depreciation	(25,994)	(22,655)
Total	**$ 155,079**	**$ 158,418**

8. Liabilities Incurred from Bank Resolutions

The FDIC resolution process can provide different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. The BIF can assume certain liabilities that require future payments over a specified period of time.

Liabilities Incurred from Bank Resolutions		
Dollars in Thousands	**December 31**	
	1994	**1993**
Escrowed funds from resolution transactions (Note 2)	$ 54,410	$ 3,314,003
Funds held in trust	737	3,195
Depositors' claims unpaid	13,561	18,758
Note indebtedness	1,389	1,266
Accrued interest/other liabilities	11,848	8,514
Total	**$ 81,945**	**$ 3,345,736**

The BIF's liabilities of $82 million are considered current liabilities and should mature within the following year.

9. Estimated Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records an estimated loss for banks that have not yet failed but have been identified by the regulatory process as likely to fail within the foreseeable future as a result of regulatory insolvency (equity less than 2 percent of assets). This includes banks that were solvent at year-end, but which have adverse financial trends and, absent some favorable event (such as obtaining additional capital or a merger), are likely to fail in the future. The FDIC relies on this finding regarding regulatory insolvency as the determining factor in defining the existence of the "accountable event" that triggers loss recognition under generally accepted accounting principles.

The FDIC cannot predict the precise timing and cost of bank failures. An estimated liability and a corresponding reduction in the fund balance are recorded in the period in which the liability is deemed probable and reasonably estimable. It should be noted, however, that future assessment revenues will be available to the BIF to recover some or all of these losses and that their amounts have not been reflected as a reduction in the losses.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1994 and 1993, were $875 million and $3 billion, respectively. The estimated liability is derived in part from estimates of recoveries from the sale of the assets of these probable bank failures. As such, they are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 5). This could understate the ultimate costs to the BIF from probable bank failures.

The FDIC estimates that banks with combined assets of approximately $6 billion may fail in 1995 and 1996 at an estimated loss of $900 million to BIF. Of this amount, the BIF has recognized a loss of $875 million for those failures considered likely. The further into the future projections of bank failures are made, the greater the uncertainty of banks failing and the magnitude of the loss associated with those failures. The accuracy of these estimates will largely depend on future economic conditions, particularly in the real estate markets, and the level of future interest rates.

Assistance Agreements

The estimated liabilities for assistance agreements resulted from several large transactions where problem assets were purchased by an acquiring institution under an agreement that calls for the FDIC to absorb credit losses and to pay related costs for funding and asset administration plus an incentive fee.

Asset Securitization Guarantee

As stated in Note 5, the FDIC engages in a variety of strategies to maximize the return from the sale or disposition of failed bank assets and to minimize realized losses from bank resolutions. Pursuant to these goals, the FDIC entered into its first securitization transaction in August 1994.

The securitization transaction was accomplished through the creation of a real estate mortgage investment conduit (REMIC), a trust, which purchases the loans to be securitized from one or more institutions for which the FDIC acts as a receiver or purchases loans owned by the Corporation. The loans in the trust are pooled and stratified and the resulting cash flow is directed into a number of different classes of pass-through certificates. The regular pass-through certificates are sold to the public through licensed brokerage houses. The largest contributing receivership retains residual pass-through certificates which are entitled to any remaining cash flows from the trust after obligations to regular pass-through holders have been met.

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular pass-through certificates, and thus the marketability of such certificates, the BIF has agreed to provide a credit enhancement through a limited guarantee to cover future credit losses with respect to the loans underlying the certificates.

The FDIC securitization involved the following structure: 1) approximately 1,800 performing commercial mortgages from nearly 200 failed banks were sold to a REMIC (FDIC REMIC Trust 1994 C-1); 2) the REMIC in turn sold approximately $759 million in 11 classes of securities backed by the commercial mortgages; and 3) the investors received a limited guarantee backed by the BIF which covers credit losses and other shortfalls due to credit defaults up to a maximum of $248 million.

In exchange for backing the limited guarantee, the BIF received REMIC securities and a portion of the proceeds from the sale of the commercial mortgages. The net present value (NPV) of the assets received was priced to equal the NPV of the expected exposure under the guarantee so that the BIF neither profits nor suffers a loss as a result of providing the limited guarantee.

At December 31, 1994, the BIF has a liability of $128 million under the guarantee and assets of $128 million representing the REMIC securities and the portion of the mortgage sales proceeds received. For years after 1994, changes in the estimates of the value of the REMIC securities and the expected exposure under the guarantee will be recognized in net income in the period in which the changes are made.

Cash receipts from the REMIC securities, mortgages sales proceeds received and cash payments of guarantee claims are reflected in the Statement of Cash Flows under the line items "Miscellaneous receipts" and "Miscellaneous disbursements," respectively. Income related to the REMIC securities is recorded in the "Other revenue" line item. The chart below summarizes the BIF's remaining obligation under the guarantee.

Asset Securitization Guarantee

Dollars in Millions

Maximum Guarantee Obligation	Guarantee Claims Paid through December 31, 1994	Maximum Remaining Obligation at December 31, 1994
$248	$0	$248

Litigation Losses

The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $710 million are reasonably possible. This includes $63 million in losses for the BIF in its corporate capacity and $647 million in losses for the BIF in its receivership capacity (see Note 2).

10. Analysis of Changes in Allowance for Losses and Estimated Liabilities

Provision for insurance losses includes the estimated losses for bank resolutions that occurred during the year for which an estimated loss was not established and loss adjustments for bank resolutions that occurred in prior years. It also includes an estimated loss for banks that have not yet failed but have been identified by the regulatory process as likely to fail (see Note 9). These are referred to as estimated liabilities for anticipated failure of insured institutions.

In the following charts, transfers include reclassifications from the line item "Estimated Liabilities for anticipated failure of insured institutions" to the line items of "Total Allowance for Losses." Terminations represent final adjustments to the estimated cost figures for those bank resolutions that were completed and for which the operations of the receivership ended.

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1994

Dollars in Millions	Beginning Balance 01/01/94	Provision for Insurance Losses Current Year	Provision for Insurance Losses Prior Years	Provision for Insurance Losses Total	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/94
Allowance for Losses:							
Open bank assistance	$ 215	$ 0	$ (421)	$ (421)	$ 3	$ 1,359	$ 1,156
Corporate-owned assets	742	0	(82)	(82)	0	0	660
Closed banks	23,191	(236)	(229)	(465)	0	(372)	22,354
Total Allowance for Losses	**24,148**	**(236)**	**(732)**	**(968)**	**3**	**987**	**24,170**
Estimated Liabilities for:							
Anticipated failure of insured institutions	2,972	406	(2,128)	(1,722)	0	(375)	875
Assistance agreements	326	0	(177)	(177)	(37)	51	163
Asset securitization guarantee	0	0	0	0	0	128	128
Litigation losses	21	0	(6)	(6)	0	0	15
Total Estimated Liabilities	**3,319**	**406**	**(2,311)**	**(1,905)**	**(37)**	**(196)**	**1,181**
Provision for Insurance Losses		**$ 170**	**$ (3,043)**	**$ (2,873)**			

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1993

Dollars in Millions	Beginning Balance 01/01/93	Provision for Insurance Losses: Current Year	Provision for Insurance Losses: Prior Years	Provision for Insurance Losses: Total	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/93
Allowance for Losses:							
Open bank assistance	$ 2,203	$ 40	$ (890)	$ (850)	$ 19	$ (1,157)	$ 215
Corporate-owned assets	425	0	317	317	0	0	742
Closed banks	23,397	(224)	99	(125)	0	(81)	23,191
Total Allowance for Losses	**26,025**	**(184)**	**(474)**	**(658)**	**19**	**(1,238)**	**24,148**
Estimated Liabilities for:							
Anticipated failure of insured institutions	10,782	818	(7,873)	(7,055)	0	(755)	2,972
Assistance agreements	388	0	34	34	(97)	1	326
Litigation losses	19	0	2	2	0	0	21
Total Estimated Liabilities	**11,189**	**818**	**(7,837)**	**(7,019)**	**(97)**	**(754)**	**3,319**
Provision for Insurance Losses		**$ 634**	**$(8,311)**	**$ (7,677)**			

11. Assessments

The 1990 Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for the BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; and 3) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that charges higher rates to those banks that pose greater risks to the BIF. Under the new rule, beginning in 1993, each bank paid an assessment rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular bank, the FDIC placed each bank in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The Board reviews premium rates semiannually. For calendar year 1994, the assessment rate averaged approximately 23.8 cents per $100 of domestic deposits.

As of December 31, 1994, the BIF's reserve ratio is 1.15 percent of insured deposits. Recapitalization to a 1.25 percent ratio is required by the FDICIA (see Note 1).

12. Interest and Other Insurance Expenses

The BIF incurs interest expense on funds borrowed to finance its resolution activity. In 1994, the BIF did not incur interest expense on funds borrowed from FFB because all borrowings were repaid on August 6, 1993. Other insurance expenses are incurred by the BIF as a result of payments to insured depositors in closed bank payoff activity and the administration of assistance transactions.

Interest and Other Insurance Expenses

Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Interest Expense for:		
Escrowed funds from resolution transactions (Note 2)	$ 54,033	$204,969
FFB borrowings	0	96,895
	54,033	**301,864**
Insurance Expense for:		
Resolution transactions	507	1,570
Assistance transactions	(1,047)	3,427
	(540)	**4,997**
Total	**$ 53,493**	**$306,861**

13. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

Although the BIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The BIF also does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $40.3 million and $38 million at December 31, 1994 and 1993, respectively.

Pension Benefits and Savings Plans Expenses		
Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Civil Service Retirement System	$ 9,988	$ 8,890
Federal Employee Retirement System (Basic Benefit)	32,410	29,254
FDIC Savings Plan	21,603	16,267
Federal Thrift Savings Plan	10,513	8,742
Total	**$ 74,514**	**$ 63,153**

14. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC converted to self-insured health coverage for hospital/medical, prescription drug, mental health and chemical dependency during March 1994. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark. Health insurance coverage was previously provided as a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance company and provides coverage at no cost to retirees.

The BIF expensed $23 million and $49 million for net periodic postretirement benefit costs for the years ended December 31, 1994 and 1993, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health costs in 1994 of 12.5 percent, decreasing down to an ultimate rate in 1998 of 8 percent; and 3) an increase in dental costs for 1994 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1994, would have increased by 16.6 percent. The effect of this change on the aggregate of service and interest cost for 1994 would be an increase of 26.3 percent.

Net Periodic Postretirement Benefit Cost		
Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Service cost (benefits attributed to employee service during the year)	$ 24,180	$ 30,274
Interest cost on accumulated postretirement benefit obligation	13,741	15,549
Amortization of prior service cost	(7,768)	(1,222)
Amortization of loss	3,086	4,339
Return on plan assets	(10,242)	39
Total	**$ 22,997**	**$ 48,979**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC. The BIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant		
Dollars in Thousands	**December 31**	
	1994	**1993**
Retirees	$ 62,920	$ 65,956
Fully eligible active plan participants	14,928	12,383
Other active participants	208,291	209,638
Total Obligation	**286,139**	**287,977**
Less: Plan assets at fair value [a]	265,642	270,532
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 20,497**	**$ 17,445**

[a] Consists of U.S. Treasury investments

15. Commitments

Leases
The BIF currently is sharing in the FDIC's leased space. The BIF's allocated share of lease commitments totals $180 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The BIF recognized leased space expense of $50.9 million and $46.8 million for the years ended December 31, 1994 and 1993, respectively.

Leased Space Fees

Dollars in Thousands

1995	1996	1997	1998	1999	2000
$56,083	$38,408	$37,013	$22,151	$15,440	$10,915

Asset Putbacks

Upon resolution of a failed bank, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain assets may be "putback," or resold, to the receivership. The values and time limits for these assets to be putback are defined within each agreement. It is possible that the BIF could be called upon to fund the purchase of any or all of the "unexpired putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under existing agreements is $406 million (see Note 16). The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the acquirer initiates the asset putback procedures. The FDIC projects that a total of $51 million in book value of assets will be putback.

16. Concentration of Credit Risk

The BIF is counterparty to a group of financial instruments with entities located throughout regions of the United States experiencing problems in both loans and real estate. The BIF's maximum exposure to possible accounting loss, should each counterparty to these instruments fail to perform and any underlying assets prove to be of no value, is shown as follows:

Concentration of Credit Risk at December 31, 1994

Dollars in Millions

	South-east	South-west	North-east	Mid-west	Central	West	Total
Receivables from bank resolutions, net	$136	$1,195	$5,918	$283	$33	$759	$8,324 [(a)]
Corporate-owned assets, net	2	135	33	0	27	46	243
Asset putback agreements (off-balance sheet)	0	0	405	0	0	1	406 [(b)]
Total	**$138**	**$1,330**	**$6,356**	**$283**	**$60**	**$806**	**$8,973**

[(a)] The net receivable excludes $126 thousand and $3.3 million, respectively, of the SAIF's allocated share of maximum credit loss exposure from the resolutions of Southeast Bank, N.A., Miami, FL, and Olympic National Bank, Los Angeles, CA. There is no risk that the SAIF will not meet these obligations.

[(b)] See Note 15 Commitments - *Asset Putbacks*.

Insured Deposits

As of December 31, 1994, the total deposits insured by the BIF is approximately $1.9 trillion. This would be the accounting loss if all depository institutions fail and if any assets acquired as a result of the resolution process provide no recovery.

17. Disclosures about the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 4 and is based on current market prices. The carrying amount of interest receivable on investments, accounts payable and liabilities incurred from bank resolutions approximates their fair market value due to their short maturities or comparisons with current interest rates.

It is not practicable to estimate the fair market value of net receivables from bank resolutions. These assets are unique, not intended for sale to the private sector, and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. A discount of this proportion would significantly increase the cost of bank resolutions to the BIF. Comparisons with other financial instruments do not provide a reliable measure of their fair market value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 5, the carrying amount is the estimated cash recovery value which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

The majority of the net investment in corporate-owned assets, (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed banks. As with net receivables from bank resolutions, it is not practicable to estimate fair market values. Cash recoveries are primarily from the sale of poor quality assets. They are dependent upon market conditions which vary over time and can occur unpredictably over many years following resolution. Since the FDIC cannot reasonably predict the timing of these cash recoveries, it is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 6, the carrying amount is the estimated cash recovery value which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

As stated in Note 9, the carrying amount of the estimated liability for anticipated failure of insured institutions is the total of estimated losses for banks that have not failed, but the regulatory process has identified as likely to fail within the foreseeable future. It does not consider discounted future cash flows because the FDIC cannot predict the timing of events with reasonable accuracy. For this reason, the FDIC considers the total estimate of these losses to be the best measure of their fair market value.

18. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The FDIC has adopted Statement of Financial Accounting Standards No. 112, "Employer's Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement. The maximum potential post-employment obligation due to accrued but unused annual leave is shown under Note 13. There are no other material obligations due to post-employment benefits.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan." Most of the BIF assets are specifically outside the scope of Statement No. 114. These assets are valued through alternative methods or do not meet the definition of a loan within the meaning of the Statement. Any assets which may be subject to Statement No. 114 are expected to be immaterial either because of insignificant book value or because any potential adjustment to the carrying value as a result of applying Statement No. 114 would be immaterial.

The FDIC has adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement expands the use of fair market value accounting for securities that have readily determinable fair market values but retains the use of the amortized cost method for investments in debt securities that the reporting enterprise has the positive intent and ability to hold to maturity. Adoption of this statement did not have a material effect on the BIF.

19. Supplementary Information Relating to the Statements of Cash Flows

As stated in the Summary of Significant Accounting Policies (see Note 2, *Escrowed Funds from Resolution Transactions*), prior to April 20, 1994, the BIF paid the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considered the assets purchased portion of this transaction to be a non-cash adjustment. Accordingly, for the Statements of Cash Flows presentation, cash outflows for bank resolutions excludes $3.7 billion in 1993 for assets purchased. As of April 20, 1994, these asset purchases are cash transactions.

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Net Income	**$ 8,726,122**	**$ 13,222,235**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	(2,873,419)	(7,677,400)
Amortization of U.S. Treasury securities	43,145	6,715
Interest on Federal Financing Bank borrowings	0	(72,977)
Depreciation on buildings	3,339	3,339
Change in Assets and Liabilities:		
(Increase) decrease in interest receivable on investments and other assets	(179,994)	24,913
Decrease in receivables from bank resolutions	5,779,569	15,757,688
Decrease in corporate-owned assets	566,472	418,321
Increase (decrease) in accounts payable and other liabilities	201,390	(216,563)
(Decrease) in liabilities incurred from bank resolutions	(3,263,790)	(9,941,584)
(Decrease) in liability for anticipated failure of insured institutions	(375,000)	(755,000)
Increase (decrease) in liabilities for assistance agreements	13,479	(96,108)
Increase in liability for asset securitization guarantee	128,429	0
Total	**$ 8,769,742**	**$ 10,673,579**

20. Subsequent Events

On January 31, 1995, the FDIC Board of Directors issued for public comment substantive proposed changes in its risk-related insurance premium system, the rate structure of which would result in a significant reduction in the rates paid by well-capitalized and well-managed banks. Under the proposal, the best rated institutions (about 90% of the nearly 11,000 BIF insured institutions) would pay four cents per $100 of domestic deposits, a substantial reduction from their current 23 cents per $100. The weakest institutions would continue to pay 31 cents per $100. If adopted, BIF insured institutions, on average, would be expected to pay approximately 4.5 cents per $100, compared to the current 23.8 cents per $100. This proposed reduction would take place when the BIF reaches the designated reserve ratio of 1.25 percent of insured deposits.

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Revenue		
Assessments (Note 8)	$ 1,132,102	$ 897,692
Interest on U.S. Treasury obligations	82,942	25,305
Entrance fees (Note 5)	32	48
Other revenue	213	471
Total Revenue	**1,215,289**	**923,516**
Expenses and Losses		
Operating expenses	20,303	30,283
Provision for insurance losses (Note 9)	414,000	16,531
Total Expenses and Losses	**434,303**	**46,814**
Net Income	**780,986**	**876,702**
Fund Balance - Beginning	**1,155,729**	**279,027**
Fund Balance - Ending	**$ 1,936,715**	**$ 1,155,729**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1994	1993
Assets		
Cash and cash equivalents, including restricted amounts of $19,004 for 1994 and $3,285 for 1993 (Note 3)	$ 80,200	$ 15,735
Investment in U.S. Treasury obligations, net (Note 4)	2,422,230	1,263,608
Entrance and exit fees receivable, net (Note 5)	35,692	60,655
Interest receivable on investments and other assets	38,863	28,038
Receivables from thrift resolutions, net (Note 6)	6,892	174,948
Total Assets	**$ 2,583,877**	**$ 1,542,984**
Liabilities and the Fund Balance		
Accounts payable and other liabilities	$ 5,617	$ 3,875
Due to the FSLIC Resolution Fund (Note 6)	6,812	175,507
Liabilities incurred from thrift resolutions	0	932
Estimated liability for anticipated failures of insured institutions (Note 7)	432,000	18,000
Total Liabilities	**444,429**	**198,314**
Commitments and contingencies (Notes 12 and 13)		
SAIF-Member Exit Fees and Investment Proceeds Held in Escrow (Note 5)	**202,733**	**188,941**
Fund Balance	**1,936,715**	**1,155,729**
Total Liabilities and Fund Balance	**$ 2,583,877**	**$ 1,542,984**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1994	1993
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 1,132,914	$ 911,071
Interest on U.S. Treasury obligations	61,085	16,415
Interest on exit fees	6,984	4,406
Entrance and exit fee collections (Note 5)	31,144	31,605
Operating expenses funded by the FSLIC Resolution Fund	0	7,182
Recoveries from "Oakar" bank resolutions	1,469	18,645
Recoveries from thrift resolutions	169,919	2,133
Miscellaneous receipts	602	620
Cash used for:		
Operating expenses	(14,581)	(43,047)
Reimbursement to the FSLIC Resolution Fund for thrift resolution	(166,958)	(121)
Disbursements for thrift resolutions	(1,864)	(3,182)
Disbursements for "Oakar" bank resolutions	0	(3,700)
Miscellaneous disbursements	0	(11)
Net Cash Provided by Operating Activities (Note 16)	**1,220,714**	**942,016**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity and sale of U.S. Treasury obligations	220,420	51,305
Cash used for:		
Purchase of U.S. Treasury obligations	(1,376,669)	(1,318,737)
Net Cash Used by Investing Activities	**(1,156,249)**	**(1,267,432)**
Net Increase (Decrease) in Cash and Cash Equivalents	**64,465**	**(325,416)**
Cash and Cash Equivalents - Beginning	**15,735**	**341,151**
Cash and Cash Equivalents - Ending	**$ 80,200**	**$ 15,735**

The accompanying notes are an integral part of these financial statements.

1. Legislative History and Operations of the Savings Association Insurance Fund

Legislative History
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Savings Association Insurance Fund (SAIF) the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these three funds. The SAIF insures the deposits of all SAIF-member institutions (normally thrifts). The BIF insures the deposits of all BIF-member institutions (normally commercial or savings banks) and the FRF is responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC). All three funds are maintained separately to carry out their respective mandates.

The FIRREA created the Resolution Trust Corporation (RTC), which manages and resolves all thrifts previously insured by the FSLIC for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. The Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 (1991 RTC Act) extended the RTC's general resolution responsibility through September 30, 1993, and beyond that date for those institutions previously placed under RTC control.

The Resolution Trust Corporation Completion Act of 1993 (1993 RTC Act) enacted December 17, 1993, extended the RTC's general resolution responsibility through a date between January 1, 1995, and July 1, 1995. The Chairman of the Thrift Depositor Protection Oversight Board selected July 1, 1995 as the date for transferring resolution responsibility from the RTC to the SAIF.

The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. Effective December 12, 1991, as provided by the 1991 RTC Act, the FICO's ability to serve as a financing vehicle for new debt was terminated. Assessments paid on SAIF-insured deposits (excluding "Oakar" and "Sasser" banks) are subject to draws by FICO for payment of interest on their outstanding debt through maturity of this debt in 2019. "Sasser" banks are savings associations that are SAIF members and which convert to a state bank charter in accordance with Section 5(d)(2)(G) of the FDI Act. "Oakar" banks are described under "Operations of the SAIF" below.

Other legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 8) and borrowing authority (see "Operations of the SAIF" below). The FDICIA also requires the FDIC to resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds and to build the reserves in the insurance funds to 1.25 percent of insured deposits.

Operations of the SAIF
The primary purpose of the SAIF is to insure the deposits and to protect the depositors of insured thrift institutions. In this capacity, the SAIF currently has financial responsibility for: 1) all federally insured depository institutions that became members of the SAIF after August 8, 1989, for which the RTC does not have resolution authority and 2) all deposits insured by the SAIF that are held by BIF-member banks, so-called "Oakar" banks, created pursuant to the "Oakar amendment" provisions found in Section 5(d)(3) of the Federal Deposit Insurance Act. On July 1, 1995 the SAIF will assume resolution responsibility for all SAIF-member depository institutions that had not been previously placed under the RTC control.

The "Oakar amendment" provisions referred to above allow, with approval of the appropriate federal regulatory authority, any insured depository institution to merge, consolidate or transfer the assets and liabilities of an acquired institution without changing insurance coverage for the acquired deposits. Such acquired deposits continue to be either SAIF-insured deposits and assessed at the SAIF assessment rate or BIF-insured deposits and assessed at the BIF assessment rate. In addition, any losses resulting from the failure of these institutions are to be allocated between the BIF and the SAIF based on the respective dollar amounts of the institution's BIF-insured and SAIF-insured deposits.

The SAIF is funded from the following sources: 1) reimbursement by the FRF of administrative and supervisory expenses incurred between August 9, 1989, and September 30, 1992 (the final reimbursement was funded in 1993); 2) SAIF-member assessments from "Oakar" banks; 3) other SAIF assessments that are not required for the FICO including assessments from "Sasser" banks; 4) interest earned on investments in U.S. Treasury obligations purchased with unrestricted funds; 5) U.S. Treasury payments not to exceed $8 billion for losses for fiscal years 1994 through 1998 contingent upon appropriations from the U.S. Treasury for that purpose; 6) U.S. Treasury payments from unused appropriations to the RTC for losses for two years after the date the RTC is terminated; 7) Federal Home Loan Bank borrowings; and 8) U.S. Treasury and Federal Financing Bank (FFB) borrowings.

The 1993 RTC Act places significant restrictions on funding from sources 5) and 6) above. Before appropriated funds from either source are used, the FDIC must certify to Congress that, among other restrictions: 1) SAIF-insured institutions are unable to pay premiums sufficient to cover insurance losses without adversely affecting their ability to raise and maintain capital or to maintain the assessment base and 2) an increase in premiums could reasonably be expected to result in greater losses to the government.

The 1990 Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). Under the MOL, the SAIF cannot incur any additional obligations if its total obligations exceed the sum of : 1) the SAIF's cash and cash equivalents; 2) the amount equal to 90 percent of the fair-market value of the SAIF's other assets; and 3) the total amount authorized to be borrowed from the U.S. Treasury, excluding FFB borrowings.

For purposes of calculating the MOL, the FDIC's total U.S. Treasury borrowing authority was allocated between the BIF and the SAIF based upon the projected borrowing needs of the respective funds. Since the SAIF did not have primary resolution authority for thrifts or projected borrowing needs as of December 31, 1994, none of the U.S. Treasury borrowing authority was allocated to the SAIF. At December 31, 1994, the MOL for the SAIF was $2.4 billion.

2. Summary of Significant Accounting Policies

General

These financial statements pertain to the financial position, results of operations and cash flows of the SAIF and are presented in accordance with generally accepted accounting principles. These statements do not include reporting for assets and liabilities of closed thrifts for which the SAIF acts as receiver or liquidating agent. Periodic and final accountability reports of the SAIF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

U.S. Treasury Obligations

Securities are intended to be held to maturity and are shown at book value. Book value is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity. Interest is calculated on a daily basis and recorded monthly using the effective interest method.

Escrowed Funds from Resolution Transactions

A thrift operating under a FSLIC assistance agreement was placed into SAIF receivership in 1993 and sold. Since these transactions were executed in order to terminate the assistance agreement, the FRF funded SAIF's payment to the acquirers (the difference between failed thrift liabilities assumed and assets purchased, plus or minus any premium or discount). The SAIF considered the amount of the deduction for assets purchased to be funds held on behalf of the receivership (an obligation). The funds remained in escrow and accrued interest until such time as the receivership used the funds to: 1) repurchase assets under asset put options; 2) pay preferred and secured claims; 3) pay receivership expenses; or 4) pay dividends (see Note 6). The FDIC policy of holding escrowed funds was terminated in 1994.

Litigation Losses
The SAIF accrues, as a charge to current period operations, an estimate of probable losses from litigation against the SAIF in its corporate and receivership capacities. The FDIC's Legal Division recommends these estimates on a case-by-case basis.

Receivership Administration
The FDIC is responsible for controlling and disposing of the assets of failed thrift institutions placed in SAIF receivership in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Liquidation expenses incurred by the SAIF on behalf of its receivership are recovered from the receivership.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of facilities used in operations in the BIF's financial statements. The BIF charges the SAIF a rental fee representing an allocated share of its annual depreciation. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The SAIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC adopted the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" in 1992. This standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis).

The FDIC elected to immediately recognize the accumulated postretirement benefit liability (transition obligation). The transition obligation represents that portion of future retiree benefits costs related to service already rendered by both active and retired employees up to the date SFAS No. 106 was adopted.

The FDIC established an entity to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF and the RTC. The SAIF funds all of its liabilities for these benefits directly to the entity.

Related Parties
The nature of related parties and descriptions of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1993 Financial Statements to conform to the presentation used in 1994.

3. Cash and Cash Equivalents

The SAIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. Substantially all the restricted cash is comprised of the SAIF exit fees collected plus interest earned on exit fees. These funds have been restricted to meet any potential obligation of the SAIF to the FICO (see Note 5). In 1994, cash restrictions included \$104 thousand for health insurance payable and \$18.9 million for exit fee and related interest collections. In 1993, cash restrictions included \$317 thousand for health insurance payable and \$2.968 million for exit fee and related interest collections.

Cash and Cash Equivalents		
Dollars in Thousands	**December 31**	
	1994	**1993**
Cash	$ 1,871	$ 351
One-day special Treasury certificates	78,329	15,384
Total	**$ 80,200**	**$ 15,735**

4. Investment in U.S. Treasury Obligations

All cash received by the SAIF is invested in U.S. Treasury obligations unless the cash is: 1) to defray operating expenses; 2) used for outlays related to liquidation activities; or 3) invested in one-day special Treasury certificates. In 1994, $145 million was restricted for exit fee and related interest collections invested in U.S. Treasury notes. In 1993, $122 million was restricted for exit fee and related interest collections invested in U.S. Treasury notes.

During 1994, the SAIF sold debt securities classified as held-to-maturity. The book value of the securities sold was $170 million and the realized loss was $289 thousand. The sale was compelled by the need to transfer to the FRF funds which were retained by the SAIF in error and subsequently invested. This need was an isolated, non-recurring, and unusual event which could not have been reasonably anticipated.

U.S. Treasury Obligations at December 31, 1994

Dollars in Thousands

Maturity	Description	Yield at Purchase	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes	4.4%	$1,380,705	$ 1,366,503	$ 1,385,000
1-3 years	U.S. Treasury Notes	5.8%	$1,041,525	$ 1,017,402	$ 1,045,000
Total			**$2,422,230**	**$ 2,383,905**	**$ 2,430,000**

In 1994, the unamortized discount, net of unamortized premium, was $7.8 million.

U.S. Treasury Obligations at December 31, 1993					
Dollars in Thousands					
Maturity	**Description**	**Yield at Purchase**	**Book Value**	**Market Value**	**Face Value**
Less than one year	U.S. Treasury Notes	3.2%	$ 52,160	$ 52,240	$ 51,801
1-3 years	U.S. Treasury Notes	4.0%	$ 1,211,448	$ 1,212,956	$ 1,210,000
Total			**$ 1,263,608**	**$ 1,265,196**	**$ 1,261,801**

In 1993, the unamortized premium, net of unamortized discount, was $1.8 million.

5. Entrance and Exit Fees Receivable, Net

The SAIF receives entrance and exit fees for conversion transactions when an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). Regulations approved by the FDIC's Board of Directors and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow. The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in Treasury securities pending determination of ownership. Interest on these investments was $6.5 million and $3 million for 1994 and 1993, respectively.

The SAIF records entrance fees as revenue after the BIF-to-SAIF conversion transaction. However, due to the requirement that the SAIF exit fees be held in an escrow account, the SAIF does not recognize exit fees or related interest earned as revenue. Instead, the SAIF recognizes a SAIF-to-BIF conversion transaction by establishing a receivable from the institution and a corresponding escrow account entry to recognize the potential payment to the FICO. As exit fee proceeds are received, the receivable is reduced while the escrow remains pending the determination of funding requirements for interest payments on the FICO's obligations.

Within specified parameters, the regulations allow an institution to pay its entrance/exit fees interest free, in equal annual installments over a period of not more than five years. When an institution elects such a payment plan, the SAIF records the entrance or exit fee receivable at its present value. The discount rates used to determine the present value of the funds for 1994 and 1993 were 3 percent and 4 percent, respectively.

Entrance and Exit Fees Receivable, Net - 1994					
Dollars in Thousands					
	Beginning Balance 01/01/94	**New Receivables**	**Collections**	**Net Change Unamortized Discount**	**Ending Balance 12/31/94**
Entrance fees	$ 3	$ 32	$	$ 0	$ 6
Exit fees	60,652	998	(31,115)	5,151	35,686
Total	**$ 60,655**	**$ 1,030**	**$ (31,144)**	**$ 5,151**	**$ 35,692**

Entrance and Exit Fees Receivable, Net - 1993

Dollars in Thousands

	Beginning Balance 01/01/93	New Receivables	Collections	Net Change Unamortized Discount	Ending Balance 12/31/93
Entrance fees	$ 0	$ 48	$ (45)	$ 0	$ 3
Exit fees	84,896	1,946	(31,560)	5,370	60,652
Total	**$ 84,896**	**$ 1,994**	**$ (31,605)**	**$ 5,370**	**$ 60,655**

6. Receivables from Thrift Resolutions, Net

The Heartland Federal Savings and Loan Association (Heartland), Ponca City, Oklahoma, was a SAIF-insured institution that became party to a 10-year assistance agreement with the FSLIC upon the failure of its predecessor, Frontier Federal Savings and Loan Association, in 1988. FSLIC obligations were assumed by the FRF upon the enactment of the FIRREA in 1989. Section 32 of the assistance agreement effectively gave the FRF sole equity interest in Heartland. Section 2.13 of the agreement entitled "Additional Operating Terms and Conditions" gave the FDIC, as manager of the FRF, authority to take such action as might be necessary to effect the acquisition of Heartland. The FDIC determined that the value of the FRF's equity interest in Heartland would be maximized and total assistance cost would be minimized by a termination of the assistance agreement and sale of Heartland, thereby returning it to the private sector. To effect the sale, a receiver was appointed for Heartland for the purpose of transferring assets and liabilities to the acquirers.

Technically, Heartland was not a "failing institution" because of its well-capitalized condition, which resulted from the government assistance provided. Heartland's Board of Directors consented to the Office of Thrift Supervision's appointment of the FDIC (SAIF) as receiver on October 8, 1993. The FDIC was appointed receiver because, at that time, RTC's authority to resolve FSLIC-insured thrifts had not yet been extended by the RTC Completion Act.

Because Heartland was not failing, all uninsured depositors and general trade creditors were paid in full, leaving only the FRF as sole creditor. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF and represents a claim against the receivership's assets. The receiver reimburses the FRF as claims are satisfied through the liquidation process. As of December 31, 1994, the receiver owes the FRF $6.8 million.

As of December 31, 1994 and 1993, the SAIF, in its receivership capacity, held assets with a book value of $53 million and $249 million, respectively. Estimated cash recoveries from the management and disposition of assets (excluding cash and miscellaneous receivables of $38 million in 1994 and $177 million in 1993) are regularly evaluated, but ultimate recoveries remain uncertain because of changing economic conditions. Any loss as a result of reduced recoveries will be borne by the FRF.

7. Estimated Liabilities for:

Anticipated Failure of Insured Institutions

The SAIF records an estimated loss for thrifts as well as "Oakar" and "Sasser" banks that have not yet failed but have been identified by the regulatory process as likely to fail within the foreseeable future as a result of regulatory insolvency (equity less than 2% of assets). This includes institutions that were solvent at year-end, but which have adverse financial trends and, absent some favorable event (such as obtaining additional capital or a merger), are likely to fail in the future. The FDIC relies on this finding regarding regulatory insolvency as the determining factor in defining the existence of the "accountable event" that triggers loss recognition under generally accepted accounting principles.

The FDIC cannot predict the precise timing and cost of thrift or "Oakar" or "Sasser" bank failures. An estimated liability and a corresponding reduction in the fund balance are recorded in the period in which the liability is deemed probable and reasonably estimable. It should be noted, however, that future assessment revenues will be available to the SAIF to recover some or all of these losses and that these amounts have not been reflected as a reduction in the losses.

For the year ending December 31, 1993, the SAIF was responsible for establishing an estimated liability for thrifts chartered after August 8, 1989, and for "Oakar" banks. For 1993, the RTC was responsible for other thrift institutions. At year end 1994, the SAIF established an estimated liability for those estimated failures deemed probable and reasonably estimable after it assumes resolution authority (see Note 1).

The FDIC estimates that thrifts with combined assets of approximately $5 billion may fail between July 1, 1995 (the date SAIF assumes resolution responsibility) and December 31, 1996 at an estimated cost of $750 million to SAIF. Of this amount, the SAIF has recognized a loss of $432 million for those failures considered likely. The further into the future projections of thrift failures are made, the greater the uncertainty of thrifts failing and the magnitude of the loss associated with those failures. The accuracy of these estimates will largely depend on future economic conditions, particularly in the real estate markets and the level of future interest rates.

Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $12 million are reasonably possible.

8. Assessments

The FICO has priority over the SAIF for receiving and utilizing SAIF-member assessments to ensure availability of funds for interest on FICO's debt obligations. Accordingly, the SAIF recognized as assessment revenue only that portion of SAIF-member assessments not required by the FICO. Assessments on the SAIF-insured deposits held by "Oakar" or "Sasser" are not subject to draws by FICO and, thus, retained in SAIF.

The 1990 Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for the SAIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations; and 3) authorized FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that charges higher rates to those thrifts that pose greater risks to the SAIF. Under the new rule, beginning in January 1993, each thrift paid an assessment rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular thrift, the FDIC placed each thrift in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The Board reviews premium rates semiannually. For calendar year 1994, the assessment rate averaged approximately 24.2 cents per $100 of domestic deposits.

As of December 31, 1994, the SAIF's reserve ratio is .28 percent of insured deposits. Recapitalization to a 1.25 percent ratio is required by the FDICIA (see Note 1).

Secondary Reserve Offset

The FIRREA authorized insured thrifts to offset against any assessment premiums their pro rata share of amounts that were previously part of the FSLIC's "Secondary Reserve." The Secondary Reserve represented premium prepayments that insured thrifts were required by law to deposit with the FSLIC during the period 1961 through 1973 to quickly increase the FSLIC's insurance reserves to absorb losses if the regular assessments were insufficient.

The Secondary Reserve offset reduces the gross SAIF-member assessments due from certain individual institutions, thereby reducing the assessment premiums available to the FICO and the SAIF. In 1994, the SAIF paid $11 million in refunds to institutions due secondary reserve credits that had previously been acquired through an unassisted merger. The remaining Secondary Reserve credit was $427 thousand and $2 million for 1994 and 1993, respectively.

SAIF Assessments

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
SAIF assessments from thrifts	$1,301,499	$1,584,215
Less: Secondary Reserve offset/refunds	(14,318)	(221,404)
Cash received for prior period assessments	0	(18,439)
FICO assessment [a]	(596,000)	(779,214)
Plus: Assessment receivables outstanding	1,453	5,269
Less: Prepaid Assessments	(2,265)	0
SAIF-Member Assessments Earned, (Net)	**690,369**	**570,427**
SAIF assessments from Sasser banks	99,895	66,179
SAIF assessments from "Oakar" banks - current period	341,838	261,086
Total	**$1,132,102**	**$ 897,692**

[a] In 1994, there was a one-time reduction of $185 million to the FICO assessment because of cash held by FICO.

9. Provision for Insurance Losses

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
SAIF's allocated share of recovery from failure of Southeast Bank, N.A., Miami, FL	$ 0	$ (1,469)
Estimated loss for anticipated failure of insured institutions (see Note 7)	414,000	18,000
Total	**$ 414,000**	**$ 16,531**

10. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in the tax-deferred federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

Although the SAIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The SAIF also does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $685 thousand and $756 thousand at December 31, 1994 and 1993, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Civil Service Retirement System	$ 329	$ 1,628
Federal Employee Retirement System (Basic Benefit)	663	1,146
FDIC Savings Plan	436	663
Federal Thrift Savings Plan	202	337
Total	**$ 1,630**	**$ 3,774**

11. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC converted to self-insured health coverage for hospital/medical, prescription drug, mental health and chemical dependency during March 1994. Additional risk protection was purchased from Aetna Life Insurance company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark. Health insurance coverage was previously provided as a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance company and provides coverage at no cost to retirees.

The SAIF expensed $587 thousand and $1.9 million for such net periodic postretirement benefit costs for the years ended December 31, 1994 and 1993, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health costs in 1994 of 12.5 percent, decreasing down to an ultimate rate in 1998 of 8 percent; and 3) an increase in dental costs in 1994 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1994, would have increased by 16.6 percent. The effect of this change on the aggregate of service and interest cost for 1994 would be an increase of 26.3 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands	For the Year Ended December 31	
	1994	1993
Service cost (benefits attributed to employee service during the year)	$ 614	$1,195
Interest cost on accumulated postretirement benefit obligation	349	613
Amortization of prior service cost	(197)	(48)
Amortization of loss	78	171
Return on plan assets	(257)	2
Total	**$ 587**	**$1,933**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC in 1993. The SAIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant		
Dollars in Thousands	**December 31**	
	1994	**1993**
Retirees	$ 1,580	$ 1,852
Fully eligible active plan participants	375	347
Other active participants	5,231	5,887
Total Obligation	**7,186**	**8,086**
Less: Plan assets at fair value [a]	6,671	7,680
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 515**	**$ 406**

[a] Consists of U.S. Treasury investments

12. Commitments

The SAIF currently is sharing the FDIC's leased space. The SAIF's allocated share of lease commitments totals $3.1 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The SAIF recognized leased space expense of $1.1 million and $1.7 million for the years ended December 31, 1994 and 1993, respectively.

Leased Space Fees

Dollars in Thousands

1995	**1996**	**1997**	**1998**	**1999**	**2000**
$1,009	$683	$652	$384	$240	$172

13. Concentration of Credit Risk

The SAIF is counterparty to financial instruments with entities located in two regions of the United States experiencing problems in both loans and real estate. The SAIF's maximum exposure to possible accounting loss for these instruments is $126 thousand for Southeast Bank, N.A., Miami, Florida, and $3.3 million for Olympic National Bank, Los Angeles, California.

Insured Deposits
As of December 31, 1994, the total deposits insured by the SAIF is approximately $693 billion. This would be the accounting loss if all the depository institutions fail and if any assets acquired as a result of the resolution process provide no recovery, and to the extent these losses are not covered by the RTC.

14. Disclosures about the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 4 and is based on current market prices. The carrying amount due from the FSLIC Resolution Fund, short-term receivables, and accounts payable and other liabilities approximates their fair market value due to their short maturities. As explained in Note 5, entrance and exit fees receivable are net of discounts calculated using an interest rate comparable to U.S. Treasury Bill or Government bond/note rates at the time the receivables are accrued.

It is not practicable to estimate the fair market value of net receivables from thrift resolutions. These assets are unique, not intended for sale to the private sector and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. A discount of this proportion would significantly increase the cost of thrift or "Oakar" or "Sasser" bank resolutions to the SAIF. Comparisons with other financial instruments do not provide a reliable measure of their fair market value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair market value on a discounted cash flow basis.

As stated in Note 7, the carrying amount of the estimated liability for anticipated failure of insured institutions is the total of estimated losses for thrifts as well as "Oakar" and "Sasser" banks that have not failed, but the regulatory process has identified as likely to fail within the foreseeable future. It does not consider discounted future cash flows because the FDIC cannot predict the timing of events with reasonable accuracy. For this reason, the FDIC considers the total estimate of these losses to be the best measure of their fair market value.

15. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The FDIC has adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement. The maximum potential post-employment obligation due to accrued but unused annual leave is shown under Note 10. There are no other material obligations due to post-employment benefits.

In May 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Most of the SAIF assets are specifically outside the scope of Statement No. 114. These assets are valued through alternative methods or do not meet the definition of a loan within the meaning of the Statement. Any assets which may be subject to Statement No. 114 are expected to be immaterial either because of insignificant book value or because any potential adjustment to the carrying value as a result of applying Statement No. 114 would be immaterial.

The FDIC has adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement expands the use of fair market value accounting for securities that have readily determinable fair market values but retains the use of the amortized cost method for investments in debt securities that the reporting enterprise has the positive intent and ability to hold to maturity. Adoption of this statement did not have a material effect on the SAIF.

16. Supplementary Information Relating to the Statements of Cash Flows

As stated in the Summary of Significant Accounting Policies (see Note 2, *Escrowed Funds from Resolution Transactions*), prior to April 20, 1994, the FDIC paid the acquirer the difference between failed thrift liabilities assumed and assets purchased, plus or minus any premium or discount. The SAIF considered the assets purchased portion of this transaction to be a non-cash adjustment. Accordingly, for the Statements of Cash Flows presentation, cash outflows for thrift resolutions excludes $932 thousand in 1993 for assets purchased. As of April 20, 1994, these asset purchases are cash transactions.

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31 1994	1993
Net Income	$ 780,986	**$ 876,702**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Provision for insurance losses	414,000	16,531
Amortization of U.S. Treasury securities (unrestricted)	(2,646)	37
Loss on sale of U.S. Treasury securities	289	0
Change in Assets and Liabilities:		
(Increase) Decrease in amortization of U.S. Treasury	(17)	3,787
Decrease in entrance and exit fees receivable	24,963	24,241
(Increase) Decrease in interest receivable and other assets	(10,824)	18,611
Decrease (Increase) in receivables from thrift resolutions	168,056	(174,948)
Increase (Decrease) in accounts payable and other liabilities	1,743	(6,453)
(Decrease) Increase in amount due to the FSLIC Resolution Fund	(168,696)	175,396
(Decrease) Increase in liabilities incurred from thrift resolutions	(932)	932
(Decrease) in estimated liabilities for anticipated failure of insured institutions	0	(3,700)
Increase in exit fees and investment proceeds held in escrow	13,792	10,880
Total	**$ 1,220,714**	**$ 942,016**

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Income and Accumulated Deficit

Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Revenue		
Assessments	$ 0	$ (63)
Interest on U.S. Treasury obligations	77,191	26,768
Revenue from corporate-owned assets	115,280	181,298
Other revenue	275,779	47,280
Total Revenue	**468,250**	**255,283**
Expenses and Losses		
Operating expenses	15,535	34,908
Interest expense	37,624	57,080
Corporate-owned asset expenses	66,394	53,461
Provision for losses (Note 10)	(363,812)	860,425
Other expenses	10,355	9,505
Total Expenses and Losses	**(233,904)**	**1,015,379**
Net Income (Loss)	**702,154**	**(760,096)**
Accumulated Deficit - Beginning	**(44,427,696)**	**(43,667,600)**
Accumulated Deficit - Ending	**$ (43,725,542)**	**$ (44,427,696)**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position

Dollars in Thousands	December 31 1994	1993
Assets		
Cash and cash equivalents (Note 3)	$ 1,278,548	$ 1,603,931
Receivables from thrift resolutions, net (Note 4)	1,054,107	2,238,065
Investment in corporate-owned assets, net (Note 5)	370,177	577,161
Due from the Savings Association Insurance Fund (Note 6)	6,812	168,960
Other assets, net (Note 7)	13,191	38,898
Total Assets	**$ 2,722,835**	**$ 4,627,015**
Liabilities		
Accounts payable and other liabilities	$ 13,262	$ 106,391
Liabilities incurred from thrift resolutions (Note 8)	2,164,438	3,596,908
Estimated Liabilities for: (Note 9)		
Assistance agreements	277,577	1,290,412
Litigation losses	2,100	70,000
Total Liabilities	**2,457,377**	**5,063,711**
Commitments and contingencies (Notes 14 and 15)		
Resolution Equity (Note 11)		
Contributed capital	43,991,000	43,991,000
Accumulated deficit	(43,725,542)	(44,427,696)
Total Resolution Equity	**265,458**	**(436,696)**
Total Liabilities and Resolution Equity	**$ 2,722,835**	**$ 4,627,015**

The accompanying notes are an integral part of these financial statements.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1994	1993
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 0	$ (63)
Interest on U.S. Treasury obligations	77,191	29,662
Recoveries from thrift resolutions	2,019,635	1,846,163
Recoveries from corporate-owned assets	416,987	393,804
Miscellaneous receipts	4,722	80,513
Cash used for:		
Operating expenses	(19,053)	(60,797)
Interest paid on indebtedness incurred from thrift resolutions	(28,620)	(50,267)
Disbursements for thrift resolutions	(2,077,535)	(2,477,719)
Disbursements for corporate-owned assets	(222,037)	(327,712)
Miscellaneous disbursements	(2,578)	(43,871)
Net Cash Provided by (Used by) Operating Activities Before Funding Transfer	**168,712**	**(610,287)**
Funding transfer to the Savings Association Insurance Fund	0	(7,182)
Net Cash Provided by (Used by) Operating Activities (Note 18)	**168,712**	**(617,469)**
Cash Flows from Financing Activities		
Cash provided from:		
U.S. Treasury payments	0	1,963,000
Cash used for:		
Payments of indebtedness incurred from thrift resolutions	(494,095)	(1,529,178)
Net Cash (Used by) Provided by Financing Activities	**(494,095)**	**433,822**
Net Decrease in Cash and Cash Equivalents	**(325,383)**	**(183,647)**
Cash and Cash Equivalents - Beginning	**1,603,931**	**1,787,578**
Cash and Cash Equivalents - Ending	**$ 1,278,548**	**$ 1,603,931**

The accompanying notes are an integral part of these financial statements.

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the FSLIC Resolution Fund (FRF), the Bank Insurance Fund (BIF), and the Savings Association Insurance Fund (SAIF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these three funds. The FRF is responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC). The BIF insures the deposits of all BIF-member institutions (normally commercial or savings banks) and the SAIF insures the deposits of all SAIF-member institutions (normally thrifts). All three funds are maintained separately to carry out their respective mandates.

The FIRREA created the Resolution Trust Corporation (RTC), which manages and resolves all thrifts previously insured by the FSLIC for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. The Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 (1991 RTC Act) extended the RTC's general resolution responsibility through September 30, 1993, and beyond that date for those institutions previously placed under the RTC's control.

The Resolution Trust Corporation Completion Act of 1993 (1993 RTC Act), enacted December 17, 1993, extended the RTC's general resolution responsibility through a date between January 1, 1995 and July 1, 1995. The Chairman of the Thrift Depositor Protection Oversight Board selected July 1, 1995 as the date for transferring resolution responsibility from the RTC to the SAIF.

The Resolution Funding Corporation (REFCORP) was established by the FIRREA to provide funds to the RTC for use in thrift resolutions. The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. Effective December 12, 1991, as provided by the 1991 RTC Act, the FICO's ability to serve as a financing vehicle for new debt was terminated.

Operations of the FRF
The primary purpose of the FRF is to liquidate the assets and contractual obligations of the now defunct FSLIC. The FRF will complete the resolution of all thrifts that failed before January 1, 1989, or were assisted before August 9, 1989. The FIRREA provided that the RTC manage any receiverships resulting from thrift failures that occurred after December 31, 1988, but prior to the enactment of the FIRREA. There are five such receiverships that affect the FRF financial statements because the FRF remains financially responsible for the losses associated with these resolution cases.

The FRF is funded from the following sources, to the extent funds are needed, in this order: 1) income earned on and proceeds from the disposition of assets of the FRF and 2) liquidating dividends and payments made on claims received by the FRF from receiverships to the extent such funds are not required by the REFCORP or the FICO. If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as are appropriated by the Congress, to carry out the purpose of the FRF. To facilitate efforts to wind up the resolution activity of the FRF, Public Law 103-327 provides $827 million in funding to be available until expended.

The 1993 RTC Act amended the termination date of the RTC from December 31, 1996, to no later than December 31, 1995. All assets and liabilities of the RTC will be transferred to the FRF, after which any future net proceeds from the sale of such assets will be transferred to the REFCORP for interest payments after satisfaction of any outstanding liabilities of the RTC. The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon the dissolution of the FRF, any funds remaining will be paid to the U.S. Treasury.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations and cash flows of the FRF and are presented in accordance with generally accepted accounting principles. These statements do not include reporting for assets and liabilities of closed insured thrift institutions for which the FRF acts as receiver or liquidating agent. Periodic and final accountability reports of the FRF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

Allowance for Losses on Receivables from Thrift Resolutions and Investment in Corporate-Owned Assets
The FRF records as a receivable the amounts advanced and/or obligations incurred for assisting and closing thrift institutions. The FRF also records as an asset the amounts advanced for investment in corporate-owned assets. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on the estimated cash recoveries from the assets of the assisted or failed thrift institution, net of all estimated liquidation costs.

Estimated Liabilities for Assistance Agreements
The FRF establishes an estimated liability for probable future assistance payable to acquirers of troubled thrifts under its financial assistance agreements. Such estimates are presented on a discounted basis.

Litigation Losses
The FRF accrues, as a charge to current period operations, an estimate of probable losses from litigation against the FRF in both its corporate and receivership capacities. The FDIC's Legal Division recommends these estimates on a case-by-case basis. The litigation loss estimates related to receiverships are included in the allowance for losses for receivables from thrift resolutions.

Receivership Administration
The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the FRF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of facilities used in operations in the BIF's financial statements. The BIF charges the FRF a rental fee representing an allocated share of its annual depreciation. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The FRF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC adopted the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" in 1992. This standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis).

The FDIC elected to immediately recognize the accumulated postretirement benefit liability (transition obligation). The transition obligation represents that portion of future retiree benefit costs related to service already rendered by both active and retired employees up to the date of adoption.

The FDIC established an entity to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF, and the RTC. The FRF funds all of its liabilities for these benefits directly to the entity.

Wholly Owned Subsidiary
The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until such time as the FADA's litigation liability is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in the line item "Other assets, net" (Note 7). As of December 31, 1994, the value of the investment has been adjusted for projected expenses relating to the liquidation of the FADA. The FADA's estimate of probable litigation losses is $3.3 million. Accordingly, a $3.3 million litigation loss has been recognized as a reduction in the value of the FRF's investment in the FADA. There are no additional litigation losses considered reasonably possible as of December 31, 1994.

Related Parties
The nature of related parties and descriptions of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1993 financial statements to conform to the presentation used in 1994.

3. Cash and Cash Equivalents

The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. In 1994, cash restrictions included $317 thousand for health insurance payable and $821 thousand for funds held in trust. In 1993, cash restrictions included $1 million for health insurance payable and $2.7 million for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31 1994	1993
Cash	$ 4,182	$ 34,483
One-day special Treasury certificates	1,274,366	1,569,448
Total	**$ 1,278,548**	**$ 1,603,931**

4. Receivables from Thrift Resolutions, Net

As of December 31, 1994 and 1993, the FRF, in its receivership capacity, held assets with a book value of $947 million and $1.8 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $168 million in 1994 and $226 million in 1993) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could reduce the FRF's actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

During 1993, the FDIC's Board of Directors delegated to the RTC the authority to execute partnership agreements on behalf of the FDIC. Under that authority, the FDIC secured a limited partnership interest in two partnerships, Mountain AMD and Brazos Partners, in order to achieve a least cost resolution. During 1994, the FRF collected its entire interest in the Brazos Partners Limited Partnership. In addition, funds in excess of the original investment continue to be collected by the FRF and are recorded in the line item "Other Revenue." The FRF has a remaining interest of $29.6 million in the Mountain AMD Limited Partnership, as of December 31, 1994.

Receivables from Thrift Resolutions, Net		
Dollars in Thousands	December 31	
	1994	1993
Assets from Open Thrift Assistance:		
Collateralized loans	$ 360,000	$ 380,000
Other loans	151,958	125,153
Capital instruments	65,000	65,000
Interest in limited partnerships	29,624	972,915
Preferred stock from assistance transactions	429,628	470,955
Accrued interest receivable	4,717	2,992
Allowance for losses (Note 10)	(423,296)	(423,296)
	617,631	1,593,719
Receivables from Closed Thrifts:		
Resolution transactions	9,114,230	9,677,150
Collateralized advances/loans	289,494	305,264
Other receivables	218,918	210,795
Allowance for losses (Note 10)	(9,186,166)	(9,548,863)
	436,476	644,346
Total	$ 1,054,107	$ 2,238,065

5. Investment in Corporate-Owned Assets, Net

The FRF's investment in corporate-owned assets is comprised of amounts that: 1) the FSLIC paid to purchase assets from troubled or failed thrifts and 2) the FRF pays to acquire receivership assets, terminate receiverships and purchase covered assets. The majority of these assets are real estate and mortgage loans.

The FRF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

Investment in Corporate-Owned Assets, Net		
Dollars in Thousands	December 31	
	1994	1993
Investment in corporate-owned assets	$ 3,444,413	$ 3,565,463
Allowance for losses (Note 10)	(3,074,236)	(2,988,302)
Total	$ 370,177	$ 577,161

6. Due from the Savings Association Insurance Fund

The Heartland Federal Savings and Loan Association (Heartland), Ponca City, Oklahoma, was a SAIF-insured institution that became party to a 10-year Assistance Agreement with the FSLIC upon the failure of its predecessor, Frontier Federal Savings and Loan Association, in 1988. FSLIC obligations were assumed by the FRF upon the enactment of the FIRREA in 1989. Section 32 of the Assistance Agreement effectively gave the FRF sole equity interest in Heartland. Section 2.13 of the agreement entitled "Additional Operating Terms and Conditions" gave the FDIC, as manager of the FRF, authority to take such action as might be necessary to effect the acquisition of Heartland. The FDIC determined that the value of the FRF's equity interest in Heartland would be maximized and total assistance cost would be minimized by a termination of the Assistance Agreement and sale of Heartland, thereby returning it to the private sector. To effect the sale, a receiver was appointed for Heartland for the purpose of transferring assets and liabilities to the acquirers.

Technically, Heartland was not a "failing institution" because of its well-capitalized condition, which resulted from the government assistance provided. Heartland's Board of Directors consented to the Office of Thrift Supervision's appointment of the FDIC (SAIF) as receiver on October 8, 1993. The FDIC was appointed receiver because, at the time, RTC's authority to resolve FSLIC-insured thrifts had not yet been extended by the RTC Completion Act.

Because Heartland was not failing, all uninsured depositors and general trade creditors were paid in full, leaving only the FRF as sole creditor. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF and represents a claim against the receivership's assets. The receiver reimburses the FRF as claims are satisfied through the liquidation process. As of December 31, 1994 and 1993, the receiver owes the FRF $6.8 million and $169 million, respectively.

7. Other Assets, Net

Dollars in Thousands	December 31 1994	December 31 1993
Investment in FADA (Note 2)	$ 25,000	$25,000
Allowance for losses (Note 10)	(12,375)	(11,258)
Investment in FADA, Net	**12,625**	**13,742**
Accounts receivable	230	158
Due from other government entities	336	24,998
Total	**$ 13,191**	**$38,898**

8. Liabilities Incurred from Thrift Resolutions

The FSLIC issued promissory notes and entered into assistance agreements in order to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Under the FIRREA, the FRF assumed these obligations. The FRF presents its notes payable and its obligation for assistance agreement payments incurred but not yet paid as a component of the line item "Liabilities incurred from thrift resolutions." Estimated future assistance payments under its assistance agreements are presented as a component of the line item "Estimated liabilities for: Assistance agreements" (see Note 9).

Liabilities Incurred from Thrift Resolutions

Dollars in Thousands	December 31	
	1994	1993
Notes payable to Federal Home Loan Banks/U.S. Treasury	$ 360,000	$ 380,000
Capital instruments	725	725
Assistance agreement notes	189,360	683,455
Accrued assistance agreement costs	1,530,043	2,414,915
Accrued interest	2,931	7,983
Other liabilities to thrift institutions	81,379	109,830
Total	**$2,164,438**	**$3,596,908**

Maturities of Liabilities

Dollars in Thousands

1995	1996	1997	1998
$2,006,638	$31,560	$31,560	$94,680

9. Estimated Liabilities for:

Assistance Agreements

The "Estimated liabilities for: Assistance agreements" line item represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The nominal dollar amount of this line item before discounting was $294 million and $1.3 billion, as of December 31, 1994 and 1993, respectively. The discount rates applied as of December 31, 1994 and 1993, was 6.3 percent and 3.5 percent, respectively, based on U.S. money rates for federal funds.

Future assistance stems from the FRF's obligation to: 1) fund losses inherent in assets covered under the assistance agreements (e.g., by subsidizing asset write-downs, capital losses and goodwill amortization) and 2) supplement the actual yield earned from covered assets as necessary for the acquirer to achieve a specified yield (the "guaranteed yield"). Estimated total assistance costs recognized for current assistance agreements with institutions involving covered assets include estimates for the loss expected on the assets based on their appraised values. The FRF is obligated to fund any losses sustained by the institutions on the sale of the assets. If all underlying assets prove to be of no value, the possible cash requirements and the accounting loss could be as high as $1.1 billion (see Note 15). The costs and related cash requirements associated with the maintenance of covered assets are calculated using an applicable cost of funds rate and would change proportionately with any change in market rates.

The RTC, on behalf of the FRF, had authority to modify, renegotiate or restructure the 1988 and 1989 assistance agreements with FSLIC-assisted institutions with terms more favorable to the FRF. This authority ended June 30, 1993. In accordance with a 1991 RTC Board Resolution, any FSLIC-assisted institution placed in RTC conservatorship or receivership is subject to revised termination procedures.

The number of assistance agreements outstanding as of December 31, 1994 and 1993, were 54 and 71, respectively. The last agreement is scheduled to expire in December 1998.

The estimated liabilities for assistance agreements are affected by several factors, including adjustments to expected notes payable, the terms of the assistance agreements outstanding and, in particular, the marketability of the related covered assets. The variable nature of the FRF assistance agreements will cause the cost requirements to fluctuate. This fluctuation will impact both the timing and amount of eventual cash flows. Although the "Estimated liabilities for: Assistance agreements" line item is presented on a discounted basis, the following schedule details the projected timing of the future cash flows as of December 31, 1994, before discounting.

Estimated Assistance Payments

Dollars in Thousands

1995	1996	1997	1998/Thereafter
$219,516	$30,093	$2,416	$42,217

Litigation Losses
The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $292 million are reasonably possible. This includes $279 million in losses for the FRF in its corporate capacity and $13 million in losses for the FRF in its receivership capacity (see Note 2). In addition, during the 1980s, FSLIC Assistance Agreements provided certain institutions with supervisory goodwill incident to their acquisition of failed thrifts. Subsequently, FIRREA required the imposition of minimum capital requirements on thrifts and limited the use of supervisory goodwill to meet these capital requirements. There are currently approximately 50 cases pending resulting from the elimination of supervisory goodwill. FDIC expects additional suits to be filed. To date, one of these cases has resulted in a final judgment of $6 million against FDIC, which FDIC paid from FRF in accordance with the court's order. This $6 million is included in the $279 million disclosed above as reasonably possible. FDIC believes that judgments in such cases are more properly paid from the Judgement Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304. The extent to which FRF will be the source for paying other judgements in such cases is uncertain.

10. Analysis of Changes in Allowance for Losses and Estimated Liabilities

In the following charts, transfers include reclassifications from the line item "Estimated liabilities for: Assistance agreements" to the line item "Liabilities incurred from thrift resolutions" for notes payable and related accrued assistance agreement costs. Terminations represent final adjustments to the estimated cost figures for those thrift resolutions that were completed and for which the operations of the receivership ended.

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1994

Dollars in Millions

Allowance for Losses:	Beginning Balance 01/01/94	Provision for Losses	Net Cash Payments	Transfers/ Terminations	Ending Balance 12/31/94
Open thrift assistance	$ 423	$ 0	$ 0	$ 0	$ 423
Closed thrifts	9,549	(133)	0	(230)	9,186
Corporate-owned assets	2,988	86	0	0	3,074
Due from the SAIF	7	0	0	(7)	0
Investment in FADA	11	1	0	0	12
Total Allowance for Losses:	**12,978**	**(46)**	**0**	**(237)**	**12,695**
Estimated Liabilities for:					
Assistance agreements	1,290	(320)	(1,424)	732	278
Litigation losses	70	2	0	(70)	2
Total Estimated Liabilities	**1,360**	**(318)**	**(1,424)**	**662**	**280**
Provision for Losses		**$ (364)**			

Dollars in Millions

Allowance for Losses:	Beginning Balance 01/01/93	Provision for Losses	Net Cash Payments	Transfers/ Terminations	Ending Balance 12/31/93
Open thrift assistance	$ 972	$ 106	$ 0	$ (655)	$ 423
Closed thrifts	9,919	(273)	0	(97)	9,549
Corporate-owned assets	2,971	17	0	0	2,988
Due from the SAIF	0	7	0	0	7
Investment in FADA	10	1	0	0	11
Total Allowance for Losses	**13,872**	**(142)**	**0**	**(752)**	**12,978**
Estimated Liabilities for:					
Assistance agreements	2,347	1,075	(1,496)	(636)	1,290
Litigation losses	73	(73)	0	70	70
Total Estimated Liabilities	**2,420**	**1,002**	**(1,496)**	**(566)**	**1,360**
Provision for Losses		**$ 860**			

11. Resolution Equity

The Accumulated Deficit includes $7.5 billion in non-redeemable capital certificates and redeemable capital stock issued by the FSLIC. Capital instruments have been issued by the FSLIC and the FRF to the FICO as a means of obtaining capital. Effective December 12, 1991, the FICO's authority to issue obligations as a means of financing for the FRF was terminated (see Note 1). Furthermore, the implementation of the FIRREA, in effect, has removed the redemption characteristics of the capital stock issued by the FSLIC.

Resolution Equity

Dollars in Thousands	1994 Beginning Balance 01/01/94	Net Income	Treasury Payments	Ending Balance 12/31/94
Contributed capital	$ 43,991,000	$ 0	$ 0	$ 43,991,000
Accumulated deficit	(44,427,696)	702,154	0	(43,725,542)
Total	**$ (436,696)**	**$ 702,154**	**$ 0**	**$ 265,458**

Dollars in Thousands	1993 Beginning Balance 01/01/93	Net Income	Treasury Payments	Ending Balance 12/31/93
Contributed capital	$ 42,028,000	$ 0	$ 1,963,000	$ 43,991,000
Accumulated deficit	(43,667,600)	(760,096)	0	(44,427,696)
Total	**$ (1,639,600)**	**$(760,096)**	**$ 1,963,000**	**$ (436,696)**

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in the tax-deferred Federal Thrift Savings Plan (TSP) .

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $3.2 million and $2.3 million at December 31, 1994 and 1993, respectively.

Pension Benefits and Savings Plans Expenses		
Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Civil Service Retirement System	$ 548	$ 577
Federal Employee Retirement System (Basic Benefit)	2,222	2,383
FDIC Savings Plan	1,520	1,267
Federal Thrift Savings Plan	725	734
Total	**$ 5,015**	**$ 4,961**

13. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC converted to self-insured health coverage for hospital/medical, prescription drug, mental health and chemical dependency during March 1994. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark. Health insurance coverage was previously provided as a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance company and provides coverage at no cost to retirees.

The FRF expensed $1.4 million and $2.8 million for net periodic postretirement benefit costs for the years ended December 31, 1994 and 1993, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health costs in 1994 of 12.5 percent, decreasing down to an ultimate rate in 1998 of 8 percent; and 3) an increase in dental costs in 1994 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1994, would have increased by 16.6 percent. The effect of this change on the aggregate of service and interest cost for 1994 would be an increase of 26.3 percent.

Net Periodic Postretirement Benefit Cost		
Dollars in Thousands	**For the Year Ended December 31**	
	1994	**1993**
Service cost (benefits attributed to employee service during the year)	$ 1,464	$ 1,702
Interest cost on accumulated postretirement benefit obligation	832	874
Amortization of prior service cost	(470)	(69)
Amortization of loss	187	244
Return on plan assets	(634)	2
Total	$ 1,379	**$ 2,753**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC. The FRF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant		
Dollars in Thousands	**December 31**	
	1994	**1993**
Retirees	$ 3,895	$7,937
Fully eligible active plan participants	924	469
Other active participants	12,892	2,497
Total Obligation	**17,711**	**10,903**
Less: Plan assets at fair value [a]	16,442	10,125
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 1,269**	**$ 778**

[a] Consists of U.S. Treasury investments

14. Commitments

The FRF currently is sharing in the FDIC's leased space. The FRF's allocated share of lease commitments totals $8.2 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The FRF recognized leased space expense of $8.9 million for each of the years ended December 31, 1994 and 1993, respectively.

Leased Space Fees

Dollars in Thousands

1995	1996	1997	1998	1999	2000
$2,656	$1,786	$1,673	$1,007	$614	$443

15. Concentration of Credit Risk

The FRF is counterparty to a group of financial instruments with entities located throughout regions of the United States experiencing problems in both loans and real estate. The FRF's maximum exposure to possible accounting loss, should each counterparty to these instruments fail to perform and any underlying assets prove to be of no value, is shown as follows:

Concentration of Credit Risk at December 31, 1994

Dollars in Millions

	South-east	South-west	North-east	Mid-west	Central	West	Total
Receivables from thrift resolutions, net	$114	$ 300	$7	$7	$ 42	$584	$1,054
Investment in corporate-owned assets,net	4	193	1	0	37	135	370
Due from the SAIF	0	7	0	0	0	0	7
Assistance agreements covered assets, net of estimated capital loss (off-balance sheet)	0	1,005	0	0	85	14	1,104
Total	**$118**	**$1,505**	**$8**	**$7**	**$164**	**$733**	**$2,535**

16. Disclosures about the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of accounts payable, liabilities incurred from thrift resolutions and the estimated liabilities for assistance agreements approximates their fair market value due to their short maturities or comparisons with current interest rates.

It is not practicable to estimate fair market values of net receivables from thrift resolutions. These assets are unique, not intended for sale to the private sector and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. A discount of this proportion would significantly increase the cost of thrift resolutions to the FRF. Comparisons with other financial instruments do not provide a reliable measure of their fair market value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 4, the carrying amount is the estimated cash recovery value, which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

The majority of the net investment in corporate-owned assets (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed thrifts. As with net receivables from thrift resolutions, it is not practicable to estimate fair market values. Cash recoveries are primarily from the sale of poor quality assets. They are dependent upon market conditions which vary over time, and can occur unpredictably over many years following resolution. Since the FDIC cannot reasonably predict the timing of these cash recoveries, it is unable to estimate fair market value on a discounted cash flow basis. As shown in Note 5, the carrying amount is the estimated cash recovery value, which is the original amount advanced (and/or obligations incurred) net of the estimated allowance for loss.

17. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The FDIC has adopted SFAS No. 112, "Employer's Accounting for Postemployment Benefits." This statement requires employers to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement. The maximum potential post-employment obligation due to accrued but unused annual leave is shown under Note 12. There are no other material obligations due to post-employment benefits.

In May 1993, the Financial Accounting Standards Board issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Most of the FRF assets are specifically outside the scope of Statement No. 114. These assets are valued through alternative methods, or do not meet the definition of a loan within the meaning of the Statement. Any assets which may be subject to Statement No. 114 are expected to be immaterial either because of insignificant book value or because any potential adjustment to the carrying value as a result of applying Statement No. 114 would be immaterial.

The FDIC has adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement expands the use of fair market value accounting for securities that have readily determinable fair market values but retains the use of the amortized cost method for investments in debt securities that the reporting enterprise has the positive intent and ability to hold to maturity. Adoption of this statement did not have a material effect on the FRF.

18. Supplementary Information Relating to the Statements of Cash Flows

Non-cash financing activities for the year ended December 31, 1994, include collateralized loans guaranteed by the FRF decreasing $20 million (see Note 4). Non-cash financing activities for the year ended December 31, 1993, include: 1) canceled notes payable (NWCs) of $6.5 million; and 2) collateralized loans guaranteed by the FRF decreased $90 million (see Note 4).

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	**For the Year Ended December 31 1994**	**1993**
Net Income (Loss)	**$ 702,154**	**$ (760,096)**
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used by) Operating Activities		
Income Statement Items:		
Provision for losses	(363,812)	860,425
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	1,342,743	974,482
Decrease (increase) in investment in corporate-owned assets	121,049	(49,660)
Decrease (increase) in due from the SAIF	162,149	(175,508)
(Increase) decrease in other assets	(1,638)	79,592
Decrease in accounts payable and other liabilities	(93,129)	(29,310)
Decrease in liabilities from thrift resolutions	(1,700,804)	(1,517,394)
Net Cash Provided by (Used by) Operating Activities	**$ 168,712**	**$ (617,469)**

Comptroller General
of the United States

Washington, D.C. 20548

B-259232

March 31, 1995

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1994 and 1993, of the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and statements of cash flows for the years then ended. In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), we found

-- the financial statements, taken as a whole, were reliable in all material respects;

-- FDIC management fairly stated that internal controls in place on December 31, 1994, were effective in safeguarding assets against unauthorized acquisition, use, or disposition, assuring the execution of transactions in accordance with management's authority and with provisions of selected laws and regulations that have a direct and material effect on the financial statements, and assuring that there were no material misstatements in the financial statements of the three funds administered by FDIC; and

-- no reportable noncompliance with laws and regulations we tested.

During our audits of the 1993 financial statements of the three funds,[1] we identified a material weakness[2] in FDIC's internal accounting controls over its process for estimating recoveries it will realize on the management and disposition of BIF's and FRF's inventory of failed institution assets. This weakness adversely affected FDIC's ability to ensure that consistent and sound methodologies were used and proper documentation was maintained to estimate recoveries on failed institution assets. In addition to this material weakness, we identified other weaknesses in FDIC's internal controls which, while not material reportable conditions, affected its ability to ensure that internal control objectives were achieved. We made a number of recommendations to address each of the weaknesses identified in our 1993 audits.

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[1]Financial Audit: Federal Deposit Insurance Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-135, June 24, 1994).

[2]A material weakness is a reportable condition in which the design or operation of the controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected promptly by employees in the normal course of their assigned duties. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with laws and regulations, and (3) properly record, process, and summarize transactions to permit the preparation of financial statements. Reportable conditions which are not considered material weaknesses nevertheless represent deficiencies in the design or operation of internal controls and need to be corrected by management.

In conducting our 1994 audits, we found that FDIC continued to make progress to address the internal control weaknesses identified during our previous audits. FDIC's actions during 1994 partially resolved the one weakness considered material to the extent that we no longer consider it to be material. In addition, FDIC's actions during 1994 adequately addressed one of the three other weaknesses identified during our 1993 audits.[3]

While FDIC continues to improve its system of internal controls, further improvements are needed. Our 1994 audits continued to identify weaknesses, though not considered material, in controls over FDIC's process for estimating recoveries from failed institution assets, documentation used to support the estimated recoveries from failed institution assets, and oversight of entities contracted to service and liquidate assets from failed financial institutions. In addition, we continued to identify weaknesses in FDIC's time and attendance processes.

During our 1994 audits, we noted continued improvement in the condition of the nation's banks and savings associations. The improved condition of the banking industry, and the higher premiums BIF-member institutions have paid in the last several years, have resulted in an acceleration of BIF's recapitalization. Given BIF's current condition and short-term outlook, it is likely that the Fund will reach its designated capitalization level in 1995. Currently, FDIC plans to lower premium rates charged to BIF-member institutions when BIF achieves its designated ratio of reserves to insured deposits. While the improved condition of the nation's thrifts and higher premiums have helped improve SAIF's condition, it remains thinly capitalized. SAIF is not expected to reach full capitalization until 2002, and thus remains vulnerable to financial institution failures. Additionally, a significant premium rate differential between BIF and SAIF will develop in 1995 if FDIC lowers BIF rates as soon as BIF attains its designated reserve ratio. This differential could have an adverse impact on the thrift industry and SAIF.

OPINION ON FINANCIAL STATEMENTS

Bank Insurance Fund

In our opinion, the financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, in all material respects, the Bank Insurance Fund's financial position as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended.

As discussed in note 9 of BIF's financial statements, during 1994, FDIC securitized a portion of BIF's portfolio of performing loans acquired from failed financial institutions. This securitization was in the form of a Real Estate Mortgage Investment Conduit (REMIC) Trust 1994-C1 (Trust). To facilitate the sale of certificates issued by the Trust and to maximize the return on the sale of the assets, BIF provided a limited guaranty to cover certain losses on the loans. Securities and Exchange Commission (SEC) regulations required the Trust to file an Annual Report (Form 10-K) with the SEC within 90 days after the financial year-end as part of the securitization transaction. Because of the limited guaranty provided by BIF, the Trust was required to include BIF's 1994 audited financial statements as an exhibit in the SEC filing, including the auditor's opinion. At FDIC's request, on March 15, 1995, we provided a separate opinion letter on BIF's financial statements to FDIC to facilitate the Trust's SEC filing.

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[3]Our 1993 audit report also identified a weakness in FDIC's general controls over its information systems mainframe computer, which was also discussed in our 1992 audit report. However, prior to the issuance of our 1993 audit report, FDIC took corrective actions which fully addressed this weakness.

Savings Association Insurance Fund

In our opinion, the financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, in all material respects, the Savings Association Insurance Fund's financial position as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended.

FSLIC Resolution Fund

In our opinion, the financial statements and accompanying notes present fairly, in conformity with generally accepted accounting principles, in all material respects, the FSLIC Resolution Fund's financial position as of December 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended.

As discussed in note 9 of FRF's financial statements, there are approximately 50 pending lawsuits which stem from legislation that resulted in the elimination of supervisory goodwill from regulatory capital. These lawsuits assert a breach of contract or an uncompensated taking of property resulting from the Financial Institutions Reform, Recovery, and Enforcement Act's (FIRREA) provisions regarding minimum capital requirements for thrifts and limitations as to the use of supervisory goodwill to meet minimum capital requirements. One case has resulted in a final judgment of $6 million against FDIC, which was paid by FRF, and FDIC expects additional cases will be filed. While FDIC believes that judgments in such cases are more properly paid from the Judgment Fund,[4] the extent to which FRF will be the source of paying such judgments in subsequent goodwill cases, as well as the amounts of such judgments, is uncertain.

OPINION ON FDIC MANAGEMENT'S ASSERTIONS ABOUT THE EFFECTIVENESS OF FDIC'S INTERNAL CONTROLS

For the three funds administered by FDIC, we evaluated FDIC management's assertions about the effectiveness of its internal controls designed to

-- safeguard assets against unauthorized acquisition, use, or disposition;

-- assure the execution of transactions in accordance with management's authority and with provisions of selected laws and regulations that have a direct and material effect on the financial statements of the three funds; and

-- properly record, process, and summarize transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles.

FDIC management fairly stated that those controls in effect on December 31, 1994, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements of each of the three funds would be prevented or detected on a timely basis. However, our work identified the need to improve certain internal controls, which were summarized above and are described in detail in a later section of this report. These weaknesses in internal controls, although not considered to be material, represent significant deficiencies in the design or operation of internal controls which could adversely affect FDIC's ability to meet the internal control objectives listed above.

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[4]The Judgment Fund is a permanent, indefinite appropriation established by 31 U.S.C. Sec. 1304.

While FDIC management's assertions about the effectiveness of internal controls were reasonable, misstatements may nevertheless occur in other FDIC-reported financial information on the three funds administered by FDIC. In addition, because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may nevertheless occur and not be detected.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests for compliance with significant provisions of selected laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards.

FDIC's Compliance With the Chief Financial Officers Act

The Chief Financial Officers (CFO) Act requires that government corporations submit an annual statement on internal accounting and administrative controls, including management's assessment of the effectiveness of these controls, consistent with the requirements of the Federal Managers' Financial Integrity Act. The CFO Act also requires that government corporations have their financial statements audited annually and that corporations submit an annual management report to the Congress.

Our annual audits of the three funds administered by FDIC satisfy the act's auditing requirement. Also, FDIC has completed its assessment of internal accounting and administrative controls for 1994 and is in the process of compiling the results. FDIC anticipates issuing a management report on the results of its 1994 internal control assessment by June 30, 1995, as required by the CFO Act.

RESPONSIBILITIES OF FDIC MANAGEMENT AND THE AUDITOR

FDIC management is responsible for

-- preparing the annual financial statements of BIF, SAIF, and FRF in conformity with generally accepted accounting principles;

-- establishing, maintaining, and assessing the Corporation's internal control structure to provide reasonable assurance that internal control objectives as described in GAO's Standards for Internal Controls in the Federal Government are met; and

-- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements of each of the three funds are free of material misstatement and are presented fairly in conformity with generally accepted accounting principles and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with significant provisions of selected laws and regulations and for performing limited procedures with respect to certain other information in FDIC's annual financial report.

Our audits were conducted in accordance with generally accepted government auditing standards. We believe our audits provide a reasonable basis for our opinion.

FDIC commented on our findings and conclusions regarding the reportable conditions discussed in this report. FDIC's comments are presented and evaluated in a later section of this report.

SIGNIFICANT MATTERS

The following section is provided to highlight the condition and outlook of the banking and thrift industries and the insurance funds. In addition, we discuss FDIC's progress in addressing internal control weaknesses identified during our previous audits.

Condition of FDIC-Insured Institutions Showed Continued Improvement in 1994

During 1994, the banking and thrift industries continued their strong performances. Commercial banks reported record profits of $44.7 billion in 1994, marking the third consecutive year of record earnings. The main sources of earnings improvement in 1994 were higher net interest income and lower loan-loss provisions. The increase in net interest income was attributable to strong growth in interest-bearing assets, even though net interest margins were slightly lower than in 1993.

The continued strong performance of banks was also reflected in the continued reduction in the number of banks identified by FDIC as problem institutions. At December 31, 1994, 247 commercial banks, with total assets of $33 billion were identified by FDIC as problem institutions, representing a significant improvement over 1993 when 426 commercial banks with assets of $242 billion were identified as problem institutions. Eleven commercial banks failed during 1994, the fewest number of failures in any year since 1981.

Savings institutions reported earnings of $6.4 billion for 1994, down from the $6.8 billion earned in 1993. Reduced net interest margins, coupled with securities losses and extraordinary losses contributed to the reduction in earnings. However, the industry remained strong, as reflected in the reduction in troubled institutions. At December 31, 1994, FDIC identified 71 savings institutions with a total of $39 billion in assets as problem institutions, which was a significant improvement over 1993 when 146 institutions with $92 billion in assets were identified as problem institutions.

BIF's Capital Position Is Much Stronger Than SAIF's

The strengthened condition of the banking industry, coupled with the relatively high insurance premiums that banks have been paying since 1990, has resulted in a significant improvement in BIF's financial condition. As of December 31, 1994, BIF's reserves had increased to almost $22 billion, or about 1.15 percent of insured deposits. The Fund will likely reach its designated reserve ratio of 1.25 percent in 1995.

Although the thrift industry has also experienced significant improvements over the past few years, SAIF has not experienced a similar increase in its ratio of reserves to insured deposits. As of December 31, 1994, SAIF had reserves of $1.9 billion, or about 0.28 percent of deposits.

SAIF's capitalization has been slowed by its members' premiums being used to pay for certain obligations of the thrift crisis, including interest on 30-year bonds issued by the Financing Corporation (FICO).[5] Under current law, FICO has authority to assess SAIF members to cover its annual interest expense, which will continue until the 30-year recapitalization bonds mature in the years 2017 through 2019.

FDIC projections for SAIF indicate that SAIF will attain its designated reserve ratio in the year 2002, 7 years later than BIF. However, significant uncertainties relating to asset failure rates exist, and higher-than-projected failures could

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[5]FICO was established in 1987 to recapitalize the Federal Savings and Loan Insurance Fund, the former insurance fund for thrifts.

delay SAIF's capitalization. Currently, SAIF does not have a large capital cushion to absorb the cost of thrift failures.

Although it appears that SAIF can manage projected failures, the failure of a single large institution or a higher-than-projected level of failures could delay SAIF's capitalization and increase the risk of SAIF becoming insolvent.

A Significant Premium Rate Differential Between Banks and Thrifts Could Develop in 1995

In response to BIF's improved financial position and its current outlook, on January 31, 1995, FDIC's Board of Directors issued for public comment a proposal that would significantly reduce the average annual premium rates charged to BIF-insured institutions. Based on current projections for BIF, FDIC's Board of Directors could lower premium rates as early as the September 1995 payment after it determines that BIF has, in fact, attained the designated reserve ratio. FDIC projects that BIF insurance premium rates will average 4 to 5 basis points[6] after BIF reaches its designated reserve ratio.

FDIC's projections indicate that SAIF will continue charging average premium rates of 24 basis points, more than five times the projected rate for BIF-insured institutions, until SAIF reaches its designated reserve ratio. Therefore, a significant differential in premium rates charged by BIF and SAIF will develop in 1995, if FDIC lowers BIF rates as soon as BIF reaches its designated reserve ratio.

The projected premium rate differential is likely to have a significant impact on the thrift industry's costs and its ability to attract deposits. Although uncertainties exist regarding the extent of the impact, the lower cost of insurance coverage could motivate banks to increase interest rates paid on deposits and improve customer services in order to compete more aggressively for deposits. Thrifts would likely incur additional costs in their attempt to match bank actions and remain competitive with banks for deposits. The cost increase as a percentage of earnings will be greater for thrifts that depend heavily on deposits for funding and have low earnings.

To reduce the burden of a significant cost disadvantage in relation to BIF members, SAIF members may be motivated to replace deposits with other sources of funding or take other measures to avoid paying SAIF's higher premium rates. Recently, several large institutions with SAIF-insured deposits have announced plans to obtain bank charters in an attempt to avoid paying SAIF's higher premium rates. Thus, the premium differential will likely motivate significant future shrinkage in SAIF's assessment base, thereby increasing the uncertainties surrounding SAIF's future.

In our recent report and related testimony on the results of our analysis of the potential premium differential between BIF and SAIF,[7] we discuss in more detail the issues and risks associated with this potential premium differential. We also discuss a number of options to address the potential premium rate disparity.

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[6]One hundred basis points are equivalent to 1 percentage point. In this context, the 4 to 5 basis points would translate into a 4- to 5-cent premium charge for every $100 in insured deposits.

[7]Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/AIMD-95-84, March 3, 1995), and Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/T-AIMD-95-111, March 23, 1995).

FDIC Actions Address Several Weaknesses Identified in Previous Audits

In our 1993 financial statement audit report on the three funds administered by FDIC, we identified a material weakness in FDIC's internal accounting controls over its process for estimating recoveries it will realize on the management and disposition of BIF's and FRF's inventory of failed institution assets. Specifically, FDIC lacked adequate controls to ensure that (1) sound and consistent methodologies were used to estimate recoveries on failed institution assets and (2) adequate documentation was maintained to support recovery estimates. This weakness adversely affected FDIC's ability to ensure that transactions of BIF and FRF were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles.

FDIC's actions during 1994 partially addressed the concerns identified in our 1993 audit report. In response to recommendations in our 1993 audit report, FDIC developed a procedures handbook to supplement the Division of Depositor and Asset Services (DAS) Credit Manual. This handbook was developed to provide more uniformity in estimating recovery amounts for failed institution assets and to provide a standard format to document the rationale for these recovery estimates. In our 1994 audits, we found that asset recovery estimates determined by contracted servicers were more consistent with those determined by FDIC personnel.

However, we continued to find other weaknesses in FDIC's methodology to determine recovery estimates for failed institution assets and documentation to support asset recovery estimates. Through substantive audit procedures, we were able to satisfy ourselves that these weaknesses did not have a material effect on the financial statements of the three funds administered by FDIC. Similarly, our audit procedures conducted in our 1992 and 1993 financial audits provided us with reasonable assurance that these weaknesses did not have a material effect on the funds' financial statements. Based on the results of our audits over the last 3 years and the progress FDIC has made thus far to address our prior audit findings, we no longer consider these weaknesses to be material. However, we do consider these weaknesses to be nonmaterial reportable conditions as of December 31, 1994.

Our report on our 1993 audits also identified other reportable conditions which affected FDIC's ability to ensure that internal control objectives were achieved. These weaknesses involved FDIC's internal controls over (1) time and attendance reporting processes, (2) reconciliation and verification of records for contracted asset servicers, and (3) safeguarding of assets and reporting of transactions for one contracted asset servicer.

During 1994, FDIC took actions to address some of these weaknesses. Specifically, FDIC improved procedures at the one contracted servicer with pervasive control weaknesses. FDIC required the servicer to implement an accounting system to allow reconciliation of servicer asset balances to FDIC's information system. In addition, the servicer's internal auditors and FDIC verified the accuracy of the servicer's manually prepared monthly reports used to record asset management and disposition activity on FDIC's information system. As a result of FDIC's actions, we no longer considered this to be a reportable condition as of December 31, 1994.

However, FDIC has not fully addressed our concerns regarding controls over its time and attendance reporting process and the verification of contracted asset servicer records to FDIC's information systems. We continued to find weaknesses in FDIC's implementation of its time and attendance reporting procedures. Also, while FDIC has implemented procedures to regularly reconcile asset balances reported by contracted asset servicers to the Corporation's information system, FDIC does not properly verify the accuracy of servicer reported monthly asset activity and balances. Consequently, we still consider these weaknesses to be reportable conditions as of December 31, 1994.

REPORTABLE CONDITIONS

The following reportable conditions represent significant deficiencies in FDIC's internal controls and should be corrected by FDIC management.

1. Controls to ensure that sound methodologies are used to determine recovery estimates for assets acquired from failed institutions are not working effectively. Specifically, FDIC's methodology does not ensure that estimates of recoveries from the management and disposition of these assets are reasonable and are based on the most probable liquidation strategy. These estimates are used by FDIC to determine the allowance for losses on receivables from resolution activity and investment in corporate-owned assets for the three funds. Consequently, this weakness, which was also identified during our 1993 and 1992 audits, could result in future misstatements to BIF's, SAIF's, and FRF's financial statements if corrective action is not taken by FDIC management.

   We found that FDIC's guidance does not ensure that estimates of recoveries on assets in liquidation reflect the asset's most probable liquidation strategy. For example, for loans classified as performing, FDIC's guidance requires the estimated recoveries to be calculated as the outstanding book value of the loan plus 4 quarters of interest. We found that account officers used this formula to estimate recoveries for loans classified as performing with anticipated dispositions of less than 1 year, and to others where disposition was not anticipated for more than 1 year. We also found that account officers applied this methodology in estimating recoveries on nonperforming loans where the liquidation strategy was to restructure the existing loan terms, even though no performance history existed for the restructured terms. In some cases, such negotiations take several months or even years to complete. We question the reasonableness of this methodology to estimate recoveries for all loans classified as performing, particularly for loans that are not performing in accordance with the contractual terms and loans that may be restructured. For these assets, a more appropriate methodology would be to consider the recovery value consistent with the asset's disposition strategy.

   Similarly, FDIC's guidance does not provide sufficient recovery estimation criteria for some asset disposition strategies being pursued by account officers. For nonperforming loans where FDIC intends to foreclose on the underlying collateral, FDIC's guidance requires inclusion of operating income in estimating recoveries on these assets. However, the guidance does not specify whether this method to estimate the recovery amount is applicable only for assets where FDIC's legal right to the income has been established. To include this income would be inappropriate without first establishing the legal right to such income.

   In addition, FDIC's guidance specifically prohibits the use of present value techniques to determine asset recovery estimates. Many of FDIC's failed institution assets have large balloon payments or are not easily liquidated and often have significant payment streams extending beyond 1 year. Use of present value techniques to estimate recovery amounts would allow FDIC to approximate market values for failed institution assets. In addition, this would make FDIC's methodology for estimating asset recoveries consistent with accepted industry practice for valuing distressed assets.

We also found other problems in FDIC's asset recovery estimation process that are attributable to the lack of adequate guidance. FDIC's guidance allows account officers to assign to one asset the estimated recoveries for multiple assets with a common debtor (asset relationship). However, for most assets with a book value below $250,000, FDIC's asset management information system automatically calculates the estimated recovery value based on recovery formulas. For all other assets, the estimated recoveries are individually determined by account officers. Consequently, by allowing account officers to attribute an aggregate recovery estimate for asset relationships to one asset, FDIC's guidance creates the potential for double-counting recoveries. We found instances where account officers had recorded the aggregate recovery for the asset relationship on one asset without properly adjusting the aggregate recovery to reflect formula-determined recovery estimates for certain assets in the asset relationship.

In response to recommendations in our 1993 audit report, in September 1994 FDIC supplemented the DAS Credit Manual with a procedures handbook. These revised procedures to estimate recoveries require two supervisory reviews to verify that recovery amounts were accurate and adequately supported. However, we found that these reviews were cursory in nature and did not always identify inaccurate or unsupported asset recovery estimates. For assets that were reviewed by supervisory level personnel, we found recovery amounts that contained mathematical errors, outdated information, and unsupported account officer opinion.

2. Controls to ensure that adequate documentation is maintained to substantiate asset recovery estimates are not working effectively. In our previous audits, we found that estimates of recoveries on failed institution assets were not always supported by documentation in asset files maintained by FDIC and servicer personnel. While FDIC continues to make progress to address this weakness, we found similar deficiencies during our 1994 audits.

   We continued to find that asset recovery estimates were not always supported by current or complete documentation. Specifically, we found that some recovery estimates were based on outdated documentation although current information was available. We also found other asset recovery estimates that were based on account officer opinions that could not be substantiated.

   Additionally, we found that some policies within FDIC's guidance for determining asset recovery estimates were not supported by documented historical data or other evidential data. For example, FDIC's guidance requires that the estimated recovery value for assets classified as performing loans be based on the asset's outstanding book value plus 4 quarters of interest. However, FDIC was unable to provide evidence to support the contention that, in the aggregate, the portfolio of performing loans will generate recoveries equal to the current book value of the loans plus 4 quarters of interest. In addition, during 1994, FDIC was not able to provide evidence to support the formulas used to estimate recoveries for assets with a book value of less than $250,000. In January 1995, FDIC revised the formulas for these assets. However, we were unable to verify the reasonableness of the revised formulas as part of this year's audit. We will review these formulas and the underlying support as part of our 1995 audits.

   FDIC continues to reduce the number of staff responsible for liquidating failed institution assets, and many of its third party servicing contracts are scheduled to terminate during the next 2 years. Weaknesses in file documentation thus become more significant as responsibility for liquidating these assets is transferred between locations and account officers. This, in turn, increases the risk that estimates of recoveries may not be reasonable and based on the most current and accurate information available. In addition, use of policies that are not properly supported by historical or other evidential data may result in unreasonable asset recovery estimates.

3. Internal accounting controls over third party entities contracted to manage and dispose of failed institution assets did not ensure that assets were properly safeguarded and that asset activity was properly reported to FDIC. During 1994, we found that FDIC performed limited verification procedures on the balances and activity reported by contracted asset servicers and did not ensure that collections from failed institution assets were properly safeguarded and reported. FDIC does not maintain subsidiary records for these assets, but rather, relies on the contracted servicers to maintain detail records and report monthly activity to FDIC.

   We found that FDIC did not routinely perform fundamental verification procedures of the activity and balances reported by contracted asset servicers. On a monthly basis, FDIC records asset activity reported by the servicers on its accounting system. However, FDIC does not always verify the accuracy of this reported activity to servicers' detail accounting records. When verification procedures were performed, we found that the procedures were limited. For example, FDIC verified limited samples of servicer activity to source documents. However, FDIC did not reconcile the total monthly activity to the servicers' accounting records. If proper verification procedures had been performed, FDIC would have identified that one servicer did not maintain a general ledger system since the servicing contract's inception in November 1992. We identified similar weaknesses in our 1993 audits.

   To address the weaknesses over contractor oversight reported in our 1993 audits, FDIC's Division of Finance and the Contractor Oversight and Monitoring Branch (COMB) of FDIC's Division of Depositor and Asset Services executed the Letter of Understanding of Accounting Roles and Responsibilities of CAOG and COMB to clarify contractor oversight responsibilities. This letter outlined specific procedures, timing, and reporting responsibilities for oversight of contracted asset servicers. To implement certain requirements of the letter, the Division of Finance developed procedures to verify, on a quarterly basis, asset servicing activity as reported by the servicers to the servicers' detail records. These control procedures were effective November 1994; however, they were not fully implemented by December 31, 1994. Furthermore, these procedures verify only a limited judgmental sample of servicer activity and do not address reconciliation of total monthly asset activity to servicer records. The requirements of the letter of understanding, if effectively implemented, should ensure proper safeguarding of, and accountability for, asset balances and activity reported by contracted asset servicers.

   Contracted asset servicers accounted for $9 billion in collections during 1993 and 1994 and over $13.8 billion since FDIC began contracting with third party servicers in 1986. However, FDIC does not have adequate procedures to ensure that the servicers' daily collections are properly safeguarded and completely and accurately recorded. Specifically, three of eight servicers we visited in 1994 did not use more than one individual to verify collections received (dual control), and five of eight did not reconcile collections processed and deposited to the daily collections. These weaknesses over the collection process coupled with the lack of adequate verification of activity recorded by the contracted asset servicers could adversely affect the reliability of recorded asset balances and servicer accountability.

4. Implementation of FDIC's time and attendance reporting procedures was not effective. In response to our recommendations from prior audits, FDIC developed and implemented revised time and attendance reporting procedures during 1993. While we noted some improvements, our 1994 audits continued to find deficiencies in adherence to required procedures in preparing time and attendance reports, separation of duties between timekeeping and data entry functions, and reconciliation of payroll reports to time cards. These weaknesses could adversely affect FDIC's ability to properly allocate expenses among the three funds. Continued monitoring by FDIC management is needed to ensure effective implementation of procedures and guidance to address these weaknesses.

MORE ACTION NEEDED ON PRIOR AUDIT RECOMMENDATIONS

While FDIC continued to make progress in 1994 to address the internal control weaknesses identified in our prior audits, FDIC has not fully implemented all of the recommendations we made in these audits. Specifically, FDIC has not ensured that estimates of recoveries from the management and disposition of failed institution assets are (1) determined utilizing appropriate methodologies and (2) based on current and appropriate documentation. Additionally, FDIC has not revised its Credit Manual to provide more detailed guidance on recovery estimation methods that take into consideration (1) liquidation strategies and (2) discounting of cash flows that extend beyond 1 year. Also, FDIC has not promptly and routinely reconciled asset balances reported by servicing entities with its financial information system records, has not verified and documented the accuracy and completeness of balances and activity reported by servicing entities to servicer records, and has not ensured timely and adequate audit coverage of certain critical areas of asset servicing operations through the use of asset servicing entities' internal audit departments and FDIC's site visitations. In addition, FDIC has not ensured that revised Time and Attendance Reporting Directive requirements are effectively implemented. FDIC needs to continue pursuing corrective actions to fully satisfy these recommendations.

RECOMMENDATIONS

In addition to pursuing further action on recommendations from our prior audits, FDIC needs to take action to address the concerns raised in our 1994 audits of the three funds. Specifically, to address weaknesses identified in this year's audits in the area of safeguarding and reporting contracted asset servicers' activity, we recommend that the Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Finance and the Division of Depositor and Asset Services to

-- implement the provisions of the October 1994 Letter of Understanding on Accounting Roles and Responsibilities of CAOG and COMB that require quarterly verification of servicer activity to source documents and reconciliation of total monthly servicer activity to servicers' accounting records;

-- establish dual controls over the opening of collections and establish control totals for daily collections; and

-- reconcile collections deposited or processed to daily collection control totals.

CORPORATION COMMENTS AND OUR EVALUATION

FDIC concurred with several of our audit findings regarding its system of internal controls, but disagreed with others. For some of the weaknesses we identified, FDIC has indicated that corrective actions were implemented subsequent to December 31, 1994. We will evaluate the effectiveness of these actions as part of our 1995 financial statement audits. For other internal control weaknesses we identified, FDIC believes that its current policies and procedures are appropriate.

FDIC believes its methodology for estimating recoveries for failed institution assets is appropriate. FDIC believes that specific guidance for each possible strategy for disposing of these assets is not feasible due to the significant number of failed institution assets and the numerous strategies available to dispose of these assets.

However, we found that FDIC's guidance does not ensure that estimates of recoveries on these assets approximate anticipated collections based on the disposition strategy being pursued. While we agree that specific guidance for all possible disposition strategies is not feasible, the Credit Manual should clearly link the methods used to estimate recoveries to the strategies being pursued to dispose of these assets. Additionally, we believe FDIC should consider the use of present value techniques, when appropriate, to estimate recoveries for failed institution assets. This would better approximate the collections anticipated to be realized under certain disposition strategies that could be pursued for these assets.

FDIC acknowledges that improvements can be made to verify the accuracy of the asset balances and activity reported by third party servicing entities. FDIC noted that, subsequent to December 31, 1994, it fully implemented the requirements of the Letter of Understanding of Accounting Roles and Responsibilities of CAOG and COMB. We will evaluate the effectiveness of these procedures during our 1995 audits.

Additionally, FDIC acknowledges the lack of a general ledger at one of its asset servicers, but believes that the accounting system in use at this servicer is adequate. However, our review of the servicing agreement between FDIC and this servicer found that it specifically requires the use of a general ledger. Additionally, a general ledger is a fundamental control to ensure that transactions are properly recorded and that assets are properly accounted for and reconciled to subsidiary records.

FDIC also noted that, prior to year-end, corrective actions were taken regarding controls over collection activity at its servicing entities. However, we found that, through year-end 1994, only one servicer effectively implemented controls over collections. Additionally, we found that other servicers did not consider it cost effective to implement changes in their collections process due to the limited time remaining under their servicing agreements with FDIC.

FDIC noted that its Division of Finance and Office of Personnel Management are working together to ensure adherence to the Time and Attendance Reporting Directive.

Additionally, FDIC is working to streamline its time and attendance process.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

March 15, 1995

1994

Statistical
Tables

Table A

Number and Deposits of BIF-Insured Banks Closed Because of Financial Difficulties, 1934 through 1994[1]

(Dollars in Thousands)

	Number of Insured Banks			Deposits of Insured Banks			
Year	Total	Without disbursements by FDIC	With disbursements by FDIC	Total	Without disbursements by FDIC	With disbursements by FDIC	Assets
Total	2,069	19	2,050	$211,903,003	$4,298,814	$207,604,189	$251,625,905
1994	13	1	12	1,236,488	0	1,236,488	1,392,140
1993	41	...	41	3,132,177	...	3,132,177	3,539,373
1992	120	10	110	41,150,898	4,257,667	36,893,231	44,197,009
1991	124	...	124	53,751,763	...	53,751,763	63,119,870
1990	168	...	168	14,473,300	...	14,473,300	15,660,800
1989	206	...	206	24,090,551	...	24,090,551	29,168,596
1988	200	...	200	24,931,302	...	24,931,302	35,697,789
1987	184	...	184	6,281,500	...	6,281,500	6,850,700
1986	138	...	138	6,471,100	...	6,471,100	6,991,600
1985	120	...	120	8,059,441	...	8,059,441	8,741,268
1984	79	...	79	2,883,162	...	2,883,162	3,276,411
1983	48	...	48	5,441,608	...	5,441,608	7,026,923
1982	42	...	42	9,908,379	...	9,908,379	11,632,415
1981	10	...	10	3,826,022	...	3,826,022	4,859,060
1980	10	...	10	216,300	...	216,300	236,164
1979	10	...	10	110,696	...	110,696	132,988
1978	7	...	7	854,154	...	854,154	994,035
1977	6	...	6	205,208	...	205,208	232,612
1976	16	...	16	864,859	...	864,859	1,039,293
1975	13	...	13	339,574	...	339,574	419,950
1974	4	...	4	1,575,832	...	1,575,832	3,822,596
1973	6	...	6	971,296	...	971,296	1,309,675
1972	1	...	1	20,480	...	20,480	22,054
1971	6	...	6	132,058	...	132,058	196,520
1970	7	...	7	54,806	...	54,806	62,147
1969	9	...	9	40,134	...	40,134	43,572
1968	3	...	3	22,524	...	22,524	25,154
1967	4	...	4	10,878	...	10,878	11,993
1966	7	...	7	103,523	...	103,523	120,647
1965	5	...	5	43,861	...	43,861	58,750
1964	7	...	7	23,438	...	23,438	25,849
1963	2	...	2	23,444	...	23,444	26,179
1962	1	1	0	3,011	3,011	0	N/A
1961	5	...	5	8,936	...	8,936	9,820
1960	1	...	1	6,930	...	6,930	7,506
1959	3	...	3	2,593	...	2,593	2,858
1958	4	...	4	8,240	...	8,240	8,905
1957	2	1	1	11,247	10,084	1,163	1,253
1956	2	...	2	11,330	...	11,330	12,914
1955	5	...	5	11,953	...	11,953	11,985
1954	2	...	2	998	...	998	1,138
1953	4	2	2	44,711	26,449	18,262	18,811
1952	3	...	3	3,170	...	3,170	2,388
1951	2	...	2	3,408	...	3,408	3,050
1950	4	...	4	5,513	...	5,513	4,005
1949	5	1	4	6,665	1,190	5,475	4,886
1948	3	...	3	10,674	...	10,674	10,360
1947	5	...	5	7,040	...	7,040	6,798
1946	1	...	1	347	...	347	351
1945	1	...	1	5,695	...	5,695	6,392
1944	2	...	2	1,915	...	1,915	2,098
1943	5	...	5	12,525	...	12,525	14,058
1942	20	...	20	19,185	...	19,185	22,254
1941	15	...	15	29,717	...	29,717	34,804
1940	43	...	43	142,430	...	142,430	161,898
1939	60	...	60	157,772	...	157,772	181,514
1938	74	...	74	59,684	...	59,684	69,513
1937	77	2	75	33,677	328	33,349	40,370
1936	69	...	69	27,508	...	27,508	31,941
1935	26	1	25	13,405	85	13,320	17,242
1934	9	...	9	1,968	...	1,968	2,661

1 Does not include institutions insured by the Savings Association Insurance Fund (SAIF), which was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Table B

BIF- Insured Banks Closed During 1994

(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disburse-ments	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/ Assuming Bank and Location
Purchase and Assumption - Insured Deposits Only								
Mechanics National Bank Paramount, CA	N	14,410	$149,599	$134,907	$123,794	$23,600	04/01/94	Home Bank Signal Hill, CA
Superior National Bank Kansas City, KS	N	1,569	16,890	16,748	10,169	1,500	04/14/94	Citizens-Jackson County Bank Warrensburg, MO
Pioneer Bank Fullerton, CA	SM	4,300	107,042	93,008	97,697	27,300	07/08/94	Chino Valley Bank Ontario, CA
Bank of San Pedro San Pedro, CA	NM	10,300	117,044	99,492	103,926	28,800	07/15/94	Home Bank Signal Hill, CA
CommerceBank Newport Beach, CA	NM	4,563	119,170	109,703	129,348	12,700	07/29/94	California State Bank West Covina, CA
Western Community Bank Corona, CA	NM	5,545	46,755	41,711	42,454	7,600	07/29/94	Bank of San Bernadino San Bernadino, CA
Bank of Newport Newport Beach, CA	NM	18,901	144,272	138,359	138,563	17,200	08/12/94	Union Bank San Francisco, CA
Capital Bank Downey, CA	NM	12,717	77,610	70,777	73,343	5,800	08/26/94	Landmark Bank La Habra, CA, and Commerce National Bank City of Commerce, CA
Purchase and Assumption - All Deposits								
Commercial Bank and Trust Company Lowell, MA	NM	6,810	30,108	28,619	28,623	800	05/06/94	Medford Savings Bank Medford, MA
Barbary Coast National Bank San Francisco, CA	N	480	10,452	8,591	8,669	0	05/19/94	Metropolitan Bank Oakland, CA
The Bank of Hartford, Inc. Hartford, CT	SB	24,119	337,184	276,063	275,441	0	06/10/94	Eagle Federal Savings Bank Bristol, CT
Meriden Trust and Safe Deposit Company[2] Meriden, CT	NM	0	3,363	0	0	0	07/07/94	Peoples Savings Bank of New Britain New Britain, CT
Ludlow Savings Bank Ludlow, MA	SB	41,028	232,651	218,510	217,325	13,700	10/21/94	Albany Savings Bank, FSB Albany, NY

Codes for Bank Class:
- **SM** State-chartered bank that is a member of the Federal Reserve System.
- **NM** State-chartered bank that is **not** a member of the Federal Reserve System.
- **N** National bank.
- **SB** Savings bank.

1 Estimated losses are as of 12/31/94. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries.

2 Meriden Trust and Safe Deposit Company held no deposits. Substantially all assets and liabilities were transferred to a bridge bank, New Meriden Trust and Safe Deposit Company, N.A. Bridge banks are full-service national banks established on an interim basis to assume the deposits, certain liabilities and substantially all assets of the failed banks. New Meriden was subsequently acquired by Peoples Savings Bank of New Britain, New Britain, CT, on 10/18/94.

Table C

Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 1994

(Dollars in Thousands)

ALL CASES[1]

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	2,121	$103,481,170	$61,106,344	$5,843,460	$36,531,426
1994	13	1,249,352	233,345	877,007	139,000
1993	41	1,755,358	889,742	281,446	584,170
1992	122	12,843,085	8,526,112	356,705	3,960,268
1991	127	20,611,900	13,863,211	479,943	6,268,746
1990	169	10,807,651	7,542,616	451,869	2,813,166
1989	207	11,444,554	4,658,269	663,210	6,123,135
1988	221	12,183,632	4,271,570	1,040,186	6,871,876
1987	203	5,037,650	2,949,608	67,366	2,020,676
1986	145	4,717,666	2,980,561	12,579	1,724,526
1985	120	2,917,550	1,678,398	231,454	1,007,698
1984	80	7,696,212	5,506,306	695,001	1,494,905
1983	48	3,766,884	2,240,432	101,328	1,425,124
1982	42	2,275,149	829,794	297,078	1,148,277
1981	10	888,999	69,326	43,518	776,155
1980	11	152,355	114,760	7,010	30,585
1979	10	90,489	74,372	5,250	10,867
1978	7	548,568	512,927	26,626	9,015
1977	6	26,650	20,654	3,903	2,093
1976	17	599,397	561,532	35,828	2,037
1975	13	332,046	292,431	23,303	16,312
1974	5	2,403,277	2,259,633	143,604	40
1973	6	435,238	368,852	(1,101)	67,487
1972	2	16,189	14,501	0	1,688
1934-71[3]	496	681,319	647,392	347	33,580

Deposit payoff cases[2]

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	602	$14,442,502	$8,466,341	$1,568,111	$4,408,050
1994	0	0	0	0	0
1993	5	261,206	164,967	4,812	91,427
1992	24	1,782,075	999,875	305,991	476,209
1991	21	1,467,158	667,688	331,781	467,689
1990	20	2,179,229	1,112,099	381,463	685,667
1989	32	2,116,316	889,503	414,192	812,621
1988	36	1,252,146	792,091	31,295	428,760
1987	51	2,103,571	1,344,568	60,149	698,854
1986	40	1,155,978	732,810	7,536	415,632
1985	29	523,789	406,922	3,842	113,025
1984	16	791,835	670,935	26,860	94,040
1983	9	147,287	122,484	0	24,803
1982	7	277,240	205,879	189	71,172
1981	2	35,736	34,598	0	1,138
1980	3	13,732	11,515	0	2,217
1979	3	9,936	9,003	0	933
1978	1	817	613	0	204
1977	0	0	0	0	0
1976	3	11,416	9,660	0	1,756
1975	3	25,918	25,849	1	68
1974	0	0	0	0	0
1973	3	16,771	16,771	0	0
1972	1	16,189	14,501	0	1,688
1934-71[3]	293	254,157	234,010	0	20,147

Deposit assumption cases

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	1,439	$78,224,289	$47,928,581	$3,230,851	$27,064,857
1994	13	1,249,352	233,345	877,007	139,000
1993	36	1,494,152	724,775	276,634	492,743
1992	96	11,060,050	7,526,237	50,714	3,483,099
1991	103	19,140,576	13,195,024	148,162	5,797,390
1990	148	8,625,923	6,430,450	70,406	2,125,067
1989	174	9,325,836	3,768,706	248,934	5,308,196
1988	164	9,180,495	3,325,260	1,008,891	4,846,344
1987	133	2,773,202	1,604,327	7,217	1,161,658
1986	98	3,402,840	2,186,319	5,043	1,211,478
1985	87	1,631,365	990,262	105,701	535,402
1984	62	1,373,198	940,375	12,421	420,402
1983	36	3,533,179	2,099,741	97,186	1,336,252
1982	26	418,321	325,165	34,248	58,908
1981	5	79,208	33,463	43,518	2,227
1980	7	138,623	103,245	7,010	28,368
1979	7	80,553	65,369	5,250	9,934
1978	6	547,751	512,314	26,626	8,811
1977	6	26,650	20,654	3,903	2,093
1976	13	587,981	551,872	35,828	281
1975	10	306,128	266,582	23,302	16,244
1974	4	2,403,277	2,259,633	143,604	40
1973	3	418,467	352,081	(1,101)	67,487
1972	0	0	0	0	0
1934-71[3]	202	427,162	413,382	347	13,433

Assistance transactions

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	80	$10,814,379	$4,711,422	$1,044,498	$5,058,519
1994	0	0	0	0	0
1993	0	0	0	0	0
1992	2	960	0	0	960
1991	3	4,166	499	0	3,667
1990	1	2,499	67	0	2,432
1989	1	2,402	60	84	2,318
1988	21	1,750,991	154,219	0	1,596,772
1987	19	160,877	713	0	160,164
1986	7	158,848	61,432	0	97,416
1985	4	762,396	281,214	121,911	359,271
1984	2	5,531,179	3,894,996	655,720	980,463
1983	3	86,418	18,207	4,142	64,069
1982	9	1,579,588	298,750	262,641	1,018,197
1981	3	774,055	1,265	0	772,790
1980	1	N/A	N/A	N/A	N/A
1979	0	0	0	0	0
1978	0	0	0	0	0
1977	0	0	0	0	0
1976	1	N/A	N/A	N/A	N/A
1975	0	0	0	0	0
1974	1	N/A	N/A	N/A	N/A
1973	0	0	0	0	0
1972	1	N/A	N/A	N/A	N/A
1934-71[3]	1	N/A	N/A	N/A	N/A

[1] Totals do not include dollar amounts for five open bank assistance transactions before 1981. There were no open bank assistance transactions before 1971.

[2] Includes insured deposit transfer cases.

[3] For detail of years 1934 through 1971, refer to Table C of the 1991 Annual Report.

Table D

Income and Expenses, Bank Insurance Fund, by Year,
from Beginning of Operations, September 11, 1933, through December 31, 1994
(Dollars in Millions)

	Income					Expenses and Losses			
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Deposit Insurance Losses and Expenses	Administrative and Operating Expenses	Net Income/ (Loss)
Total	$68,628.6	$50,108.4	$6,709.1	$25,229.3		$46,780.8	$42,009.2	$4,771.6	$21,847.8
1994	6,467.0	5,590.6	0.0	876.4	0.2360%	(2,259.1)	(2,682.3)	423.2	8,726.1
1993	6,430.8	5,784.3	0.0	646.5	0.2440%	(6,791.4)	(7,179.9)	388.5	13,222.2
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(1,196.6)	570.8	6,927.3
1991	5,789.9	5,160.5	0.0	629.4	0.2125%	16,862.3	16,578.2	284.1	(11,072.4)
1990	3,838.3	2,855.3	0.0	983.0	0.1200%	13,003.3	12,783.7	219.6	(9,165.0)
1989	3,494.6	1,885.0	0.0	1,609.6	0.0833%	4,346.2	4,132.3	213.9	(851.6)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	7,364.5	223.9	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	3,066.0	204.9	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,783.4	180.3	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,778.7	179.2	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,848.0	151.2	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	834.2	135.7	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	869.9	129.9	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	720.9	127.2	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(34.6)	118.2	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(13.1)	106.8	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	45.6	103.3	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	24.3	89.3	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	31.9	180.4	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	29.8	67.7	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	100.0	59.2	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	53.8	54.4	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	(3.0)

1 The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed. Beginning in 1993, the effective rate is based on a risk-related premium system under which institutions pay assessments in the range of 0.23 percent to 0.31 percent.

Table E

Insured Deposits and the Bank Insurance Fund, December 31, 1934 through 1994

		(Dollars in Millions)				Insurance Fund as a Percentage of	
	Insurance	Deposits in Insured Banks		Percentage of	Deposit Insurance	Total	Insured
Year[1]	Coverage	Total	Insured[2]	Insured Deposits	Fund	Deposits	Deposits
1994	$100,000	$2,463,813	$1,896,060	77.0	$21,847.8	0.89	1.15
1993	100,000	2,493,636	1,906,885	76.5	13,121.6	0.53	0.69
1992	100,000	2,512,278	1,945,623	77.4	(100.6)	(0.00)	(0.01)
1991	100,000	2,520,074	1,957,722	77.7	(7,027.9)	(0.28)	(0.36)
1990	100,000	2,540,930	1,929,612	75.9	4,044.5	0.16	0.21
1989	100,000	2,465,922	1,873,837	76.0	13,209.5	0.54	0.70
1988	100,000	2,330,768	1,750,259	75.1	14,061.1	0.60	0.80
1987	100,000	2,201,549	1,658,802	75.3	18,301.8	0.83	1.10
1986	100,000	2,167,596	1,634,302	75.4	18,253.3	0.84	1.12
1985	100,000	1,974,512	1,503,393	76.1	17,956.9	0.91	1.19
1984	100,000	1,806,520	1,389,874	76.9	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.5	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.2	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.4	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934[3]	5,000	40,060	18,075	45.1	291.7	0.73	1.61

1 Starting in 1990, deposits in insured banks exclude those deposits held by Bank Insurance Fund members that are covered by the Savings Association Insurance Fund.

2 Insured deposits are estimated based on deposit information submitted in the December 31 Call Reports (quarterly Reports of Condition and Income) and Thrift Financial Reports submitted by insured institutions. Before 1991, insured deposits were estimated using percentages determined from the June 30 Call Reports.

3 Initial coverage was $2,500 from January 1 to June 30, 1934.

Table DD

Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations, August 9, 1989, through December 31, 1994

(Dollars in Thousands)

Year	Income				Expenses and Losses				Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
	Total	Assessment Income	Investment and Other Sources	Effective Assessment Rate	Total	Provision for Losses	Interest Expenses	Administrative and Operating Expenses		
Total	$2,432,091	$2,313,598	$118,493		$634,874	$435,700	$604	$198,570	$139,498	$1,936,715
1994	1,215,289	1,132,102	83,187	0.244%	434,303	414,000	0	20,303	0	780,986
1993	923,516	897,692	25,824	0.250%	46,814	16,531	0	30,283	0	876,702
1992	178,643	172,079	6,564	0.230%	28,982	(14,945)	(5)	43,932	35,446	185,107
1991	96,446	93,530	2,916	0.230%	63,085	20,114	609	42,362	42,362	75,723
1990	18,195	18,195	0	0.208%	56,088	0	0	56,088	56,088	18,195
1989	2	0	2	0.208%	5,602	0	0	5,602	5,602	2

Table EE

Insured Deposits and the Savings Association Insurance Fund, December 31, 1989 through 1994

Year[1]	Insurance Coverage	(Dollars in Millions)				Insurance Fund as a Percentage of	
		Deposits in Insured Institutions		Percentage of Insured Deposits	Deposit Insurance Fund	Total Deposits	Insured Deposits
		Total	Insured[2]				
1994	$100,000	$720,823	$692,626	96.1	$1,936.7	0.27	0.28
1993	100,000	726,473	695,158	95.7	1,155.7	0.16	0.17
1992	100,000	760,902	729,458	95.9	279.0	0.04	0.04
1991	100,000	810,664	776,351	95.8	93.9	0.01	0.01
1990	100,000	874,738	830,028	94.9	18.2	0.00	0.00
1989	100,000	948,144	882,920	93.1	0.0	0.00	0.00

[1] Starting in 1990, deposits in insured institutions exclude those deposits held by Savings Association Insurance Fund members that are covered by the Bank Insurance Fund.

[2] Insured deposits are estimated based on deposit information submitted in the December 31 Call Reports (quarterly Reports of Condition and Income) and Thrift Financial Reports submitted by insured institutions. Before 1991, insured deposits were estimated using percentages determined from the June 30 Call Reports.

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