F D I C

". . .to maintain public confidence
in banking institutions
for the good of individual consumers
and the entire nation."

The Federal Deposit Insurance Corporation was created by Congress in 1933 to restore public confidence in the nation's banking system following a severe financial crisis.

Since that time, the mission of the FDIC has been, and continues to be: to protect depositors' accounts; to promote sound banking practices; to prevent or reduce the disruptions caused by bank failures; and to respond to a changing economy and banking system, all in an effort to maintain public confidence in banking institutions for the good of individual consumers and the entire nation.

October 29, 1990

Federal Deposit Insurance Corporation
Washington, D.C.

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 1989.

Very truly yours,

L. William Seidman
Chairman

The President of the U.S. Senate

The Speaker of the U.S. House of Representatives

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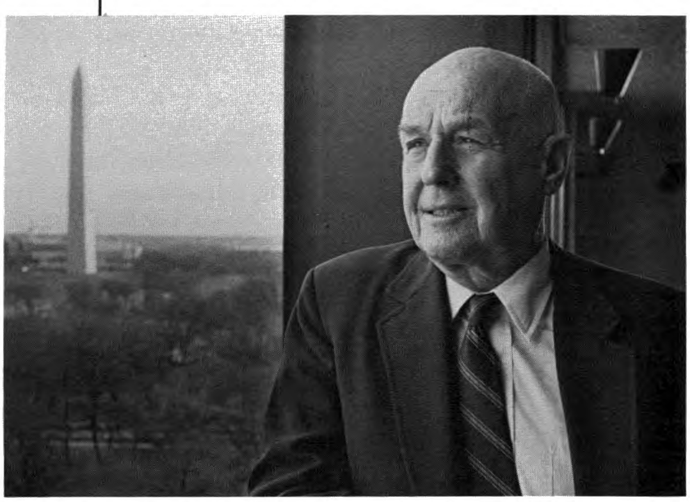
Chairman's Statement

In last year's Annual Report, I said that we faced two major challenges in the future — a resolution of the thrift industry crisis and the development of deposit insurance reform. This year, I can report that we have made significant progress in these and other areas of importance to this agency and to the U.S. economy. While much work remains — in fact, several years' more work to resolve the thrift industry problems — much has been accomplished in this past year.

The landmark Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which was enacted primarily to recapitalize the thrift insurance fund, calm the thrift crisis and deal with insolvent savings and loan associations, made major changes in the FDIC as well. As early as February of 1989, long before FIRREA was enacted, we began dedicating resources to the thrift industry's problems.

But even as the S&L rescue operation was gearing up, the banking industry also was having a difficult year and required significant attention from us.

Richard A. Bloom



FDIC Chairman L. William Seidman

Banking industry losses primarily from real estate loans and loans to developing countries brought down industry earnings 35 percent during the year, to $16.3 billion. A total of 206 FDIC-insured banks were closed during the year — the most ever — and one small institution received assistance from the FDIC to keep from closing. As a result of these and other industry conditions, the FDIC insurance fund for bank deposits lost money for the second year in a row.

The Bank Insurance Fund ended 1989 with a net worth of $13.2 billion, down about $850 million from the previous year. For these and other reasons, 1989 was the most demanding year in the 56-year history of the FDIC and a likely harbinger of more tough times ahead.

The Impact of FIRREA

FIRREA is the most significant piece of financial institution legislation since the Great Depression. While it is far from perfect, we consider it a solid first step toward a stronger thrift industry and a sounder deposit insurance system.

Authorized by FIRREA, the Resolution Trust Corporation (RTC) was set up to dispose of hundreds of billions of dollars of assets from failed thrifts. The new agency will sell or liquidate savings institutions with combined assets three times the size of all the bank failures and assistance transactions in the last half century.

Under FIRREA, the FDIC Board of Directors was appointed to act as the RTC Board, and all RTC employees are FDIC employees as well. In fact, we sent nearly a thousand FDIC employees to start up the RTC. By year-end, they had made good progress in asset sales, while still getting organized.

The RTC's 1989 Annual Report provides more details.

FIRREA gave the FDIC the job of managing the federal deposit insurance fund for savings institutions. As a result, we inherited responsibility for 98 savings institution receiverships formerly handled by the Federal Savings and Loan Insurance Corporation. This more than doubled our Division of Liquidation's portfolio, bringing its total to approximately $24 billion.

We are working with other government agencies to close insolvent savings institutions, and to promote the strength and safety of the industry. Along with the RTC, we are filing a record number of lawsuits to bring to account those responsible for the unsafe and unsound management of savings institutions.

FIRREA implements several of the FDIC's recommendations for more stringent standards on institutions and for broader regulatory powers. The legislation directs the Treasury Department, in cooperation with the FDIC and other agencies, to conduct a major study of the deposit insurance system and to make specific recommendations to Congress in 1991.

The Year in Review

Without a doubt, the Bank Insurance Fund was under pressure in 1989. The level of the fund as a percentage of insured deposits declined to an all-time low, ending the year with the equivalent of 70 cents for every $100 of deposits we insure. At the end of 1988, when the fund's ratio hit its previous low, we had 80 cents in reserve for every $100 of insured deposits. The level of the fund is a concern that the FDIC Board will be reviewing.

Depositors need not be concerned since their funds are guaranteed by the U.S. government as specifically provided in FIRREA.

The 206 closed banks handled by the FDIC in 1989 totaled $29 billion in assets, primarily from three cases. They were: 20 subsidiary banks of MCorp of Dallas, Texas, with about $15.4 billion in assets; 24 subsidiary banks of Texas American Bancshares, Inc. (TAB), of Fort Worth, Texas, with about $4.2 billion in assets; and the $1 billion-asset First American Bank and Trust, North Palm Beach, Florida.

The 206 failures and one assistance transaction in 1989 compare to the record 221 institutions closed or aided the previous year. Also, the size and the costs of the cases handled in 1989 were lower than in 1988. For example, the $29 billion in assets of closed or assisted banks in 1989 were considerably less than the nearly $54 billion in assets at failed or assisted banks in 1988. Average assets of failed banks in 1989 were $141.6 million, compared to $250.2 million the previous year. We also reserved on our books in 1988 for the estimated costs of handling several large problems in 1989, such as MCorp and TAB, which meant that our fund didn't really "pay" for those transactions in 1989 but will do so in 1990.

I am hopeful that ongoing improvements in our operations will help strengthen the fund and hold down costs. One example is a new procedure, being implemented in 1990. Our Division of Liquidation (DOL) will take over the final stages of most bank closings from our Division of Supervision (DOS). In essence, this will give the DOL more time and flexibility to dispose of assets while leaving our DOS examiners more time to do what they do best, which is to monitor banks.

Another hopeful sign is that the number of insured institutions on our list of "problem banks" is declining. In mid-1987, the problem bank list hit its all-time high of 1,624. By the end of 1988, the number was down to 1,406. By the end of 1989, the number of problem banks declined to 1,109.

Close supervision by the FDIC is one reason for the decline in problem banks. We increased our examination force substantially and conducted 4,089 on-site exams to check banks for safety and soundness, up from 4,019 in 1988 and 3,653 in 1987. This increase came despite the heavy involvement of our personnel in the management of savings institutions put into conservatorship in 1989. We are moving closer and closer toward achieving our goal of conducting an on-site examination at each bank on our "watch list" at least once a year.

While examinations are an essential part of our early warning system, a major problem we face is the effect of economic downturns, especially in certain regions. The most obvious example is Texas, where sharply declining real estate values translated into a corresponding increase in bank problems. In 1984, only six banks failed in Texas; in 1989, there were 133 failures and one assistance transaction. Signs of recovery in the Texas banking sector are evident, and the decline there and throughout much of the Southwest may have ended.

This past year, we monitored national and regional trends and developments more closely to try to prevent problems before they occur and before they run up a big bill for the insurance fund. As real estate problems in particular are a prime reason for bank failures, we are focusing attention there. Despite some improvements, banks in the Southwest region of the U.S. continued to present the worst problems, with a net charge-off rate on real estate loans nearly four times the national average. But real estate lending by banks elsewhere also is cause for concern.

Real estate problems at New England banks are on the rise, but to this point are neither as severe nor as widespread as those encountered in the southwestern states in recent years. Nevertheless, in 1989 almost one out of four banks in the New England states lost money, compared to one out of 13 the previous year. We anticipate some worsening of the situation in New England in 1990, but we do not expect the problems there to approach those of the Southwest.

Real estate loans pose two kinds of risk — the risk of default and the risk that rising interest rates might make the loans unprofitable. Banks have become increasingly dependent on real estate lending as a source of asset growth.

As recently as year-end 1985, real estate loans amounted to 16 percent of commercial bank assets. At the end of 1989, this proportion had risen to 23 percent.

At the end of 1985, real estate loans came to 27 percent of total loans. By the end of 1989, that share was up to 37 percent.

Of the $168 billion in net asset growth for commercial banks in 1989, just over half was due to an increase in real estate lending. Commercial real estate loans, which historically have a higher loss rate than residential loans, accounted for about 45 percent of the real estate loan growth during the year.

We are developing sophisticated new surveys of real estate activities in 50 or more major geographic areas. This project is coordinated by our Division of

Research and Statistics in conjunction with examiners in the field and other FDIC staff members.

In addition to real estate lending, other areas requiring supervisory attention include loans to developing countries, commercial loans to highly-leveraged borrowers and consumer lending.

We worked closely with other regulators during 1989 on initiatives that put renewed emphasis on adequate capital at banks and thrift institutions. Because of increased risks to the financial system, we believe institutions would benefit from additional capital.

I also am encouraged by discussions among U.S. banking supervisors and regulators from other major industrialized nations leading to common, minimum capital standards based on the riskiness of banking activities.

The Challenges Ahead

The year ahead will be difficult for the FDIC, especially operating the RTC with its job of resolving failed and failing savings institutions. The savings and loan industry had by far its worst year in 1989, with losses totaling more than $19 billion. That's worse than anyone had expected. In 1988, thrift industry losses came to $13.4 billion. As a result, the workload of our Division of Supervision surely will increase in 1990. In just the first few months of 1990, we've seen major, unexpected insolvencies, including the $11 billion-asset Imperial Savings of San Diego, the $10.2 billion-asset Empire of America in Buffalo and the $8.9 billion-asset CenTrust of Miami.

The more thrift industry losses pile up from real estate lending, junk bonds, fraud, changes in interest rates and other sources, the tougher and costlier the government's task becomes. How we handle these challenges will affect the reputation of this agency as well as the pocket of every U.S. taxpayer.

David Hathcox

Chairman Seidman in his office with FDIC staff from around the country for a discussion of workplace issues that included travel, recruitment and the overall impact on the agency of the thrift crisis, May 1989.

As we start the 1990s, I've identified what I see as the major questions and challenges of the future.

Deposit insurance reform certainly is crucial. I have often said that deposit insurance is like a nuclear power plant; when it works right it's a great thing and when it breaks down it can be very dangerous. We need to determine the best ways to control the exposure of the deposit insurance funds.

Issues currently on the table include:

- Limiting insurance coverage to provide better depositor discipline;
- Various "narrow" banking proposals, including separate rules for small banks;
- Higher capital requirements;
- Alternative deposit insurance structures, including private insurance; and
- Risk-related insurance premiums.

Each of these proposals has its supporters among the agencies and we are studying each one carefully.

It has become standard, almost a cliche, for any chief executive officer to include in an Annual Report a note about the hard work and dedication of the employees. But in this unprecedented year of change and growth at the FDIC, such recognition is no cliche.

This was a year when hundreds of FDIC examiners, lawyers, liquidation specialists and others, from different divisions and different cities, pulled together when we were brought in to manage several hundred problem savings institutions placed in conservatorship.

This was a year when FDIC personnel were doing the work of two or three people, often to make up for colleagues who had not been replaced after being assigned to the RTC or to conservatorships.

This was a year when we needed extremely fast turnaround preparing failing banks or thrifts for sale. Time and again, FDIC workers did the job, sometimes literally working around the clock.

I'm also heartened that FDIC employees have worked so well with the many hundreds of skilled people who have joined our agency from the former Federal Savings and Loan Insurance Corporation and Federal Home Loan Bank Board.

One major news publication during the year had a photo on the cover of me wearing a big white hat. That was very flattering. Except the real good guys are the thousands of FDIC employees around the country who have made this the proud and successful agency that it is.

L. Wm Seidman

L. William Seidman

Board of Directors

L. William Seidman

L. William Seidman was elected Chairman of the Federal Deposit Insurance Corporation on October 21, 1985. Prior to his appointment to the FDIC, Mr. Seidman pursued an extensive career in the financial arena in both the private and public sectors.

He was Dean of the College of Business of Arizona State University and a director of several organizations including the Phelps Dodge Corporation, Prudential-Bache Funds, United Bancorp of Arizona and The Conference Board. He has served as Co-chair of the White House Conference on Productivity, Vice Chairman of the Phelps Dodge Corporation, Assistant to President Gerald Ford for Economic Affairs and Managing Partner of Seidman & Seidman, Certified Public Accountants, New York. He also was Chairman and a Director of the Federal Reserve Bank of Chicago, Detroit Branch.

Mr. Seidman received an A.B. degree from Dartmouth College and earned an LL.B. from Harvard Law School. He also holds an M.B.A. from the University of Michigan. He is a member of the American Bar Association, the American Institute of Certified Public Accountants and several academic honorary fraternities including Phi Beta Kappa. He is the author of one book and numerous articles on business and tax subjects.

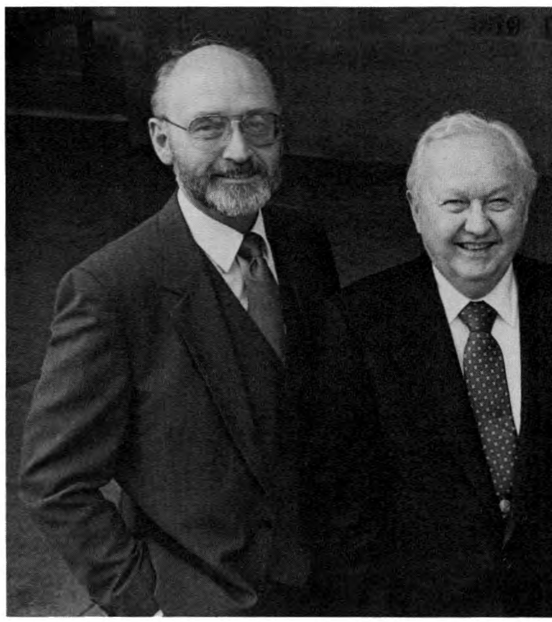
C. C. Hope, Jr.

C. C. Hope, Jr., was named to the Board of Directors of the Federal Deposit Insurance Corporation on March 10, 1986, confirmed by the Senate on March 27 and commissioned by President Ronald Reagan on April 7, 1986. Before his appointment to the FDIC, Mr. Hope spent 38 years at First Union National Bank of North Carolina in Charlotte, where he retired as Vice Chairman in 1985.

Mr. Hope is a former President of the American Bankers Association and has served as Secretary of the North Carolina Department of Commerce. In the field of education, Mr. Hope is a trustee and former Chairman of the Board of Wake Forest University and has been Dean of the Southwestern Graduate School of Banking at Southern Methodist University.

He holds a B.A. in Business Administration from Wake Forest University and has completed graduate work at the Harvard Business School and The Stonier Graduate School of Banking at Rutgers University.

Richard A. Bloom



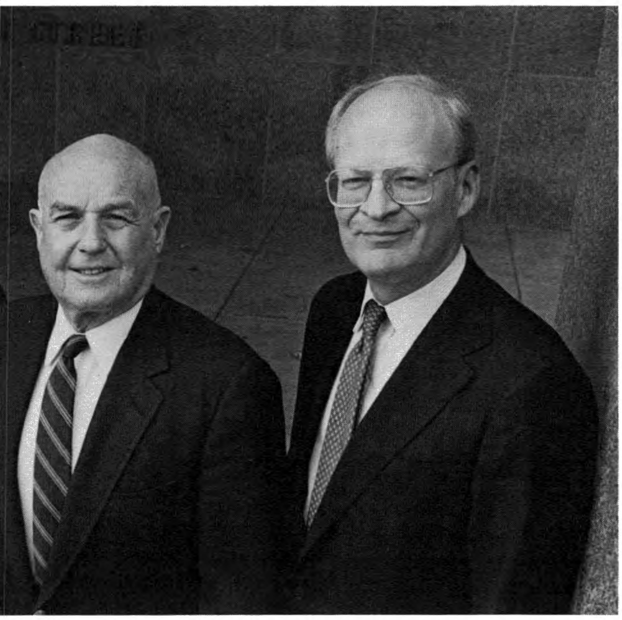
L-R: M. Danny Wall, Director, Office of Thrift Supervision; Director C.C. Hope, Jr.; Chairman L. William Seidman; and Robert L. Clarke, Comptroller of the Currency

Robert L. Clarke

Robert L. Clarke became the 26th Comptroller of the Currency on December 2, 1985, and simultaneously became a member of the FDIC's Board of Directors.

Before his appointment, Mr. Clarke founded and headed the banking section at the Houston, Texas, law firm of Bracewell & Patterson. He joined that firm after completing his military service in 1968. The banking section prepared corporate applications and securities registrations, counseled management in expansion opportunities and the effects of deregulatory initiatives and represented institutions in enforcement matters.

Mr. Clarke holds a B.A. in Economics from Rice University and an LL.B. from Harvard Law School. He is a member of the bars of Texas and New Mexico. He has served as a director for two state banks and has been active in a number of civic, political and professional organizations.



M. Danny Wall

M. Danny Wall, after nomination by President Reagan, was sworn in as Chairman of the Federal Home Loan Bank Board (FHLBB) on July 1, 1987. Mr. Wall became Director of the Office of Thrift Supervision (OTS) and a member of the FDIC Board of Directors in August 1989 under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

Under FIRREA, the FHLBB was abolished and its regulatory functions were transferred to the new OTS. FIRREA also increased the FDIC Board's membership to five persons by adding a Vice Chairperson and the Director of the OTS. (At year-end 1989, a Vice Chairperson had not yet been nominated and confirmed by the Senate.) Mr. Wall announced his resignation from the OTS in December 1989 and left the agency in March 1990.

Prior to his appointment to the FHLBB, Mr. Wall served eight and one-half years on the staff of the Senate Banking Committee, where he was Staff Director from 1981 to 1987. He came to Washington in 1975 as Director of Legislation for Senator Jake Garn of Utah. Before that, Mr. Wall organized the Salt Lake City Redevelopment Agency and served as its Executive Director from 1971 to 1975. Mr. Wall earned a Bachelor of Architecture degree from North Dakota State University in 1963.

Officials

Deputy to the Chairman	John F. Bovenzi
Administrative Assistant to the Chairman	Donna R. Mahon
Director, Division of Supervision	Paul G. Fritts
Director, Division of Liquidation	Steven A. Seelig
General Counsel	Alfred J. T. Byrne
Director, Division of Accounting and Corporate Services	Stanley J. Poling
Director, Division of Research and Statistics	William R. Watson
Director, Division of FSLIC Operations	Stanley J. Poling
Deputy to the Appointive Director	Robert V. Shumway
Deputy to the Director (Comptroller of the Currency)	Thomas E. Zemke
Deputy to the Director (Office of Thrift Supervision)	Linda B. Plye
Executive Secretary	Hoyle L. Robinson
Director, Office of Corporate Communications	Alan J. Whitney
Director, Office of Legislative Affairs	Beth L. Climo
Director, Office of Budget and Corporate Planning	J. Russell Cherry
Inspector General	Robert D. Hoffman
Director, Office of Consumer Affairs	Janice M. Smith
Director, Office of Personnel Management	Alfred P. Squerrini
Director, Office of Equal Opportunity	Mae Culp
Director, Office of Training and Educational Services	Jane Sartori

Regional Directors

Supervision

- **Atlanta (404) 525-0308**
  Lyle V. Helgerson
  245 Peachtree Center Avenue, NE, 12th Floor
  Atlanta, Georgia 30303
  Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia

- **Boston (617) 449-9080**
  Paul H. Wiechman
  180 Gould Street
  Needham, Massachusetts 02194
  Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

- **Chicago (312) 207-0210**
  George J. Masa
  30 S. Wacker Drive, Suite 3100
  Chicago, Illinois 60606
  Illinois, Indiana, Michigan, Ohio, Wisconsin

- **Dallas (214) 220-3342**
  Kenneth L. Walker
  1910 Pacific Avenue, Suite 1900
  Dallas, Texas 75201
  Colorado, New Mexico, Oklahoma, Texas

- **Kansas City (816) 234-8000**
  Charles E. Thacker
  2345 Grand Avenue, Suite 1500
  Kansas City, Missouri 64108
  Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

- **Memphis (901) 685-1603**
  Bill C. Houston
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  Memphis, Tennessee 38137
  Arkansas, Kentucky, Louisiana, Mississippi, Tennessee

- **New York (212) 704-1200**
  Nicholas J. Ketcha, Jr.
  452 Fifth Avenue, 21st Floor
  New York, New York 10018
  Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico, Virgin Islands

- **San Francisco (415) 546-0160**
  John R. Sexton
  25 Ecker Street, Suite 2300
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  Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming

Liquidation

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- **Dallas (214) 754-0098**
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- **New York (212) 704-1200**
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  452 Fifth Avenue, 21st Floor
  New York, New York 10018
  Alabama, Connecticut, Delaware, District of Columbia, Florida, Georgia, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, Virgin Islands, West Virginia

- **San Francisco (415) 546-1810**
  Keith W. Seibold
  25 Ecker Street, Suite 1900
  San Francisco, California 94105
  Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

Statistical Highlights

Bank Insurance Fund (BIF) (Dollars in millions)			
	For the year ended December 31		
	1989	**1988**	**1987**
Income	**$ 3,495**	$ 3,347	$ 3,320
Operations Expense	**214**	224	205
Liquidation/Insurance Losses and Expenses	**4,132**	7,364	3,066
Net Income	**(851)**	(4,241)	49
Insurance Fund	**13,210**	14,061	18,302
Fund as % of Insured Deposits	**0.70%**	0.80%	1.10%
Assets Held for Liquidation	**11,500**	9,300	11,000

Selected Bank Statistics			
Total Insured Banks*	**13,239**	13,606	14,289
Problem Banks	**1,109**	1,406	1,575
Bank Failures	**206**	200	184
Failed Agricultural Banks	**12**	28	56
Assisted Banking Organizations	**1**	21	9
Number of Failed Bank Receiverships	**964**	848	684

* All BIF-insured depository institutions (commercial banks, savings banks and insured branches of foreign banks).

Chronological Highlights

January 4
Chairman L. William Seidman unveils a comprehensive FDIC study of the federal deposit insurance system and the principles that should guide the system in the years ahead.

February 6
President Bush announces proposed legislation and interim steps to address the savings and loan industry crisis, including a program to place troubled institutions into conservatorship under an interagency effort led by the FDIC. Joint regulatory teams assumed oversight of the first group of institutions the following day.

February 9
The FDIC breaks ground for a new operations and training center located in Arlington, Virginia. Completion is scheduled for 1991. (see p. 47)

March 13
Chairman Seidman announces that the nation's commercial banks posted aggregate net income of $25.3 billion for 1988, the highest in history.

March 14
The FDIC reports an operating loss for 1988, the first in the agency's history.

March 14
The FDIC Board approves a framework for bank capital standards that would reflect the relative investment risks of various assets banks hold in their portfolio. Similar risk-based capital standards were adopted by the Office of the Comptroller of the Currency and the Federal Reserve Board. (see p. 19)

March 28
The Deposit Insurance Bridge Bank, National Association, Dallas, is established by the FDIC to assume deposits and liabilities of 20 failed bank subsidiaries of MCorp of Dallas. (see p. 13)

July 20
Texas American Bridge Bank, National Association, Fort Worth, is organized by the FDIC to assume deposits and liabilities of 24 failed commercial bank subsidiaries of Texas American Bancshares, Inc., Fort Worth. (see p. 13)

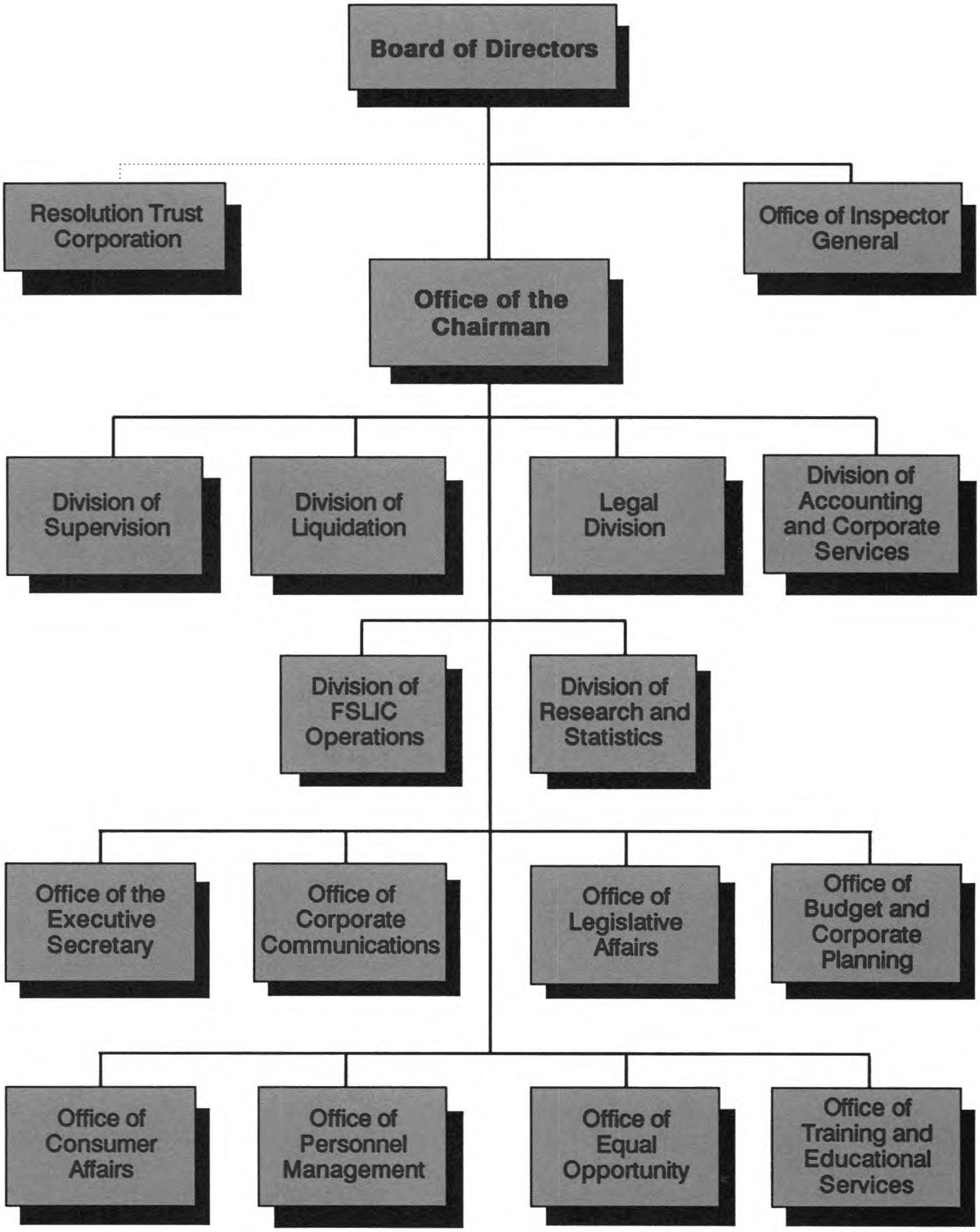
August 9
President Bush signs into law the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the landmark legislation primarily aimed at addressing the thrift industry crisis but also making fundamental changes in the way banks and savings associations are supervised and insured. The law included provisions that greatly expanded the regulatory and insurance functions of the FDIC and established the Resolution Trust Corporation under FDIC management. (see pp. 24-26)

December 5
As required by FIRREA, the FDIC Board agreed to seek public comment on a variety of proposed changes to the rules governing deposit insurance at banks and savings institutions, largely to resolve differences in the regulations of the FDIC and the former Federal Savings and Loan Insurance Corporation. (see p. 79)

December 13
FDIC-insured bank closings surpass the previous year's record of 200, with the year-end total to reach 206.

December 15
First American Bank and Trust, National Association, a bridge bank, is organized by the FDIC to assume deposits and liabilities of the failed First American Bank and Trust, North Palm Beach, Florida. (see p. 13)

Organization Chart



State of the Industry

F D I C

The State of the Banking Industry, 1989

To better understand the FDIC's work, it is important to understand conditions in the commercial banking industry and the challenges those conditions present to the agency. For that reason, the 1989 FDIC Annual Report includes for the first time a detailed analysis of FDIC-insured commercial bank performance. The following report, which excludes savings banks, was prepared by the FDIC's Division of Research and Statistics.

Commercial bank performance presented a mixed picture in 1989. On the one hand, in aggregate terms, the commercial banking industry finished 1989 in worse condition than it began:

- Earnings were more than a third lower than the year before.
- Provisions for losses were more than $13 billion higher, as banks prepared for future charge-offs on both their domestic and foreign loans.
- Net loan charge-offs in 1989 were at their highest levels in the 42 years that the industry has reported them, and were still insufficient to reduce the industry's inventory of troubled assets. Problem assets increased in relative terms, and equity capital declined as a proportion of total assets.

On the other hand, there were some encouraging signs in other bank performance indicators in 1989:

- Smaller banks in the Southwest were doing better. Their earnings were up, fewer of them posted full-year losses, and problem assets declined.
- Banks in the Midwest and West enjoyed improved profitability in 1989.
- The number of commercial banks on the FDIC's "problem list" declined for the second straight year, to 1,092. That was the lowest level since 1985.
- The combination of 205 commercial banks that failed and one that required assistance to avert failure in 1989 was 15 fewer than 1988's combined total. More significantly, the average asset size of failed or assisted banks in 1989 was roughly half as large as in 1988, a reflection of resolving most of the largest troubled banks in the Southwest.

Money-Center Bank Problems

The unfavorable picture presented by some of the aggregate performance indicators is a result of credit-quality troubles at a number of the nation's largest banks.

Money-center bank earnings continued to suffer as a consequence of their troubled loans to "lesser developed countries" (LDCs). Net charge-offs on loans to foreign borrowers exceeded $7.5 billion in 1989, as large banks reduced their lending exposure to Latin American borrowers by $12.3 billion. Provisions for foreign losses were even higher at $10 billion, their highest level since 1987.

These developments had a major impact on money-center bank earnings. Five of the 10 largest commercial banks reported net losses for 1989. Money-center banks increased their reserves for losses on LDC debt to an average of about 50 percent of the banks' exposure, from less than 40 percent at the beginning of the year. The risk posed by LDC exposure has diminished for the money-center banks.

Regional banks have sold and charged-off most of their LDC loans. The majority of institutions in the medium-to-large size range are performing well, but there are notable exceptions. Many large institutions in the Southwest continued to struggle with weak local real estate markets and nonperforming assets from earlier economic troubles. Of the 206 commercial banks that failed or required assistance during the year, 167 were in the Southwest.

Real Estate Problems Spread

Most of the areas that experienced depressed real estate markets first had a jump in real estate values, followed by speculative over-building supported by speculative over-lending. This "boom-and-bust" pattern has subsequently appeared in some real estate markets in the Northeast, evidenced by higher problem assets and loss provisioning at many of the region's banks. Nevertheless, real estate lending remained the main source of commercial bank asset growth in 1989. The interest rate environment was favorable, and loan demand in other categories was not as vigorous.

Growth in real estate lending was particularly evident in the West and Southeast. Residential mortgage loans, which typically have a lower default rate than commercial real estate loans, accounted for more than half of the $87 billion net growth in real estate loans in 1989. Still, commercial real estate loans accounted for about 45 percent of the net growth.

Home equity lines of credit were the fastest-growing category of real estate loans, increasing by $10 billion. The difficulties of savings and loan associations with negative or inadequate capital meant that commercial banks faced less competition in real estate lending. Credit card lending also grew rapidly in 1989, and remained highly profitable, even though delinquency and loss rates increased.

Trends in the Cost of Funds

Net interest margins widened at smaller banks and narrowed at larger institutions in 1989, but the net interest margin for the entire banking industry was unchanged from 1988. As interest rates rose, larger banks were less able to control rising interest expense. Interest income at money-center banks was held down by high levels of non-accruing loans to developing countries.

Commercial banks were fairly successful in limiting the growth of overhead costs. Non-interest expense was up only 6.6 percent from the 1988 level. Non-interest income increased by 13.7 percent, as smaller banks were able to increase their non-interest revenues more rapidly than larger banks.

Industry Consolidation Continued

The number of insured commercial banks fell for the fifth straight year, from 13,139 at year-end 1988 to 12,712 at year-end 1989. Also, the 206 commercial banks that failed or received assistance offset the 192 new commercial banks chartered during the year. The number of new banks chartered declined to the lowest level since 1978.

Much of the merger activity that removed more than 1,000 institutions from the commercial banking industry in the past two years has consisted of conversions of subsidiary banks by multi-bank holding companies into branch offices in those states that have liberalized their branching restrictions.

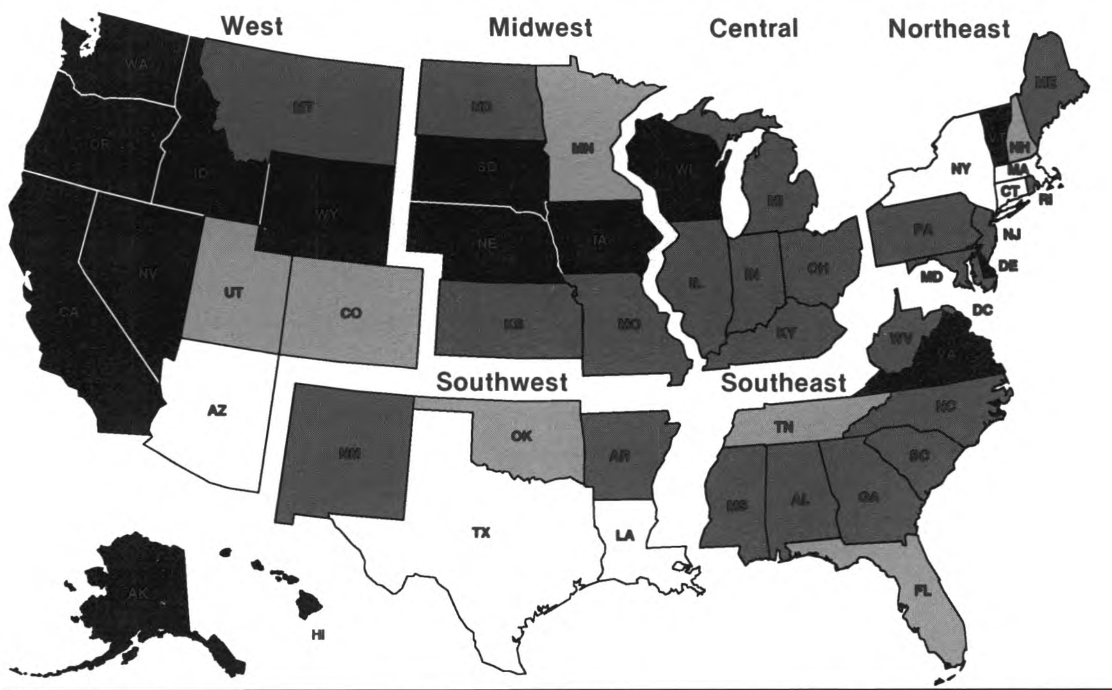
Outlook

In the future, the focus of asset-quality problems will continue to shift from the Southwest to the Northeast. Real estate markets in the southeastern, mid-Atlantic and western states also will bear watching for problems.

The earnings outlook for the commercial banking industry will depend on a number of factors. Another round of money-center bank reserving for LDC loan exposure could reduce industry earnings. If provisions taken in 1989 for future domestic losses prove inadequate, or if real estate markets outside the Southwest deteriorate further, then provisioning for domestic losses also could limit bank profits.

Economic conditions will have a strong influence on asset growth and credit quality. Higher interest rates would adversely affect some commercial loans and would squeeze profits at those banks that have increased their fixed-rate mortgage loans. Slower economic growth would further erode the credit quality of consumer loans.

Return on Assets, Calendar Year 1989, FDIC- Insured Commercial Banks



Legend: ROA Percentages — Less than 0% | 0 to 0.75% | 0.76 to 1.10% | 1.11% and higher

West	%	**Midwest**	%	**Central**	%	**Southwest**	%	**Northeast**	%	**Southeast**	%
Avg. ROA:	1.00	Avg. ROA:	1.01	Avg. ROA:	1.00	Avg. ROA:	(0.07)	Avg. ROA:	(0.02)	Avg. ROA:	0.88
Nevada	2.12	South Dakota	2.24	Wisconsin	1.11	Arkansas	1.04	Delaware	1.50	Virginia	1.12
Oregon	1.22	Nebraska	1.23	Michigan	1.10	New Mexico	0.82	Vermont	1.12	Georgia	1.09
Hawaii	1.21	Iowa	1.14	Ohio	1.07	Oklahoma	0.50	Rhode Island	1.04	West Virginia	1.06
Washington	1.21	Kansas	0.97	Kentucky	1.03	Louisiana	(0.11)	New Jersey	1.00	North Carolina	1.03
California	1.19	Missouri	0.94	Indiana	1.00	Texas	(0.34)	Maryland	0.94	Alabama	1.01
Wyoming	1.17	North Dakota	0.84	Illinois	0.90			Maine	0.83	South Carolina	1.00
Alaska	1.14	Minnesota	0.48					Washington, DC	0.76	Mississippi	0.79
Idaho	1.14							Pennsylvania	0.72	Florida	0.61
Montana	1.04							New Hampshire	0.61	Tennessee	0.60
Utah	0.68							New York	(0.48)		
Colorado	0.41							Massachusetts	(0.53)		
Arizona	(1.80)							Connecticut	(1.26)		

National Average ROA (all FDIC-insured commercial banks): 0.50%

Operations of the Corporation

F D I C

Division of Supervision

Adds Role as Backup Supervisor of Thrifts to Traditional Duties

The announcement in February by President Bush of an interagency plan to address the thrift crisis marked the start of major changes and challenges for the Division. The FDIC's subsequent involvement in the supervision of thrifts resulted in changing the name of the Division of Bank Supervision in 1989 to the Division of Supervision (DOS).

DOS first devoted a significant number of personnel to developing and implementing permanent solutions for the Federal Savings and Loan Insurance Corporation's (FSLIC) inventory of the most insolvent, unprofitable thrifts.

Many examiners served as managing agents responsible for preserving assets of these badly troubled institutions. Others were members of examination teams who worked with the managing agents to arrive at accurate evaluations of each institution's condition. At the height of the effort, almost 600 of the Division's examiners — about a third of the entire field examiner staff at the time — were directly involved.

Geoffrey L. Wade

DOS officials taping information video for examiners. Seated L-R: Assistant Director Robert Miailovich, Associate Director John Stone, Director Paul Fritts and Associate Director Michael Hovan, Jr.

Then in August, DOS began implementing certain provisions of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) that significantly expanded the Division's responsibilities for commercial banks and also assigned to the FDIC the role of backup supervisor of savings associations. In general, these provisions strengthened supervision of savings associations, curtailed activities that pose unacceptable risks to the federal deposit insurance fund, increased the enforcement powers of the regulators, and expanded civil sanctions and criminal penalties for fraud and abuse.

While efforts to promote stability in the thrift industry commanded much of the popular attention, DOS was active in 1989 in its historical responsibility for supervising state nonmember banks and for otherwise promoting the maintenance of a sound banking system. Among the highlights were:

- **Handling 206 bank failures and monitoring more than 1,100 "problem" institutions.**
  The 206 failed institutions set a post-Depression annual record, exceeding the previous high of 200 in 1988. Of the 206 failures, one was a savings bank. The rest were commercial banks.

- **Significantly increasing the DOS examining staff and using the staff more efficiently.**
  During the year, 634 new examiners were hired, with two-thirds of them joining the FDIC through an accelerated hiring program for top students. This boost in staffing enabled DOS to increase the number of safety and soundness examinations conducted and to reduce the time between bank examinations.

- **Issuing guidelines on "highly leveraged transactions" (HLTs).**
  These typically are credits extended to finance the buyout, acquisition or recapitalization of an existing business.

Because these credits may carry more risks than those of traditional large corporate loans, the FDIC issued guidelines in May for examiners, officers and directors of FDIC-supervised banks. The guidelines were followed in November by a common definition of HLTs by the three federal bank regulatory agencies, which was clarified in early 1990 in response to comments and questions from the industry.

- **Disseminating guidelines that stress the need for banks to establish policies and procedures against conflicts of interest**. The guidelines are designed to ensure that boards of directors become aware of, and respond to, potential conflicts in which a bank officer, director, principal shareholder or an associate may be directly or indirectly involved.

- **Publishing guidelines for banks on the need to address concentrations of credit**. The guidelines requested policies to address concentrations of credit and procedures for tracking potential concentrations in particular industries.

In another important effort, DOS joined the other federal bank regulators in representing the United States at the Basle Committee on Banking Supervision, where officials from 12 nations meet quarterly to share information and to coordinate policies intended to ensure consistent supervision of major international banks. Accomplishments of the Committee during 1989 included implementation of a uniform risk-based capital framework, establishing appropriate coordination with securities regulators, and working to detect and eliminate bank complicity in money laundering schemes.

FDIC Examinations, 1987-1989

	1989	1988	1987
Safety and soundness			
State nonmember banks	**3,440**	3,751	3,364
Savings banks	**191**	183	163
National banks	**62**	54	72
State member banks	**21**	31	54
Savings and loans	**375**	0	0
Subtotal	**4,089**	4,019	3,653
Compliance and civil rights *	**3,901**	4,282	2,832
Trust departments	**585**	683	588
Data processing facilities	**782**	848	619
Total	**9,357**	9,832	7,692

* Includes visitations

Safety and Soundness Examinations

Examinations for the safety and soundness of overall operations are increasingly important because today's rapidly changing banking environment demands that the FDIC identify emerging trends and pinpoint individual banks with symptoms of higher-than-normal risk.

Past methods that emphasized on-site examinations at fixed cycles have given way in recent years to more continuous methods of supervision. DOS's current program combines on-site examinations and visitations with off-site monitoring, exchanges of information with other regulators, and the use of guidelines, policy statements, rules and regulations.

Over the past several years the Division has taken a number of important steps to improve and intensify the FDIC's supervisory program. Examination cycles have been revised to increase the frequency of on-site examinations and to place examiners in more institutions more often. The Division also is emphasizing an examination cycle based more on indications of potential problems and less on the passage of time between exams. Much of this was made possible by increasingly sophisticated off-site monitoring systems.

DOS implemented a revised on-site examination program at the end of 1989 that takes advantage of enhanced automation and off-site monitoring capabilities. This program requires that, prior to the start of an on-site examination, a risk analysis be conducted using all available information. The results of that analysis will form the basis for the scope of the on-site examination and for allocating resources. By concentrating resources in areas with high risk potential, resources assigned to other areas can be reduced and substantial amounts of time can be saved.

Despite a heavy early role in the management of savings association conservatorships in 1989, the FDIC conducted 4,089 safety and soundness examinations at banks and thrifts, compared to 4,019 in 1988 and 3,653 in 1987. As of year-end 1989, only 92 commercial banks subject to FDIC supervision had not been examined by the FDIC within three years, versus 197 at the end of 1988 and 924 at the end of 1987. This intensified examination program should allow DOS to continue moving toward the goal of conducting at least one on-site examination every 12 months at problem and near-problem institutions (those rated 3, 4 or 5 on the interagency rating system, with 5 denoting institutions most in danger of failing) and one exam every 24 months for all other institutions (those rated 1 or 2).

DOS's participation in examinations with other regulatory agencies increased in 1989, particularly as the FDIC took on the responsibility for insuring deposits at thrift institutions under FIRREA. The FDIC for years has participated in examinations with the Office of the Comptroller of the Currency, the Federal Reserve Board and state regulatory agencies. In 1989, DOS entered into a cooperative examination agreement with the Office of Thrift Supervision (OTS) regarding the supervision of savings associations insured by the new Savings Association Insurance Fund (SAIF). The agreement, which emphasizes timely and effective supervision of savings associations without a duplication of efforts, is aimed toward having an FDIC presence in the on-site examination of every insured savings association by the end of 1990. The FDIC conducted examinations of 375 savings associations between August 1989 and the end of the year.

International lending activities of U.S. banks continued to draw a considerable amount of attention during the year. The FDIC monitors these activities through its membership on the Interagency Country Exposure Review Committee, which is responsible for assessing and categorizing the risks associated with international lending.

Consumer Protection Examinations

DOS uses separate compliance examinations to monitor how well FDIC-supervised institutions are conforming with certain consumer protection and civil rights laws and implementing regulations. In 1989, the FDIC conducted 2,660 compliance examinations, excluding visitations for particular circumstances. That is down from the 2,988 examinations in the previous year, largely because of the extensive use of examiners in the management of savings and loan association conservatorships, especially during the first few months of the year.

The compliance examination process checks for adherence to laws and regulations that include those promoting truth-in-lending, fair lending, community reinvestment, fair debt collection and the fast availability of deposited funds. Changes were made in the process in 1989 to account for amendments that became effective in areas such as fair housing, credit card disclosures and home equity loan protections for consumers.

During the latter part of the year, the FDIC was working with the Federal Financial Institutions Examination Council (FFIEC) to develop regulations and compliance examination material for amendments to the Home Mortgage Disclosure Act and the Community Reinvestment Act that were to take effect in 1990.

As a result of the review of Truth-in-Lending Act provisions that require accurate disclosures to consumers of interest rates and finance charges, 105,126 consumers received total reimbursements of $5,791,025 from 248 institutions during 1989. Collections during 1988 totaled $1,722,994 from 228 institutions for 22,105 consumers.

Trust and Transfer Agent Examinations

The FDIC examines and regulates trust departments and securities transfer activities at state nonmember banks. The main reason for these examinations is to determine the existence of any potential losses to a bank arising out of its fiduciary responsibilities in the administration of its trust accounts or transfer activities.

During 1989, consent was given to 54 FDIC-supervised institutions to begin exercising trust powers. That brought to 2,349 the number of such institutions with trust powers in 1989, of which 1,820 were active departments. As of the end of the year, FDIC-supervised institutions had investment discretion over $133.5 billion in trust assets and responsibility for another $491 billion in non-managed assets. The FDIC conducted 585 trust examinations compared to 683 in 1988.

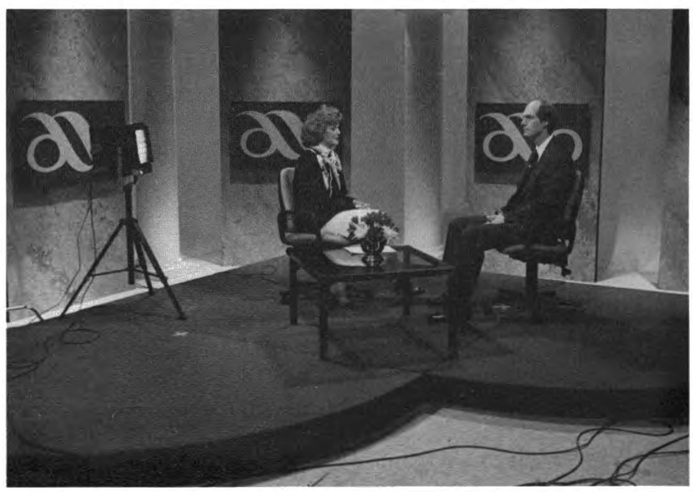
The securities transfer activities of 241 FDIC-supervised institutions were registered with the agency under federal securities laws, down slightly from the 258 institutions a year earlier. The FDIC conducted 24 examinations of securities transfer activities during 1989, versus 52 the previous year.

Data Processing Examinations

FDIC examiners participated in reviews of 782 data processing operations run by banks or by independent data processing firms in 1989, compared to 848 in 1988. As a result of these examinations, 10 data centers, all run by banks, were identified as problem situations in 1989. In 1988, 18 data centers (14 banks and four non-bank institutions) were identified as problem situations.

Examinations of large data processing firms that service institutions throughout many regions of the country are conducted jointly with the other federal

Ray Milio



Robert Storch, chief of the DOS accounting section, was one of several FDIC officials interviewed for an American Bankers Association video about changes in bank reporting requirements.

financial institution supervisory agencies. This arrangement saves examiner resources, reduces disruption at the data center and provides for uniform supervision of the servicer.

In January 1989, the FDIC adopted a revised work program developed in conjunction with the FFIEC for the examination of large data centers. The program focuses the bulk of examiner resources in data centers experiencing problems. Later in 1989, field testing was done on a work program for data processing examinations of small community banks that use "turnkey" software supplied and supported by vendors. Initial results indicate an approximate 50 percent savings in examination hours.

In July 1989, the FDIC issued an FFIEC policy statement on contingency planning by financial institutions for their data processing services. Institutions are encouraged to adopt procedures that would minimize the disruption of services and financial loss, and ensure timely resumption of operations in the event of a disaster. The FDIC also is participating in a test of an FFIEC-approved program of interagency review of data processing software being used by a large number of financial institutions. If adopted, additional efficiencies and uniformity in examining banks using turnkey software should result.

Other Examination Functions

At year-end, 47 FDIC-supervised institutions were listed as U.S. government securities brokers or dealers under the Government Securities Act of 1986 or were otherwise covered by rules implementing that law. The FDIC furnished examiners with special instructions, checklists and examination report forms to facilitate the monitoring of institutions covered by the regulations.

U.S. branches of foreign banks that engage in domestic retail deposit activities are required to obtain deposit insurance under the International Banking Act of 1978. At year-end 1989, insurance was held by 24 foreign banks representing 14 different countries and operating 57 branches in 11 U.S. cities. In 1989, the FDIC completed a revision of the separate regulations governing the operations of these insured branches. The major change was an asset maintenance requirement for each branch, designed to be equivalent to a domestic bank's capital requirement for purposes of providing a cushion against losses.

BIF-Insured Failed Banks

In terms of the Bank Insurance Fund, Texas had the highest number of bank failures among the states for the fourth year in a row, with 133 in 1989. Next came Louisiana with 21 failed banks and Oklahoma with 12. The concentration of bank failures in these three states, like the higher incidence of problem banks, was an outgrowth of the continued depressed energy and real estate industries there.

Average assets of all 206 failed banks in 1989 were $141.6 million, down significantly from the $250.2 million in average assets at the 200 failed banks the previous year. The average deposits at failed banks in 1989 were $116.9 million, compared to $159.7 million in 1988. The figures for 1989 include the failures of 20 banks of MCorp of Dallas and 24 banks of Texas American Bancshares, Inc., Fort Worth.

Excluding these two banking organizations and First American Bank and Trust, North Palm Beach, Florida, another large failure, the assets for all other 1989 failed banks averaged $46.4 million and deposits averaged

Failed Banks by State, 1987-1989

	Failed Banks			Purchase & Assumptions (P&As)			Payoffs			Insured Deposit Transfers		
	'89	'88	'87	**'89**	'88	'87	**'89**	'88	'87	**'89**	'88	'87
Alabama	**0**	0	2	**0**	0	2	**0**	0	0	**0**	0	0
Alaska	**2**	1	2	**2**	1	1	**0**	0	0	**0**	0	1
Arizona	**6**	1	0	**5**	0	0	**0**	0	0	**1**	1	0
California	**1**	3	8	**1**	1	6	**0**	1	1	**0**	1	1
Colorado	**7**	10	13	**5**	7	10	**1**	0	0	**1**	3	3
Connecticut	**1**	0	0	**1**	0	0	**0**	0	0	**0**	0	0
Delaware	**0**	1†	0	**0**	1	0	**0**	0	0	**0**	0	0
Florida	**5**	3	3	**4**	2	2	**1**	0	0	**0**	1	1
Illinois	**0**	1	2	**0**	0	2	**0**	0	0	**0**	1	0
Indiana	**0**	1	3	**0**	1	2	**0**	0	0	**0**	0	1
Iowa	**0**	6	6	**0**	4	6	**0**	0	0	**0**	2	0
Kansas	**5**	6	8	**3**	6	4	**1**	0	2	**1**	0	2
Kentucky	**0**	0	1	**0**	0	1	**0**	0	0	**0**	0	0
Louisiana	**21**	11	14	**19**	10	14	**1**	0	0	**1**	1	0
Massachusetts	**1**	0	2	**0**	0	0	**0**	0	0	**1**	0	2
Michigan	**0**	1	0	**0**	1	0	**0**	0	0	**0**	0	0
Minnesota	**1**	7	10	**1**	7	5	**0**	0	0	**0**	0	5
Mississippi	**0**	0	1	**0**	0	1	**0**	0	0	**0**	0	0
Missouri	**1**	2	4	**0**	2	2	**0**	0	2	**1**	0	0
Montana	**2**	1	3	**2**	1	3	**0**	0	0	**0**	0	0
Nebraska	**1**	1	6	**1**	0	6	**0**	1	0	**0**	0	0
New York	**3**	1	1	**0**	0	0	**3**	0	1	**0**	1	0
North Dakota	**2**	1	2	**1**	1	1	**0**	0	0	**1**	0	1
Ohio	**0**	1	1	**0**	1	1	**0**	0	0	**0**	0	0
Oklahoma	**12**	23	31	**12**	19	22	**0**	0	0	**0**	4	9
Oregon	**0**	0	1	**0**	0	1	**0**	0	0	**0**	0	0
Pennsylvania	**0**	0	1	**0**	0	1	**0**	0	0	**0**	0	0
South Dakota	**0**	1	2	**0**	0	1	**0**	0	0	**0**	1	1
Texas	**133***	113‡	50	**115**	95	37	**2**	4	5	**16**	14	8
Utah	**0**	2	3	**0**	2	2	**0**	0	0	**0**	0	1
Virginia	**1**	0	0	**1**	0	0	**0**	0	0	**0**	0	0
Washington	**0**	1	0	**0**	1	0	**0**	0	0	**0**	0	0
West Virginia	**1**	0	0	**1**	0	0	**0**	0	0	**0**	0	0
Wyoming	**0**	1	4	**0**	1	0	**0**	0	0	**0**	0	4
Total	**206**	200	184	**174**	164	133	**9**	6	11	**23**	30	40

* Includes the 20 Texas bank subsidiaries of MCorp of Dallas, TX, and the 24 Texas bank subsidiaries of Texas American Bancshares, Inc., Fort Worth, TX.
† Represents First RepublicBank, Delaware, the credit card subsidiary of First RepublicBank Corporation, Dallas, Texas.
‡ Includes the 40 Texas bank subsidiaries of First RepublicBank Corporation, Dallas, Texas.

$43.7 million. That is comparable to the previous year when, excluding the failure of the $32.5 billion-asset First RepublicBank Corporation of Dallas, the average assets of failed banks in 1988 were $37.6 million and average deposits were $36 million.

Deposits in all failed banks in 1989, exclusive of MCorp, Texas American banks and the First American Bank, totaled $7.0 billion. That compares with $5.7 billion in 1988 excluding deposits of First RepublicBank Corporation's 40 failed bank subsidiaries.

Purchase and assumption transactions (P&As) were arranged for 174 bank failures in 1989, or 84 percent of the total. In 1988 there were 164 P&As, which constituted 82 percent of the failed bank transactions. In a P&A, a healthy institution assumes all the deposits and other liabilities of a failed bank and purchases a portion of its assets. In 1989, premiums totaling more than $40 million were paid by the assuming banks. Direct savings to the Bank Insurance Fund resulting from P&As versus the cost of insured deposit payoffs are estimated to be approximately $100 million.

The FDIC continues to make extensive use of "whole bank" P&As, in which prospective acquirers submit bids to purchase essentially all assets of a failing bank "as is," on a discounted basis. This type of sale is desirable because loan customers continue to be serviced locally by an ongoing financial institution instead of by FDIC liquidators.

This transaction also minimizes FDIC cash outlays and restrains growth in total assets held by the FDIC for liquidation. In 1989, the FDIC attempted whole bank transactions in 132 smaller failing bank situations, succeeding in 42 cases. The previous year, the agency made 129 such attempts and was successful in 69 cases.

For 23 failed banks in 1989, the FDIC arranged "insured deposit transfers" instead of directly paying off depositors up to the insurance limit. In this type of transaction, insured deposits are made available to their owners by transferring the accounts to an existing healthy institution or a newly-formed bank. Account holders are then able to withdraw their funds from the assuming bank or keep them there if they so choose. The assuming bank also may purchase some of the assets of the failed bank. In one case in 1989, an insured deposit transfer was arranged where the assuming institution purchased nearly all of the failed bank's assets. The FDIC received purchase premiums of $7.8 million on these transactions in 1989.

The FDIC directly paid depositors their insured claims in nine failures in 1989 when neither a P&A nor an insured deposit transfer could be arranged.

Bridge Banks

The FDIC may establish a "bridge bank" when an insured bank is closed and more time is needed to find a permanent solution. A bridge bank is a full-service national bank established on an interim basis to assume the deposits, certain liabilities and substantially all the assets of a failed bank. It can be operated for up to five years by a board of directors appointed by the FDIC. A bridge bank may be established if the cost of operating it does not exceed the cost of liquidating the closed bank. The FDIC used its bridge bank authority, gained under the Competitive Equality Banking Act of 1987, for the three largest bank failures in 1989.

On March 28, the Comptroller of the Currency declared insolvent 20 commercial bank subsidiaries of MCorp of Dallas, Texas. The banks, which had gross assets of $15.4 billion, failed due to continuing loan losses largely attributable to depressed economic conditions in the Southwest, and to losses on intracompany transactions. The FDIC's response included the establishment of The Deposit Insurance Bridge Bank, National Association. On June 28, 1989, the FDIC agreed in principle to the acquisition of the bridge bank by Banc One Corporation, Columbus, Ohio. The bridge bank's name was changed to Bank One, Texas, N.A. A Banc One Corporation subsidiary managed the bridge bank under contract with the FDIC until the transaction was consummated on January 30, 1990.

Assisted Banks by State, 1985-1989

	1989	1988	1987	1986	1985
Alabama	0	0	0	0	1
Alaska	0	1*	0	0	0
Arkansas	0	1	0	0	0
Illinois	0	1	0	0	0
Iowa	0	1	0	0	0
Kansas	0	2	1	2	0
Kentucky	0	1	0	0	0
Louisiana	0	2	1	1	0
Missouri	0	0	1	1	0
Minnesota	0	1	0	0	0
Montana	0	0	1	0	0
New Mexico	0	1	0	0	0
New York	0	0	1	0	2
Ohio	0	1	0	0	0
Oklahoma	0	2	2	1	0
Oregon	0	0	0	0	1
South Dakota	0	1	0	0	0
Tennessee	0	0	1	0	0
Texas	1	5†	12‡	0	0
Utah	0	1	0	0	0
Washington	0	0	1	0	0
Total	**1**	**21**	**19**	**7**	**4**

* One Transaction involved Alaska Mutual Bank and United Bank of Alaska, both of Anchorage, Alaska.

† One transaction involved the 59 bank subsidiaries of First City Bancorporation, Houston, Texas, and one transaction involved two bank subsidiaries of First RepublicBank Corporation, Dallas, Texas.

‡ Includes 11 bank subsidiaries of BancTEXAS Group, Inc. Dallas, Texas.

On July 20, the 22 national bank subsidiaries and two state-chartered banks of Texas American Bancshares, Inc., Fort Worth, with assets of about $4.2 billion, were declared insolvent. Deterioration in the banks' major real estate markets contributed to loan losses that exhausted capital at 10 of the national banks, while the other banks became insolvent as a result of loan losses and losses on intracompany transactions. In response, the FDIC established Texas American Bridge Bank, National Association. An agreement to sell the bridge bank to Deposit Guaranty Bank, Dallas, Texas, was arranged almost immediately. The bank was renamed Team Bank.

The FDIC's bridge bank authority also was used for First American Bank and Trust, North Palm Beach, Florida, which had assets of nearly $1.1 billion at the time it was closed by the state on December 15 due to its continued operation in an unsound, unsafe or unauthorized manner. In this case, the FDIC established a bridge bank known as First American Bank and Trust, N.A. On March 20, 1990, the FDIC approved a transaction with Barnett Bank of Palm Beach County, West Palm Beach, Florida, for the assumption of all deposits and certain other liabilities and the purchase of a significant portion of the assets of the bridge bank.

Assistance Transactions

Section 13(c) of the Federal Deposit Insurance Act authorizes the FDIC to provide financial assistance to prevent the closing of an insured depository institution. Assistance may be granted in three ways: directly to an insured institution in danger of failing; to facilitate a merger of an insured institution in danger of failing; or to a company that already controls or will control an institution in danger of failing.

To provide such assistance, the FDIC's Board must determine that the amount of assistance is less than the cost of liquidating the institution. An exception may be made when the continued operation of the depository institution is essential to provide adequate depository services to its community or when severe financial conditions exist that threaten a large number of financial institutions with significant resources.

FIRREA granted the FDIC additional power to provide open financial assistance to some members of the new SAIF under special circumstances specified in Section 13(k)(5) of the Federal Deposit Insurance Act.

Only one assistance transaction, involving the $5.7 million-asset Metropolitan National Bank in San Antonio, Texas, took place in 1989. This transaction in January resulted in estimated savings to the FDIC of $410,000, based on the estimated cost if the institution were to fail and its depositors paid off.

In past years, a net worth certificate was another form of assistance provided by the FDIC under terms of the Garn-St Germain Depository Institutions Act of 1982. Under certain conditions, insured savings banks applied for these certificates in amounts equal to a percentage of their operating losses. The certificates then counted as surplus for regulatory purposes.

Net worth certificates totaling $710.4 million had been issued in past years to 29 savings banks. In 1989, outstanding certificates were reduced by $63.4 million through contractually required payments. At year-end 1989, only three savings banks had certificates outstanding aggregating $233.5 million.

Problem Banks

Banks and BIF-insured savings banks whose financial, operational or managerial weaknesses are so severe as to pose a serious threat to continued viability — those rated 4 or 5 on the composite supervisory rating system used by the three federal agencies — are considered problem institutions.

The FDIC places a special emphasis on examining these problem banks because of the potential effect on the deposit insurance fund. In early 1990, a similar system was in place to generate a list of SAIF-insured problem institutions.

FDIC Problem Banks, 1985-1989

(Year-end)	1989	1988	1987	1986	1985
Total Insured Banks	**13,239**	13,606	14,289	14,837	14,906
Problem Banks	**1,109**	1,406	1,575	1,484	1,140
% Change in Number of Problem Banks	**(21.1)**	(10.7)	6.1	30.2	34.4
% of Total Insured Banks	**8.4**	10.3	11.0	10.0	7.6

Changes in FDIC Problem Bank List, 1985-1989

	1989	1988	1987	1986	1985
Deletions	**619**	680	627	494	312
Additions	**322**	511	718	838	604
Net Change	**(297)**	(169)	91	344	292

After reaching a historical high of 1,624 in mid-1987, the number of BIF-insured problem banks has been declining. At year-end 1988, the number stood at 1,406. By year-end 1989, the number was down to 1,109.

Although failures contributed to the decline, many more former problem banks were rehabilitated, usually with close supervisory guidance. Management and poor lending decisions continue to be the underlying causes of most problem bank situations. However, shifting regional weaknesses in the economy have affected the number of problem banks and can be anticipated to do so again in the future.

Processing Applications

The major applications processed by DOS are for: deposit insurance; the establishment or relocation of branches by FDIC-supervised banks; mergers where the agency supervises the resultant bank or where an uninsured institution is involved; changes in control of state nonmember banks; and, in certain circumstances, decisions as to who may serve as a director, officer or employee of an insured institution.

In 1989, there was a decline in deposit insurance actions from 1988, the result of fewer new banks being formed in the Northeast and Southeast. There also was a lower level of merger actions due to fewer banks acquiring branches from savings associations.

In the interest of expediency and efficiency, most FDIC applications are decided under delegated authority. Of all 1989 applications filed, 97.1 percent were decided at the regional level of DOS and 1.8 percent were acted on by DOS in Washington. Only 1.1 percent of all applications were forwarded to the Board of Directors for action.

FIRREA made substantial changes to applications matters. Among them:

- Savings associations will obtain deposit insurance by applying to the FDIC.
- Applications for charters for proposed national and Federal Reserve member state banks will be submitted to the FDIC for comment before approval by the primary regulator.
- The acceptance or renewal of brokered deposits by undercapitalized institutions is prohibited unless the FDIC grants a waiver.
- Before certain state nonmember banks, including those in troubled condition, can add a director or employ a senior executive officer, a notice must be sent to the FDIC.
- Savings associations must notify the FDIC of plans to divest "junk bond" investments and to limit certain other activities.
- The FDIC is responsible for permitting institutions to convert from membership in one insurance fund, BIF or SAIF, to the other.

As a result of changes in the competitive environment for financial services over the past decade, the FDIC adopted a new policy on bank merger transactions that replaces a policy adopted in 1980. The new policy clarifies the standards that the FDIC will use in assessing whether a proposed bank merger would have anti-competitive effects or create other concerns that would warrant denial of an application. When analyzing the level of competition in a particular market, the FDIC will consider not just bank services but also equivalent products offered by other types of competitors, such as thrifts, credit unions and securities firms.

Bank Fraud and Insider Abuse

Insider abuse or criminal fraud was present to some degree in about one-quarter of all bank failures in 1989, a slight drop from the one-third found in bank failures the previous year. However, the numbers for 1989 may increase as investigations at failed banks continue.

A total of 667 state nonmember banks, or 9 percent of the total, were victimized by a theft or fraud of $10,000 or more in 1989, up slightly from eight percent the year before. Fraud and abuse connected to real estate transactions had been prevalent in the Southwest the past few years, but those problems appear to be abating. Similar problems are now surfacing in the Northeast and are contributing to real estate loan losses there. These problems include: conflicts of interest and other insider abuses; inflated real estate appraisals; and fraudulent sales contracts, loan applications or title policies.

FDIC Applications, 1987-1989

	1989	1988	1987
Deposit Insurance	**101**	159	188
Approved	**100**	156	180
Denied	**1**	3	8
New Branches	**1,160**	1,032	1,029
Approved	**1,160**	1,032	1,027
Branches	**891**	846	812
Remote Service Facilities	**269**	186	215
Denied	**0**	0	2
Mergers	**200**	288	234
Approved	**200**	287	234
Denied	**0**	1	0
Requests for Consent to Serve	**39**	45	39
Approved	**38**	44	37
Denied	**1**	1	2
Notices of Change in Control	**71**	89	80
Letters of Intent Not to Disapprove	**68**	87	79
Disapproved	**3**	2	1

A Special Activities Section was established in DOS in the mid-1960s to identify individuals who pose a threat to an insured bank or the banking system and then to try to prevent these individuals from causing harm. The section coordinates the activities of the FDIC's specially trained fraud specialists and fraud examiners, monitors fraudulent and abusive activity in individual institutions, maintains a data base, and develops examination procedures and supervisory strategies to detect and prevent harmful activities.

The Special Activities Section works closely with the FDIC's Legal Division, which files suits against offenders, or refers potentially harmful activities to the Federal Bureau of Investigation and other federal and state law enforcement authorities. These include the Justice Department's interagency Bank Fraud Working Group and the Treasury Department's interagency Bank Secrecy Act Working Group. The latter attempts to support the war on drug trafficking and money laundering through investigations and increased training for examiners and bank personnel.

To promote the prosecution of offenses in which relatively small amounts of money are lost, the FDIC and other federal regulatory agencies in 1989 increasingly encouraged institutions to cooperate with Department of Justice prosecutors in a program known as "Fast Track."

Under the Fast Track program, federal prosecutors send multiple cases of small dollar-amount fraud and embezzlement through the judicial system as a single package. This allows the prosecution of bank fraud and embezzlement cases that previously were considered too small to warrant federal resources. It also helps deter financial crimes through publicity about the offenders.

Improved communication between the regulatory agencies and federal law enforcement organizations, plus increased reports of apparent criminal activities by insiders due to a relaxation of privacy laws, should improve future crime-fighting efforts.

Off-Site Monitoring and Analysis Program

During 1989, DOS became increasingly concerned with the rapid deterioration of institutions exhibiting high-growth characteristics. A key development in 1989 was the revision of an existing off-site surveillance system to include a model that identifies institutions with unfavorable and problematic growth characteristics. These institutions are flagged for appropriate supervisory follow-up. The Division also placed additional senior bank analysts in the regional offices to review financial reports and alert senior staff members to conditions that might trigger an examination or other follow-up.

Also during 1989, the capability to produce Uniform Bank Performance Reports (UBPRs) for BIF-insured savings banks was developed. Long available for commercial banks, these quarterly reports provide examiners, bankers and analysts with a valuable tool for assessing the condition of individual institutions, peer groups and the industry in general. Beginning with March 1990, savings bank performance reports will be publicly available.

The FDIC's Uniform Bank Performance System provides on-line access to most UBPR information. This system displays historical data as well as performance ratios based on the most recent information available. These data enable examiners to assess current developments in a particular institution.

Large Bank Analysis Program

As part of its program to manage risk to the deposit insurance fund, the Division's financial analysts conduct quarterly reviews of conditions and trends in all commercial banking companies with total assets of $3 billion or more. These activities take place under a Large Bank Analysis Program, which in 1989 covered 123 banking companies holding approximately 66 percent of total U.S. bank assets.

Through 1989, most activity associated with this program took place off-site. In 1990, the program's links with on-site supervision will be strengthened by an increased presence of FDIC examiners during the reviews of large banks conducted by the Comptroller of the Currency and the Federal Reserve. This should improve the FDIC's access to needed information and assist in supervisory follow-up.

Capital Forbearance Program

In 1986, the FDIC adopted a Capital Forbearance Program available to any bank with difficulties primarily attributable to economic problems beyond the control of management. Under the program, a bank may operate temporarily with capital below normal supervisory standards if it is viable and has a reasonable plan for restoring capital. Banks had to obtain approval of a plan to return to normal capital levels by January 1, 1995.

The capital forbearance program expired on December 31, 1989. During its existence, the FDIC received 352 applications for forbearance and admitted 204 banks into the program. Of those 204 banks, 112 were still in the program at year-end 1989. The other 92 banks left the program for reasons that include mergers and steps being taken to increase capital to satisfactory levels.

Applications of 96 banks were denied. In 34 cases, the application was withdrawn or not processed for other reasons. At year-end, 18 applications still were being processed.

Loan Loss Deferrals by Agricultural Banks

The Competitive Equality Banking Act of 1987 permits certain agricultural banks to amortize loan losses on farm loans and related assets over a seven-year period. Under the program, a qualifying bank may amortize eligible losses incurred between December 31, 1983, and January 1, 1992.

Since the start of the program until year-end 1989, the FDIC had received 87 applications, of which 38 were accepted. Eight banks are no longer in the program for various reasons, leaving 30 banks still participating at year-end. Applications of 22 banks were denied and three were still being processed at year-end. In 24 cases, the application was either withdrawn or returned because the institution did not qualify as an agricultural bank.

Auditing

In late 1988, the FDIC Board of Directors adopted a policy statement that urges each state nonmember bank to have an annual external audit of its financial statements performed by an independent public accountant. Because the FDIC believes that an annual external review by an independent party contributes to the safety and soundness of the banking system, DOS identified a set of basic auditing procedures for use at banks that choose not to have an annual external audit performed by an independent public accountant.

On May 16, 1989, the Board of Directors issued a proposed policy statement on minimum recommended external auditing procedures. A final statement of policy was adopted on January 16, 1990.

Under the final policy, all state nonmember banks that do not engage an independent public accountant to

External Auditing Programs of Banks, 1987-1988
All Commercial Banks and FDIC-Supervised Savings Banks
(In Percentages)

	1987			1988		
Size	Audit*	Directors' Exam†	All Others‡	Audit*	Directors' Exam†	All Others‡
Over $1 billion	97	2	2	98	1	1
Over $300 million to $1 billion	96	3	1	96	3	1
Over $150 million to $300 million	94	5	2	94	4	2
Over $100 million to $150 million	88	10	3	87	10	3
Over $75 million to $100 million	78	17	5	79	18	2
Over $50 million to $75 million	70	24	6	71	24	5
Over $25 million to $50 million	60	32	8	60	32	8
$25 million and below	43	40	17	44	41	15
All Banks	**65**	**26**	**9**	**66**	**27**	**8**

Source: June 30, 1988 and March 31, 1989 Reports of Condition. (Stated in percentages. Differences due to rounding.)
*Audit of the bank or parent banking company's consolidated financial statements by CPAs.
† Directors' examination of the bank by CPAs or other independent external auditors.
‡ Includes review, compilation, and other specified auditing procedures as well as no auditing work and no response to the item.

conduct an annual audit are strongly encouraged to have an independent external auditor perform basic auditing procedures recommended by the FDIC and other additional procedures deemed necessary to address high-risk areas of the bank.

Capital

Several important developments took place during 1989 relating to bank and thrift capital requirements. These initiatives represented continuing regulatory efforts to ensure that adequate capital levels are maintained by insured financial institutions.

Of particular importance was the emphasis placed on ensuring that activities involving different levels of risk are backed by appropriate amounts of capital. That focus applies regardless of whether the activity involves a balance sheet asset or an off-balance sheet activity, or whether the institution is a bank or thrift.

These initiatives resulted in greater similarity of capital standards among financial institutions both internationally and within the U.S. In addition, new capital standards adopted for U.S. thrifts by the OTS brought capital requirements at savings associations into closer alignment with the standards applied to U.S. banks.

The FDIC, the Comptroller of the Currency and the Federal Reserve Board completed their risk-based capital guidelines in early 1989. The risk-based capital framework was recommended by the international Basle Committee on Banking Supervision. Under the new risk-based framework, capital is divided into core and supplementary tiers. Risk evaluations are assigned to balance sheet assets and off-balance sheet items. Beginning with year-end 1990, banks are expected to meet an interim minimum capital ratio of 7.25 percent of risk-based assets and, by year-end 1992, a fully phased-in risk-based ratio of eight percent.

U.S. banking regulators also began discussions on revising the existing leverage capital standards, which currently require banks to maintain 5.5 percent primary capital and 6 percent total capital ratios. The intent is to refine the capital definitions under the leverage standard so that they better conform to the core and supplementary capital definitions used under the risk-based capital framework.

Unlike the risk-based ratio, which compares capital to risk-weighted assets and off-balance sheet activity, the leverage ratio compares capital to total balance sheet assets. The leverage ratio requirements, which have remained unchanged since 1985, ensure that a portion of balance sheet assets and future asset growth will be funded by owners' equity, rather than exclusively by insured deposits. The U.S. bank regulators hope to begin applying both a revised leverage standard and the risk-based capital standard by year-end 1990. One important aspect under consideration is whether the allowance for loan losses should be removed from the definition of capital for purposes of calculating the leverage ratio.

Call Report Changes

After adoption of final risk-based capital measures by the three federal banking agencies, the regulators revised the Reports of Condition and Income (Call Reports) to take the new capital standards into account. These reporting changes will facilitate the off-site measurement and monitoring of banks' risk-based capital levels. Other changes considered necessary for bank supervisory purposes also were developed by the FFIEC's Task Force on Reports. These changes include: a new risk-based capital schedule; a revised schedule for off-balance sheet items; and more details on holdings of securities of U.S. Government agencies, corporations, and state and local governments. The Call Report for March 31, 1990, was the first to incorporate many of the changes.

A central feature of the new risk-based capital schedule is a test that banks with less than $1 billion in total assets will use to determine whether they are exempt from completing the entire schedule. At least 85 percent of the banks are expected to qualify for this reporting exemption. Data for individual banks will become publicly available beginning with the reports for December 31, 1990, the date when banks are first required to achieve a specified minimum capital ratio under the new risk-based capital standards.

A number of other reporting changes adopted in late 1988 took effect with the Call Reports for the period ending March 31, 1989. The new information is designed primarily to help the banking agencies identify and monitor risk areas, such as bank holdings of equity securities, direct and indirect investments in real estate ventures, certain time deposits and mortgage transfers with recourse. The latter primarily refers to situations where banks sell loans but still are liable if problems develop later.

The report for March 31, 1989, also marked the first time that approximately 475 FDIC-supervised savings banks filed the same Call Report forms used by commercial banks instead of using a different set.

Accounting Issues

Several initiatives that govern industry accounting practices took place during 1989. Among them was the development of an interagency policy, effective September 30, governing the use and reporting of "push down" accounting when there is a change in ownership of a bank. This method of accounting and reporting records the assets of the bank based on their fair market value, not their book value, as of the date of the acquisition. A benefit to the regulators is that this method provides a better indication of the value of existing assets and their recoverability.

For changes in control of 95 percent or more, the use of push down accounting is required for reporting purposes. It is optional for changes in control of between 80 percent and 94 percent.

During 1989, the Division's staff continued to participate in interagency discussions concerning reporting and capital requirements for asset sales with recourse as well as other forms of risk retention. In November, the agencies agreed to prepare for public comment in 1990 a paper of broader scope on recourse arrangements associated with asset sales and other transactions. The paper, issued by the FFIEC on June 25, 1990, addressed possible definitions of recourse for supervisory purposes as well as reporting requirements, capital standards and other considerations. The evaluation of the comments that are received will assist the agencies in developing possible revisions to their regulatory reporting requirements and capital standards.

It became evident to regulators in late 1988 and early 1989 that banks and data processing servicers were entering into arrangements apparently permitting a bank to defer loss recognition on the disposal of in-house electronic data processing operations and equipment. Although no accounting standards exist that apply specifically to these transactions, examiners were advised to be alert for them. The deferral of loss recognition on EDP-related transactions, or other transactions, represents an unsafe and unsound practice. Congress expressed its concern about such transactions in Section 225 of FIRREA, which prohibits an insured institution from entering into a contract that "would adversely affect the safety and soundness of the institution."

DOS also issued policy guidance in September to address the complexity of the accounting issues arising from the acquisition of failed or failing banks by new owners, especially transactions involving FDIC assistance. These issues included how to account for FDIC assistance, intangible assets, negative goodwill and acquired loan loss reserves. The guidance was issued to ensure timely notice of FDIC policy to potential buyers of failed or failing banks.

FIRREA and Accounting Issues

The FDIC's new role as insurer and back-up supervisor of savings associations has led DOS to make sure that staff involved in examining and supervising thrifts are fully informed of thrift accounting standards. In many respects, accounting practices used by thrifts formerly insured by the FSLIC are similar to those of the insured state-chartered savings banks supervised by the FDIC. However, generally accepted accounting principles (GAAP) and regulatory reporting requirements for savings associations and banks differ in some respects. DOS staff prepared a study in 1989 to help the FDIC field staff understand the accounting practices they will encounter when examining thrifts.

Section 1215 of FIRREA requires each federal banking agency to establish uniform accounting standards for determining capital ratios and for other purposes. As a result, the FDIC and the other regulators have used the DOS study of accounting practices as a basis for initiating discussions on resolving accounting differences between banks and thrifts. In addition, the FDIC has asked the Financial Accounting Standards Board (FASB) to assist the regulatory agencies by eliminating as soon as possible differences in banks' and thrifts' accounting treatment of similar transactions. The FFIEC also approved a project to study a common reporting system for banks and thrifts.

FIRREA requires the OTS Director to prescribe and maintain uniform capital standards for thrifts that, for the most part, are no less stringent than those applicable to national banks. Savings associations not meeting the minimum capital standards will be subject to asset growth restrictions. FIRREA makes an exception from the OTS rule for "purchased mortgage servicing rights," which are intangible assets that represent the right to service mortgage loans owned by others. The OTS capital treatment of purchased mortgage servicing rights for regulatory capital purposes must be at least as stringent as that applied by the FDIC to state nonmember banks.

In addition, the FDIC is to prescribe the maximum amount of purchased mortgage servicing rights that savings associations may recognize for OTS capital purposes. In late 1989, the FDIC staff developed a proposal for limiting the amount of servicing rights that the agency would accept as core capital for state nonmember banks and tangible capital for thrifts. On January 30, 1990, the FDIC Board of Directors issued the proposal for public comment.

Publicly-Held Banks

The FDIC administers and enforces the registration and reporting provisions of the Securities Exchange Act of 1934 for publicly-held insured nonmember banks. At the end of 1989, there were 254 banks registered with the FDIC, up from 246 a year earlier. Required statements and reports filed by these banks are public documents and are available for inspection at FDIC headquarters in Washington. A total of 1,955 individuals inspected these records during 1989 and requested copies, and an additional 2,995 requested copies by telephone. Copies of 52,576 pages were provided in response to these requests.

In December, the FDIC Board of Directors adopted amendments to Part 335 of the Corporation's rules pertaining to independent audits, executive compensation disclosure and other matters regarding the securities of insured state nonmember banks. The amendments, which for the most part took effect January 29, 1990, make the FDIC's securities disclosure requirements substantially the same as those of the Securities and Exchange Commission. One substantive difference from past procedures shortened the amount of time institutions have to report changes in accountants and resignations of bank directors.

Automation Activities

DOS is continually striving to improve productivity through increased automation and the use of state-of-the-art equipment. An important objective of the Division's automation plan has been to provide rapid and easy access to supervisory and financial information. Personal computers have become an essential tool in the examination function.

During 1989, the first 500 laptop computers of about 2,000 expected to be purchased by DOS were sent to examiners in the field to supplement and eventually replace the bulky portable computers that had been used. The new computers, which are small enough to be carried comfortably in a briefcase, enable examiners to have access to examination reports and hundreds of FDIC rules, regulations and memorandums within seconds. The laptop program is expected to save significant amounts of examiner time and improve the quality of the work being done. DOS's goal is to have one laptop computer for every field examiner by the end of 1992.

DOS also began installing "local area networks," providing a computerized communications link among workers in a particular area. Local networks were operating in the Washington office and in several of the regional offices by year-end 1989. The network has provided each review examiner with quick access to the FDIC's data bases and the capability to communicate with DOS field offices, other divisions and private data bases. The program also will speed up the transmission and review of examination reports from the field. Plans are to install "wide area networks" that will connect all the FDIC networks by the end of 1990. The first wide area network was installed between the Kansas City and Washington offices during 1989.

Also in 1989, the FDIC's financial information data base was replaced with a more modern product that is easier to use and has increased capacity. The programming task, one of the largest ever by the FDIC, took nearly two years to complete. The new data base, known as the Bank Information Tracking System (BITS), was tested in 1988 and became fully operational early in 1989. The FDIC and other regulators rely heavily on BITS in supervising and monitoring financial institutions. Other data bases acquired for examiner use will provide access to the manual of examination policies, DOS memorandums and S&L financial data. Other FDIC manuals will be added in 1990.

During 1989, the Division began developing an updated, expanded management information system in tandem with the wide area network project. The system will track and provide reports on examination performance, financial institution growth, aggregate statistical information, regional profiles and various regional office activities.

Training

DOS attracted a high caliber of examiner trainees in 1989. Of the 634 individuals hired in 1989, about 67 percent were recruited under an Outstanding Scholar Program. To qualify, applicants must have graduated from their college with at least a 3.5 grade point average or have ranked in the top 10 percent of their class or subdivision.

All training programs during the year emphasized emerging issues such as interest rate risk management and capital markets instruments.

FIRREA also had a dramatic impact on training activities in 1989. Thrift accounting and operations schools were conducted at eight regional sites and the Washington area. This was followed by a financial analysis seminar that focused on thrift issues.

The increased hiring of examiners that began in 1985 continued to affect the Division's training efforts at all levels, with student attendance at the DOS Training Center remaining very high. During the year, 90 sessions of 13 courses were attended by 1,544 FDIC examiners, 41 employees of other FDIC Divisions and Offices, 384 state examiners and 74 employees of other U.S. agencies and foreign governments.

Some FDIC examiners were unable to attend FFIEC schools because of competing demands on their time from the thrift industry crisis. Nonetheless, 269 FDIC employees and 58 state examiners under FDIC sponsorship attended 13 different courses offered under the auspices of the FFIEC.

Training levels are expected to increase in 1990 and beyond to meet the needs of the increased field examiner staff. A cadre of 350 instructors taught at the DOS Training Center in 1989. They included DOS examiners, senior management from all Divisions and Offices in Washington headquarters, and guest lecturers from the academic community, banking and other business fields.

The number of instructors is expected to increase to 390 in 1990, with most of the increase being industry experts enlisted to help develop examiners. In addition, the FFIEC's courses were supported by 17 FDIC instructors in 1989, but that will increase dramatically in 1990 as the FDIC's use of these courses rises.

The DOS Training Center administers the testing and assessment of assistant examiners for promotion to commissioned examiner status. In 1989, there were 244 staff members evaluated for possible promotion to commissioned examiner status. Nearly 300 are expected to be evaluated during 1990, reflecting the continued expansion of the field staff.

Outlook

- **Off-site Monitoring**

In 1990, the FDIC and the other regulatory agencies will be evaluating the Uniform Bank Performance Report in light of changes instituted by FIRREA. Risk-based capital and interest-rate sensitivity are areas where the UBPR's content might be revised. The question of whether to include savings associations also will be addressed, although a significant effort would be required to make S&L financial information compatible with the UBPR format. A separate system may prove desirable.

Other significant off-site monitoring projects for 1990 include the development of new interest rate sensitivity measures and aggregate data on activities such as real estate lending, and the on-line availability of financial data that otherwise has been available only in hard copy.

- **External Audits**

The FDIC's encouragement of external audits and acceptable alternative auditing programs for banks is expected to continue with increased emphasis on cooperation and communication between auditors and examiners.

FIRREA has mandated that each bank make available to its external auditor any examination reports, supervisory agreements or enforcement actions involving a federal or state regulator. The accounting profession also has been developing a position providing guidance to auditors on communications with examiners and on the need to review examination information about a financial institution. In addition, the FDIC's auditing policy requests banks to submit auditors' reports to the FDIC regional office so that agency staff members may communicate in a more timely fashion with institutions and their auditors to help resolve issues of supervisory concern.

The FDIC has agreed with the Florida Board of Accountancy that examiners

James Tkatch

At FDIC headquarters, Chairman Seidman discusses supervision and regulation issues with bankers from nearly 60 countries who gathered in Washington for a one-week conference in September 1989.

or liquidators who discover apparently substandard audit work at a financial institution will notify the Florida Board of such situations for its review and possible disciplinary action. This model may be used to establish similar agreements between other states and the federal financial institution supervisory agencies.

- **Capital Adequacy**
  Capital standards for banks and thrifts will continue to be a paramount concern of regulators throughout the 1990s. FDIC staff in the coming years undoubtedly will be paying attention to issues such as: proper capital for mortgage banking activities; whether the allowance for loan losses should be part of regulatory capital; and the application of the risk-based capital framework to current and developing financial instruments and off-balance sheet activities.

- **Financial Instruments**
  The new decade is likely to find the accounting profession and regulators continuing to struggle with the accounting and supervisory issues resulting from new and constantly evolving financial instruments.

  Various mortgage-derivative products have proliferated in the portfolios of depository institutions in recent years. The accounting profession is reviewing the treatment of transactions involving these and other financial instruments.

  An awareness of the considerable level of interest rate risk in many of these instruments has been added to the traditional concerns about credit quality. There are several reasons for continued DOS scrutiny of these types of instruments. One is the FDIC's new responsibilities as insurer and back-up supervisor of thrifts, which have been more active purchasers of mortgage-derivative products than banks. Another is the increased holding of these assets by commercial banks.

  The categorization of securities and other assets held for investment, sale or trading has been under increasing discussion in the accounting profession and among the regulators. DOS's staff has participated in deliberations to reconcile differences in the criteria used to determine how these assets should be reported. This effort includes developing interagency guidance on proper investment practices.

- **Recourse Arrangements**
  The market's appetite for securitized assets that pose reduced risk to investors likely will continue as investment bankers devise new financial instruments tailored to their customers' needs. Discussions on the relationship between the recourse retained in a transfer of assets and the reporting and capital treatment of these transactions will likely remain a top priority.

- **Hiring**
  The Division plans to hire more than 700 field bank examiners in 1990 who would be dedicated to conducting safety and soundness examinations. The goal is to have more than 2,600 field examiners on staff by year-end 1990, up from about 2,200 at the end of 1989.

  DOS also intends to help support the examiner staff by hiring 200 experienced loan analysts on temporary appointments of up to three years. This would expand a pilot program that by year-end 1989 involved about 30 loan analysts in selected regions.

Division of Liquidation

Picking up the Pieces from Failed Banks and Thrifts

When President Bush asked the FDIC in early 1989 to become part of the solution to the thrift industry crisis, much of the burden fell directly on the Division of Liquidation (DOL).

This is the FDIC Division that administers failed financial institution receiverships, makes payments to depositors in closed FDIC-insured banks, and converts the assets of the failed institutions to cash to reduce the costs to the agency.

In 1989, DOL successfully handled the closing of a record 206 FDIC-insured commercial banks having total assets in excess of $29 billion. That surpassed the previous record of 200 bank failures set in 1988, although total assets that year were higher at $35.7 billion.

About 75 percent of the $29 billion in failed bank assets brought under the DOL's responsibility in 1989 related to the failures of three large organizations: the 20 subsidiary banks of MCorp of Dallas, Texas, with combined assets of approximately $15.4 billion; the 24 subsidiary banks of Texas American Bancshares, Inc. (TAB), Fort Worth, Texas, with combined assets of about $4.2 billion; and the nearly $1.1 billion-asset First American Bank and Trust, North Palm Beach, Florida.

At the same time, DOL efforts helped stabilize problem savings institutions. About 850 senior personnel from DOL, along with two regional offices and three field offices, were transferred to the Resolution Trust Corporation (RTC) when the new agency was created in August to act as conservator and receiver for failed thrifts.

In addition, the Division's portfolio of assets to be liquidated more than doubled to approximately $24 billion when, under FIRREA, the FSLIC Resolution Fund was established within the FDIC. This new fund assumed responsibility for the assets and liabilities of the 98 savings and loan receiverships in existence prior to 1989, for which the former Federal Savings and Loan Insurance Corporation (FSLIC) had been named receiver. The responsibility for liquidating those assets was given to DOL.

Taken together, these various responsibilities made 1989 the most challenging year in DOL's history. Other highlights of its operations in 1989 include:

- Achieving cash collections of $2.322 billion on commercial bank assets in liquidation and $392 million on FSLIC assets during November and December.
- Holding the ratio of DOL expenses to assets collected to a low 9.6 percent.
- Performing reviews of the assets at the 206 failed commercial banks prior to their being closed and at 253 savings and loans after being placed into conservatorship. Through these asset reviews, the FDIC was able to estimate the costs and losses that would be incurred in liquidating these institutions.
- Participating in the assembling of financial information used to facilitate the sale of most of the 206 failed banks.
- Holding the FDIC's first public nationwide auction of large holdings of real estate. The March 1989 auction, conducted in New York, sold 14 properties for $40.7 million, an impressive 99.4 percent of their appraised value.

Assistance Transactions Beneficial

The FDIC established bridge banks in connection with the three large failures of 1989 involving MCorp, Texas American Bancshares and First American Bank and Trust.

A bridge bank is a full service national bank established by the FDIC on an interim basis to assume the deposits, certain other liabilities and substantially all of the assets of a failed bank. The FDIC may operate a bridge bank up to five years while it seeks a purchaser. The goal is to maintain banking services until a permanent solution is found for the insolvent institution.

The bridge bank created in March to handle the MCorp failures was sold three months later to Banc One Corporation, Columbus, Ohio, and renamed Bank One, Texas, N.A. Almost immediately after the TAB bridge bank was established in July, an agreement in principle was reached to sell it to Deposit Guaranty Bank, Dallas, Texas.

As for the bridge bank created in December for First American, the FDIC approved a transaction on March 20, 1990, with Barnett Bank of Palm Beach County, West Palm Beach, Florida. Barnett agreed to assume all deposits and certain other liabilities and to purchase a significant portion of the assets of the bridge bank. Banc One and Deposit Guaranty Bank (later renamed Team Bank) acquired their bridge banks with FDIC assistance.

In each case, under the terms of the assistance plans approved by the FDIC, the acquired bank's balance sheet was marked to market. The FDIC agreed to provide a cash contribution sufficient to eliminate the bank's negative net worth. The FDIC also agreed to absorb losses on a pool of problem assets, which each assuming bank will manage under FDIC supervision.

In return, the FDIC benefits by having fewer assets to liquidate, which ultimately lowers the agency's costs. By working together with the private sector, DOL can maximize the financial return to the insurance fund.

The Banc One and Deposit Guaranty assistance and service agreements were largely patterned after the FDIC's 1988 arrangement with NCNB Texas National Bank (NCNB) for managing the classified assets of the failed FirstRepublic Bank, Dallas. Total assets in the pool under the management of NCNB had a book value

DOL Statistical Highlights, 1984-1989

	Total Failed Banks	Total Assets of Failed Banks* (billions)	Total Collections† (billions)	Estimated Book Value of Assets in Liquidation† (billions)	Operating Expenses† (millions)	Number of DOL Employees
1989	**206**	**$ 29.2**	**$ 2.322**	**$11.5**	**$ 223.6‡**	**4,141**
1988	200	35.7	2.326	9.3	238.9‡	3,386
1987	184	6.9	2.415	11.3	265.9‡	4,421
1986	138	7.0	1.749	10.9	230.8‡	4,706
1985	116	2.8	1.282	9.6	249.3§	3,318
1984	78	2.8	1.538	10.0	232.5§	2,158

* Excludes open bank assistance transactions.
† Excludes the Federal Savings and Loan Insurance Resolution Fund (FRF) and the Resolution Trust Corporation (RTC) expenses, collections and assets.
‡ DOL only.
§ FDIC-wide expenses.

of approximately $10 billion. NCNB collected for the FDIC a substantial $2.4 billion from these assets in 1989. Private sector collections on MCorp and TAB assets eventually should bring to the FDIC an additional $7 billion.

An Assistance Transactions Branch headquartered in Dallas, Texas, was established in 1989 for the purpose of monitoring and providing oversight for major assistance transactions nationwide. The relatively small but highly experienced staff of this branch, based in the state where most of the FDIC's failed bank assets are located, enables the agency to leverage its personnel resources to provide management for a large volume of assets.

Asset Management and Sales

With four regional offices and 16 field offices, the Division has been able to decentralize decision-making and delegate considerable authority to the field. This arrangement has helped DOL make decisions in a timely and cost-effective manner.

For example, DOL took 25,844 credit-related actions in 1989 in areas such as settlements, foreclosures and sales of loans and acquired real estate. But under DOL's delegated procedures, only about 1.5 percent of those credit actions had to be approved in the Washington Office.

The Division of Liquidation's account officers collected nearly $2.7 billion on bank and thrift assets. Through its bulk sales efforts, the Division sold more

Failed and Assisted Banks, 1989
(By state and type of transaction)

	Failed Banks	Assistance Transaction	P&A	Payoff	Insured Deposit Transfer	Ag Bank	Whole Bank P&As
Alaska	2	0	2	0	0	0	0
Arizona	6	0	5	0	1	0	0
California	1	0	1	0	0	0	0
Colorado	7	0	5	1	1	1	3
Connecticut	1	0	1	0	0	0	0
Florida	5	0	4	1	0	0	1
Kansas	5	0	3	1	1	4	1
Louisiana	21	0	19	1	1	0	9
Massachusetts	1	0	0	0	1	0	0
Minnesota	1	0	1	0	0	0	0
Missouri	1	0	0	0	1	1	0
Montana	2	0	2	0	0	1	2
Nebraska	1	0	1	0	0	1	0
New York	3	0	0	3	0	0	0
North Dakota	2	0	1	0	1	0	1
Oklahoma	12	0	12	0	0	1	8
Texas	133	1	115	2	16	3	17
Virginia	1	0	1	0	0	0	0
West Virginia	1	0	1	0	0	0	0
Total	**206**	**1**	**174**	**9**	**23**	**13**	**42**

than 28,000 loans having a book value of $493 million. While 1989's bulk sales efforts represent a small percentage of the total asset portfolio in terms of dollars, the numbers of loans sold is significant in that it reduces the volume of small loans requiring servicing. The Division's field offices also administer asset sales and oversee the use of outside contractors.

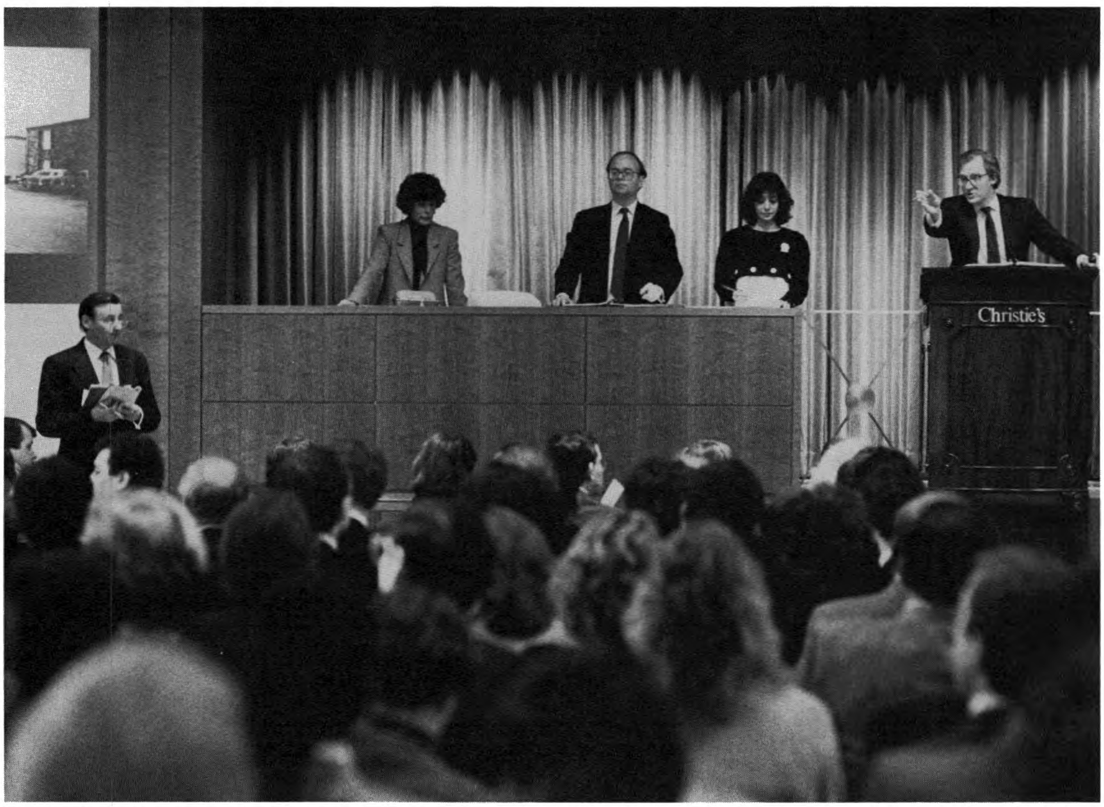
Properties acquired from failed banks are sold through the Owned Real Estate Department in each field office and loans are sold by the Asset Marketing Department. The names of investors interested in purchasing properties or loans are maintained on a data network that can be accessed by all liquidation offices. To be listed, investors must complete a form available from any of the Division's offices.

Listings of properties for sale are available on a local or regional basis upon request from any DOL office. In the second quarter of 1990, DOL began publishing listings of commercial properties for sale nationwide. Each property is listed by type and by city and state, along with a brief description and a phone number for further information.

DOL goes to great lengths to market the real estate properties it acquires from failed institutions. This includes notices in FDIC publications, listings with real estate brokers and advertising in various media, including trade journals that would feature specialized properties such as hotels or restaurants.

Properties usually are sold through real estate brokers, but also are sold at public auctions and by the FDIC's own real estate personnel. Sales typically are on an all-cash basis, although financing is considered.

The Philadelphia Inquirer/Akira Suwa



Christie's auctioneer acknowledges a bid for a property during the FDIC's successful public auction of large real estate holdings, March 8, 1989, in New York City.

Investigations

Negligence and criminal behavior by directors, officers or third parties were major reasons for record numbers of financial institution failures over the last several years. DOL's Investigations Unit is responsible for uncovering, pursuing and redressing these wrongdoings.

Several steps were taken in 1989 to upgrade the Investigations Unit and to make sure it is equipped to accomplish its mission. One was the creation of a new senior position, the Assistant Director for Investigations, to put additional emphasis on these matters.

The unit also started using in 1989 a new computer-based system to help FDIC investigators track alleged violations at banks and follow-up actions by the Department of Justice. This computer network should speed the completion of investigations, give a more complete picture of recurring criminal acts and help track referrals to the Justice Department for possible criminal prosecution. The system also will help the FDIC track the dates that criminal sentences are to be imposed, which is important as the agency aggressively seeks restitution payments from defendants when they are sentenced.

DOL also is establishing a comprehensive training program to give FDIC investigators a complete background in financial institution operations as well as rigorous training in investigative techniques. The FDIC intends to make this one of the premier investigative training programs in the country.

Early Response to the Thrift Crisis

When President Bush announced on February 6 his plans to resolve problems in the thrift industry, a first step was the placement of 253 troubled savings associations into conservatorship under a joint team of regulatory agencies led by the FDIC. The team consisted of the FDIC, the Federal Home Loan Bank Board (FHLBB), the FSLIC, the Office of Comptroller of the Currency and the Federal Reserve Board.

The mission of the regulators was to promote public confidence and maintain customer services while working to find a permanent, cost-effective resolution to the institutions' problems. To accomplish these goals, the regulators took control of the troubled institutions, evaluated their financial condition and took steps to ensure that they would be operated in a safe and sound manner. These actions enabled the regulators to minimize operating losses, limit growth, eliminate highly speculative activities and stop waste, fraud and abuse at these institutions.

In a related move, on February 7, the FDIC agreed to manage thrift institutions placed in conservatorship or receivership. This came after the FHLBB determined that the magnitude of the problems of the thrift industry exceeded its resources and those of the FSLIC. The FDIC was reimbursed by the FSLIC for the services it performed.

The Division of Liquidation's initial participation in the management agreement consisted of conducting asset reviews to determine the estimated losses and providing support in monitoring the credit function at each conservatorship.

DOL conducted asset reviews at the 253 savings institutions in the conservatorship program and subsequently supplied many of its most experienced personnel to act as managing agents of these institutions.

The Impact of FIRREA

Enactment of FIRREA in August added some burdens to the Division but lifted others. Not only did DOL assign approximately 850 senior personnel to the RTC, but it also transferred two of its six DOL regional offices to the new agency. These were DOL's Atlanta and Kansas City Regional Offices. DOL also transferred to the RTC three field offices located in Kansas City, Missouri; Tulsa, Oklahoma; and Burnsville, Minnesota. At the same time, DOL absorbed the liquidation activities and personnel of the FSLIC's Operations and Liquidation Division, which meant a doubling of the portfolio of assets to be liquidated.

FIRREA also gave the FDIC greater flexibility in arranging and processing "purchase and assumption" (P&A) transactions for failed banks. In a P&A, virtually all deposits of an insolvent institution, including uninsured deposits, are assumed by a healthy institution with financial aid from the FDIC.

FIRREA codified the FDIC's long-standing position that non-depositor creditors of a failed institution should share proportionately, or "pro rata," with the FDIC in the proceeds of the liquidation of an insured institution whenever a purchase and assumption transaction is arranged. The FDIC previously had taken the position that it was implicitly authorized to utilize this approach to pay non-depositor creditors what they would have received in a straight liquidation. By specifically codifying the pro rata concept, the FDIC's ability to use the less costly P&A transaction is enhanced.

Outlook

One key development that will affect 1990 and the years ahead will be the transfer to DOL of the responsibility for the resolution of most failing banks. That responsibility, which includes conducting asset reviews at failing banks and preparing for meetings with potential acquirers, has rested with the FDIC's Division of Supervision (DOS).

By bringing DOL specialists into the liquidation process much sooner than in the past, the Division is expected to have increased flexibility in fashioning new and innovative ways to sell assumed assets. The change also will free up more DOS examiners for bank supervision duties.

DOL also will work toward improving and expanding its loan sales programs as a way to further reduce costs. The Division plans to contract with outside vendors who would purchase good mortgage loans acquired by the FDIC and then sell interests in the loans to the public by securitizing them. DOL also wants to increase the sales of small loans, such as consumer loans.

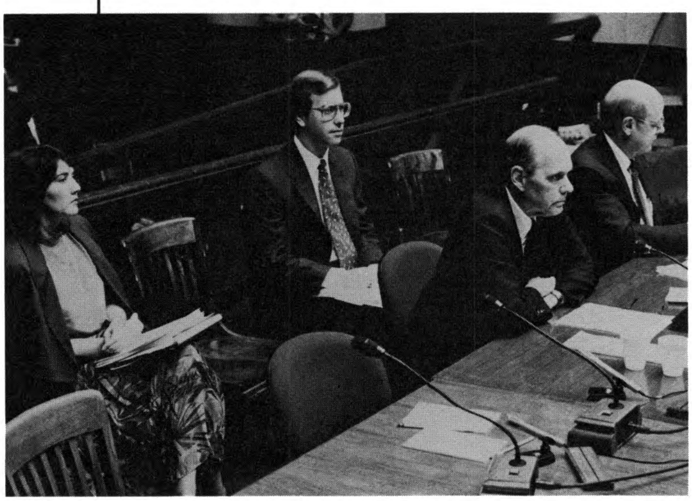
DOL plans to establish real estate offices staffed by FDIC marketing and sales specialists in locations near high concentrations of properties acquired from failed institutions. The offices will serve as a base of operations for property sales. In addition, DOL is developing a telemarketing system designed to quickly and easily provide information to investors about properties for sale.

Legal Division

Assumes New Duties for Interpreting, Enforcing FIRREA

This Division's primary role is to provide the legal support necessary for the FDIC to fulfill its duties as regulator of depository institutions and insurer of deposits. With the tremendous expansion of the agency's duties under FIRREA, the workload and responsibilities of the Legal Division expanded as well, especially for major "clients," including the Resolution Trust Corporation (RTC), the FDIC's Divisions of Supervision and Liquidation, and the new Division of FSLIC Operations.

With the transfer of the deposit insurance system for savings associations from the Federal Savings and Loan Insurance Corporation (FSLIC) to the FDIC, the Legal Division faced many new legal issues. Those included reconciling differences in bank and thrift deposit insurance rules and implementing receivership and conservatorship powers. The transfer of pre-1989 savings association receiverships from the FSLIC to the FDIC also increased the number of resolution and asset liquidation matters requiring action.



Joe C. Nemec/Action Photo

Assistant general counsel Roger Hood (second from right) testifying at a congressional hearing on deposit insurance, with legislative affairs director Beth Climo and senior attorney Claude Rollin.

Another addition to the Division's workload is providing legal support for the administration of approximately 200 FSLIC assistance agreements that are obligations of the FSLIC Resolution Fund, which is managed by the FDIC.

Also, the FDIC's new authority to regulate certain activities of insured savings associations brought with it new supervisory matters to be resolved by the Legal Division. These included revised or expanded enforcement, receivership and conservatorship powers that required new interpretations and implementation.

After the enactment of FIRREA in August 1989, the Division also was responsible for the major undertaking of providing legal services to the RTC.

While the Legal Division's overriding concern was interpreting, implementing and enforcing the many provisions of FIRREA — a focus that is likely to continue for years to come — it also did its part in helping the FDIC handle 206 insured bank failures in 1989.

Indicative of the tremendous responsibilities faced by the Legal Division in 1989 are the approximately 65,000 pending cases in litigation at year-end, more than four times the 15,168 pending cases at the end of 1988.

Structural Changes

The Legal Division's responsibilities can be loosely divided into the following four functions: (1) working with the Division of Supervision (DOS) to ensure that FDIC-insured institutions operate in a safe and sound manner; (2) providing legal advice and support when troubled FDIC-insured institutions are merged or liquidated; (3) resolving through mediation, settlement or litigation disputes involving assets or liabilities of failed financial institutions, including claims against directors, officers, attorneys, accountants and borrowers; and (4) supporting the FDIC on day-to-day operations, such as advising on personnel and labor law and property leases and purchases.

In response to FIRREA and the tremendous increase in the agency's litigation caseload, the Division increased its staff from 904 at the end of 1988 to 1,340 at the end of 1989. Its authorized strength for 1990 has been increased to 2,637 people, with about 80 percent of the new positions to be in regional and field offices.

The Division's increased duties also necessitated an internal reorganization. Under a plan approved by Chairman Seidman in August of 1989, the Division's former structure of three branches and nine sections was replaced with a new system of four branches and 14 sections, with responsibilities and accomplishments as explained below. The new structure regroups organizational units to parallel the Division's new functions under FIRREA. The four branches are:

- **The Supervision and Legislation Branch**
  The three sections in this branch specialize in implementing and developing regulations and laws involving deposit insurance, bank and thrift supervision and other related issues; developing and supervising enforcement policies; and drafting and negotiating FDIC-assisted acquisitions of problem institutions.

- **The Financial Institutions Operations and Liquidation Branch**
  This new branch is responsible for legal operations at the agency's regional liquidation offices and field sites. Its five sections handle failed bank and thrift resolutions and asset liquidations, legal services for the RTC, bankruptcy matters handled by the FDIC, advice on administering thrift assistance agreements transferred from the FSLIC, and advice on legal issues stemming from asset liquidations.

- **The Litigation Branch**
  This branch is responsible for litigation matters handled from Washington rather than from the regional offices. Its three sections handle trial litigation involving open and closed institutions; appeals court cases from the state level to the U.S. Supreme Court; and investigations of, and civil damage recovery from, professionals who have breached duties to failed institutions.

- **The Operations Branch**
  This branch has three sections responsible for the Legal Division's administrative and personnel matters, the coordination of the Division's efforts to investigate and prosecute crimes and to mediate conflicts between institutions, and advising on general corporate issues, such as the FDIC's corporate powers and personnel and labor law.

Supervision and Legislation Branch

During 1989, the Regulation and Legislation Section was actively involved assisting Congress in developing portions of FIRREA. Once the law was enacted, the section was responsible for identifying the new responsibilities, procedures, regulations, reports and other obligations required of the FDIC or the RTC. In this regard, the section worked closely with DOS and other Divisions and Offices of the FDIC to assist in interpreting and responding to FIRREA.

For example, FIRREA specifically required 17 mandatory rulemakings and authorized more than 20 others, virtually all of which were the Regulation and Legislation Section's responsibility to draft and recommend to the Board of Directors for approval. This section developed and published 15 FIRREA-related proposed, interim or final regulations and two other regulations unrelated to FIRREA.

The section also responded to hundreds of requests from outside parties for legal opinions on the effects of FIRREA and the implementing regulations. Inquiries about deposit insurance coverage in particular greatly increased as public perceptions about the instability of the savings and loan industry created concern about the safety of deposits.

FIRREA also required the FDIC to reconcile differences between the deposit insurance regulations that govern banks and savings associations. The section began working on this extensive project in 1989. Final rules were adopted by the FDIC's Board on April 30, 1990. The revised insurance rules also codified certain long-standing staff interpretations. The rules are expected to lead to an increase in deposit insurance inquiries from depository institutions and the public. The section has increased its staff to accommodate those inquiries.

FIRREA greatly enhanced the enforcement powers at the FDIC's disposal, in turn expanding the duties of the Compliance and Enforcement Section, which drafts policies and helps enforce compliance with consumer protection and depository institution laws.

Of special interest are provisions of FIRREA that enable the FDIC to suspend temporarily the deposit insurance of an institution operating with no tangible capital, to recoup some of the losses caused by the failure of an institution by assessing other commonly controlled institutions, to assert enforcement jurisdiction over individuals formerly employed by an insured depository institution and to impose dramatically tougher civil money penalties for violations of FDIC rules and orders.

In addition, FIRREA expanded the FDIC's powers to issue cease-and-desist orders, prohibit individuals from participating in an institution's affairs, and take enforcement actions against savings associations. Also new is a requirement that the FDIC publish and make available to the public any final order issued with respect to an administrative enforcement action.

Although FIRREA is still a new law, the Compliance and Enforcement Section by year-end began using the new statute's more streamlined procedures to initiate termination of deposit insurance at 13 institutions and to impose one temporary suspension of deposit insurance. The section also initiated proceedings under the cross-guarantee provisions of FIRREA for the first time in one case.

Other actions are being pursued under a combination of both FIRREA and the Federal Deposit Insurance Act. There were 207 enforcement actions initiated during the year, comparable to the 223 from 1988. A cease-and-desist order, which is used to halt and correct unsafe or unsound banking practices, is the most common administrative enforcement tool used by the FDIC.

The Assisted Acquisitions and Transactions Section within the branch was busy during 1989 finishing the details of previously consummated assistance deals and stock sales, in addition to playing a key role in several new assistance transactions, such as those for Texas American Bancshares (TAB), Fort Worth, and MCorp of Dallas.

Compliance and Enforcement Actions, 1987-1989

	1989	1988	1987
Actions Initiated by FDIC	**207**	223	236
Section 8(a) (Termination of Insurance Orders)			
Orders of Correction Issued	**60**	77	91
Notices of Hearing Issued*†	**11**	10	18
Notifications to Primary Regulator‡	**13**	—	—
Notices of Intent Issued*†	**8**	—	—
Temporary Suspension of Insurance Issued‡	**1**	—	—
Orders Accepting Voluntary Termination Issued	**1**	0	0
Section 8(b) (Cease-and-Desist Orders)			
Notices of Charges Issued	**31**	26	31
Orders Issued With Notice*	**25**	24	16
Orders Issued Without Notice	**72**	74	89
Section 8(c) (Temporary Orders)*	**1**	5	3
Section 8(e) (Removal/Prohibition of Director or Officer)			
Notices Issued	**10**	10	5
Orders Issued With Notice*	**7**	14	8
Orders Issued Without Notice	**3**	19	13
Section 8(e)(4) (Suspensions Issued)*	**0**	0	0
Section 8(g) (Suspension/Removal of Director or Officer Charged With Felony)			
Notices Issued	**0**	1	2
Permanent Orders Issued	**0**	0	0
Section 8(p) (Termination of Insurance/No Longer Accepting Deposits)			
Orders Issued	**2**	5	1
Section 8(q) (Termination of Insurance/Deposits Assumed)			
Orders Issued	**1**	0	0
Civil Money Penalties Issued	**9**	10	3
Capital Notices Issued	**3**	1	1
Capital Directives Issued*	**1**	1	1
Section 5(e) (Cross Guaranty Assessment)‡	**1**	—	—

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

† Pre-FIRREA document name is NOTICE OF HEARING, post-FIRREA document name is NOTICE OF INTENT.

‡ New enforcement power granted by FIRREA in 1989; therefore data for previous years do not exist.

The section negotiated with NCNB Texas National Bank, Dallas, and First City Bancorporation of Texas, Houston, for the banks' repurchase of stock the FDIC bought under the terms of 1988 assistance agreements. The section also participated in several public and private sales of stock of Continental Bank Corporation, Chicago, held by the FDIC as part of a 1984 assistance agreement.

In the case of TAB, which was declared insolvent in July of 1989, the section worked closely with the Legal Division's Financial Institutions Operations and Liquidation Branch, the Division of Supervision and other parts of the FDIC to establish a bridge bank. Later, the section assisted in the bridge bank's merger with a healthy institution, the Deposit Guaranty Bank of Dallas. The FDIC provided financial assistance of approximately $900 million.

As for MCorp, when the Comptroller of the Currency closed 20 of its subsidiary banks in March 1989, the FDIC transferred almost all their assets and liabilities to a bridge bank and signed an agreement in principle to sell the bridge bank to Ohio-based Banc One Corporation. In January 1990, a final agreement was reached whereby Banc One would buy approximately $34 million of the resulting institution's voting common stock and the FDIC would purchase approximately $416 million of nonvoting common stock, which is to be redeemed by Banc One within a five-year period. Troubled and nonperforming assets would continue to be held by the bridge bank, but serviced by a subsidiary of Banc One. Total assistance from the FDIC is expected to be approximately $2.7 billion.

The fact that FIRREA increased the FDIC's power to provide financial assistance to unstable institutions —

Cease-and-Desist Orders, 1987-1989	1989	1988	1987
Cease-and-desist orders outstanding at beginning of year — total	**267**	295	336
Section 8(b)	**262**	292	334
Section 8(c)	**5**	3	2
Cease-and-desist orders issued during year — total	**98**	101	123
Section 8(b)	**97**	96	120
Section 8(c)	**1**	5	3
Cease-and-desist orders terminated — total	**83**	140	148
Section 8(b)	**82**	137	147
Section 8(c)	**1**	3	1
Cease-and-desist orders in force at end of year — total	**252**	267	295
Section 8(b)	**246**	262	292
Section 8(c)	**6**	5	3

savings associations as well as banks — means expanded responsibilities for the Assisted Acquisitions and Transactions Section. To meet these demands, this section has more than doubled its legal staff.

Financial Institutions Operations and Liquidation Branch

Within this branch is the Operations and Liquidations Section, which during the year worked on the 206 failed bank transactions and the establishment of three bridge banks. The section also played a major role in drafting provisions of FIRREA that deal with the establishment of bridge banks.

Other aspects of this section's work included the legal administration of FSLIC receiverships that were created before January 1, 1989. Since FIRREA provides revised and expanded statutory authority and direction for conducting depository institution receiverships, the section issued interpretations of these new provisions and began defending legal challenges to their use.

A new Operations and Liquidations (RTC) Section was created to provide legal services for the RTC's resolution and asset liquidation functions. The section also serves as the liaison between the RTC and the FDIC's Legal Division. Typically, Washington personnel concentrate on general policy and procedures, as well as large or sensitive cases or resolutions. The regional and field offices provide legal support for the RTC's regional operations.

As of the end of the year, the section supervised more than 280 conservatorships and receiverships, and over 40,000 lawsuits. At least 200 more conservatorships are expected to be added to this workload in the future.

In another development during the year, the FDIC began bringing an increasing number of claims against bankrupt individuals and entities. As of the end of 1989, the new Bankruptcy Section within this branch was overseeing or monitoring the pursuit of FDIC claims in more than 7,800 bankruptcy cases arising out of failed banks, up from 4,850 in 1988.

The FDIC generally is the largest creditor in these bankruptcy proceedings, and it plays a critical role in the cases. Eighty-seven percent of these bankruptcy claims were handled entirely by FDIC attorneys, with the remaining cases going to outside counsel. Nearly half of these claims are for more than $100,000. With the enactment of FIRREA, the FDIC also assumed an additional 4,500 savings association-related bankruptcy cases, a number that is expected to increase during 1990.

There were approximately 200 savings association assistance agreements transferred to the FDIC from the FSLIC under FIRREA, some of which will remain in force for as long as ten years. The new Thrift Agreement Administration and Oversight Section was created during 1989 to handle matters such as interpreting provisions of these assistance agreements, resolving disputes with assisted associations and overseeing lawsuits by or against these thrifts where the government has a financial interest because of indemnification provisions of the assistance agreements. The section also tends to general legal policy concerns relating to the agreements, such as clarifying FIRREA's impact on the activities of assisted savings associations and working with the Office of Thrift Supervision (OTS) and the Comptroller of the Currency to develop policies for regulating assisted savings associations.

Because the Legal Division is facing diverse new issues as a result of FIRREA, a Special Projects Section was created to develop uniform interpretations of issues relating to certain resolution and asset liquidation functions. The section helped coordinate the FDIC's legal policy on tax issues, pension plans, the environment, securities, bulk sales and service corporations.

The Special Projects Section also manages the Division's computerized Case Management System, which maintains data on thousands of pending FDIC and RTC lawsuits related to asset liquidation functions and tracks the use of outside counsel and their fee bills.

Litigation Branch

The Trial Litigation Section within this branch expanded to include cases involving closed savings associations, along with its traditional role in open and closed bank litigation. In general, the section handles litigation that includes certain challenges to bank and thrift closings, FDIC assistance transactions, FDIC regulations, suits against officials and employees of the FDIC and other major matters. Although the section transferred most of its appellate matters to the new Appellate Litigation Section, it will continue to defend the administrative enforcement decisions of the FDIC's Board of Directors in the U.S. Courts of Appeals.

In the area of regulatory and enforcement matters, the FDIC Board of Directors issued 13 final administrative enforcement decisions in 1989, five of which were appealed to the United States Courts of Appeals. The appellate courts issued four decisions in these cases in 1989 and two other appeals were pending at the end of the year.

One decision issued by the Fifth Circuit Court of Appeals in New Orleans, *Arnold v. FDIC,* was quite significant. On July 28, 1989, the court affirmed the assessment of a $1,225,000 civil money penalty against Kenneth O. Arnold, a former president of American Bank of Coushatta, Louisiana. The charges were for multiple violations of rules that limit "insider" loans by a bank to executive officers, directors and principal shareholders and limit loans by a bank to affiliated entities. This case represents one of the largest single civil monetary assessments ever imposed on an individual by a bank regulatory agency.

FIRREA and its tough new capital standards produced a number of lawsuits against the FDIC and the OTS, challenging both the law and its application. Separate suits were filed by Long Island Savings Bank of Syosset, New York; Northeast Savings Bank of Hartford, Connecticut; CenTrust Bank of Miami, Florida; and El Paso Savings and Loan Association of El Paso, Texas. Each institution claimed it has a contract with the former Federal Home Loan Bank Board or the FSLIC in connection with the assisted acquisition of a troubled thrift prior to the enactment of FIRREA and that the contract permits it to count "goodwill" toward minimum capital requirements under standards more liberal than permitted in FIRREA. In early 1990, the FDIC and the OTS filed motions to dismiss the complaints. The issue of eliminating goodwill has generated considerable protest from savings association officials.

The FDIC also has been named a defendant in both its corporate and receivership capacities in major litigation by holding companies arising out of the failures of subsidiary banks of First RepublicBank Corporation, TAB and MCorp.

The First Republic litigation is a complex suit by creditors of the bankrupt holding company who are attempting to avoid First Republic's obligation to repay a $1 billion loan by the FDIC in 1988 as part of the temporary assistance package. The creditors also asserted that the stock pledges and guarantees by the holding company for the loan exceeded the FDIC's statutory authority and constituted fraudulent conveyances. The creditors also asserted that the subsidiary banks were closed improperly.

The TAB and MCorp cases focus on allegations that the subsidiary banks were closed improperly and that forced recognition of losses on interbank "federal funds" loans was improper. In the TAB case, the FDIC received an adverse ruling on June 25, 1990, and is appealing the decision. In the MCorp case, the FDIC asked the court to reject the challenge and is awaiting a ruling.

The Appellate Litigation Section is defending in appeals courts many cases concerning the FDIC's use of aspects of FIRREA that provide special protections to conservatorships and receiverships.

During 1989, the section won significant decisions in the following cases:

- **Downriver Community Federal Credit Union v. Penn Square Bank**
  The Tenth Circuit Court of Appeals in Denver upheld the FDIC's position that federal law requires assets in a receivership to be distributed equally among all general creditors. The court rejected the credit union's claim that fraud which occurred before the institution went into receivership entitled it to a greater share than the other creditors.

- **FDIC v. Hartford Insurance Company**
  The Seventh Circuit Court of Appeals in Chicago decided that, under the National Bank Act, tort claims against the FDIC as receiver for a national bank must be brought in the judicial district in which the main office of the closed institution is located. The court declined to accept the defendant's argument that provisions of the Federal Tort Claims Act established a contrary venue, although the court agreed that the tort claims law applied to the FDIC as receiver.

- **FDIC v. Texarkana National Bank**
  The Fifth Circuit Court of Appeals in Dallas agreed with an FDIC motion to remove certain language from the court's original opinion. This language implied that all receivership creditors — even non-depositors — were entitled to full payment of their claims in a purchase and assumption transaction, and that FDIC funds would be used to make the payments if the failed bank's assets were insufficient. The FDIC contended that the original language would have resulted in a windfall to creditors at public expense.

Negligence or willful misconduct on the part of directors, officers and other professionals has contributed to numerous bank and savings association failures. As a result, the Professional Liabilities Section of the Litigation Branch helps the Division of Liquidation and the RTC investigate each depository institution failure to determine whether the FDIC should bring civil claims for monetary damages against certain individuals and then supervises the litigation of claims made.

The Professional Liabilities Section also began handling claims arising from the RTC and pre-1989 conservatorships and receiverships of the FSLIC. In general, the FDIC's litigation workload in cases involving professional liabilities tripled to encompass ongoing cases and investigations involving 1,250 failed banks and savings associations. The section recovered a total of $100 million in claims against failed banks and thrifts during the year, a 56 percent increase over the $64 million recorded in 1988.

Operations Branch

The new Conflicts and Criminal Restitution Section within the Operations Branch is adding another dimension to the FDIC's efforts to combat financial crime and resolve disputes through litigation and negotiation. Formed in October 1989, the section has received nationwide attention for its success in obtaining restitution orders and in supporting government efforts to impose lengthy prison sentences.

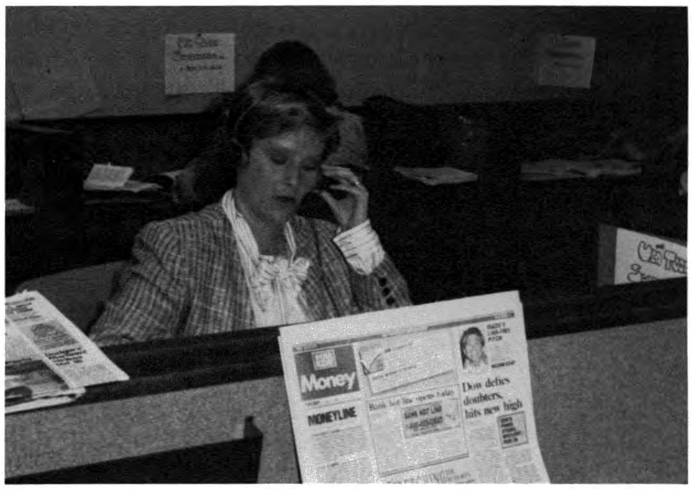
Examples include the sentencing of Jay and Leif Soderling, former directors of Golden Pacific Savings and Loan Association, Santa Rosa, California, to six and one-half years in prison and $6.7 million in restitution for bank fraud, and the sentencing of Woody F. Lemons, former Chairman and Chief Executive Officer of Vernon Savings and Loan Association of Dallas, Texas, to 30 years in jail in a fraud case arising out of the S&L's 1987 failure.

Various courts across the country during 1989 awarded more than $60 million in restitution payments to the FDIC and the FSLIC from former officers, directors or borrowers at closed banks and thrifts who were convicted of embezzlement or other forms of bank fraud.

In addition, the new section has developed local working groups around the country to provide assistance to the Justice Department's expanded fraud prosecution efforts under FIRREA.

The section also has trained field attorneys as well as FDIC and RTC investigators in techniques needed to detect and prevent fraud at institutions.

A second major aspect of the new section's operations is to assist regional attorneys to resolve, out of court, major commercial disputes involving government entities. Examples are cases in which various conservatorships or receiverships have legal claims against each other as a result



Geoffrey L. Wade

Legal Division counsel Pamela LeCren was one of 20 FDIC officials at a hotline at *USA Today* news offices on June 5, 1990, to answer consumers' questions about deposit insurance.

of transactions before they became insolvent. Alternative dispute resolution is very often cheaper and faster than the protracted litigation sometimes necessary to resolve these disputes.

In internal matters, the Corporate Affairs Section handled 77 personnel and labor cases for the FDIC during the year, compared to 65 in 1988. It was also significantly involved in the transfer of many employees of the former Federal Home Loan Bank Board and FSLIC to the FDIC.

The Legal Division's substantial growth during the year put special demands on the Administration Section in the areas of human resource development, facilities management and other administrative functions. Among its projects during 1989 was the start of a program to give all Legal Division attorneys and support staff access to a single computer network.

Outlook

FIRREA will continue to impact on the Legal Division in 1990 and beyond. The Regulation and Legislation Section in particular expects a substantial increase in its workload throughout 1990. The section must develop final regulations for proposals initiated in 1989, many stemming from FIRREA. The section also will continue to address the many interpretive questions that have arisen under various provisions of FIRREA.

In addition, several regulations adopted in 1989 as interim rules must be reviewed and issued in final form during 1990. Examples include:

- Part 303.13 of the FDIC's regulations, which governs permissible activities of state-chartered savings associations;
- Part 303.14, on FDIC approval of bank officers and directors at state nonmember banks;
- Part 312, setting entrance and exit fees payable upon an institution's conversion from the Savings Association Insurance Fund (SAIF) to the Bank Insurance Fund (BIF), or vice versa; and
- Part 337.6, on the use of brokered deposits by troubled institutions.

The Compliance and Enforcement Section plans to adopt a new policy memorandum applying provisions of FIRREA that prohibit individuals convicted of certain crimes from participating in the affairs of insured institutions. The section also is preparing a letter of understanding with the OTS that will implement certain aspects of the FDIC's new backup enforcement authority over savings associations under FIRREA.

The Thrift Agreement Administration and Oversight Section plans to transfer many of its litigation oversight activities to offices in Dallas and San Francisco. This transfer will increase efficiency, reduce outside counsel costs and decrease response time by putting attorneys closer to the sites where they are needed while allowing the headquarters staff to concentrate on interpretations of assistance agreements and more general legal policy matters.

The Legal Division in 1990 plans to put increased emphasis on hiring and training sufficient staff to cope with its increased work demands, enhance systems and controls for overseeing outside counsel and improve its computerized case tracking system. Such initiatives will enable the Division to better service its clients and add to FDIC and RTC asset recoveries.

Division of Accounting and Corporate Services

Facing a New Era of Financial Management under FIRREA

The thrift industry crisis and FIRREA put exceptional demands on the FDIC for new financial services, boosts in automation and expanded efforts that include the handling of deposit insurance premiums from savings associations as well as banks. Those reponsibilities fall largely to the Division of Accounting and Corporate Services (DACS). Highlights of 1989 for DACS include the following:

- Accounting and reporting for the Savings Association Insurance Fund (SAIF), the FSLIC Resolution Fund (FRF) and the Resolution Trust Corporation (RTC). This is in addition to traditional duties for the Bank Insurance Fund (BIF).

- Enabling agency computers to access and store key financial data and other information about savings associations in addition to what had been maintained for banks.

- Providing the RTC with the technical support needed to track financial information nationwide.

Geoffrey L. Wade

Construction began in 1989 on the Virginia Square complex in Arlington, Virginia, which will be used for FDIC offices, classrooms and a residential center for personnel attending sessions.

- Overseeing the acquisition and management of additional office buildings and storage needed by the expanding FDIC and the new RTC.

- Helping the FDIC and the RTC monitor the growing number of active and inactive lawsuits involving these agencies.

- Taking steps to shorten the processing time of payments due from the FDIC by giving regional offices more authority to approve spending.

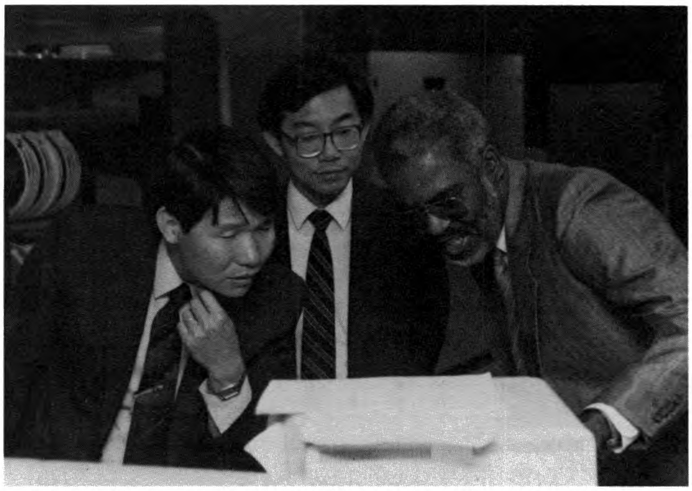
To meet the new responsibilities under FIRREA without neglecting its traditional mission, DACS undertook a major reorganization, streamlining itself along functional lines. As a result, DACS now consists of four branches: Financial Reporting, Financial Services, Management Information Services and Corporate Services.

Financial Reporting Branch

The Financial Reporting Branch (FRB) handles two overall responsibilities. One, "accounting services," focuses on financial and managerial reporting, accounting and tax policy, financial analysis, fiscal control, general ledger systems maintenance and resource management. The second, "accounting operations," is in charge of Washington and field office accounting activities. This work expanded significantly with the insurance funds and agencies created by FIRREA.

As a result of FIRREA, basic financial reporting processes underwent dramatic changes to accommodate the new insurance fund, the FRF and the RTC. This included the expanded preparation of periodic reports to the Treasury Department and the White House Office of Management and Budget (OMB), monthly internal analyses and year-end financial statements.

Geoffrey L. Wade



John Washington of the Management Information Services Branch briefs visitors from Taiwan studying deposit insurance.

A major effort was devoted to developing financial statements for SAIF, FRF and the RTC in terms of balance sheets, income statements and statements of cash flows. New financial schedules were developed to support these statements. The entire program required extensive coordination within the FDIC and the RTC to ensure that new reporting procedures complied with various laws and regulations.

Detailed analyses of FIRREA's many accounting and tax policy changes were conducted to guide the financial reporting, accounting and systems development efforts of the branch. New financial statement formats and footnotes were developed for each fund — an activity that required assessments of statutory requirements and legislative intent, applications of generally accepted accounting principles and consideration of past FSLIC operations. In addition, a new system to improve tax reporting to the IRS was implemented.

To better maintain a solid internal control structure within the FDIC's vastly expanded accounting operations, FRB took on new and growing duties for fiscal control. The aim of this effort is to help ensure that operations comply with FDIC accounting and control practices and that financial reports are developed within an environment of appropriate internal controls.

The FDIC's general ledger is the central system for aggregating and reporting the financial condition of insurance fund activities nationwide. Major modifications were made in 1989 to establish multi-fund processing capabilities. Scores of reports and programs were changed, reviewed and tested to ensure the accuracy and reliability of the financial data generated.

Extensive efforts also were devoted to improving existing processes to accommodate the vast increases in workload. FRB began developing improved methods to bring higher investment yields on funds obtained through receiverships. Also, a new system was developed to better distribute FDIC overhead costs from liquidations to the institutions receiving the benefits of those costs.

In terms of accounting activity, an extensive evaluation of existing operations was undertaken in light of FIRREA that resulted in a reorganization of the branch's resources and methods. Accounting activity was structured according to the three insurance funds and the RTC. New procedures for account reconciliation and transaction review were implemented to ensure accuracy and quality control.

The continued large number of failed banks handled during the year and other activities resulted in the posting of 2.9 million financial accounting transactions to the accounting records, about the same as in 1988. During the course of 1989, FRB personnel processed accounting data related to institutions in receivership from 28 locations nationwide. These locations included 19 for the Bank Insurance Fund, four for the

FSLIC Resolution Fund and five for the Resolution Trust Corporation. Through enhanced systems and accounting practices, these locations have increased productivity at a time when the number of institutions in receivership has increased. The number of active financial institutions in receivership as of December 31, 1989, totaled 1,076, up from 848 as of December 31, 1988. Included in the 1989 processing efforts are 276 savings associations for which the RTC was appointed conservator as of year-end.

During 1989, the branch began using a new system to facilitate the processing and reconciling of insurance claim checks generated during a payoff of depositors of a failed institution. A complete billing system also was developed to support the conservatorships and reimbursement to the RTC.

To accommodate the accounting requirements associated with setting up a receivership from a closed institution, FRB developed procedures, manuals and training courses to provide standardized instruction on closing the accounting records of an old institution and establishing the accounting balances on the receivership's books.

The branch also conducted an extensive review of accounting processes used in the savings and loan industry. Based on that review and indications of needs for improvement in existing accounting procedures, the branch instituted changes for use by institutions in receivership.

The addition of the funds created by FIRREA and the associated accounting functions required a number of personnel changes. Positions were created, existing positions were redefined and members of the Federal Savings and Loan Insurance Corporation's accounting staff were integrated into the FDIC's operations.

Financial Services Branch

The Financial Services Branch (FSB) is responsible for the Division's financial accounting and asset management services and operations. This includes managing, coordinating and directing support activities for the FDIC's Financial Information System (FIS) and the Liquidation Asset Management Information System (LAMIS).

The Financial Information System is an umbrella term for the accounting system and various financial subsystems used by FDIC accountants and financial personnel to generate the official financial reports of the agency. During 1989, changes were made to the systems to accommodate the substantial requirements of FIRREA.

Other enhancements made during 1989 included an increased access to loan loss reserves for FDIC field locations. The enhancements resulted in increased capabilities in financial processing and reporting, which achieved greater operational efficiencies and easier availability of financial information.

LAMIS is the FDIC's largest computer system and provides the capability for tracking and servicing the assets of failed financial institutions. Major enhancements made during the year include the conversion of the Estimated Cash Recovery System from a microcomputer application to the mainframe.

As a result of the conversion, this system used by the FDIC to project recoveries on acquired loans and other assets will have greater flexibility, more storage and faster response time. Also, LAMIS in 1989 added special capabilities and data for processing real estate properties acquired, which in turn provides additional information to field staff working these assets.

In addition to the system responsibilities of FSB, the branch determines and collects insurance premiums. To insure deposits, the FDIC assesses an annual fee on all insured financial institutions. With the passage of FIRREA, the assessments function of FSB grew dramatically. The increased responsibility involved in collecting assessments from savings associations formerly insured by the FSLIC resulted in a one-third increase in the FDIC's assessments staff by the end of 1989. In addition, the branch will oversee the FDIC's implementation of increased assessment rates for deposit insurance that were authorized by FIRREA.

The branch performs audits of the assessment premiums paid by the largest banks in order to determine if they are in compliance with current regulations. During 1989, the number of audits performed increased to properly administer the enlarged responsibilities for assessments. Uniformity of approach among financial institutions has been stressed, and the assessment rules that apply to banks also are being applied to savings associations.

FSB also is responsible for travel reimbursement policy and payments to employees, as well as for the accounts payable function. Growth in travel expenses and accounts payable vouchers processed agency-wide resulted in a 40 percent increase in workload before the end of 1989. In addition, the processing of wire transfers used to send funds to failed and assisted institutions doubled during the year.

To meet this existing burden and to prepare for even further increases in workload, a number of programs were instituted. Transferring more authority for spending to the regional level will shorten the processing time for many transactions and reduce the demand for services at Washington headquarters. A new automated reimbursement system is being developed to support the increased amount of travel being done for the FDIC. To enhance internal controls, an internal tracking system that better monitors the payment process was established in 1989. Steps also were taken to better ensure that FDIC compliance with laws guaranteeing prompt payment of invoices was not compromised by the enormous growth in the number of financial transactions handled.

Management Information Services Branch

The role of computers in helping the FDIC meet a growing demand for information continued to expand in 1989. The number of jobs handled through the FDIC's central computer, such as processing Reports of Condition and Income (Call Reports), increased 30 percent from year-end 1988. Also, the number of individual on-line transactions jumped 56 percent. The FDIC's high-speed central computer, which was installed at the end of 1988, enabled the Management Information Services Branch (MISB) to produce more information in less time despite the increased workload. Indicative of this, computer time used actually decreased seven percent.

The year 1989 ushered in an increased use of data communication lines that connect FDIC computers throughout the country in the same way telephone lines link callers. Dependence on these lines grew with the expanded use of microcomputers and the establishment of additional "local area networks" at the FDIC and the RTC.

Local area networks enable microcomputer users to communicate with the FDIC central computer and other microcomputers. Network users can transmit documents electronically, share data and use a greater number of software applications. Just as individual microcomputers are now linked by local networks, the FDIC eventually will be connected by a "wide area network," further expanding the communication range of the microcomputer user.

MISB also created new programs to support the FDIC's Growth Monitoring System, which enables analysts, primarily staff from the Division of Supervision, to identify banks that exceed selected growth thresholds. The branch also enhanced other systems to accommodate the need for information on savings and loan associations.

FIRREA directly affected decisions about the enhancement and maintenance of computer systems in 1989. For example, the Bank Information Tracking System (BITS), which serves as a single source for information on bank performance and management, in 1989 began accepting data from Office of Thrift Supervision examinations in order to help the FDIC track problem savings associations.

Similarly, the FDIC's Case Management System, which tracks active, inactive or closed court cases, added 12,000 S&L cases in 1989. That brought the total number of cases on the system to approximately 100,000, up from about 75,000 at the end of 1988.

MISB also developed systems in support of the RTC for purposes that include providing profiles of the financial condition of individual savings associations, logging correspondence to and from Congress, and maintaining mailing lists for RTC publications.

A major effort was launched to improve the branch's ability to reduce development costs while increasing the quality of products and services — goals that will continue in the coming year. Quality assurance testing procedures were developed for changes to the central computer operating environment to ensure stability and enhance operations.

FDIC policy states that information collected and generated in conducting its business, such as data about financial institutions and customer assets, must be treated and protected as highly sensitive. In 1989, additional security measures and controls were established to augment that policy, including the appointment of security contact personnel throughout the FDIC and the development of new forms of documentation and training.

Critical bank surveillance information was processed by MISB in 1989 for the use of other government regulatory agencies and the banking community. This information was gathered from about 70,000 original and amended quarterly Call Reports filed with the FDIC by about 13,000 insured banks, approximately the same number that filed in 1988. The branch also supported the Division of Research and Statistics' production of the *Quarterly Banking Profile*, the earliest official release of performance data about the banking industry.

The FDIC again provided training and assistance to bank personnel submitting Call Reports and other types of financial information about bank performance.

The FDIC's toll-free telephone "hotline" for Call Report information and assistance continued to be a popular feature for national banks and FDIC-supervised institutions. That hotline can be reached at 1-800-424-5101 or, in the Washington, D.C. area, at 202-898-6607. It is in operation Monday through Friday, 8 a.m. to 5 p.m. EST.

Several moves were made to enhance the FDIC's telephone system while controlling costs. The agency replaced the various companies previously used for telephone service with a single long distance carrier that is providing expanded services at a lower rate. To ensure uninterrupted service, back-up service was arranged with another company. The FDIC telephone system was further enhanced in 1989 by the addition of an automated telephone answering service for senior employees.

Corporate Services Branch

With the assumption of the FSLIC and the establishment of the RTC, the pace of activity for the Corporate Services Branch (CSB) increased dramatically in 1989, particularly in the acquisition and management of buildings. As the number of employees grew in Washington and the regional offices, so did the demand for work space.

The FDIC nearly doubled the amount of space it leases in the Washington, D.C., area and in the regions to accommodate the growing number of employees.

The FDIC also provided extensive assistance to the RTC in identifying facilities, negotiating leases and preparing and furnishing space for the network of RTC regional and consolidated field offices that opened in 1989.

The FDIC not only acquired extensive assets from failed institutions, but with those assets also came literally tons of vital records. CSB developed new records retention and disposition programs to handle these documents. The need for storage space also increased in 1989. A new warehouse in Landover, Maryland, was acquired to store supplies, equipment, forms, publications, manuals and other materials, such as decals and brochures that are distributed to financial institutions and the general public.

Also in terms of records management, the FDIC library in recent years has established and expanded facilities in the regional and consolidated offices. Responding to an even greater need for specialized information in 1989, the library obtained several major data bases, including Prentice-Hall On-Line and TRW, Inc. These data bases provide up-to-date credit information, which is used by FDIC liquidation specialists, examiners and Legal Division personnel. Also, in response to the growing needs of the FDIC under FIRREA, the library expanded its collections to include more information on asset marketing, real estate, the housing industry and local and regional economic conditions.

As the need for more equipment and professional services for the FDIC and the RTC grew, CSB worked with various private firms to add the help needed. A major contracting effort involved negotiating contracts for the procurement and installation of automation and communication equipment for the RTC. This included a national network of personal computers, local area networks and telephone systems.

As a result of FIRREA, the demands on design and printing services more than doubled. CSB continued the printing and distribution of FDIC material, such as the Call Report forms and the *Quarterly Banking Profile*. It also prepared visual material and graphics for an unprecedented number of press conferences and other public appearances by FDIC officials in 1989.

For the RTC, the branch printed hundreds of press releases as well as thousands of copies of the first

RTC Asset Inventory. The latter consisted of nearly 3,000 pages about 30,000 single family homes, commercial properties and other assets available for sale.

Outlook

Because of the major role the Division plays in providing services nationwide, it is increasingly important that operational systems and processes be placed close to the user. To an ever-increasing degree, that means providing greater access to services in the field.

A major goal of the Division is the continued decentralization of operations, such as the processing and payment of invoices and travel vouchers that are currently handled entirely in Washington.

Consistent with this, an upgrade of the Financial Information System software during 1990 will provide more flexibility for the user.

DACS also expects to have a role in the expanding use of computer systems by the RTC, which is responsible for hundreds of billions of dollars in assets.

Projects being studied include new ways to provide information to the public on assets assumed by the FDIC and the RTC. One possibility is the establishment of regional reading rooms.

MISB also is initiating long-range plans to upgrade or redesign the existing Case Management System in order to better handle the increasing number of FDIC and RTC lawsuits.

In the coming year, the FDIC's library is likely to be increasingly involved in assisting the agency's staff with congressionally mandated studies of deposit insurance reform, directors' and officers' liability and other subjects. The FDIC library in Washington has what may be the best collection of books and other research material in the United States on the subject of deposit insurance. The library also is continuing to add highly-specialized, on-line data bases that FDIC and RTC employees across the nation can use for such purposes as tracking individual and corporate debtors.

DACS also plans more Call Report preparation seminars for bankers. The program will emphasize the significant changes to the Call Reports implemented in March 1990.

By October 1990, the Financial Reporting Branch expects to complete its enhancement of the automated Financial Information System to better monitor and report assistance agreement transactions entered into by the FDIC for resolving financially troubled institutions. When completed, the process will incorporate budgetary, forecasting, accounting and reporting functions for existing BIF and FRF assistance agreements as well as future agreements, including those entered into by the RTC.

Among other computer systems planned for 1990 is one from MISB to track the assets of savings associations in conservatorship.

The new Virginia Square building complex in Arlington, Virginia, which will feature 300,000 square feet of space for offices, the FDIC Computer Center, a training center and an 11-story residential building for personnel attending FDIC training classes, should be ready for tenants by mid-1991. Its completion will ease some of the FDIC's pressing needs for additional space. The groundbreaking took place in February 1989 and construction began in May.

Division of Research and Statistics

Providing the Facts and Figures that Help Shape FDIC Policymaking

With the FDIC spending much of 1989 anticipating and responding to crises in the banking and thrift industries, it was essential for the agency's top policymakers to have access to in-depth analyses of the issues. For much of that, they turned to the Division of Research and Statistics (DRS).

During the months of debate over the appropriate reaction to the thrift industry crisis, DRS helped shape and focus the FDIC's response. The Division analyzed appropriate funding levels to resolve thrift failures, "working capital" requirements for the Resolution Trust Corporation (RTC), changes in insurance assessments paid by insured banks and thrifts, entrance and exit fees to be charged by the insurance funds and capital standards for both thrifts and banks. DRS also analyzed the impact of the FDIC's new risk-based capital standards for commercial and mutual savings banks during 1989.

DRS participated in the FDIC's early efforts to carry out President Bush's assignment in February to coordinate interagency oversight of insolvent savings associations. This was done initially through the formation of a DRS-led "planning group" created by Chairman Seidman to develop FDIC policies for resolving troubled thrifts. As part of its work, the planning group met with financial industry representatives, explored the feasibility of various cost reduction strategies and designed business plans for individual conservatorships.

Once the RTC was established in August, DRS further assisted in its development by detailing several key staff members there.

Geoffrey L. Wade

Quarterly press conferences to release bank performance data gathered by the Division of Research and Statistics attract much attention from the news media.

Ongoing Activities

Aside from taking on new duties related to the thrift situation, DRS continued in its traditional research activities for the purpose of assisting the FDIC Board and staff in regulating banks and insuring deposits.

One such DRS activity is the preparation of a quarterly summary of national economic trends for use by FDIC officials. The summary is designed to provide a concise review of 24 indicators of business and financial activity and their possible effects on depository institutions and the insurance funds.

The DRS staff's analysis of the banking industry in particular is reported in the *Quarterly Banking Profile,* an FDIC publication that contains aggregate data for the condition and income of FDIC-insured commercial banks. This publication, initiated in 1987, presents key performance measurements as well as a discussion and graphics that highlight significant developments and trends. Generally published about two months after quarterly financial information is received from the banks, the *Quarterly Banking Profile* is the earliest official source of industry-wide banking data.

Statistics and analyses from DRS play a crucial role in FDIC efforts to inform bankers and the general public about key developments facing the industry. DRS staff members work with the Office of Corporate Communications on a daily basis to help respond to media inquiries about industry trends and conditions. Press conferences to release the findings published in the *Quarterly Banking Profile* are well-attended and widely reported.

Another example of DRS analyses that received much attention in the media was a collection of indicators of risks in 40 major real estate markets. The analysis was based on indicators such as new office space created, vacancy rates and regional employment growth. These indicators called attention to potential risks in the real estate market in various areas of the country. In releasing the analysis on April 17, 1990, Chairman Seidman said it should serve as a reminder to institutions about the need for prudent lending standards.

Under the leadership of Chairman Seidman, DRS staff also helped formulate a plan for an international debt insurance program. The concept, unveiled by the Chairman in August 1989 before the Bretton Woods Committee, is an attempt to deal with the large debts that "lesser developed countries" (LDCs) owe to U.S. and other commercial banks.

The FDIC's suggestion was to establish a new facility, owned by U.S. and other banks, the World Bank, the International Monetary Fund and individual governments, that would insure portions of bank debt to LDCs. The plan would ease LDC debt service burdens and financing constraints while stabilizing the values of bank exposures.

In 1989, DRS staff also updated a data base for use in a continuing analysis of the cost of resolving bank failures. The analysis focuses on comparing the costs of failures at large banks versus small banks, regional differences in resolution costs and policy implications of the FDIC's methods of resolving failed institutions.

DRS also played a role in the FDIC's deliberations over resolving two large bank failures in Texas in 1989 — MCorp in Dallas and Texas American Bancshares in Fort Worth — and efforts that continued into 1990 to sell problem banks owned by National Bancshares Corporation, San Antonio. DRS provided support to the Division of Supervision in designing, negotiating and evaluating the resolution transactions. This involved participating in meetings with potential buyers and other regulatory agencies, as well as working closely with investment banking firms hired by the FDIC to develop a methodology for projecting the costs of proposed transactions.

The increased attention paid to deposit insurance reform issues during 1989 led DRS to conduct several studies of the issue, three of which were published in the 1989 edition of the *FDIC Banking Review*. Those studies examined the impact of deposit insurance on the economy, addressed various proposals to change the $100,000 deposit insurance limit, and discussed the uses of "forbearance," or restraint, in dealing with institutions that fail to meet established criteria for safe and sound operation.

Outlook

In 1990, DRS staff is undertaking several studies mandated by FIRREA either separately or in concert with other FDIC Divisions. They include:

- **"Pass-through" Insurance**
  DRS participated with other FDIC Divisions in completing in February 1990 a report on issues relating to "pass-through" insurance. This term refers to situations where insurance coverage of large deposit accounts maintained by pension funds and other fiduciaries "passes through" to each beneficiary so that an individual's interest in the account would be insured by the FDIC up to $100,000. The FDIC has been providing pass-through insurance coverage for deposits of most trusteed employee benefit plans for several decades. The report analyzes various suggestions to deny or expand pass-through insurance.

- **Risk-based Deposit Insurance**
  At issue is whether the FDIC should be able to charge a higher premium to institutions that pose greater risks to the insurance fund. Under the current system, for example, all institutions that are members of the Bank Insurance Fund pay the same rate and share proportionately in any premium rebates.

- **Directors' and Officers' Insurance**
  DRS will conduct a study of the availability and affordability of directors' and officers' liability insurance from the private sector.

In addition, DRS assisted in planning an international conference on deposit insurance and problem bank resolution policies that the FDIC was scheduled to host on September 26, 1990, at the time of the World Bank and International Monetary Fund meetings in Washington. This conference grew out of a desire by Chairman Seidman to discuss multilateral approaches to the dilemma confronting bank regulators about whether certain large institutions should be considered "too big to fail."

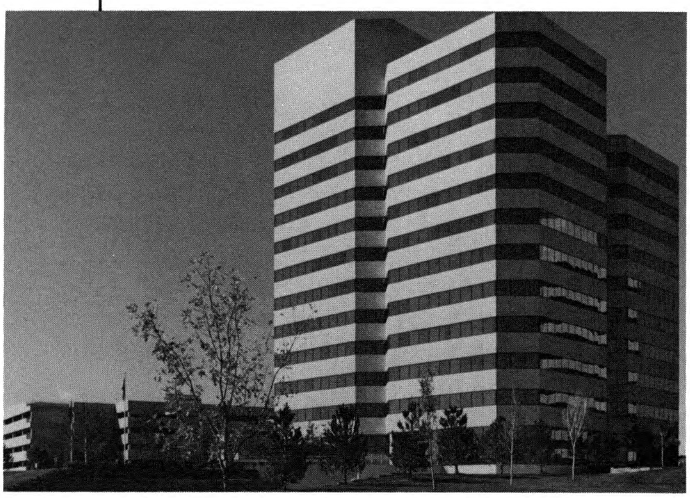
Division of FSLIC Operations

Settling Obligations of Former Fund

On August 9, 1989, upon the signing of FIRREA, the Division of FSLIC Operations (DFO) was established to administer 219 thrift assistance agreements entered into by the former Federal Home Loan Bank Board (FHLBB). These transactions involved covered assets estimated at $53.4 billion from failed thrifts. By year-end 1989, DFO continued to administer 202 of these assistance agreements, with estimated covered assets of $35.9 billion.

DFO also assumed responsibility for overseeing other contracts and financial operations of the former Federal Savings and Loan Insurance Corporation (FSLIC) that are now obligations of the FSLIC Resolution Fund (FRF), also created by FIRREA.

In addition, DFO initially was put in charge of managing the 98 thrift receiverships with about $13 billion in assets that were closed before August 9, 1989. However, those liquidation functions were transferred to the FDIC's Division of Liquidation in early 1990, and case resolution duties were transferred to the Resolution Trust Corporation (RTC).



Terrace Tower II, a 12-story office building near Denver, Colorado, is an example of FSLIC commercial property acquired by the FDIC in 1989. The property was owned by the failed First Texas Savings of Dallas.

Audit Work Accomplished

After DFO was established, it began working to complete inventory audits of the former FSLIC's assistance transactions and to establish accounting systems and controls that would enable the FDIC to settle the obligations of the former FSLIC.

The audits analyze the asset inventory and otherwise determine the financial condition of these failed thrifts. The audits also provide accurate cost estimates of the obligations of the FSLIC Resolution Fund. Indications are that the extent of insolvency in a number of failed thrifts in the Southwest is greater than originally estimated.

DFO prepared several key reports during 1989, including the following:

- The final report of the FSLIC, required by Section 406 of FIRREA. The report highlighted the FSLIC's finances and operations through its official closing date of August 8, 1989.
- The final audited financial statements of the FSLIC for the period ending August 8, 1989. Separately, the U.S. General Accounting Office (GAO) completed its own audit review of FSLIC's financial statements as specified in FIRREA.
- Documentation for the GAO regarding assisted thrifts' compliance with the terms of assistance agreements, and information regarding the Division's cash flow projections, loss reserve projections and associated adjustments to the loss reserves.

One of the first actions taken by DFO was the drafting of a strategic plan to ensure that institutions that had received assistance from the former FHLBB understand the FDIC's goals and objectives. The FDIC Board approved a three-year strategic plan for DFO in June 1990.

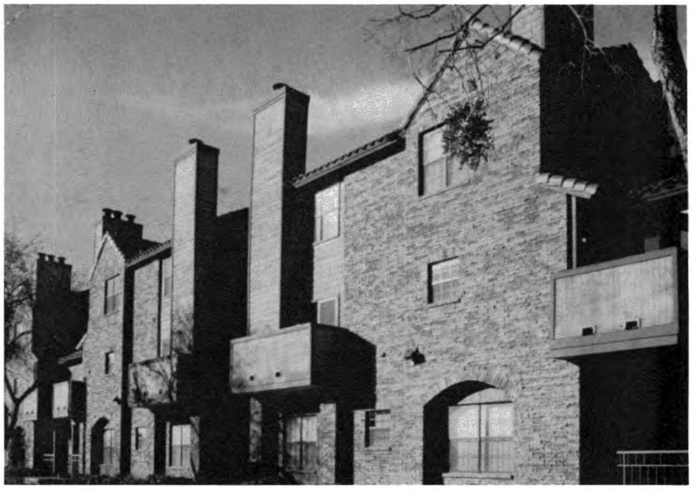
Assessing the Impact of FIRREA

DFO has been working to assess and minimize the possible negative effects that provisions of FIRREA might have on the ability of assisted institutions to carry out responsibilities under their assistance agreements. Of special concern is how the law might have unintended additional costs for case resolutions, which would increase the ultimate costs to the government.

For example, DFO was concerned that if loan-to-one-borrower limitations in FIRREA were interpreted to apply to financing by acquiring institutions to facilitate the sale of distressed assets covered by assistance agreements, those assets that could not qualify for conventional financing would remain unsold. Such an interpretation would increase holding costs, risk a further deterioration of value and create other problems. However, in June 1990, the Office of Thrift Supervision (OTS) issued a clarifying opinion, sought by the FDIC, that loan-to-one-borrower limitations do not apply to these transactions.

Other provisions of FIRREA that may increase the ultimate cost of the resolutions to the federal government include capital standards, direct investment authority, goodwill amortization and more restrictive collateral requirements for borrowing from the Federal Home Loan Banks. DFO has participated in discussions with representatives from the OTS, the Comptroller of the Currency, the RTC, the Legal Division of the FDIC and the Federal Housing Finance Board aimed at resolving these and other problem areas and issues generated by FIRREA.

FIRREA's more stringent capital standards for thrifts, including those institutions receiving financial assistance, is



The FDIC sold the 52-unit Remington Apartments in Dallas in June 1990. The apartment complex was acquired by the FSLIC after the 1987 failure of Dallas' Vernon Savings and Loan.

significant to DFO because the FSLIC Resolution Fund holds various capital instruments purchased or acquired by the FSLIC in assistance transactions. The income to DFO from these instruments reduces the costs of the assistance provided. But under FIRREA, these instruments — primarily cumulative preferred stock, subordinated debentures, capital certificates and warrants — no longer qualify as tangible or core capital. To overcome this problem, DFO is taking steps that include negotiating the exchange of these instruments for those that qualify as core capital. DFO's goal is to preserve and realize the value of these holdings without creating additional cost to the taxpayers.

DFO during 1989 also approved the liquidation of the mortgage-backed securities portfolio held by New West Federal Savings and Loan Association, which totaled more than $15 billion on the acquisition date. New West Federal was established by the FHLBB to dispose of troubled assets in connection with the Robert M. Bass Group's December 1988 acquisition of American Savings of Stockton, California.

The prompt and orderly liquidation of this portfolio, which was one of the largest ever performed, took full advantage of declining interest rates without disrupting the mortgage markets. At the date of the American Savings acquisition, the estimated mark-to-market loss in the portfolio was approximately $1.3 billion. The actual cost incurred by the FSLIC Resolution Fund was $665 million.

Outlook

DFO was formed in August 1989 with 521 employees, almost all from the staff of the FSLIC. That number was trimmed to 401 by year-end as a result of reassignments to other organizations, such as the RTC. However, the Division plans to add resources where needed. By early 1990, for example, plans were initiated to establish 70 positions for field offices and special teams to help accomplish other parts of the workload, such as audits.

DFO also will coordinate with the FDIC's Office of Inspector General in monitoring ongoing compliance audits of assistance agreements.

Integrating assistance agreements into the FDIC's automated Financial Information System is another priority for 1990. The move will help the FDIC monitor compliance with assistance plans and will help track property, business and collection plans.

The Division also will closely monitor the tax provisions of assistance agreements to minimize the cost to the government. This will require the preparation of federal and state tax returns and any previously unfiled returns for more than 175 institutions. The tax status of FDIC-assisted thrift institutions is important due to gain-sharing provisions of many assistance agreements. The filing of these returns is the first step needed to determine the amount of tax benefits that will accrue to the FSLIC Resolution Fund.

As of the end of 1989, DFO employed contractors to assist in the on-site administration of 28 assistance agreements. During 1990, the Division will evaluate the performance of these contractors and develop a plan to reduce dependence on them.

Office of the Executive Secretary

Helping to Meet the Increased Demand for Information

As the FDIC expanded during 1989, so did its records and the number of requests for them. That meant a tremendous increase in the workload and importance of the Office of the Executive Secretary (OES).

OES performs functions that range from keeping track of all rulemakings to managing the agency's employee ethics program. Each year, the Office handles thousands of requests from the general public, other government agencies and the FDIC staff for various kinds of information and documentation. Since FIRREA, the Office's responsibilities in 1989 have broadened to include support for the Resolution Trust Corporation (RTC) as well as the former Federal Savings and Loan Insurance Corporation.

As an example of the added workload, OES in 1989 received 1,137 requests for documents about the FDIC or the RTC under the Freedom of Information Act (FOIA) and the Privacy Act of 1974. That represents an increase of more than 35 percent from the 841 requests received in 1988.

Access to Information

An automated index of FDIC actions is proving to be among the most valuable new tools for FDIC employees and outside observers. Users of the index are able to quickly locate information about agency actions that include rulemakings, responses to bank failures, bank applications to open or expand, enforcement actions against banks, FDIC personnel changes and contracts with private vendors. The index eventually will reference all Board minutes and delegated authority actions since the FDIC was established in 1933.

Another extensive function of OES is processing enforcement actions, such as cease-and-desist orders. In this role, OES serves like a clerk of the court, maintaining docket files and responding to inquiries about the status of administrative actions.

OES performs editorial work on the FDIC's loose-leaf service, a collection of the laws and rules that affect the operations of the agency and insured institutions. The service is expanding considerably due to the comprehensive changes made by FIRREA to the Federal Deposit Insurance Act and various FDIC rules and regulations. Interest in the laws and rules affecting depository institutions has greatly expanded printing requirements.

Supplements to the loose-leaf service were distributed six times in 1989 to insured depository institutions, FDIC employees, congressional committees, federal and state agencies and private subscribers.

OES also coordinates FDIC and RTC compliance with the Paperwork Reduction Act of 1980. As a result of 1989 changes in bank reporting and application requirements, OES estimates that the paperwork burden of the banks supervised by the FDIC was reduced by 47,535 hours.

To accommodate the increased workload throughout OES, the staff was reorganized in 1989 along functional lines. Groups were created that specialize in record services, FDIC Board meetings, standing committees and enforcement actions. OES also set up two units specializing in FOIA and Privacy Act requests, each under the direction of a senior attorney.

Ethics Counseling

As the FDIC's ethics counselor, OES oversees employees' personal financial disclosures required under the law and provides guidance to the staff on matters relating to their responsibilities and conduct.

OES implemented amendments to FDIC rules in 1989 that decentralized the employee financial reporting system to regional and consolidated offices, resulting in a streamlining of the reporting process.

The ethics section processed more than 6,000 annual employee disclosures of confidential personal financial information, up nearly 30 percent from about 4,650 the previous year.

Approximately 2,250 FDIC employees received training in government ethics standards in 1989, up from about 1,700 employees the previous year. About 75 percent of those employees received their training during the last half of the year, when the FDIC added large numbers of new employees to handle added responsibilities for savings institutions. In just the last half of the year, OES held 20 one-day ethics seminars around the country and participated in 18 general orientation sessions in Washington. In addition, OES conducted three week-long training sessions for the network of 118 deputy ethics counselors who support the FDIC ethics program nationwide.

The ethics program expanded during the year to include the RTC. As a result, OES was the primary drafter of two major proposals for public comment regarding RTC ethics rules. One involved the ethical conduct of RTC employees. The other involved standards for determining which private consultants and asset managers would be eligible to do business with the RTC in order to screen out those with conflicts of interest or histories of fraud or other problems with savings associations. Final rules were adopted in 1990.

Corporate Secretary

OES gives public notice of meetings of the Board of Directors, records all votes and minutes and maintains official records. OES performed these functions for 79 Board meetings in 1989.

OES also acts as secretary for the six standing committees established by the FDIC. In 1989, OES assisted with 89 meetings of the standing committees.

Outlook

OES is preparing to handle continued increases in requests for information and for training in ethics, the FOIA and the Privacy Act.

Also, OES expects activity to increase in its corporate secretary function as the number of Board and committee cases increase and as meeting agendas become more lengthy and complex. OES has been authorized to add nine new staff positions in 1990. Four additional positions are planned for 1991-92. The Office also expects the number of employees who will participate in ethics seminars and orientation sessions to more than double in 1990, largely due to the shifting of FDIC employees to the RTC and new employees hired to replace them.

In addition, one OES staff member will be devoted to setting up training programs to help FDIC and RTC employees around the country better administer the FOIA and the Privacy Act.

Office of Corporate Communications

New FDIC Responsibilities Generate More Requests for Information

The Office of Corporate Communications (OCC) serves as the FDIC's information liaison with the media, professional organizations, banks and the general public. The ever-increasing focus on the agency's new responsibilities involving savings associations has meant significantly more requests for information and other assistance from OCC.

One of many ways OCC disseminates information about the FDIC is by arranging interviews with national and local broadcast and print media for Chairman Seidman and other senior agency officials. OCC prepares news releases on failed banks, new regulatory and supervisory policies and other newsworthy events. The Office also arranges briefings for reporters on various topics, including the FDIC's quarterly report on the banking industry's performance.

In addition, OCC responds to requests for information on the FDIC's history and policy decisions, as well as for data on the banking industry. Each week, OCC receives approximately 1,000 to 1,500 written and telephone requests for information from the media and the general public. OCC staff members also were on the scene at a number of bank failures during the year to respond to press inquiries and to reassure depositors.

The FDIC's role in resolving the thrift industry crisis placed additional demands on OCC, among them the responsibility for providing the initial staffing for the Resolution Trust Corporation's communications office. OCC also responded to large numbers of requests from the media and the general public on matters such as the insurance coverage of deposits in savings associations and the FDIC's management of assets and liabilities assumed from the Federal Savings and Loan Insurance Corporation.

Directives issued through OCC now are sent to insured savings associations as well as insured banks, as appropriate. These directives, called Financial Institution Letters (FILs), generally notify institutions of changes in the FDIC's policies, rules and regulations. FILs were called Bank Letters prior to the enactment of FIRREA. OCC distributed 31 Bank Letters and 27 FILs during 1989.

During 1989, OCC also continued its assistance with the FDIC's loose-leaf service for *Laws, Regulations and Related Acts,* filled thousands of orders for publications, managed the distribution system for the agency's final administrative enforcement actions, as required under FIRREA, and provided relevant materials for the public segments of the FDIC Board meetings. OCC also prepares the *FDIC News* for employees and produces the FDIC's Annual Report.

Outlook

In the coming year, OCC will revise several FDIC publications to reflect recent statutory and regulatory changes. OCC is working with the Legal Division and the Office of Consumer Affairs to update the FDIC's much-requested consumer brochure that explains deposit insurance rules.

OCC also is developing several videotapes. One series of videotapes is intended to improve communications between headquarters officials and field staff by presenting discussions by senior officials of subjects and issues of current interest. Another is designed to help prepare FDIC officials who are called upon to participate in media inquiries and interviews.

Office of Legislative Affairs

Protecting the FDIC's Interests in a Historic Year in Congress

As congressional liaison for the FDIC, the Office of Legislative Affairs (OLA) played a major role in the passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

Internally, OLA coordinated with the FDIC's Board of Directors, Management Committee and other top officials to analyze and respond to key provisions of the legislation. On Capitol Hill, OLA represented the FDIC's interests during all phases of the legislative process.

While the main goal of FIRREA was to find a legislative solution to the thrift crisis, OLA played a part in many other important aspects of the new law. Among them were:

- Preserving the FDIC as an independent insurer with a greater ability to control costs like a private insurer and new authority to obtain sources of revenue.
- Strengthened enforcement powers to ensure safe and sound banking practices.

David Hathcox

Chairman Seidman greets House Banking Committee leaders prior to recent testimony. From left: Chairman Seidman, Committee Chairman Henry B. Gonzalez and ranking Republican Chalmers P. Wylie.

- Winning the right for "cross-guarantees" when handling a failed institution, which enables the FDIC to recover part of its costs from still solvent institutions in the same holding company.

OLA's role in promoting the FDIC's objectives is crucial and diverse.

The Office advises top management on bills pending in Congress and other matters that would affect the FDIC or the institutions it insures and supervises. During 1989, OLA tracked more than 70 bills on issues of significance to the FDIC.

OLA also coordinates the drafting of proposed legislation and the preparation of congressional testimony. It coordinated the preparation of testimony for 25 appearances by Chairman Seidman and other top FDIC officials during 1989, more than double the 10 appearances made the previous year. FDIC officials testified on a variety of topics that included the condition of the banking industry and the reform of laws related to organized crime.

OLA also meets with members of Congress and their staffs to explain the FDIC's position on legislation and to provide relevant information. It also responds to inquiries from members of Congress, who often contact the FDIC as part of their oversight responsibilities. Lawmakers ask about agency policies in areas such as bank examinations and the use of outside legal counsel. They also often contact the FDIC on behalf of constituents who have questions or problems. During 1989, OLA coordinated nearly 3,000 written responses to congressional inquiries, up substantially from approximately 2,200 requests the previous year.

OLA also helped launch a legislative affairs office for the new Resolution Trust Corporation.

Outlook

OLA anticipates ongoing congressional oversight of the FDIC's expanded responsibilities under FIRREA during 1990. The Office also will monitor and respond to new proposals that would amend FIRREA or otherwise change the way banks and thrifts are supervised. Other issues likely to be examined by Congress in the coming year include:

- **Deposit Insurance Reform**
  The current system will continue to be reviewed while Congress awaits a Treasury Department study on the subject mandated by FIRREA and due in February 1991. The FDIC is participating in the Treasury study.

- **Bank Powers**
  As the European market moves toward unification in 1992, European banks will become more competitive in the United States and American banks will face new challenges in the world market. OLA will continue to work for legislation that would make banks more competitive internationally while protecting the safety and soundness of the deposit insurance funds.

- **Consumer Legislation**
  Congress will continue addressing the banking needs of low- and moderate-income consumers. Proposals include mandating that no-frills "lifeline" accounts be made available for certain consumers and requiring institutions to cash Social Security checks and other government checks. OLA will work toward ensuring that consumers have adequate banking services which, at the same time, are cost-effective for depository institutions.

- **Environmental Lender Liability**
  Under certain federal and state environmental laws, lenders face an increasing risk of liability for the cost of cleaning up hazardous substances found on properties in their asset inventory. As the insurer of banks and thrifts, as well as the receiver or liquidator of failed institutions, the FDIC is concerned about lenders' potential liability under environmental laws. OLA will work for legislation to protect the deposit insurance funds from potential environmental liability claims.

- **Bank and Thrift Fraud**
  Congress is expected to pass comprehensive legislation designed to curb fraud and abuse in federally insured depository institutions. Among other things, legislators are studying what additional tools the FDIC and other bank regulatory agencies may need to control fraudulent activities and to prevent bank and thrift insiders from profiting from these illegal activities.

Office of Budget and Corporate Planning

Planning For and Monitoring the Resources of Four Funds

The Office of Budget and Corporate Planning (OBCP) integrates agency-wide organization, long-range planning and budgeting. Those responsibilities were expanded significantly by FIRREA.

Using general guidance from senior management, and specific instructions from OBCP, each Division and Office of the FDIC prepares its own budget and performance plans. After further analysis and review, OBCP prepares a unified budget and presents it to the FDIC's Board of Directors for approval. OBCP also budgets for FDIC-managed resources supporting the Resolution Trust Corporation (RTC).

Chief among the new challenges facing OBCP under FIRREA is the responsibility for the administrative resource needs of three different funds — the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF) and the FSLIC Resolution Fund (FRF) — as well as FDIC support for a fund for the RTC. For the OBCP, this new environment means major changes in its performance measures, monitoring procedures and expense reporting.

Another significant change in 1989 was that the FDIC began budgeting for a two-year period, covering calendar years 1989 and 1990. Operating under a biennial budget will save staff time and will provide a more realistic time span for organizations to meet performance targets with budgeted resources.

Major Office Functions

OBCP serves the agency in a variety of significant ways. While the functions of the Office remain the same as in the past, FIRREA has introduced new dimensions to the work so that the added demands on the FDIC are adequately taken into account. Primarily, these functions are:

- **Productivity/Workload Measurement**
  The budget reflects the goals of the FDIC's Divisions and Offices in terms of productivity and workload. Budget management includes the analysis of actual expenses and the achievement of performance goals. To assist senior management, OBCP prepares a quarterly Corporation Status Report, the agency's most comprehensive source of data on budget planning and performance. These reports are vital to the FDIC's long-term resource planning and allocation efforts.

- **Staff Year Analysis**
  Salaries and benefits will consume about 48 percent of the FDIC budget in 1990, excluding RTC-managed organizations. OBCP continuously analyzes staffing needs and provides managers throughout the agency with monthly reports that help measure and control the costs of salaries and benefits. OBCP's analyses of the relationship between staffing levels and other expenses, such as travel and equipment, were used extensively in formulating the current budget.

- **Expense Monitoring**
  OBCP continually measures and provides enhanced expense monitoring tools to FDIC Divisions and Offices to promote cost awareness. Further integration of expense information with the budgeting process occurred in 1989 with the development of the Corporation's first biennial budget. This integration gives those persons preparing the budget at the field site level a much clearer picture of actual costs and thus a better predictive tool and budget.

- **Program Tracking**
  OBCP tracks costs by seven specific programs: applications, risk management, compliance, failing banks and assistance, closings, asset management and general administration. These programs cut across organizational lines and were previously difficult to quantify. By tracking these programs, OBCP will help the FDIC allocate resources more efficiently to achieve its major goals.

- **Special Projects**
  During 1989, OBCP staff participated in a wide variety of special budget-related activities that included the negotiation of agreements with the former Federal Home Loan Bank Board over the distribution of FSLIC staff and other resources following FIRREA. The Office also developed models for the first RTC budget and staffing projections, as well as the FDIC's budget, post-FIRREA.

  Among the specific studies undertaken was an evaluation to enhance the FDIC's training and educational programs. OBCP recommendations in favor of a centralized approach toward training were instrumental in a December decision by Chairman Seidman to create a new Office of Training and Educational Services, which began operations in April 1990.

In addition to its budgeting role, OBCP increasingly serves as an information source and special project team for FDIC senior management. OBCP's effectiveness is due in part to its interaction with all components of the FDIC and its continuous access to financial and staffing information.

Outlook

OBCP's main challenge in 1990 and beyond will be to adapt its analytic and budgeting techniques to accurately project the resource needs of the FDIC as conditions change in the banking and thrift industries.

Initiatives in monitoring and reporting expenses during the coming years will affect major resource allocation decisions throughout the FDIC.

Office of Inspector General

Safeguarding the Assets and the Integrity of the FDIC

Largely as a result of the broad new powers granted under FIRREA, the FDIC now is among the most closely scrutinized agencies in the U.S. Government. Congress, the White House and the news media are among those watching over the FDIC — and the new Resolution Trust Corporation — for signs of waste, fraud or abuse. Performing similar watchdog duties internally for the FDIC is the Office of Inspector General (OIG).

OIG's mission is to provide policy direction for audits, investigations and other activities designed to promote economy and efficiency and to prevent and detect fraud and abuse in FDIC operations. OIG conducts and coordinates audits and investigations, recommends improvements in fiscal and operational controls and provides audit reports to the FDIC's top officials.

OIG works closely with the U.S. General Accounting Office, which conducts oversight of the FDIC as well as the other financial institution regulatory agencies. OIG also works with the Department of Justice and the Federal Bureau of Investigation to identify and prosecute fraud by FDIC employees.

Also as a result of FIRREA, most of the responsibilities and resources of the Inspector General's Office of the former Federal Home Loan Bank Board (FHLBB) were transferred to the OIG. The FDIC's expanded responsibilities have resulted in OIG audit and investigative oversight requirements for more than $100 billion in assets and assistance agreements — up from $35 billion in 1988. This included $60 billion in asset guarantees related to thrift assistance transactions. The rest consisted of more than $20 billion in the FDIC's own assets and $24 billion in assets controlled by the FDIC in liquidating closed depository institutions.

OIG also was responsible for the oversight of nearly 12,000 FDIC employees, up about 45 percent from the previous year's approximately 8,000.

Accomplishments

OIG was established by the FDIC on April 17, 1989, in response to the Inspector General Act Amendments of 1988. However, OIG actually is a redesignation of the FDIC's Office of Corporate Audits and Internal Investigations, which had been performing duties consistent with the intent of the new law for many years.

In 1989, audit reports were issued regarding 785 liquidations and corporate functions, which was three times the number audited last year. These audits include receiverships, payrolls, travel vouchers, computer systems, assistance agreements and other FDIC business.

On October 31, 1989, OIG submitted its first semi-annual report to Congress in accordance with the Inspector General Act. The report outlined OIG activities and accomplishments from April 1 through September 30, 1989.

Outlook

As a result of productivity initiatives, the 1990 OIG budget was reduced by more than 40 percent from the 1989 level despite the Office's increased responsibilities. Those productivity initiatives include a refocusing of audit and investigative requirements and a more efficient and effective use of combined resources of the FDIC's OIG and the former FHLBB's Inspector General's Office.

Office of Consumer Affairs

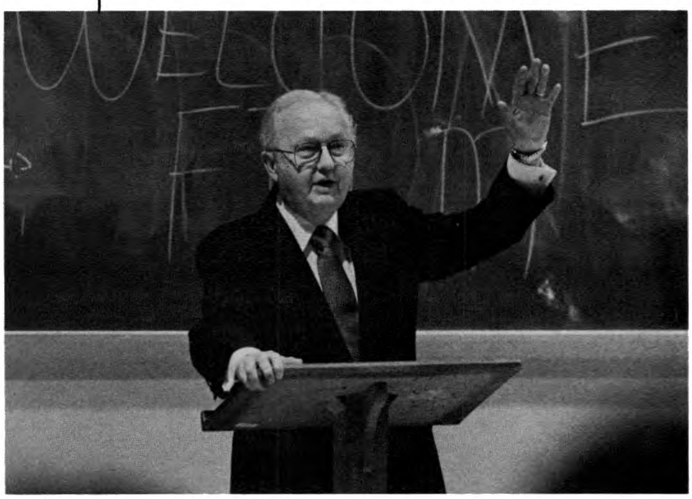
Providing Assistance to Consumers, Bankers and Examiners

With the enactment of FIRREA, Congress made several major changes affecting the relationship of consumers and their depository institutions. Those changes greatly increased the demands on the FDIC's Office of Consumer Affairs (OCA), which serves as a liaison with the public and the industry on matters such as deposit insurance coverage, unfair and deceptive banking practices, and civil rights issues.

In particular, FIRREA brought federal deposit insurance for savings associations under the management of the FDIC. It also required the FDIC to resolve differences in the insurance coverage rules and interpretations of the FDIC and the former Federal Savings and Loan Insurance Corporation (FSLIC).

OCA has assumed many of the responsibilities related to insurance coverage handled by the former Insurance Division of the FSLIC. As a result, OCA staff members are handling a significantly increased number of written and telephone inquiries related to deposit insurance coverage in savings associations and banks.

Stephen Matteson, Jr.



FDIC Board member C.C. Hope, Jr., much in demand as a speaker, addresses Wake Forest University students and faculty at the campus in Winston-Salem, North Carolina.

The new law also mandates the public disclosure of agency evaluations of an institution's performance in serving its community under the Community Reinvestment Act (CRA). The Office played a central role with other federal financial institution regulators in drafting proposed guidelines to implement the new CRA disclosure requirements and changes in the way institutions are evaluated under the CRA. Proposals were issued for public comment in December 1989 and final guidelines were adopted by the FDIC and other regulators in April 1990.

FIRREA also expanded the amount of information about loan applications and decisions that must be made publicly available under the Home Mortgage Disclosure Act (HMDA). The Office participated with representatives of the other federal financial institution regulatory agencies in drafting the new reporting requirements, which include a new Loan/Application Register form and tables that show aggregate lending patterns in each "metropolitan statistical area."

Hearing and Helping the Public

One of OCA's primary responsibilities is monitoring and responding to consumer complaints and inquiries. Many bankers also contact OCA with questions about regulatory matters.

In Washington and in the eight regional offices, OCA reported a total of 48,100 telephone calls dealing with either complaints or inquiries, about a 22 percent increase over the nearly 39,450 calls reported during 1988. There also were 4,400 letters received in 1989, which represents about a 13 percent increase over 3,890 in the previous year.

A toll-free telephone "hotline" administered by OCA specialists in the Washington headquarters is a major source of consumer requests for assistance. OCA received approximately 13,400 calls on the hotline during the year, about a third more than the 10,100 reported last year.

The telephone number for the toll-free "hotline" is 1-800-424-5488. For callers in the Washington, D.C. area, the number is 202-898-3536. The hotline is in operation Monday through Friday, 9 a.m. to 4 p.m. EST.

The FDIC's regional offices reported approximately 34,700 telephone calls on matters relating to consumer issues, an increase of about 18 percent from the 29,300 calls logged the previous year.

Nationwide, the most common questions and topics of concern reported by OCA and regional office staff in telephone calls involved deposit insurance coverage, general banking issues, fair housing and the Home Mortgage Disclosure Act. Many bankers also call the OCA and regional offices inquiring about their responsibilities under deposit insurance and consumer and civil rights regulations.

In terms of written correspondence, OCA and the regional offices reported receiving approximately 1,900 letters of complaint against individual institutions or other aspects of banking. That is up nearly 50 percent from the approximately 1,300 written complaints in 1988.

Another 2,500 written requests for information on FDIC rules and procedures were received during 1989, nearly three times as many as the approximately 900 received the previous year.

Working to Ensure Compliance

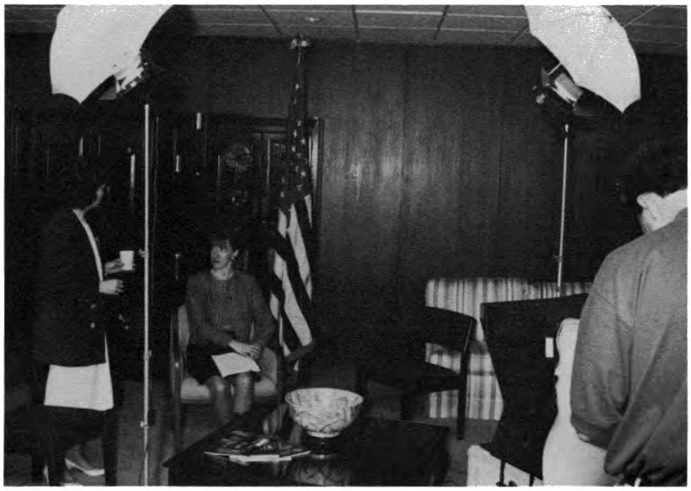
Another function of OCA is to evaluate the adequacy of the FDIC's examination program for monitoring individual institutions' compliance with various consumer and civil rights laws. During 1989, the FDIC's Division of Supervision (DOS) conducted 2,660 consumer compliance examinations, excluding visitations, which are of a more limited scope. This was a decrease from the 2,988 compliance examinations conducted in 1988, largely due to the extensive use of examiners in the management of savings association conservatorships, especially during the first few months of the year.

OCA also emphasizes to FDIC examiners and the banking industry the importance of complying with consumer protection laws and regulations, and provides guidance and instruction.

The annual training conference conducted by OCA for the regional office compliance review examiners and senior compliance field examiners was held in October 1989. Attention was focused on issues such as industry and consumer perspectives of compliance, CRA and neighborhood redevelopment, fair lending laws and differences between FDIC and FSLIC deposit insurance coverage. Speakers included representatives from the FDIC, other federal agencies, the banking industry and consumer and community groups.

In 1989, OCA worked with DOS and outside vendors on a new school for more experienced examiners. The goal of the Advanced Consumer Protection School is to provide additional training beyond the basic one-week program given by DOS and to address more complex problems and issues. The first two sessions were held in April 1990.

Geoffrey L. Wade



Consumer affairs director Janice Smith was one of the agency's officials explaining the FDIC's deposit insurance rules in a satellite TV program for bankers.

OCA, in conjunction with various DOS regional offices, also conducted three one-day compliance seminars for bankers. Nearly 240 bankers from 204 banks participated in seminars held in Baltimore, Memphis and Indianapolis. The purpose of the seminars was to provide a forum for discussing issues related to consumer protection laws and regulations.

Outlook

OCA expects to continue to participate in schools and seminars for examiners and bankers around the country. It also will participate in new CRA training sessions for examiners to be sponsored by the interagency Federal Financial Institutions Examination Council. The various training efforts are considered especially important in clarifying what will be expected under FIRREA.

OCA will continue working closely with the other financial institution regulators in implementing the CRA and HMDA provisions of FIRREA, as well as other activities involving consumer protection laws and regulations.

In early 1990, OCA established a new Community Affairs program primarily intended to enhance existing outreach efforts. The new program provides for a community affairs officer in each of the FDIC's eight DOS regional offices. The community affairs officer will be responsible primarily for making contact and meeting with citizen groups, government and industry organizations, and others regarding the credit needs of communities and the lending practices of institutions. Each community affairs officer also will provide information to examiners to assist them in evaluating the fair lending performance of FDIC-supervised institutions.

OCA will continue to work with DOS on establishing a separate compliance examination program with specialized examiners who have career paths separate and distinct from safety and soundness examiners. The program, which will be under the jurisdiction of the DOS and separate from its safety and soundness examination activities, includes an expanded group of field compliance examiners and an increased emphasis on compliance with consumer protection laws and regulations. OCA also will continue to monitor the effectiveness of the consumer compliance examination program and make independent recommendations as necessary.

Office of Personnel Management

Handling a 45 Percent Increase in Agency Staff

The responsibility for processing thousands of new employees quickly and smoothly in just a few months of 1989 fell to the FDIC's Office of Personnel Management (OPM).

Recruitment, job placement, payroll and benefits administration, employee development and training, performance evaluations — these functions and more come under the duties of OPM.

In 1989, this Office undertook extensive hiring efforts for the newly created Resolution Trust Corporation (RTC) as well as for existing FDIC Divisions and Offices. Total employment nationwide, including RTC, was 11,703 by year-end. That is up 45 percent from the 1988 employment figure of 8,057. Most of the increase came from staffing needs of the RTC and the FDIC's Divisions of Liquidation and Supervision.

The FDIC and the RTC actually made 4,815 new appointments during 1989. Of these, 2,677 employees, or about 55 percent, were for permanent positions. The other 2,138 employees were temporary appointments hired from local markets to assist the FDIC in carrying out new receivership responsibilities for savings associations, predominantly in the Southwest. These temporary employees typically include liquidation specialists and clerical workers assigned to a particular receivership for periods that may last two years or more.

Bank examiner trainees by far were the largest occupation group for new permanent positions. There were 487 such trainees hired last year — one out of every 10 permanent employees who joined the agency. Next came bank liquidation specialists, of which 176 were hired on a permanent basis. Overall, the number of permanent job vacancies advertised for filling FDIC positions was three times the number advertised the previous year.

In addition to new appointments, the FDIC transferred 850 employees of the former Federal Savings and Loan Insurance Corporation (FSLIC) onto its rolls effective October 8, 1989. The

Number of Officials and Employees of the FDIC, 1988-1989 (Year-end)

	Total		Washington Office		Regional & Field Offices	
	1989	1988	1989	1988	1989	1988
Executive Offices*	113	87	113	87	0	0
Resolution Trust Corporation†	1,516	0	112	0	1,404	0
Division of Supervision	2,903	2,594	116	113	2,787	2,481
Division of Liquidation†	4,141	3,371	52	27	4,089	3,344
Division of FSLIC Operations	401	0	335	0	66	0
Legal Division	1,340	904	358	163	982	741
Division of Accounting and Corporate Services	992	900	559	524	433	376
Division of Research and Statistics	45	29	45	29	0	0
Office of Inspector General	115	59	99	47	16	12
Office of Personnel Management	116	96	116	96	0	0
Office of Equal Opportunity	21	17	21	17	0	0
Total	11,703	8,057	1,926	1,103	9,777	6,954

* Executive Offices include the Offices of the Executive Secretary, Corporate Communications, Legislative Affairs, Budget and Corporate Planning, and Consumer Affairs.

† The Resolution Trust Corporation and the Division of Liquidation totals include temporary employees, most of whom were employed by failed banks or savings associations and assigned to field liquidations.

process included pre-transfer orientation sessions covering FDIC benefits, services and other topics in order to ease the transition during a difficult time for these FSLIC employees.

Indicative of the interest in the RTC were the nearly 10,000 unsolicited applications for employment received there during the last quarter of 1989. More than 5,000 applications also were filed in response to specific announcements posted during that last quarter. OPM established an RTC Support Branch devoted to handling the management and staffing needs of that agency.

An Emphasis on Flexibility

Due in large part to the magnitude of the hiring needed to be done after the enactment of FIRREA, the FDIC sought and obtained approval from the U.S. Office of Personnel Management for broad authority to screen and hire federal job candidates. This unusual delegation of authority, which covers positions at grade levels 9 through 15 at the FDIC and the RTC, enabled the positions to be filled more rapidly and at lower cost than under the standard federal appointment process.

OPM employee training programs continued at a steady pace in 1989, although some sessions were postponed in order to devote resources to the savings and loan industry crisis. Computer training sessions were active during the year, largely to keep pace with the agency's continued installation of personal computers and the development of computer-based communication networks for the employees. In addition, the FDIC announced plans to create an Office of Training and Educational Services, part of a move to centralize the agency's training programs and improve their overall effectiveness. The new Office began operations in April 1990.

In view of the additional demands placed on the agency by FIRREA, the FDIC undertook a survey of all employees in order to give management better insight into perceptions about the FDIC as a place to work. More than 4,500 employees responded to the survey. The results showed that FDIC employees were satisfied with their work and were willing to do even more to make the agency successful, although the survey showed certain aspects of working for the agency that the staff said needed improvement.

Nearly 99 percent expressed a willingness to do more than required to ensure that quality work was done in a timely manner. More than 75 percent of all employees responding said they found their jobs challenging and meaningful. About seven out of 10 consistently gave positive views to questions about equal employment opportunity and the competence and fairness of supervisors.

Many employees did, though, indicate in the survey that they thought the FDIC could do a better job in areas such as professional training and in communications with senior management. Largely in response to the survey, the FDIC's leadership initiated steps to improve training programs and to improve communications through internal publications, videos and other means.

People Helping People

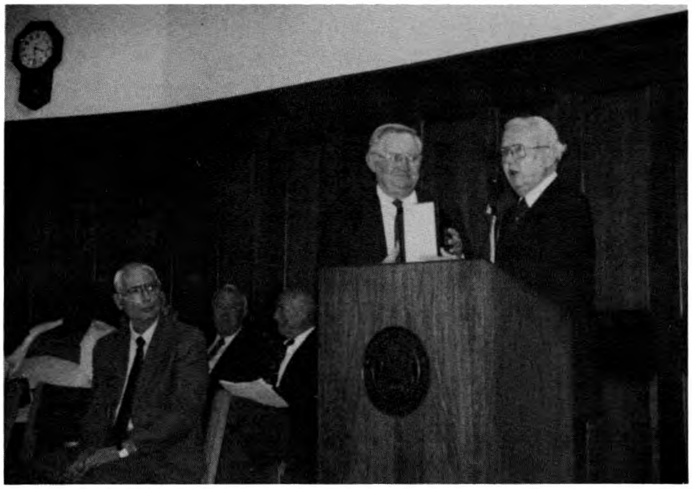
The FDIC is proud of its employees who unselfishly give of themselves for the benefit of the agency, its personnel and the community. OPM tries to assist in those efforts and recognizes employees for their good deeds.

The agency saw increased usage of a program adopted in 1988 that allows employees to donate annual leave to other employees absent from work due to medical emergencies but who lack sufficient leave time. The program provides income protection to those employees during their time away from work. During 1989, there were 565 employees who donated 6,520 hours of annual leave to help 35 FDIC employees in need.

OPM also coordinates the annual nomination and selection of outstanding employees for the FDIC's Honorary Awards. Each winner receives a cash award and a gift, and is honored at a special ceremony in the Washington headquarters. These employees were recognized in 1989:

- John R. Keiper, Jr., Assistant Executive Secretary in the Office of the Executive Secretary in Washington, won the Chairman's Award. That honor is presented to a non-examiner who has demonstrated devotion to duty, integrity and professional expertise. Keiper, a 20-year veteran, was cited for promoting cooperation between the agency and the U.S. Office of Management and Budget on projects that reduce federal paperwork requirements.

Geri Bonebrake



Board member C.C. Hope, Jr., presents 1989 Edward J. Roddy Award for exceptional examiners to James Lewis of the Champaign, Illinois, field office. Chairman's Award winner John Keiper, Jr., is in front.

- James R. Lewis, a supervisor in the Chicago Region's Champaign, Illinois, Field Office and an FDIC employee for 32 years, won the Edward J. Roddy Award. This award recognizes the exceptional career examiner who exhibits integrity, imagination and leadership. Lewis was singled out for his efforts in training and motivating young examiners assigned to the Champaign Field Office.

- Evelyn J. Wright, a liquidation assistant in the Houston Consolidated Office, was selected for the Nancy K. Rector Award. The award is presented to an employee who expands opportunities for personal or professional growth in others. Wright, a four-year FDIC employee, was given the award for her positive influence on the job and her volunteer work in a Texas program that helps welfare recipients find employment.

The FDIC also issues performance awards to employees who respond to unusually heavy workloads, often at great personal sacrifice. The number of employees receiving these cash awards during 1989 greatly exceeded previous years, largely as a result of FIRREA. Many incentive awards were given to employees for managing or otherwise supporting savings associations facing insolvency, while other employees added to their regular responsibilities the work of those on other assignments.

Outlook

In 1990, OPM expects to continue to pursue an aggressive hiring program. By the end of 1990, the Office projects that total employment for the FDIC and the RTC could hit 19,000.

Office of Equal Opportunity

Develops Expanded Minority Outreach Programs for Jobs, Federal Contracts

The FDIC's Office of Equal Opportunity (OEO) manages the agency's affirmative action programs for minorities, women, the handicapped and disabled veterans — a role expanded in 1989 due to FIRREA. In fact, OEO's name was changed from the Office of Equal Employment Opportunity to reflect additional responsibilities for the monitoring of government contracts under FIRREA.

The FDIC has a long history of promoting equal opportunity in employment and government contracts. In April 1981, for example, the FDIC adopted a detailed policy to provide "all suppliers an equal opportunity to compete" for contracts for supplies and services.

FIRREA gave the FDIC added responsibilities in 1989 by requiring several federal financial regulatory agencies to issue rules for minority outreach programs that would promote, "to the maximum extent possible," the awarding of contracts to firms owned by minorities and women and to preserve minority-owned financial institutions. As a result, the FDIC in late 1989 started to expand its existing minority outreach system.

The FDIC began to encourage minorities and women to actively participate in the bidding process for the sale of failed or failing institutions. And in February 1990, the FDIC Board adopted an interim program intended to develop a more formal and comprehensive approach to identifying and targeting women- and minority-owned firms nationwide for use in liquidation activities, administrative contracts and legal services.

OEO also established a support branch to manage an affirmative employment program for women, minorities, the handicapped and disabled veterans for the new Resolution Trust Corporation (RTC). The new support branch also will administer an RTC outreach program.

Employment Programs

As part of the FDIC's general commitment to affirmative action, OEO works with other Divisions and Offices to recruit new employees from colleges and universities with a high percentage of minorities and women.

To further its outreach efforts to potential employees, OEO conducted employment application workshops at schools and special programs for the hearing impaired and the handicapped, such as Gallaudet University in Washington, D.C., and the National Technical Institute for the Deaf in Rochester, New York. OEO also provided information about the FDIC and career opportunities at the agency at conventions for groups that included the National Urban League, the National Hispanic Bar Association, the National Asian Pacific American Bar Association and the President's Committee on Employment of People with Disabilities.

OEO also helps coordinate programs to provide summer jobs or unpaid work experience for students from predominantly minority high schools and colleges, mentally handicapped individuals and others in need of assistance.

OEO efforts during 1989, for example, resulted in the placement of three Native Americans in a special job training program. Two of these individuals later were hired by the FDIC for permanent positions, while the third was placed at another federal government agency. The Office worked closely with the Veterans Administration in providing training and job placement assistance for three disabled veterans.

sections of the FDIC also established group sign language training to facilitate communication.

Counseling and Training

OEO also administers discrimination complaint procedures. There were 82 requests for counseling on anti-discrimination rules and procedures for filing discrimination complaints. There were 47 formal discrimination complaints filed during the year. At year-end 1989, there were 40 equal employment counselors located throughout the U.S..

OEO sponsored 18 training courses devoted to equal employment opportunity issues for FDIC supervisors and managers. The Office also presented instruction on equal employment opportunity at five general seminars on personnel management for supervisors.

A pilot "multi-cultural awareness seminar" was sponsored in 1989 for FDIC managers and supervisors so that they can better appreciate the diversity of backgrounds among FDIC-employed minorities and women, and to help those managers better integrate the employees into the workforce. OEO also sponsored courses in sign language, career growth, self-protection and other topics for employees.

As part of FDIC's efforts to accommodate the special needs of employees, OEO provided equipment such as wheelchairs, telephone amplifiers, laptop computers for the physically handicapped and enlarging equipment for the visually impaired. OEO assisted in the installation of visual alarm systems and telecommunications devices for the hearing impaired. It also prepared a booklet on emergency evacuation procedures for disabled FDIC employees.

OEO provided sign language interpreters to enable hearing impaired employees to participate in training classes, meetings, interviews and other sessions. With the assistance of OEO, individual

Special Awards

The FDIC also was extremely proud to have one of its staff members, Joanne Giese, recognized by President George Bush for a special award given to a handicapped federal employee. Giese, a supervisory liquidation specialist in the Kansas City Regional Office with 11 years of experience at the FDIC, was born with cystic fibrosis, an incurable, degenerative illness characterized by chronic lung infections, frequent bouts with pneumonia and other severe problems.

Those ailments can be particularly challenging for someone whose job involves high stress, frequent travel and visits to older bank buildings where the ventilation systems may be inadequate. Giese has nonetheless excelled in both her professional and personal endeavors. She was named one of the first credit specialists assisting with the savings association conservatorship program managed by FDIC.

Geoffrey L. Wade

Joanne Giese of the Division of Liquidation in Kansas City received the 1989 Presidential Award for handicapped federal employees from First Lady Barbara Bush on October 5, 1989.

Giese's remarkable courage and determination earned her the FDIC's Handicapped Employee of the Year Award, which is coordinated by OEO. She then won the 1989 Presidential Award for Outstanding Federal Employees with Disabilities, presented by First Lady Barbara Bush in a ceremony held on October 5, 1989.

Outlook

OEO intends to intensify efforts to recruit more minorities and women for all occupation groups and for the awarding of contracts. It will do so by increased advertising in minority publications, expanded use of minority-related data bases and greater participation in specialized conferences.

Also as a result of FIRREA, OEO will explore ways to increase the utilization of minority and women-owned institutions as depositories and financial agents for FDIC funds from liquidation activities. Also in terms of the awarding of government contracts, OEO intends to develop more detailed records of the FDIC's use of firms owned by women and minorities.

OEO plans to nearly double the number of equal employment opportunity training courses for supervisors and managers and to increase the number of personnel management seminars from five in 1989 to approximately 25 in 1990.

With the anticipated increase in the FDIC's handicapped workforce will come an increase in the accommodations to be provided. OEO also is looking into the possibility of enhancing the computers used by deaf employees so that they can become aware of incoming telephone calls, read the incoming telephone communication on the computer screen and answer back via the computer.

Standing Committees

Assist in Matters Before the Board

The FDIC's Board has established six standing committees that make recommendations to it. In some cases, mainly related to liquidation and receivership activities, these committees can take final action under delegated authority.

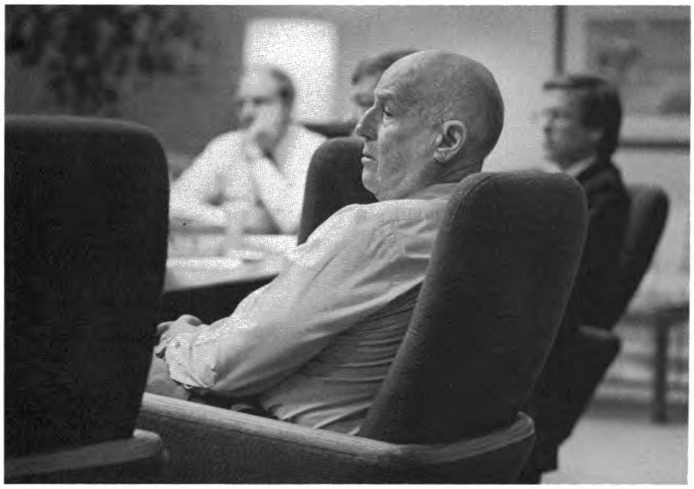
- **The Management Committee**
The largest and most influential of the standing committees serves as a forum for senior managers to discuss issues of common concern. Examples of topics addressed by the Management Committee include major regulatory issues, pending legislation, research projects and personnel matters.

The Chairman of the FDIC also is the Chairman of the Management Committee. Its other members include the FDIC Vice Chairman, Deputies to the Board members, Directors of Divisions and Offices, the General Counsel and the Inspector General. Due to FIRREA, the FDIC Board in October 1989 added senior managers of the Resolution Trust Corporation (RTC) to the FDIC's Management Committee.

Richard A. Bloom

Lamar Kelly, Jr. (left), RTC director of asset and real estate management, discusses a bill in Congress with FDIC legislative affairs director Beth Climo at a Management Committee meeting.

Richard A. Bloom



Chairman Seidman at a Management Committee meeting with, from left, FDIC officials Steven Seelig and Stanley Poling and RTC executive director David Cooke.

The Management Committee considers matters that are referred by other standing committees or that are not within their exclusive jurisdiction. The five other standing committees are:

- **The Supervision Review Committee**
This committee reviews enforcement actions and institutions' applications for insurance or assistance. It also makes referrals to the Management Committee or the FDIC Board when significant supervisory issues are raised.

- **The Committee on Liquidations, Loans and Purchases of Assets**
It oversees and makes recommendations regarding asset sales, problem loan workouts and litigation stemming from liquidations and receiverships.

- **The Audit Committee**
This panel reviews reports by the FDIC's Office of Inspector General (OIG) except for matters pertaining to internal investigations. The Audit Committee reviews completed OIG audit reports, requests follow-up if necessary and submits recommendations to the FDIC Board.

- **The Electronic Data Processing Steering Committee**
  This group analyzes the current and future information needs of the agency and the changes in computer hardware and software necessary to meet those needs.

- **The Data Integrity Board**
  This new committee was formed in response to the Computer Matching and Privacy Protection Act of 1988. The panel will review proposals for the FDIC and other government agencies to share information via computers in what are known as matching programs. It also will do follow-up analyses of the costs of the programs and compliance with privacy protection laws.

Richard A. Bloom

Chairman Seidman leads the discussion at Management Committee meetings, where top FDIC and RTC officials air views on major issues.

Legislation and Regulations

F D I C

Legislation Enacted in 1989

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (P.L. 101-73)

On August 9, 1989, President Bush signed into law FIRREA — one of the most important changes affecting the financial services industry since the Great Depression.

FIRREA was intended primarily to address the financial crisis facing the thrift industry, which had about 600 seriously troubled savings associations with assets of about $350 billion. However, that crisis also provided lawmakers with the opportunity to make fundamental changes in the way banks and savings associations are supervised and insured. The duties of the FDIC in particular were greatly expanded under the new law.

In general, FIRREA changed the financial institution regulatory structure and strengthened the authority of federal supervisors to require adequate capital, promote safe banking practices and ensure compliance with applicable laws. These changes will have an impact on financial institutions, their customers and the U.S. economy for decades.

Some major initiatives in the new law:

- **Savings Association Insurance Fund**
  Federal deposit insurance for savings associations is now provided by a new insurance fund directed and administered by the FDIC. The new fund, called the Savings Association Insurance Fund (SAIF), replaces the former Federal Savings and Loan Insurance Corporation (FSLIC). The FDIC will maintain the new insurance fund for savings associations separate from the Bank Insurance Fund. The FSLIC Resolution Fund is established under the FDIC to manage most of the assets and liabilities of the former FSLIC.

- **Resolution Trust Corporation**
  The Resolution Trust Corporation (RTC) is established to merge or liquidate savings associations declared insolvent during the period from January 1, 1989, through August 9, 1992. The FDIC is the manager of the RTC, handling day-to-day operations.

- **Resolution Funding Corporation**
  The law establishes the Resolution Funding Corporation (REFCORP) to fund the activities of the RTC, primarily through bond sales. The bill provides public and private funds to deal with thrifts that fail between 1989 and 1999, as well as a mechanism to capitalize the new SAIF.

- **Office of Thrift Supervision**
  The Federal Home Loan Bank Board (FHLBB) is abolished and its former activities are divided among several other agencies. The FHLBB's former duties examining and supervising thrifts and their holding companies are taken over by the Office of Thrift Supervision (OTS), a new agency under the Treasury Department.

- **Expanded FDIC Board**
  The Board of Directors of the FDIC is increased from three to five members. There will be three Presidential appointees, with one designated as Chairperson and another as Vice Chairperson. The Comptroller of the Currency will continue to serve on the FDIC Board. The fifth Board member will be the Director of the OTS.

- **Assessments Increase**
  Initially, the different premiums that banks and thrifts pay for deposit insurance coverage are increased to help bolster the insurance funds.

The statute of limitations for financial institution fraud and related crimes is lengthened from five to ten years.

- **Cross-guarantee Provision**
  To recover part of its costs of liquidating or aiding an insured institution in trouble, the FDIC may seek reimbursement from other insured institutions in the same holding company.

- **Increased Civil Money Penalties**
  The law dramatically increases the civil money penalties that may be imposed against officers and directors for violations of law or for unsafe or unsound banking practices. It also widens the scope of the penalties to include controlling shareholders, independent contractors and others.

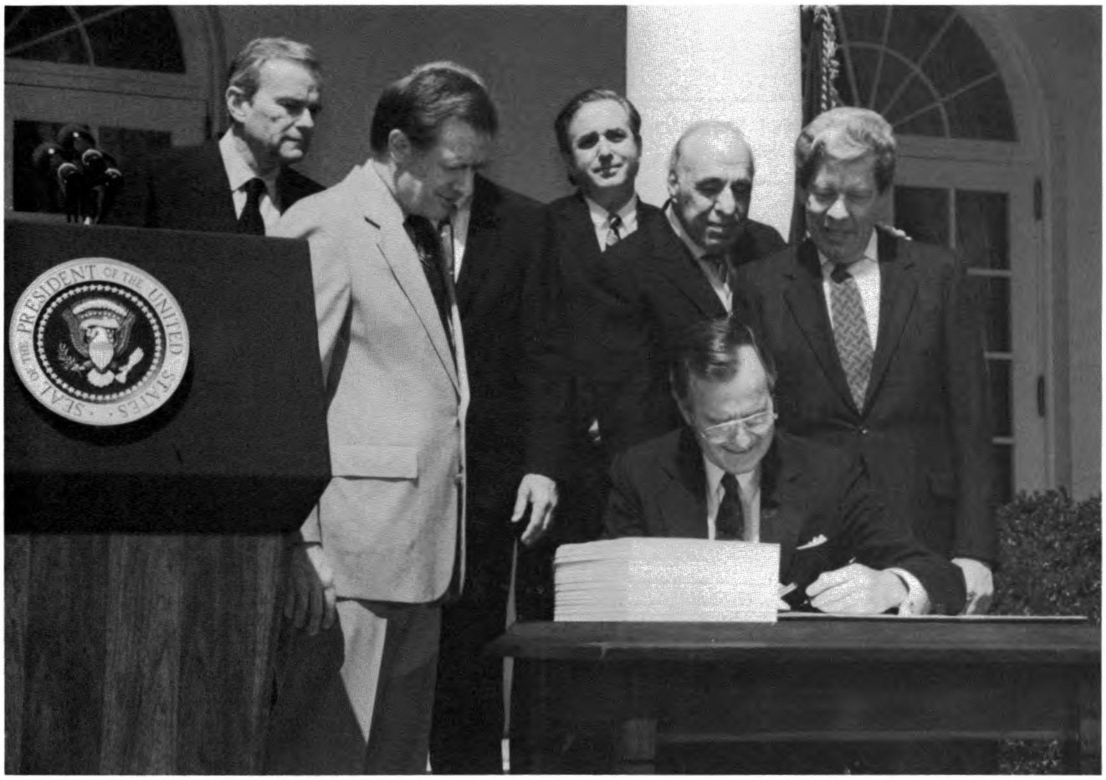
- **Stiffer Prison Sentences and Fees**
  Maximum prison sentences for major financial institution crimes, such as bribery and fraud, are increased from five years to 20 years. The maximum criminal fine for these violations is increased from $5,000 to $1 million.

- **Broader Enforcement Authority**
  FDIC authority to order an institution to "cease and desist" from engaging in certain activities is expanded. The agency's power to remove or prohibit a party from engaging in an insured institution's affairs is broadened. The FDIC also gains authority to take enforcement action against insured savings associations for violations of safety and soundness requirements.

- **Restrictions on Thrift Activities**
  Growth by undercapitalized thrifts is prohibited or limited. The FDIC is given the authority to prohibit or limit activities of state-chartered thrifts that pose serious risks to the insurance fund. These include investments in "junk bonds" and direct investments in real estate.

- **Additional Requirements for Thrifts**
  Savings associations will be required to

David Valdez/The White House



President George Bush, flanked by key members of Congress and his Administration, signs FIRREA into law at a White House Rose Garden ceremony, August 9, 1989.

maintain 70 percent of their assets in housing-related loans and other qualified assets. Also, savings associations will be required to meet capital and accounting standards similar to those imposed on national banks. Associations will have to meet new risk-based capital standards and maintain core capital of at least three percent of assets. All "supervisory goodwill" must be phased out by January 1, 1995.

- **CRA and HMDA Disclosure**
  The new law mandates public disclosure of agency evaluations of individual institutions in meeting their local credit needs under the Community Reinvestment Act. It also expands the disclosure of fair lending data under the Home Mortgage Disclosure Act.

- **Appraisal Standards**
  Federal regulators are required to establish uniform real estate appraisal standards.

The International Development and Finance Act of 1989 (P.L. 101-240)

In recent years, U.S. banks have increased their reserves against possible losses on loans to highly indebted countries in response to deteriorating conditions in those countries. However, members of Congress in 1989 were concerned that U.S. bank reserves in some cases still were significantly lower than those established by banks in other countries and may not be adequate to deal with the potential risks.

As a result, Congress passed this new law to increase the level of bank reserves while providing the regulators flexibility to deal with the specific needs of individual institutions. It requires the federal banking agencies to review the reserve levels of U.S. banking institutions for potential losses from loans to highly indebted countries. Based on their reviews, the agencies are to provide direction to banks about whether they need to add to their reserves.

The regulators can exempt all or part of a loan from higher reserve requirements based on factors that include the type of loan and the collateral backing it; the existence of World Bank/International Monetary Fund assistance programs for the country; and the individual bank's capital, reserves and earnings prospects.

The law also requires the agencies to report to Congress each year on actions taken under the law.

Rules and Regulations 1989

Final Rules

Advertisement of Membership
August 9, 1989

The FDIC amended Part 328 of its regulations to require insured savings associations to display an official savings association sign. This sign was prescribed by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). It consists of a symbol of an eagle with the statement, "Deposits federally insured to $100,000 — backed by the full faith and credit of the United States Government." The sign must be displayed at each station or window where insured deposits are normally received. The regulation also authorizes banks to display the savings association sign as an alternative to their traditional FDIC bank sign.

Fair Housing
December 12, 1989

The FDIC amended Part 338 of its regulations concerning fair housing to incorporate changes made by the Fair Housing Amendments Act of 1988. The FDIC's changes amend the fair housing advertising and poster requirements for insured state nonmember banks by expanding prohibitions to include discriminatory housing practices in "residential real estate-related transactions" (as defined by the Act) and discrimination based on handicap or familial status.

Entrance and Exit Fees for Conversion Transactions
September 22 and December 12, 1989

The FDIC added, at Part 312 of its regulations, a new interim rule prescribing entrance and exit fees to be paid by insured institutions that participate in certain conversion transactions permitted by FIRREA. A conversion transaction occurs when an institution changes its membership from the Bank Insurance Fund (BIF) to the Savings Association Insurance Fund (SAIF), or vice versa. In separate actions, the FDIC prescribed, on an interim basis, the entrance fee for SAIF to BIF conversions (September 22, 1989) and the entrance and exit fees for BIF to SAIF conversions (December 12, 1989).

Assessment Procedures
December 5, 1989

The FDIC amended Part 327 of its regulations on the assessment of deposit insurance premiums. The new rule, issued in response to FIRREA, essentially preserved existing procedures that banks use to calculate and pay deposit insurance assessments, with some modifications, and created new rules for savings associations.

Brokered Deposits
December 5, 1989

The FDIC added, at Section 337.6 of its regulations, an interim rule implementing a provision of FIRREA that prohibits the acceptance or renewal of brokered deposits by any undercapitalized insured depository institution, except on specific application to and waiver of the prohibition by the FDIC. The interim rule provides guidance on when an institution is considered to be undercapitalized, when certain deposits are considered to be "brokered" and the circumstances under which a waiver may be granted. The rule was written so that it would automatically terminate six months after it takes effect unless it is modified, replaced or extended. The FDIC Board extended the interim rule twice, most recently until November 9, 1990.

Applications to Add or Replace Directors, or to Name New Senior Executive Officers
December 5, 1989

The FDIC added, as an interim rule, a new section 303.14 to Part 303 of its regulations. The new section implements FIRREA's requirement that certain insured state nonmember banks file a notice with the FDIC prior to adding or replacing a director, employing a senior executive officer or promoting an individual to senior executive officer. The FDIC may disapprove plans to employ an individual whose service in not considered to be in the best interest of depositors or the public. A bank comes under the notice requirement if it has been chartered less than two years, if it has undergone a change in control within the preceding two years, or if it is determined to be in a "troubled condition." The FDIC also added as an interim rule a new Subpart L to Part 308 of its regulations that sets out the rights an individual or a bank may exercise upon receipt of a notice of disapproval under the new section 303.14. The new subpart also explains the procedures the individual or the bank must follow in pursuit of those rights.

Activities and Investments of Savings Associations
December 12, 1989

The FDIC added, as an interim rule, a new section 303.13 to Part 303 of its regulations to implement provisions of FIRREA that impose new restrictions on savings association powers. The new section governs applications and notice procedures for state savings associations to engage in activities and make investments that are not permissible for federal savings associations. The section governs divestiture of certain prohibited equity investments by state savings associations and divestiture of debt securities that are not of investment grade (so-called "junk bonds") by state and federal savings associations. It also sets out the rules for the acquisition or establishment of a subsidiary by a savings association or the engagement in new activities by a subsidiary of a savings association. The FDIC also amended its procedures for handling applications and making decisions under delegated authority in connection with its new responsibilities under FIRREA.

Foreign Banks
March 31 and June 20, 1989

In two separate actions, the FDIC adopted major amendments to Part 346 of its regulations, which govern the operations of U.S. branches of foreign banks that are required to obtain deposit insurance under the International Banking Act of 1978. An asset maintenance concept, which is intended to serve the same purpose as the minimum capital requirement for domestic banks, replaced the capital equivalency ledger account. Other substantial revisions included the elimination of restrictions on country exposure concentrations and exemptions from the requirement that branches obtain deposit insurance.

Securities Disclosure
December 5, 1989

The FDIC amended Part 335 of its regulations governing registration and disclosure of bank securities. In general, the rule affects insured state nonmember banks that have 500 or more stockholders and total assets of more than $1 million. Revised rules were adopted pertaining to independent audits, disclosures of executive compensation and other matters. The amendments make the FDIC's securities disclosure requirements substantially the same as those of the Securities and Exchange Commission, in accordance with Section 12(i) of the Securities Exchange Act of 1934. Among the differences from past procedures is a shorter time period for institutions to report changes in accountants and resignations of bank directors. Annual financial statements by banks subject to Part 335 also must be audited by an independent public accountant. The amendments took effect on January 29, 1990, except for the audit requirement, which takes effect for financial statements issued after December 15, 1990.

Regulations Transferred from the FSLIC to the FDIC
October 12, 1989

As required by FIRREA, the FDIC and the Office of Thrift Supervision (OTS) jointly identified those regulations of the former Federal Home Loan Bank Board and the former Federal Savings and Loan Insurance Corporation (FSLIC) that relate to the conduct of conservatorships and receiverships, the insurance of accounts and the administration of the FSLIC Fund. These regulations were allocated between the OTS and the FDIC. Those former FSLIC rules allocated to the FDIC were redesignated and transferred to the FDIC's regulations.

Proposed Rules

Deposit Insurance
December 5, 1989

The FDIC issued a proposal to completely revise Parts 330 and 331 of its regulations concerning deposit insurance. The proposal was issued, in part, to comply with certain provisions of FIRREA. The proposal included many technical changes to existing deposit insurance rules that would affect customers of all banks and savings associations insured by the FDIC, including thrift institutions previously insured by the FSLIC. Some of the proposed changes were intended to resolve differences between the regulations and interpretations of the FDIC and those of the former FSLIC. Others, in essence, were proposed to update the FDIC's deposit insurance regulations, which had not been substantially revised since they were first adopted in 1967. The FDIC Board approved final regulations on April 30, 1990. With certain exceptions, the new regulations took effect on July 29, 1990.

Rapid Asset Growth
March 21, 1989

Since a number of institutions in recent years had grown very rapidly in a short period of time and later developed serious financial problems, the FDIC proposed that any insured bank planning to grow by more than nine percent of assets during any three-month period be required to provide the agency with 30 days' advance written notice. The FDIC also proposed that if an institution experienced unplanned growth of more than nine percent it would have seven days to notify the agency in writing. The aim of the proposal was to enhance the FDIC's ability to monitor rapid growth in time to apply appropriate supervision and avoid losses to the deposit insurance fund. As a result of comments received, the FDIC adopted a more narrow final rule on April 3, 1990. Under the final rule, which became effective on July 23, 1990, a bank must give the FDIC 30 days' advance notice only when planning to increase its assets 7.5 percent or more during any three-month period through any combination of fully insured brokered deposits, fully insured out-of-territory deposits or secured borrowings, including repurchase agreements.

Advance Notice of Proposed Rulemaking

Advertisement of Membership
August 9, 1989

The FDIC issued a notice of proposed rulemaking to advise the public that it was considering amending Part 328 of its regulations concerning advertisement by insured depository institutions. The notice invited the public to comment on whether each insured savings association should be required to display a statement in its advertisements that its deposits are federally insured, as insured banks are required to do. In the alternative, the FDIC asked whether it should eliminate the existing requirement for insured banks. The notice also invited the public to comment on whether there is a need for regulations implementing FIRREA's requirement that uninsured savings associations disclose, in their advertisements and account statements, the fact that their deposits are not insured.

Michael Sargent/The White House

President Bush, FDIC Chairman Seidman (far right) and others at White House press conference announcing plans to resolve the S&L crisis, February 6, 1989. Others, from left: Federal Home Loan Bank Board Chairman M. Danny Wall, Comptroller of the Currency Robert L. Clarke, Attorney General Richard Thornburgh and Federal Reserve Board Chairman Alan Greenspan.

Financial Statements*

F D I C

* Financial Statements
for the Bank Insurance Fund only.
Financial Statements for the
Savings Association Insurance Fund
and the FSLIC Resolution Fund
will be available separately.

Federal Deposit Insurance Corporation
Bank Insurance Fund
Statements of Income and the Fund Balance
(Dollars in Thousands)

	For the year ended December 31	
	1989	**1988**
Revenue:		
Assessments earned (Note 9)	$ 1,885,029	$ 1,773,011
Interest on U.S. Treasury obligations	1,371,962	1,396,402
Other revenue	237,637	178,245
Total Revenue	**3,494,628**	**3,347,658**
Expenses and Losses:		
Administrative operating expenses	213,855	223,911
Merger assistance losses and expenses	235,314	1,023,926
Provision for insurance losses (Note 5)	3,811,290	6,298,266
Nonrecoverable insurance expenses	85,776	42,267
Total Expenses and Losses	**4,346,235**	**7,588,370**
Net Income (Loss)	**(851,607)**	**(4,240,712)**
Fund Balance - January 1	**14,061,130**	**18,301,842**
Fund Balance - December 31	**$13,209,523**	**$14,061,130**

See accompanying notes

Federal Deposit Insurance Corporation
Bank Insurance Fund
Statements of Financial Position
(Dollars in Thousands)

	December 31	
	1989	**1988**
Assets		
Cash and cash equivalents (Note 3)	$ 4,813,914	$ 2,928,010
Investment in U. S. Treasury obligations, net (Note 4)	8,925,360	13,292,644
Accrued interest receivable on investments and other assets	279,333	652,119
Net receivables from bank assistance and failures (Note 5)	5,498,127	5,813,873
Property and buildings (Note 6)	97,673	77,534
	$19,614,407	**$22,764,180**
Liabilities and the Fund Balance		
Accounts payable, accrued liabilities and other	49,701	64,763
Liabilities for estimated bank assistance (Note 7)	3,820,297	3,877,376
Liabilities incurred from bank assistance and failures (Note 8)	2,412,685	4,651,388
Estimated losses from litigation	122,201	109,523
Total Liabilities	**6,404,884**	**8,703,050**
Fund Balance	**13,209,523**	**14,061,130**
	$19,614,407	**$22,764,180**

See accompanying notes

Federal Deposit Insurance Corporation
Bank Insurance Fund
Statements of Cash Flows
(Dollars in Thousands)

	For the year ended December 31	
	1989	**1988**
Cash Flows From Operating Activities:		
Cash inflows from:		
Assessments earned	$ 1,885,029	$ 1,773,011
Interest on U.S. Treasury obligations	1,446,156	1,492,126
Recoveries from bank assistance and failures	4,285,312	4,451,660
Increase (decrease) in accounts payable, accrued liabilities and other	(15,064)	60,999
Cash outflows for:		
Administrative operating expenses	214,294	226,245
Disbursements for bank assistance and failures	6,637,407	6,639,154
Increase (decrease) in accrued interest receivable on investments and other assets	(372,786)	204,951
Net Cash Provided by Operating Activities	**1,112,518**	**707,446**
Cash Flows From Investing Activities:		
Cash inflows from:		
Maturity and sale of U.S. Treasury obligations	6,092,095	3,390,000
Cash outflows for:		
Purchase of U.S. Treasury obligations	1,773,967	1,985,938
Property and buildings	21,527	5,483
Net Cash Provided by Investing Activities	**4,296,601**	**1,398,579**
Cash Flows From Financing Activities:		
Cash outflows for:		
Liabilities assumed from bank assistance and failures	3,553,215	502,957
Cash Used by Financing Activities	**3,533,215**	**502,957**
Net Increase in Cash and Cash Equivalents	**1,885,904**	**1,603,068**
Cash and Cash Equivalents - January 1	**2,928,010**	**1,324,942**
Cash and Cash Equivalents - December 31	**$ 4,813,914**	**$ 2,928,010**

See accompanying notes

Notes to Bank Insurance Fund (BIF)
December 31, 1989 and 1988

1. Impact of FIRREA Legislation
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) became public law on August 9, 1989. The primary purpose of the legislation was to reform, recapitalize, and consolidate the federal deposit insurance system so as to restore the public's confidence in the savings and loan industry and to ensure a safe and stable system of affordable housing finance through major regulatory reforms, strengthened capital standards and safeguards for the disposal of recoverable assets. FIRREA abolished the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Bank Board (FHLBB). Their functions were transferred, in a prescribed manner, to the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision, the Federal Housing Finance Board, and the Resolution Trust Corporation (RTC).

Under FIRREA, the FDIC became the administrator of two separate and distinct insurance funds: the Bank Insurance Fund (BIF formerly the Deposit Insurance Fund) which insures the deposits of all BIF-member banks, and the Savings Association Insurance Fund (SAIF) which insures the deposits of all SAIF-member savings associations (formerly a function of the FSLIC). Both insurance funds are maintained separately to carry out their respective legislative mandates, with no commingling of assets or liabilities. The FSLIC Resolution Fund (FRF), a third separate fund under FDIC management, and the RTC replaced the FSLIC in case resolution activities. The FRF will complete the resolution of all thrifts that failed or were assisted before January 1, 1989; the RTC will resolve all troubled thrift cases that occur from January 1, 1989 through August 8, 1992, after which the SAIF will begin resolving cases.

These financial statements pertain to the financial position, results of operations, and cash flows of the Bank Insurance Fund only.

2. Summary of Significant Accounting Policies

General
These statements do not include accountability for assets and liabilities of closed insured banks for which the BIF acts as receiver or liquidating agent. Periodic and final accountability reports of the BIF activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

U. S. Treasury Obligations
Securities are shown at amortized cost, which is the purchase price of securities less the amortized premium or plus the accreted discount. Such amortizations and accretions are computed on a daily basis from the date of acquisition to the date of maturity. Interest is also calculated on a daily basis and recorded monthly using the constant-yield method.

Allowance for Loss on Receivables From Bank Assistance and Failures
The BIF records as a receivable the funds advanced for assisting and closing banks and establishes an estimated allowance for loss. The allowance for loss represents the difference between the funds advanced and the expected repayment, based on the estimated cash recoveries from the assets of the assisted or failed bank, net of all liquidation costs, and also from dividends received from, and sale of, equity instruments acquired in assistance agreements (the proceeds of which are deferred pending final settlement of the assistance transaction).

Litigation Losses
The BIF establishes an estimate for potential loss for litigation against the BIF in its corporate and receivership capacity. The FDIC Legal Division recommends these estimated losses on a case-by-case basis.

Depreciation
The cost of furniture, fixtures, and equipment is expensed at time of acquisition. This policy is a departure from generally accepted accounting principles; however, the financial impact is not material to the BIF financial statements. The Washington Office Buildings 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.

Merger Assistance Losses and Expenses
The costs incurred by the BIF which resulted from either providing assistance to open insured banks or merging of insured banks are recorded as merger assistance losses. These costs, which are not liquidation-related, are specified in the terms of the agreements and have no potential for recovery by the BIF.

Nonrecoverable Insurance Expenses
Nonrecoverable insurance expenses are incurred by the BIF as a result of (1) paying insured depositors in closed bank payoff activity; (2) administering and liquidating assets purchased in a corporate capacity; (3) bid-package preparation for assistance transactions; and (4) bridge bank operations.

Reclassifications
Reclassifications have been made in the 1988 Financial Statements to conform to the presentation used in 1989.

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. This includes the purchase of one-day Special Treasury Certificates:

(Dollars in thousands)

	December 31	
	1989	**1988**
Cash	$ 77,443	$ 12,644
Cash Equivalents	4,736,471	2,915,366
	$ 4,813,914	**$ 2,928,010**

4. U. S. Treasury Obligations

All cash received by the BIF not used to defray operating expenses or for outlays related to assistance to banks and liquidation activities or invested in short-term highly liquid investments is invested in U. S. Treasury obligations. The BIF investment portfolio consists of the following:

(Dollars in thousands)

		December 31, 1989			
Maturity	**Description**	**Yield to Maturity at Market**	**Book Value**	**Market Value**	**Face Value**
Less than one year	U.S.T. Bills, Notes & Bonds	8.16	$ 1,812,004	$ 1,824,807	$ 1,800,000
1-3 years	U.S.T. Notes & Bonds	7.99	5,446,301	5,414,175	5,300,000
3-5 years	U.S.T. Notes & Bonds	7.97	1,667,055	1,669,277	1,700,000
			$ 8,925,360	**$ 8,908,259**	**$ 8,800,000**

		December 31, 1988			
Maturity	**Description**	**Yield to Maturity at Market**	**Book Value**	**Market Value**	**Face Value**
Less than one year	U.S.T. Bills Notes & Bonds	9.07	$ 4,289,304	$ 4,302,784	$ 4,280,000
1-3 years	U.S.T. Notes & Bonds	9.21	5,004,351	4,935,705	4,900,000
3-5 years	U.S.T. Notes & Bonds	9.21	3,998,989	3,809,137	3,900,000
			$13,292,644	**$13,047,626**	**$13,080,000**

The unamortized premium, net of unaccreted discount, for 1989 and 1988 was $125,360,000 and $212,644,000, respectively. The amortized premium expense, net of accreted discount income, for 1989 and 1988 was $49,157,000 and $95,724,000, respectively.

5. Net Receivables from Bank Assistance and Failures
(Dollars in thousands)

	December 31	
	1989	**1988**
Receivables from Bank Assistance:		
Open banks	$ 1,640,443	$ 1,301,753
Facilitate deposit assumptions	36,000	36,000
Facilitate merger agreements	134,398	350,648
Accrued interest receivable	14,366	8,257
Allowance for losses	(1,153,122)	(1,110,328)
Deferred settlements	(5,198)	-0-
	666,887	**586,330**
Bridge Bank Receivables:		
Capitalization	1,950,000	1,008,241
Accrued interest receivable	93,582	8,866
Allowance for losses	(1,750,000)	-0-
	293,582	**1,017,107**
Continental Bank (CINB) Assistance:		
Loans and related assets	2,018,692	2,153,189
Dividends receivable	-0-	12,797
Preferred stock/common stock	73,436	515,436
Allowance for losses	(1,057,727)	(1,280,110)
Deferred settlement	(284,217)	(159,090)
	750,184	**1,242,222**
Receivables from Bank Failures:		
Insured Depositor Payoffs	4,952,026	3,207,323
Depositors' claims unpaid	79,055	32,841
Purchase and Assumption transactions	9,347,867	8,456,417
Corporate Purchase transactions	523,239	500,999
Allowance for losses	(11,114,713)	(9,229,366)
	3,787,474	**2,968,214**
	$ 5,498,127	**$ 5,813,873**

1989 Analysis of Changes in Allowance for Losses
(Dollars in thousands)

	Beginning Balance	Provision For Loss	Transfers & Adjustments	Ending Balance
Open bank assistance	$ 1,110,328	$ 42,794	$ -0-	$ 1,153,122
CINB	1,439,200	(222,383)	(159,090)	1,057,727
Bridge Banks	-0-	-0-	1,750,000	1,750,000
Closed Banks:				
Insured Depositor Payoffs	2,006,406	1,172,612	(12,959)	3,166,059
Purchase and Assumptions	6,925,445	877,658	(77,138)	7,725,965
Corporate Purchases	297,515	(74,826)	-0-	222,689
Total Closed Banks	9,229,366	1,975,444	(90,097)	11,114,713
Liabilities for estimated bank assistance	3,877,376	2,002,757	(2,059,836)	3,820,297
Estimated losses from litigation	109,523	12,678	-0-	122,201
Total Allowance for Losses	**$ 15,765,793**	**$ 3,811,290**	**$ (559,023)**	**$ 19,018,060**

1988 Analysis of Changes in Allowance for Losses
(Dollars in thousands)

	Beginning Balance	Provision For Loss	Transfers & Adjustments	Ending Balance
Open bank assistance	$ 115,105	$ 53,271	$ 941,952	$ 1,110,328
CINB	1,640,852	(201,652)	-0-	1,439,200
Closed Banks:				
Insured Depositor Payoffs	1,634,862	423,578	(52,034)	2,006,406
Purchase and Assumptions	5,072,785	1,966,368	(113,708)	6,925,445
Corporate Purchases	120,690	179,825	(3,000)	297,515
Total Closed Banks	6,828,337	2,569,771	(168,742)	9,229,366
Liabilities for estimated bank assistance	1,236,952	3,877,376	(1,236,952)	3,877,376
Estimated losses from litigation	600	(500)	109,423	109,523
Total Allowance for Losses	**$ 9,821,846**	**$ 6,298,266**	**$ (354,319)**	**$ 15,765,793**

The BIF liabilities for estimated bank assistance include amounts transferred to other line items, adjustments for cash outlays, and deferred settlements.

First RepublicBank/NCNB Texas National (Bridge Bank)
During 1989, the FDIC sold its shares of stock in NCNB Texas National Bank to NCNB Corporation for $1.1 billion, resulting in a gain of approximately $270 million.

Termination and final asset pool settlement is scheduled to occur on the fifth anniversary (November 22, 1993) of the agreement. At the time of termination, the FDIC must (a) purchase remaining unliquidated assets at fair market value; (b) settle with NCNB for the current settlement account balance arising from administering the Separate Asset Pool; and (c) settle with NCNB for deferred settlement account balances arising from gains and losses on disposition of assets as well as charge-offs and write-ups of pool assets.

The Separate Asset Pool balance on December 31, 1989 was $4.7 billion. Total estimated cost for the length of the entire Assistance Agreement is projected to be $2.9 billion.

MCorp/BancOne (Bridge Bank)
On March 28, 1989, twenty of the twenty-five MCorp subsidiary banks were declared insolvent by their chartering authorities and subsequently closed, with the FDIC appointed receiver. The FDIC organized a new Deposit Insurance Bridge Bank, N.A., Dallas, Texas, chartered by the Comptroller of the Currency (OCC) to purchase all assets and assume deposits and certain non-deposit liabilities from the failed institutions.

On July 5, 1989, the FDIC, BancOne Corporation, BancOne Texas Corporation, and BancOne Texas, N.A. entered into a financial assistance agreement designed to capitalize and stabilize the new bridge bank. The final approval on January 1, 1990 of the principal terms of BIF outlays and costs for the merger assistance included:

a) The BIF will purchase 3,375,000 shares of Class B non-voting Convertible Common Stock and 1,250,000 shares of Class C non-voting Common Stock of BancOne Texas, N.A. in exchange for a note payable in the amount of $416.3 million due on or before the day on which the FDIC no longer owns any shares of such stock.

b) The BIF funded negative equity of the Bridge Bank (including Bridge Bank operating losses) during its tenure of operation (March 29, 1989 to December 31, 1989), as well as mark-to-market for assets and liabilities as of the date of BancOne's acquisition, January 1, 1990. During January 1990, total funding of $2.6 billion was paid by (i) assumption of FRB indebtedness including principal and interest totalling $1.519 billion and forgiveness of a $300 million subordinated note advanced to the Bridge Bank, and (ii) a non-negotiable promissory note to BancOne Texas in the amount of $737 million due on or before March 1, 1995.

c) By terms of the assistance agreement, the BIF and BancOne Texas, N.A. transferred to a Separate Asset Pool $2.5 billion of troubled assets and owned real estate of the insolvent MCorp banks. BancOne retains the right to transfer additional troubled loans to the Separate Asset Pool during its first two years of operations. Administration and funding costs of the Separate Asset Pool are to be borne by the BIF during its five year tenure.

Final settlement on the Separate Asset Pool will occur no later than January 1, 1995. At such time, the BIF will settle with BancOne Texas, N. A. for the current settlement account balance arising from the administration of the separate asset pool and for the deferred settlement account balance arising from gains and losses on the disposition of assets as well as charge-offs and write-ups of pool assets. In addition, the BIF will purchase the remaining unliquidated assets of the pool at fair market value. The total estimated cost to the BIF is $2.7 billion.

Texas American Bancshares/Texas American (Bridge Bank)
On July 20, 1989, the twenty-four subsidiary banks of Texas American Bancshares, Inc. were declared insolvent by their chartering authorities and subsequently closed, with the FDIC appointed receiver. Pursuant to the authority granted in 12 U.S.C. 1821, the FDIC organized a new national "bridge bank" called Texas American Bridge Bank, N.A., Fort Worth, Texas, to purchase all assets and assume deposits and certain non-deposit liabilities from the failed institutions.

Also on July 20, 1989, the FDIC Board of Directors approved the acquisition of Texas American Bridge Bank by Deposit Guaranty Bank, Dallas, Texas. An Interim Management Agreement was executed for the operation of the bridge bank pending completion of the assistance agreement. The financial assistance agreement was consummated on January 31, 1990, principal terms of which included: (a) the BIF funded negative equity of the Bridge Bank (renamed Team Bank) including the Bridge Bank operating losses incurred during its tenure of operation July 20, 1989 through January 31, 1990, as well as mark-to-market of certain assets and liabilities as of the date of Deposit Guaranty acquisition January 31, 1990; and (b) the FDIC and Deposit Guaranty Bank transferred approximately $772 million of troubled assets and owned real estate of the insolvent Texas American institutions to a Separate Asset Pool for liquidation. Administration and funding costs of the Separate Asset Pool are to be borne by the BIF. Total estimated cost to the BIF is approximately $900 million.

CINB Assistance

The CINB assistance agreement, entered into on September 26, 1984, between the FDIC, the Federal Reserve Board, the Comptroller of the Currency, and a group of major U. S. banks terminated when it reached its prescribed valuation date on September 26, 1989. The Bank Insurance Fund (BIF) made the final payment for the indebtedness assumed of $2.2 billion on September 26, 1989.

During the term of the agreement, collection proceeds totaled $2.6 billion. Application of the proceeds were to administrative costs and interest expense totaling $176 million and $1.1 billion, respectively, and $1.3 billion in principal payments owing under the FRB agreement. The BIF estimated allowance for loss as of December 31, 1989 was $1.0 billion, which represents the difference between the amount funded and the amount BIF estimates as recoverable from the remaining assets and future proceeds from the sale of equity instruments, which will be deferred until final disposition of the remaining assets.

Under the terms of the agreement, on the valuation date, the BIF exercised its option to acquire from Continental Illinois Holding Corporation (CIHC) the 10,080,809 remaining shares of Continental Bank Corporation (CBC) common stock. For every $20 of loss the BIF incurred, the BIF was entitled to acquire one share of CBC common stock at an exercise price of $0.00001 per share.

During 1989, the BIF sold all its shares (12.838 million) of the Continental Bank Corporation (CBC) Adjustable Rate Preferred Stock, Class A, valued at $280 million, for $273 million. Also, 7.2 million shares of CBC Junior Perpetual Convertible Preference Stock, valued at $162 million, was sold for $217 million. Cash dividends received for the year ended December 31, 1989 on the Junior Perpetual Convertible Preference Stock and the Adjustable Rate Preferred Stock, Class A were $11.4 million and $25.8 million, respectively. The gain on sale and the cash dividends received are being deferred until final disposition has been made of the remaining assets.

In addition, the BIF has remaining 3.264 million shares of the Junior Perpetual Convertible Preference Stock, which has a fair market value as of December 31, 1989 of $81 million. Also, the BIF retains the 10,080,809 shares of CBC common stock resulting from the exercise of the option, that as of December 31, 1989 has a fair market value of $199 million.

Net Worth Certificate Program

The net worth certificate program was established at the FDIC by authorization of the Garn-St Germain Depository Institutions Act of 1982. Under this program, the BIF would purchase a qualified institution's net worth certificate and, in a non-cash exchange, the BIF would issue its non-negotiable promissory note of equal value. The total assistance outstanding to qualified institutions as of December 31, 1989 and 1988, is $258,539,000 and $321,897,000, respectively. As of December 31, 1989 and 1988, the financial statements excluded $258,539,000 and $321,897,000, respectively, of net worth certificates, for which no losses are expected. The original authority to issue net worth certificates expired October 13, 1986. The Competitive Equality Banking Act of 1987 reinstated the net worth certificate program through October 13, 1991.

6. Property and Buildings
(Dollars in thousands)

	December 31	
	1989	1988
Land	$ 31,930	$ 31,850
Office buildings	77,643	56,197
Accumulated depreciation	(11,900)	(10,513)
	$ 97,673	**$ 77,534**

The BIF 1776 F Street property notes payable of $5,939,000 were paid in full as of December 31, 1989.

A portion of depreciation expense is allocated to the failed banks as liquidation expense. In both 1989 and 1988, the amount of depreciation expense allocated to the failed banks was $496,000.

7. Liabilities for Estimated Bank Assistance
The BIF records an estimated loss for its future or potential assistance to those banks which the regulatory process has identified as being distressed and where ongoing negotiations and/or current agreement terms indicate that BIF assistance will be necessary. The BIF outstanding liabilities for this estimated bank assistance as of December 31, 1989 and 1988, are $3,820,297,000 and $3,877,376,000, respectively.

The BIF has included in the December 31, 1989 Liabilities for Estimated Bank Assistance, $535,963,000 of realized proceeds from the sale of equity instruments and other such transactions associated with the assisted institution. BIF defers recognition of such proceeds pending final termination of the assistance agreement. Such proceeds are available to fund future assistance costs and have been considered in determining the estimated loss to the BIF for future assistance.

8. Liabilities Incurred from Bank Assistance and Failures
(Dollars in thousands)

	December 31	
	1989	1988
Funds held in trust	$ 489	$ 233,278
Depositors' claims unpaid	79,055	32,841
Notes indebtedness	798,982	998,818
Guaranty assistance	6,660	14,539
Federal indebtedness	1,450,000	3,316,178
Accrued interest/other liabilities	77,499	55,734
	$ 2,412,685	**$ 4,651,388**

Maturities of these liabilities for each of the next five years and thereafter:

(Dollars in thousands)

1990	1991	1992	1993	1994	1995/ thereafter
$1,808,614	$206,311	$199,558	$103,919	$5,741	$88,542

9. Assessments
The Federal Deposit Insurance (FDI) Act, as amended by FIRREA, directs that the FDIC set assessment rates for the Bank Insurance Fund members annually in accordance with the legislatively mandated rates against a member's average assessment base.

The FDI Act also provides for an assessment credit to BIF members when the Board of Directors determines that the BIF reserve ratio is expected to exceed the designated reserve ratio in the succeeding year, after taking into account expected expenses and revenues. The FDI Act defines the BIF designated reserve ratio as (i) 1.25 percent of estimated insured deposits; or (ii) a higher percentage, not to exceed 1.50 percent, as determined by the Board of Directors to cover expected risks of future losses.

The assessment rate is 0.12 percent for calendar year 1990. Based on the present projected status of the BIF, and anticipated expenses and revenue for the next year, the reserve ratio is not expected to exceed the designated reserve ratio. Therefore, insured members will not receive an assessment credit in 1990.

10. Pension Plan and Accrued Annual Leave
The FDIC eligible employees assigned to the Bank Insurance Fund are covered by the Civil Service Retirement and Disability Fund. Matching employer contributions provided by the BIF for all eligible employees were approximately $13,786,000 and $13,404,000 for the years ending December 31, 1989 and 1988, respectively.

Although the BIF contributes a portion of pension benefits for eligible employees and makes the necessary payroll withholdings from them, the BIF does not account for the assets of the Civil Service Retirement and Disability Fund and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts are reported by the U. S. Office of Personnel Management (OPM) for the Civil Service Retirement and Disability Fund and are not allocated to the individual employers. OPM also accounts for all health and life insurance programs for retired BIF eligible employees.

The BIF liability to employees for accrued annual leave is approximately $18,430,000 and $14,698,000 at December 31, 1989 and 1988, respectively.

11. Commitments
The BIF lease agreement commitments for office space are $150,921,000 for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. During 1989 and 1988, lease space expense was $29,390,000 and $34,038,000, respectively. Leased space fees for future years are as follows:

(Dollars in thousands)

1990	1991	1992	1993	1994	1995/ thereafter
$31,835	$25,223	$18,363	$14,540	$11,758	$49,202

12. Entrance and Exit Fee Revenue
In accordance with FIRREA provisions, the BIF will receive both entrance and exit fees for conversion and transfer transactions between the BIF and the SAIF. Interim regulations describing the fee calculations have been approved by the FDIC Board of Directors, however, revisions are anticipated with final approval expected in the coming year.

The BIF has elected not to record the entrance and exit fee revenues which had been calculated using the interim regulations until the regulations have been finalized. Approximately $2.4 million in revenues had been calculated for conversion and transfer transactions consummated as of December 31, 1989.

13. Contingencies
The FDIC and bank chartering authorities are directing additional resources to the monitoring of the financial condition of certain large banks predominately located in the Northeast region. These institutions are experiencing the effects of softening real estate markets and weakening state economies and may, in time, require financial assistance from the BIF. At this time, however, the FDIC cannot reasonably estimate the timing of such assistance or the expected cost to the BIF. Depending on the extent of the continued downturn in the condition of these segments of the economy in the Northeast, the financial assistance required could have a material impact on the condition of the Bank Insurance Fund itself.

14. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of net income (loss) to net cash provided by operating activities
(Dollars in thousands)

	For the year ended December 31	
	1989	**1988**
Net Income (Loss)	$ (851,607)	$ (4,240,712)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of U. S. Treasury obligations	49,156	95,724
Interest on Funds Held in Escrow	25,037	-0-
Building depreciation	1,387	891
Provision for insurance losses	3,811,290	6,298,266
Accrual of assets and liabilities from bank assistance and failures	(127,425)	12,934
Loss incurred for debt assumption	-0-	1,000,000
Loss incurred for forgiveness of note receivable	-0-	131,759
Net cash disbursed for bank assistance and failures not impacting income	(2,143,042)	(2,447,464)
Increase (decrease) in accounts payable, accrued liabilities and other	(15,064)	60,999
(Increase) decrease in accrued interest receivable on investments and other assets	372,786	(204,951)
Net cash provided by operating activities	**$ 1,122,518**	**$ 707,446**

Schedule of noncash transactions incurred from bank assistance and failures
(Dollars in thousands)

	For the year ended December 31	
	1989	**1988**
Increase (decrease) in net receivables from bank assistance and failures:		
Preferred stock	$ (320,000)	$ 970,000
Notes receivable	1,770,000	2,100
Notes in lieu of cash	-0-	18,673
Depositors' claims unpaid	46,213	14,124
Transfer of allowance for loss	(1,950,000)	(941,952)
Total Increase (Decrease)	**(453,787)**	**62,945**
Decrease (increase) in liabilities incurred from bank assistance and failures:		
Notes payable	(1,450,000)	(990,773)
Pending claims of depositors	(46,213)	(14,124)
Liabilities for estimated assistance transfer	1,950,000	941,952
Total Decrease (Increase)	**453,787**	**(62,945)**
	$ -0-	**$ -0-**

GAO United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114831

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the financial statements of the Bank Insurance Fund for the years ended December 31, 1989 and 1988, and have issued our opinion thereon. This report pertains only to our study and evaluation of the Federal Deposit Insurance Corporation's internal control structure as it relates to the Bank Insurance Fund for the year ended December 31, 1989. The report on our study and evaluation of the Corporation's internal control structure for the year ended December 31, 1988, is presented in GAO/AFMD-89-63, dated April 28, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Bank Insurance Fund for the year ended December 31, 1989, we considered its internal control structure in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Corporation's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the Corporation's significant internal control structure policies and procedures into the following categories:

-- treasury, consisting of policies and procedures over cash disbursements, cash receipts, and investment activities, and

-- assistance to problem banks, consisting of policies and procedures over FDIC's supervision and liquidation activities for failed or assisted banks.

For all of the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. We performed limited tests of control procedures for all the categories listed above, except that we found it more efficient to rely solely on substantive audit tests for investment and cash receipt activities. For all categories, we performed audit tests to substantiate account balances associated with each control category. Such tests can also serve to identify weaknesses in the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operations that do not affect the fair presentation of the Bank Insurance Fund's financial statements, but which nevertheless warrant management's attention. We are reporting these other matters separately to the Corporation's management.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

June 28, 1990

Statistics

F D I C

Statistics

Banks Closed Because of Financial Difficulties; FDIC Income, Disbursements and Losses

The following tables are included in the 1989 FDIC Annual Report:

- **Table 122**
  Number and Deposits of Banks Closed Because of Financial Difficulties, 1934-1989.
- **Table 123**
  Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989.
- **Table 125**
  Recoveries and Losses by the Federal Deposit Insurance Corporation on Disbursements for Protection of Depositors, 1934-1989.
- **Table 127**
  Income and Expenses, Federal Deposit Insurance Corporation, by Year, From Begining of Operations, September 11, 1933, to December 1989.
- **Table 129**
  Insured Deposits and the Bank Insurance Fund, 1934-1989.

Deposit Insurance Disbursements
Disbursements by the Federal Deposit Insurance Corporation to protect depositors are made when the insured depositors of failed banks are paid off, or when the deposits of a failed or failing bank are assumed by another insured bank with the financial aid of the FDIC. In deposit payoff cases, the disbursement is the amount paid by the FDIC on insured deposits. In the insured deposit transfer, an alternative to a direct deposit payoff, the FDIC transfers the failed bank's insured and secured deposits to another bank while uninsured depositors must share with the FDIC and other general creditors in any proceeds realized from liquidation of the failed bank's assets. In certain deposit payoffs, the FDIC may determine that an advance of funds to uninsured depositors and other creditors of a failed bank is warranted.

In deposit assumption cases, the principal disbursement is the amount paid to facilitate a purchase and assumption transaction with another insured bank. Additional disbursements are made in those cases as advances for protection of assets in process of liquidation and for liquidation expenses. The FDIC also may purchase assets or guarantee an insured bank against loss by reason of its assuming the liabilities and purchasing the assets of an open or closed insured bank. Under its Section 13(c) authority, the FDIC made a disbursement or approved other forms of assistance in 1989 for 45 operating banks.

Noninsured Bank Failures
Statistics in this report on failures of noninsured banks are compiled from state banking departments, field supervisory officials and other sources. The FDIC received no official reports of noninsured bank closings due to financial difficulties in 1989. For detailed data regarding noninsured banks that were suspended in the years 1934-1962, see the 1962 FDIC Annual Report, pages 27-41. For 1963-1989, see Table 122 of this report and previous reports for respective years.

Sources of Data
Insured banks: books of specific banks at date of closing and books of the FDIC, December 31, 1989.

Table 122.
Number and Deposits of Banks Closed Because of Financial Difficulties, 1934-1989

	Number					Deposits (in thousands of dollars)					
			Insured					Insured			Assets[4]
Year	Total	Non-Insured[1]	Total	Without disbursements by FDIC[2]	With disbursements by FDIC[3]	Total	Non-Insured[1]	Total	Without disbursements by FDIC[2]	With disbursements by FDIC[3]	(in Thousands Dollars)
Total	**1,533**	**136**	**1,397**	**8**	**1,389**	**74,211,327**	**143,501**	**74,067,826**	**41,147**	**74,026,679**	**94,548,117**
1934	61	52	9	...	9	37,333	35,365	1,968	...	1,968	2,661
1935	32	6	26	1	25	13,988	583	13,405	85	13,320	17,242
1936	72	3	69	...	69	28,100	592	27,508	...	27,508	31,941
1937	84	7	77	2	75	34,205	528	33,677	328	33,349	40,370
1938	81	7	74	...	74	60,722	1,038	59,684	...	59,684	69,513
1939	72	12	60	...	60	160,211	2,439	157,722	...	157,772	181,514
1940	48	5	43	...	43	142,788	358	142,430	...	142,430	161,898
1941	17	2	15	...	15	29,796	79	29,717	...	29,717	34,804
1942	23	3	20	...	20	19,540	355	19,185	...	19,185	22,254
1943	5	...	5	...	5	12,525	...	12,525	...	12,525	14,058
1944	2	...	2	...	2	1,915	...	1,915	...	1,915	2,098
1945	1	...	1	...	1	5,695	...	5,695	...	5,695	6,392
1946	2	1	1	...	1	494	147	347	...	347	351
1947	6	1	5	...	5	7,207	167	7,040	...	7,040	6,798
1948	3	...	3	...	3	10,674	...	10,674	...	10,674	10,360
1949	9	4	5	1	4	9,217	2,552	6,665	1,190	5,475	4,886
1950	5	1	4	...	4	5,555	42	5,513	...	5,513	4,005
1951	5	3	2	...	2	6,464	3,056	3,408	...	3,408	3,050
1952	4	1	3	...	3	3,313	143	3,170	...	3,170	2,388
1953	5	1	4	2	2	45,101	390	44,711	26,449	18,262	18,811
1954	4	2	2	...	2	2,948	1,950	998	...	998	1,138
1955	5	...	5	...	5	11,953	...	11,953	...	11,953	11,985
1956	3	1	2	...	2	11,690	360	11,330	...	11,330	12,914
1957	3	1	2	1	1	12,502	1,255	11,247	10,084	1,163	1,253
1958	9	5	4	...	4	10,413	2,173	8,240	...	8,240	8,905
1959	3	...	3	...	3	2,593	...	2,593	...	2,593	2,858
1960	2	1	1	...	1	7,965	1,035	6,930	...	6,930	7,506
1961	9	4	5	...	5	10,611	1,675	8,936	...	8,936	9,820
1962	3	2	1	1	...	4,231	1,220	3,011	3,011	...	...[5]
1963	2	...	2	...	2	23,444	...	23,444	...	23,444	26,179
1964	8	1	7	...	7	23,867	429	23,438	...	23,438	25,849
1965	9	4	5	...	5	45,256	1,395	43,861	...	43,861	58,750
1966	8	1	7	...	7	106,171	2,648	103,523	...	103,523	120,647
1967	4	...	4	...	4	10,878	...	10,878	...	10,878	11,993
1968	3	...	3	...	3	22,524	...	22,524	...	22,524	25,154
1969	9	...	9	...	9	40,134	...	40,134	...	40,134	43,572
1970	8	1	7	...	7	55,229	423	54,806	...	54,806	62,147
1971	6	...	6	...	6	132,058	...	132,058	...	132,058	196,520
1972	3	2	1	...	1	99,784	79,304	20,480	...	20,480	22,054
1973	6	...	6	...	6	971,296	...	971,296	...	971,296	1,309,675
1974	4	...	4	...	4	1,575,832	...	1,575,832	...	1,575,832	3,822,596
1975	14	1	13	...	13	340,574	1,000	339,574	...	339,574	419,950
1976	17	1	16	...	16	865,659	800	864,859	...	864,859	1,039,293
1977	6	...	6	...	6	205,208	...	205,208	...	205,208	232,612
1978	7	...	7	...	7	854,154	...	854,154	...	854,154	994,035
1979	10	...	10	...	10	110,696	...	110,696	...	110,696	132,988
1980	10	...	10	...	10	216,300	...	216,300	...	216,300	236,164
1981	10	...	10	...	10	3,826,022	...	3,826,022	...	3,826,022	4,859,060
1982	42	...	42	...	42	9,908,379	...	9,908,379	...	9,908,379	11,632,415
1983	48	...	48	...	48	5,441,608	...	5,441,608	...	5,441,608	7,026,923
1984	79	...	79	...	79	2,883,162	...	2,883,162	...	2,883,162	3,276,411
1985[6]	120	...	120	...	120	8,059,441	...	8,059,441	...	8,059,441	8,741,268
1986[7]	138	...	138	...	138	6,471,100	...	6,471,100	...	6,471,100	6,991,600
1987[7]	184	...	184	...	184	6,281,500	...	6,281,500	...	6,281,500	6,850,700
1988[7]	200	...	200	...	200	24,931,302	...	24,931,302	...	24,931,302	35,697,789
1989[7]	206	...	206	...	206	24,090,551	...	24,090,551	...	24,090,551	29,168,596

[1]For information regarding each of these banks, see table 22 in the 1963 *Annual Report* (1963 and prior years), and explanatory notes to tables regarding banks closed because of financial difficulties in subsequent annual reports. One noninsured bank placed in receivership in 1934, with no deposits at time of closing, is omitted (see table 22 note 9). Deposits are unavailable for seven banks.

[2]For information regarding these cases, see table 23 of the *Annual Report* for 1963.

[3]For information regarding each bank, see the *Annual Report* for 1958, pp. 48-83 and pp. 98-127, and tables regarding deposit insurance disbursements in subsequent annual reports. Deposits are adjusted as of December 31, 1982.

[4]Insured banks only.

[5]Not available.

[6]Includes data for one bank granted financial assistance although no disbursement was required until January, 1986.

[7]Excludes data for banks granted financial assistance under Section 13(c)(1) of the Federal Deposit Insurance Act to prevent failure. Data for these banks are included in table 123.

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disburse-ments ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
Insured Deposit Payoffs							
First Continental National Bank Houston, Texas	N	700	8,400	8,800	8,758	February 15, 1989	Federal Deposit Insurance Corporation
The Home State Bank Arcadia, Kansas	NM	400	1,300	1,400	1,194	February 16, 1989	Federal Deposit Insurance Corporation
Interstate Bank of Commerce Miami, Florida	SM	1,000	5,200	5,500	5,060	March 31, 1989	Federal Deposit Insurance Corporation
Bank of Aurora Aurora, Colorado	SM	1,100	8,100	5,300	4,910	May 24, 1989	Federal Deposit Insurance Corporation
Fulshear State Bank Fulshear, Texas	NM	1,400	9,000	9,300	9,082	June 8, 1989	Federal Deposit Insurance Corporation
Guardian Bank, N.A. Hempstead, New York	N	20,500	415,200	410,700	340,856	June 21, 1989	Federal Deposit Insurance Corporation
Empire State Bank New York, New York	NM	1,700	25,000	26,700	25,088	July 28, 1989	Federal Deposit Insurance Corporation
Security National Bank of Shreveport Shreveport, Louisiana	N	5,100	16,500	16,000	14,374	November 17, 1989	Federal Deposit Insurance Corporation
First City National Bank and Trust Company New York, New York	N	800	37,800	36,300	35,493	December 20, 1989	Federal Deposit Insurance Corporation
Insured Deposit Transfers							
Community Bank, N.A. Decker Prairie, Texas	N	2,000	7,600	7,900	8,784	January 26, 1989	Tomball National Bank Tomball, Texas
Texas National Bank Houston, Texas	N	2,100	40,200	56,300	56,256	February 16, 1989	First Galleria Bank Houston, Teaxs
The First State Bank Abilene, Texas	NM	27,500	262,300	171,800	239,922	February 17, 1989	NCNB Texas National Bank Dallas, Texas
Bankers Trust of Louisiana, N.A. Kenner, Louisiana	N	5,600	73,600	81,800	78,260	March 10, 1989	Investors Bank & Trust Company Gretna, Louisiana
MBank Abilene, N.A. Abilene, Texas	N	N/A	189,400	196,800	181,029	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
First Service Bank For Savings Leominster, Massachusetts	SM	56,300	866,600	707,700	756,737	March 31, 1989	Peoples Savings Bank Worcester, Massachusetts
Premier Bank, National Association Dallas, Texas	N	2,400	37,700	36,400	34,352	March 31, 1989	Deposit Guaranty Bank Dallas, Texas
Grand Canyon State Bank Scottsdale, Arizona	SM	600	11,300	10,800	10,255	May 19, 1989	Bank of Fountain Hills Fountain Hills, Arizona
Lake Country National Bank Burnet, Texas	N	1,400	6,700	7,000	6,987	June 8, 1989	Lake Buchanan State Bank Buchanan Dam, Texas
First American Bank San Antonio, Texas	NM	1,400	14,200	14,300	14,218	June 8, 1989	Jourdanton State Bank Jourdanton, Texas
Capital Bank-Northwest, N.A. San Antonio, Texas	N	4,200	14,300	15,700	15,727	June 15 1989	McMullen County State Bank Tilden, Texas
Independent Bank-East, N.A. Rockwall, Texas	N	N/A	32,500	33,600	35,338	June 30, 1989	American National Bank of Terrell, N.A. Terrell, Texas

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disburse-ments ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
102 Valley Bank Hopkins, Missouri	NM	1,700	4,900	5,000	4,990	July 5, 1989	The Nodaway Valley Bank Maryville, Missouri
Bennett National Bank Bennett, Colorado	N	2,100	8,700	7,900	6,469	July 13, 1989	First National Bank of Strasburg, N.A. Strasburg, Colorado
Independent Bank, N.A. Coppell, Texas	N	9,000	32,500	31,800	33,474	July 14, 1989	Metropolitan National Bank Farmers Branch, Texas
Fallbrook National Bank Houston, Texas	N	1,600	33,400	32,600	32,641	July 20, 1989	Charter National Bank-Colonial Houston, Texas
Forestwood National Bank Dallas, Texas	N	6,900	49,500	53,000	77,071	July 27, 1989	Comerica Bank-Texas Dallas, Texas
Park Forty-Five National Bank Spring, Texas	N	4,100	19,700	20,300	19,385	August 3, 1989	Klein Bank Harris County, Texas
The Dakota Bank Grand Forks, North Dakota	SM	7,100	2,700	26,700	24,848	August 24, 1989	First National Bank, South Grand Forks, North Dakota
Park Central Bank, N.A. Ft. Worth, Texas	N	1,500	10,100	13,300	13,579	August 24, 1989	Colonial National Bank Ft. Worth, Texas
Summit Bank San Antonio, Texas	NM	4,100	16,700	16,000	15,368	August 24, 1989	The Frost National Bank of San Antonio San Antonio, Texas
The Burr Oak State Bank Burr Oak, Kansas	NM	700	4,000	3,900	3,385	August 31, 1989	First National Bank Mankato, Kansas
Prairie State Bank Grand Prairie, Texas	NM	5,700	15,000	15,500	15,376	September 14, 1989	Bedford National Bank Bedford, Texas
Deposit Assumptions							
Bank of Benton Benton, Louisiana	SM	2,000	10,200	10,400	6,840	January 5, 1989	Red River Valley Bank Bossier City, Louisiana
First State Bank Harper, Texas	NM	1,700	9,200	9,800	2,701	January 12, 1989	Security State Bank and Trust Fredericksburg, Texas
Rolling Hills State Bank Piedmont, Oklahoma	NM	2,600	11,500	11,000	2,941	January 12, 1989	Farmers & Merchants Bank of Piedmont Piedmont, Oklahoma
Oak Hill National Bank Austin, Texas	N	3,200	15,700	15,900	12,993	January 12, 1989	Community National Bank Austin, Texas
Commercial State Bank Houston, Texas	NM	11,700	45,800	43,900	21,923	January 12, 1989	Channelview Bank Channelview, Texas
West Belt National Bank Houston, Texas	N	2,900	27,000	28,600	24,017	January 12, 1989	Deposit Guaranty Bank Dallas, Texas
Orleans Bank and Trust Company New Orleans, Louisiana	SM	1,700	20,800	21,400	19,191	January 12, 1989	Mississippi River Bank Belle Chasse, Louisiana
The National Bank of Bossier City Bossier City, Louisiana	N	15,000	72,500	73,700	50,839	January 12, 1989	Hibernia National Bank New Orleans, Louisiana
First National Bank of Cedar Park Cedar Park, Texas	N	3,400	17,300	17,400	14,962	January 19, 1989	Union National Bank of Texas Austin, Texas
Merchants State Bank Dallas, Texas	NM	17,100	135,200	137,700	30,157	January 19, 1989	Grand Bank Dallas, Texas
The Planters Bank & Trust Company Haynesville, Louisiana	SM	7,500	57,100	57,200	20,568	January 19, 1989	Planters Bank and Trust Company Haynesville, Louisiana

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disburse-ments ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
Oakwood National Bank Enid, Oklahoma	N	4,700	22,000	26,000	7,789	January 26, 1989	The National Bank of Commerce of Altus Altus, Oklahoma
First State Bank of Texas Duncanville, Texas	NM	4,000	16,100	17,200	7,702	January 26, 1989	Fidelity National Bank of Dallas Dallas, Texas
Citizens State Bank Earth, Texas	NM	1,900	15,400	14,600	5,369	January 26, 1989	The First State Bank of Dimmitt Dimmitt, Texas
Alaska Statebank Anchorage, Alaska	SM	14,700	91,500	99,500	53,412	February 3, 1989	Key Bank of Alaska Anchorage, Alaska
Citizens Bank - Houston Houston, Texas	SM	15,800	102,500	95,400	63,944	February 9, 1989	Deposit Guaranty Bank Dallas, Texas
First Bank & Trust Bryan, Texas	NM	12,100	140,400	132,700	34,717	February 9, 1989	First American Bank Bryan, Texas
Citizens Bank Houston, Texas	NM	5,700	38,300	35,500	25,976	February 9, 1989	Deposit Guaranty Bank Dallas, Texas
Westpoint National Bank San Antonio, Texas	N	1,700	8,000	11,300	9,398	February 9, 1989	The Frost National Bank of San Antonio San Antonio, Texas
Louisiana Bank & Trust Company Shreveport, Louisiana	SM	43,800	245,800	229,100	141,342	February 16, 1989	Hibernia National Bank New Orleans, Louisiana
Security Bank Houston, Texas	SM	4,400	14,500	15,300	14,629	February 16, 1989	Texas Commerce Bank, N.A. Houston, Texas
Bank of the West Austin, Texas	NM	4,300	44,200	44,500	21,389	March 9, 1989	The Bank of the West Austin, Texas
Lakeway National Bank Austin, Texas	N	4,200	17,100	17,400	6,769	March 9, 1989	First Commerce Bank Seguin, Texas
Citizens Bank & Trust Calvert, Texas	NM	3,100	11,300	14,200	13,880	March 9, 1989	First State Bank Bremond, Texas
The Farmers State Bank Bogue, Kansas	NM	1,800	7,800	7,800	4,495	March 16, 1989	Farmers & Merchants Bank of Hill City Hill City, Kansas
Livingston Bank Denham Springs, Louisiana	NM	20,400	101,400	101,400	56,779	March 16, 1989	Hibernia National Bank New Orleans, Louisiana
Merchants Marine Bank Port Isabel, Texas	NM	4,600	23,600	26,300	19,223	March 16, 1989	Firstbank Los Fresnos, Texas
Island Bank South Padre Island, Texas	NM	2,300	16,500	17,200	11,197	March 16, 1989	Firstbank Los Fresnos, Texas
The Farmers & Merchants State Bank Ballinger, Texas	NM	3,000	21,900	21,400	2,484	March 16, 1989	The First National Bank of Rotan Rotan, Texas
Enterprise Bank of Florida Miami Lakes, Florida	NM	2,000	25,500	17,900	14,030	March 17, 1989	Eastern National Bank Hialeah, Florida
First Bank of Rowlett Rowlett, Texas	SM	5,600	32,100	32,100	15,123	March 23, 1989	Deposit Guaranty Bank Dallas, Texas
Industrial Bank Houston, Texas	SM	14,500	64,200	63,100	13,772	March 23, 1989	MetroBank, N.A. Houston, Texas
First State Bank Rogers, Texas	NM	1,900	8,900	8,900	6,762	March 23, 1989	The Buckholts State Bank Buckholts, Texas
MBank Brenham, N.A. Brenham, Texas	N	N/A	142,600	135,200	6	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disburse-ments ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
MBank Dallas, N.A. Dallas, Texas	N	N/A	6,972,000	3,547,200	7,416	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Houston, N.A. Houston, Texas	N	N/A	2,819,500	2,261,500	235	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Odessa, N.A. Odessa, Texas	N	N/A	322,200	301,300	16	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Round Rock, N.A. Round Rock, Texas	N	N/A	159,900	155,700	23	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Austin, N.A. Austin, Texas	N	N/A	N/A	N/A	111	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Ft. Worth, N.A. Fort Worth, Texas	N	N/A	765,200	672,400	68	March 28, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Jefferson County, N.A. Port Arthur, Texas	N	N/A	324,600	299,200	22	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Longview, N.A. Longview, Texas	N	N/A	260,800	249,900	10	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Marshall, N.A. Marshall, Texas	N	N/A	217,700	205,400	3	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Corsicana, N.A. Corsicana, Texas	N	N/A	190,800	177,300	7	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Denton County, N.A. Lewisville, Texas	N	N/A	230,000	218,400	21	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Greenville, N.A. Greenville, Texas	N	N/A	166,100	154,400	10	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Midcities, N.A. Arlington, Texas	N	N/A	369,100	343,000	15	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Orange, N.A. Orange, Texas	N	N/A	158,800	148,200	3	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Sherman, N.A. Sherman, Texas	N	N/A	274,100	259,100	18	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Wichita Falls, N.A. Wichita Falls, Texas	N	N/A	455,100	417,100	28	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank The Woodlands, N.A. Woodlands, Texas	N	N/A	164,800	153,400	13	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
MBank Alamo, N.A. San Antonio, Texas	N	N/A	691,600	643,600	78	March 29, 1989	The Deposit Insurance Bridge Bank, N.A. Dallas, Texas
Harvard Bank Tulsa, Oklahoma	SM	2,700	20,400	18,700	6,319	March 30, 1989	Southern National Bank Tulsa, Oklahoma
First National Bank of Nocona Nocona, Texas	N	2,900	22,600	23,600	13,416	April 6, 1989	The First National Bank of Bowie, N.A. Bowie, Texas
St. Tammany National Bank Mandeville, Louisiana	N	5,900	47,200	42,800	6,886	April 6, 1989	Whitney National Bank in St. Tammany Parish New Orleans, Louisiana
The Commonwealth Bank Bellaire, Texas	SM	3,300	55,400	54,500	18,888	April 12, 1989	Park National Bank of Houston Houston, Texas
Allied Oklahoma Bank, N.A. Oklahoma City, Oklahoma	N	12,000	55,400	57,000	11,138	April 13, 1989	Central Bank of Oklahoma City Oklahoma City, Oklahoma

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disburse-ments ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
Travis Bank and Trust Austin, Texas	SM	7,700	44,300	46,800	29,871	April 20, 1989	Union National Bank of Texas Austin, Texas
First State Bank Deanville, Texas	NM	1,700	9,400	9,300	1,244	April 20, 1989	Citizens State Bank Somerville, Texas
Continental National Bank San Antonio, Texas	N	3,500	10,500	11,100	8,505	April 20, 1989	Citizens State Bank of Luling Luling, Texas
Alliance Bank Anchorage, Alaska	SM	37,400	606,100	784,700	515,801	April 21, 1989	National Bank of Alaska Anchorage, Alaska
Seminole National Bank Hollywood, Florida	N	2,700	6,700	6,700	1,390	April 27, 1989	Family Bank of Hallandale Hallandale, Florida
Bank of Lakewood, N.A. Lakewood, Colorado	N	1,400	9,900	8,900	3,707	April 27, 1989	Bank Of Lakewood Lakewood, Colorado
Katy National Bank Katy, Texas	N	9,900	47,000	50,700	30,425	May 4, 1989	First Bank Navasota, Texas
First National Bank of East Baton Rouge Baton Rouge, Louisiana	N	1,800	32,000	34,300	17,577	May 4, 1989	First National Bank in St. Mary Parish Morgan City, Louisiana
Greater Texas Bank Leander Leander, Texas	SM	3,600	20,300	22,700	21,235	May 4, 1989	Hill Country Bank Leander, Texas
Lexington State Bank Lexington, Texas	NM	2,300	13,400	13,000	7,283	May 11, 1989	Central Bank of Houston Houston, Texas
Lewis County Savings and Loan Co. Weston, West Virginia	NM	700	3,900	39,400	2,602	May 12, 1989	Community Bank & Trust, N.A. Fairmont, West Virginia
The First National Bank of Gordon Gordon, Texas	N	1,800	11,800	11,300	1,291	May 18, 1989	The First National Bank of Albany Albany, Texas
Security Bank and Trust Company Wharton, Texas	NM	6,300	36,900	35,900	21,212	May 18, 1989	First National Bank of El Campo El Campo, Texas
First National Bank at Oswego Oswego, Kansas	N	3,500	22,200	21,800	2,321	May 18, 1989	Parsons Commercial Bank Oswego, Kansas
The Bank of Edmond, N.A. Edmond, Oklahoma	N	1,700	7,500	8,000	830	May 18, 1989	First Interstate Bank of Oklahoma, N.A. Oklahoma City, Oklahoma
Commerce and Energy Bank of Lafayette Lafayette, Louisiana	NM	2,900	28,300	20,800	7,916	May 24, 1989	MidSouth National Bank Lafayette, Louisiana
First Eastern Bank & Trust Company New Orleans, Louisiana	NM	1,900	26,600	26,100	24,924	May 24, 1989	Peoples Bank & Trust of St. Bernard Chalmette, Louisiana
Liberty National Bank Dallas, Texas	N	5,800	62,500	61,400	50,637	May 25, 1989	Cornerstone Bank, N.A. Dallas, Texas
The First State Bank Forgan, Oklahoma	NM	1,600	10,800	10,100	1,725	May 25, 1989	The Bank of Beaver City Beaver, Oklahoma
Treasure State Bank Glasgow, Montana	SM	12,800	13,800	12,800	4,459	June 9, 1989	Valley Bank of Glasgow Glasgow, Montana
Helotes State Bank Helotes, Texas	SM	3,300	19,400	18,800	6,202	June 15, 1989	Bank of Leon Springs San Antonio, Texas
Northern Bank & Trust Fort Collins, Colorado	NM	900	6,300	6,000	1,428	June 15, 1989	Union Colony Bank Greeley, Colorado
Preston North National Bank Dallas, Texas	N	700	5,500	5,400	2,690	June 22, 1989	Sequor National Bank Texas Dallas, Texas

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New Ulm State Bank New Ulm, Texas	NM	2,400	10,800	10,300	4,073	June 29, 1989	Industry State Bank Industry, Texas
Hobby Community Bank Houston, Texas	NM	1,200	7,400	7,300	7,188	June 29, 1989	Iola State Bank Iola, Texas
First National Bank of Richardson Richardson, Texas	N	8,500	40,600	41,400	26,295	June 30, 1989	Deposit Guaranty Bank Dallas, Texas
The Sterlington Bank Sterlington, Louisiana	NM	3,200	13,500	13,400	6,712	July 13, 1989	Bank of St. Joseph & Trust Company St. Joseph, Louisiana
National Bank of Commerce Brownsville, Texas	N	6,300	30,900	31,800	28,754	July 13, 1989	Texas Commerce Bank-Rio Grande Brownsville, Texas
Utica National Bank & Trust Company Tulsa, Oklahoma	N	2,100	157,700	173,500	113,964	July 20, 1989	F&M Bank & Trust Company Tulsa, Oklahoma
Texas American Bank/ Dallas-Prestonwood, N.A Dallas, Texas	N	N/A	49,000	49,400	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Ft. Worth, N.A. Ft. Worth, Texas	N	N/A	1,990,600	1,312,100	1,319	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/ Forum-Arlington, N.A. Arlington, Texas	N	N/A	66,600	65,700	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Dallas-LBJ, N.A. Dallas, Texas	N	N/A	67,200	67,400	4	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/ Greater Southwest Grand Prairie, Texas	N	N/A	41,000	39,100	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Duncanville, N.A. Duncanville, Texas	N	N/A	218,500	214,900	0	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Wichita Falls, N.A. Wichita Falls, Texas	N	N/A	66,700	64,400	1	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Dallas, N.A. Dallas, Texas	N	N/A	227,300	253,600	31	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Denison, N.A. Denison, Texas	N	N/A	139,300	137,800	2	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/McKinney, N.A. McKinney, Texas	N	N/A	168,400	166,700	2	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/ Breckenridge, N.A. Breckenridge, Texas	N	N/A	85,700	86,200	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/ Farmers Branch, N.A. Farmers Branch, Texas	N	N/A	49,400	47,900	2	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Tyler, N.A. Tyler, Texas	N	N/A	148,300	140,900	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Plano, N.A. Plano, Texas	N	N/A	35,500	36,400	25	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Longview, N.A. Longview, Texas	N	N/A	92,900	93,500	2	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disbursements ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
Texas American Bank/Richardson, N.A. Richardson, Texas	N	N/A	43,100	40,600	1	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American/Houston-Galleria, N.A. Houston, Texas	N	N/A	300,000	351,300	28	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Southwest, N.A. Stafford, Texas	N	N/A	38,200	41,100	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Amarillo, N.A. Amarillo, Texas	N	N/A	222,200	207,100	4	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Midland, N.A. Midland, Texas	N	N/A	146,000	133,600	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Temple, N.A. Temple, Texas	N	N/A	69,000	68,100	1	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Levelland Levelland, Texas	SM	N/A	198,500	181,100	6	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American Bank/Fredricksburg, N.A. Fredricksburg, Texas	N	N/A	145,100	140,700	3	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Texas American/Austin, N.A. Austin, Texas	N	N/A	144,400	180,900	27	July 20, 1989	Texas American Bridge Bank, N.A. Fort Worth, Texas
Fidelity Bank Scottsdale, Arizona	N	1,600	10,600	11,000	6,488	July 21, 1989	The Bank of Fountain Hills Fountain Hills, Arizona
Hidalgo County Bank & Trust Company Mercedes, Texas	NM	5,000	17,600	17,300	10,456	July 26, 1989	The First National Bank of La Feria La Feria, Texas
The Texas Bank & Trust Company Sweetwater, Texas	NM	900	31,800	19,000	18,098	July 27, 1989	First National Bank, Sweetwater Sweetwater, Texas
Brushy Creek National Bank Round Rock, Texas	N	2,400	8,900	9,500	8,064	July 27, 1989	Union National Bank, Austin Austin, Texas
Barnard State Bank Bernard, Kansas	NM	800	4,800	5,000	2,862	August 3, 1989	Saline Valley Bank Lincoln, Kansas
First Bank and Trust Company Yale, Oklahoma	NM	4,000	26,500	26,500	14,997	August 3, 1989	Mannford State Bank Yale, Oklahoma
University National Bank San Antonio, Texas	N	2,500	15,900	18,600	18,451	August 3, 1989	The Frost National Bank of San Antonio San Antonio, Texas
First State Bank Liberty, Texas	NM	6,500	57,400	54,600	41,926	August 17, 1989	First City, Texas-Beaumont, N.A. Beaumont, Texas
Citizens National Bank of Killeen Killeen, Texas	N	10,700	34,500	34,200	15,781	August 17, 1989	First National Bank of Temple Temple, Texas
First State Bank McKinney McKinney, Texas	SM	3,800	18,500	20,500	13,160	August 17, 1989	First Bank Farmersville, Texas
First State Bank Pflugerville, Texas	NM	5,300	29,500	30,600	22,986	August 24, 1989	Hibernia National Bank in Texas Pflugerville, Texas
Troup Bank & Trust Co. Troup, Texas	NM	3,500	22,900	23,600	11,508	August 24, 1989	First National Bank of Jacksonville Jacksonville, Texas
Farmers State Bank of Yuma Yuma, Colorado	SM	3,500	29,300	22,500	5,931	August 24, 1989	First Security Bank Fort Lupton, Colorado
Liberty Bank Glendale, Arizona	NM	2,800	23,500	25,700	12,787	September 1, 1989	Community Bank of Arizona Wickenburg, Arizona

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disburse-ments ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
The La Salle State Bank Jena, Louisiana	SM	8,000	37,400	36,700	37,593	September 7, 1989	Jonesville Bank & Trust Company Jonesville, Louisiana
Thousand Oaks National Bank San Antonio, Texas	N	5,700	24,700	27,100	27,338	September 7, 1989	Hibernia National Bank in Texas Pflugerville, Texas
First Bankers Trust of Bossier City Bossier City, Louisiana	SM	2,600	26,400	27,800	29,669	September 14, 1989	First American Bank & Trust of Louisiana Monroe, Louisiana
Kirby State Bank Kirby, Texas	SM	3,600	15,800	15,800	15,927	September 14, 1989	Schertz Bank & Trust Schertz, Texas
MedCentre Bank, National Association San Antonio, Texas	N	2,300	16,500	12,400	22,000	September 14, 1989	First City, Texas-San Antonio, N.A. San Antonio, Texas
Rose Capital Bank Tyler, Texas	SM	9,800	55,400	53,400	53,857	September 21, 1989	First City, Texas-Tyler, N.A. Tyler, Texas
The Farmers State Bank Lyman, Nebraska	NM	1,300	4,900	4,700	4,667	September 22, 1989	First National Bank in Morrill Morrill, Nebraska
National Bank of Arizona Scottsdale, Arizona	N	1,100	11,700	11,900	11,950	September 28, 1989	Security Pacific Bank, N.A. Scottsdale, Arizona
The Olla State Bank Olla, Louisiana	NM	3,000	21,000	20,800	21,055	October 5, 1989	Jonesville Bank & Trust Company Jonesville, Louisiana
Strawn Security Bank Strawn, Texas	NM	2,600	13,800	13,500	13,588	October 5, 1989	The First National Bank of Albany Albany, Texas
Commonwealth Bank Arlington, Texas	SM	23,100	66,600	73,400	98,730	October 5, 1989	Comerica Bank-Texas Dallas, Texas
First National Bank of Vail Vail, Colorado	N	1,300	3,700	3,600	3,214	October 5, 1989	Bank Northwest Steamboat Springs, Colorado
First Bank Colorado Springs, Colorado	SM	6,100	35,000	30,300	32,008	October 6, 1989	Colorado National Bank-Exchange Colorado Springs, Colorado
Citizens Bank Galveston, Texas	SM	4,900	28,900	29,100	29,324	October 12, 1989	Bank of Galveston, N.A. Galveston, Texas
North Bank, N.A. Oklahoma City, Oklahoma	N	3,200	9,500	10,100	10,358	October 12, 1989	The Liberty National Bank & Trust Company Oklahoma City, Oklahoma
Park Avenue Bank, N.A. Oklahoma City, Oklahoma	N	1,100	17,000	13,000	13,145	October 19, 1989	Founders Bank & Trust Company Oklahoma City, Oklahoma
Beaumont Bank, N.A. Beaumont, Texas	N	1,800	23,800	22,100	22,551	October 19, 1989	Texas Commerce Bank-Beaumont Beaumont, Texas
Century Bank Phoenix, Arizona	SM	9,500	117,700	117,500	121,015	October 19, 1989	Century Bank Phoenix, Arizona
First Consolidated Bank-Ferris Ferris, Texas	SM	2,700	9,500	4,100	9,580	October 20, 1989	First City Texas-Bryan, N.A. Bryan, Texas
First Consolidated Bank-Hillsboro Hillsboro, Texas	N	2,600	8,900	8,700	8,712	October 20, 1989	First State Bank Hubbard, Texas
First Consolidated Bank-Buda Buda, Texas	N	3,600	12,800	12,800	13,851	October 20, 1989	Austin National Bank Austin, Texas
First Consolidated Bank-Rosebud Rosebud, Texas	N	2,900	14,500	14,200	14,337	October 20, 1989	First City Texas-Bryan, N.A Bryan, Texas
First Consolidated Bank-Lancaster Lancaster, Texas	N	3,300	15,500	16,700	16,759	October 20, 1989	First City Texas-Bryan, N.A. Bryan, Texas

Table 123.
Insured Banks Requiring Disbursements by the Federal Deposit Insurance Corporation During 1989

Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disbursements ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
Western National Bank of Louisiana Kaplan, Louisiana	N	2,200	11,000	11,300	11,371	October 26, 1989	Kaplan State Bank Kaplan, Louisiana
First Security Bank & Trust Company Haughton, Louisiana	NM	6,500	19,000	19,200	19,375	October 26, 1989	Tri-State Bank & Trust Haughton, Louisiana
Bank of St. Charles St. Rose, Louisiana	SM	13,100	62,500	62,500	63,314	November 2, 1989	First American Bank and Trust - Vacherie Vacherie, Louisiana
The Lee State Bank Browerville, Minnesota	NM	3,800	13,400	13,500	13,630	November 9, 1989	First National Bank of Long Prairie Long Prairie, Minnesota
United National Bank of Plano Plano, Texas	N	4,200	27,300	28,100	28,453	November 9, 1989	Hibernia National in Texas Pflugerville, Texas
City National Bank of Plano Plano, Texas	N	10,500	52,200	66,900	67,784	November 9, 1989	Compass Bank-Plano Plano, Texas
National Industrial Bank of Connecticut Meriden, Connecticut	N	7,300	43,300	44,600	44,600	November 9, 1989	Central Bank Meriden, Connecticut
Love Field National Bank Dallas, Texas	N	5,100	26,100	27,200	27,325	November 16, 1989	Hibernia National in Texas Pflugerville, Texas
Executive National Bank San Antonio, Texas	N	1,700	6,300	8,000	8,115	November 16, 1989	Hibernia National in Texas Pflugerville, Texas
Greater Texas Bank, North, N.A. Austin, Texas	N	4,300	21,500	24,600	24,690	November 30, 1989	Hibernia National in Texas Pflugerville, Texas
Greater Texas Bank, Southwest, N.A. Austin, Texas	N	4,900	31,300	29,200	29,250	November 30, 1989	NCNB Dallas, N.A. Dallas, Texas
Central Dakota Bank Lehr, North Dakota	SM	2,700	12,800	12,700	12,808	December 1, 1989	Security State Bank Wishek, North Dakota
First Security Bank of Glendive Glendive, Montana	SM	5,500	32,600	31,900	31,204	December 1, 1989	The First National Bank of Glendive Glendive, Montana
Aledo State Bank Aledo, Texas	NM	2,300	9,200	9,000	9,081	December 7, 1989	The Citizens National Bank of Weatherford Weatherford, Texas
Atlantic National Bank Norfolk, Virginia	N	3,100	15,200	14,100	14,166	December 7, 1989	New Atlantic Bank, N.A. Norfolk, Virginia
First National Bank of Frisco Frisco, Texas	N	2,600	7,100	7,700	7,759	December 7, 1989	Hibernia National Bank in Texas Pflugerville, Texas
First Commerce National Bank Phoenix, Arizona	N	2,800	17,100	18,700	18,376	December 7, 1989	Citibank Phoenix, Arizona
Orange State Bank Miami, Florida	SM	1,100	6,700	6,900	1,791	December 8, 1989	Helm Bank Miami, Florida
Westheimer Memorial Bank, N.A. Houston, Texas	N	3,200	39,200	48,700	48,929	December 8, 1989	Hibernia National in Texas Pflugerville, Texas
First Bank Pineville, Louisiana	NM	11,500	75,900	66,700	73,242	December 8, 1989	Rapides Bank & Trust Company Alexandria, Louisiana
Midlothian National Bank Midlothian, Texas	N	2,800	10,100	10,300	10,445	December 13, 1989	The First National Bank in Joshua Joshua, Texas
City National Bank of Sayre Sayre, Oklahoma	N	3,100	20,500	22,000	22,131	December 13, 1989	First State Bank and Trust Company Hollis, Oklahoma
First Acadiana Bank Eunice, Louisiana	NM	7,300	42,800	41,000	41,761	December 14, 1989	American Security Bank of Ville Platte Ville Platte, Louisiana

Table 123.
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Name and Location	Class of Bank	Number of Depositors or Accounts	Total Assets ($000's)	Total Deposits ($000's)	FDIC Disbursements ($000's)	Date of Closing, Deposit Assumption, Merger, or Assistance	Receiver, Assuming Bank, Transferee Bank, or Merging Bank and Location
Canyon Lake Bank Canyon Lake, Texas	SM	4,900	29,100	28,900	29,104	December 14, 1989	Victoria Bank and Trust Company - West New Braunfels, Texas
North Side State Bank Tulsa, Oklahoma	NM	5,100	18,600	19,700	19,852	December 14, 1989	Bank of Tulsa Tulsa, Oklahoma
First American Bank and Trust North Palm Beach, Florida	SM	87,400	917,600	940,800	0	December 15, 1989	First American Bank and Trust, N.A. North Palm Beach, Florida
United Community Bank Westlake Village, California	SM	1,600	26,600	24,300	24,370	December 20, 1989	Olympic National Bank Los Angeles, California
Bridge Banks							
The Deposit Insurance Bridge Bank, N.A. Dallas, Texas	N	N/A	N/A	N/A	2,732,850	March 28, 1989 March 29, 1989	Banc One Corporation Columbus, Ohio
Texas American Bridge Bank, N.A. Fort Worth, Texas	N	N/A	4,752,900	4,120,300	1,479	July 20, 1989	Deposit Guaranty Bank Dallas, Texas
First American·Bank and Trust, N.A. North Palm Beach, Florida	N	N/A	917,600	940,800	0	December 15, 1989	------
Assistance Transactions							
Metropolitan Bank San Antonio, Texas	N	N/A	77,000	73,000	2,370	January 30, 1989	Texas Bank, National Association San Antonio, Texas

Table 125.
Recoveries and Losses by the Federal Deposit Insurance Corporation on Disbursements for Protection of Depositors, 1934-1989
(Dollars in thousands)

Liquidation status and year of deposit payoff or deposit assumption	All cases					Deposit payoff cases					Deposit assumption cases[5]					Assistance Transactions[6]				
	No. of banks	Disburse-ments	Recoveries to Dec. 31, 1989	Estimated additional recoveries	Losses[1]	No. of banks	Disburse-ments[2]	Recoveries to Dec. 31, 1989	Estimated additional recoveries	Losses[1]	No. of banks	Disburse-ments[3]	Recoveries to Dec. 31, 1989	Estimated additional recoveries	Losses[1]	No. of banks	Disburse-ments	Recoveries to Dec. 31, 1989	Estimated additional recoveries	Losses[1]
Total	1,644	51,534,981	23,280,677	5,820,130	22,434,174	532	8,542,514	4,181,226	1,537,936	2,823,352	957	23,660,364	12,952,671	2,311,349	8,396,344	155	19,332,103	6,146,780	1,970,845	11,214,478
Year[4]																				
1934	9	941	734		207	9	941	734		207										
1935	25	9,108	6,423		2,685	24	6,026	4,274		1,752	1	3,082	2,149	0	933					
1936	69	15,206	12,873		2,333	42	7,735	6,397		1,338	27	7,471	6,476		995					
1937	75	20,204	16,532		3,672	50	12,365	9,718		2,647	25	7,839	6,814		1,025					
1938	74	34,394	31,969		2,425	50	9,092	7,908		1,184	24	25,302	24,061		1,241					
1939	60	81,828	74,676		7,152	32	26,196	20,399		5,797	28	55,632	54,277		1,355					
1940	43	87,899	84,103		3,796	19	4,895	4,313		582	24	83,004	79,790		3,214					
1941	15	25,061	24,470		591	8	12,278	12,065		213	7	12,783	12,405		378					
1942	20	11,684	10,996		688	6	1,612	1,320		292	14	10,072	9,676		396					
1943	5	7,230	7,107		123	4	5,500	5,377		123	1	1,730	1,730							
1944	2	1,532	1,492		40	1	404	364		40	1	1,128	1,128							
1945	1	1,845	1,845								1	1,845	1,845							
1946	1	274	274								1	274	274							
1947	5	2,038	1,979		59						5	2,038	1,979		59					
1948	3	3,150	2,509		641						3	3,150	2,509		641					
1949	4	2,685	2,316		369						4	2,685	2,316		369					
1950	4	4,404	3,019		1,385						4	4,404	3,019		1,385					
1951	2	1,986	1,986								2	1,986	1,986							
1952	3	1,525	733		792						3	1,525	733		792					
1953	2	5,359	5,359								2	5,359	5,359							
1954	2	1,029	771		258						2	1,029	771		258					
1955	5	7,315	7,085		230	4	4,438	4,208		230	1	2,877	2,877							
1956	2	3,499	3,286		213	1	2,795	2,582		213	1	704	704							
1957	1	1,031	1,031			1	1,031	1,031												
1958	4	3,051	3,023		28	3	2,796	2,768		28	1	255	255							
1959	3	1,835	1,738		97	3	1,835	1,738		97										
1960	1	4,765	4,765			1	4,765	4,765												
1961	5	6,201	4,699		1,502	5	6,201	4,699		1,502										
1963	2	19,172	18,886		286	2	19,172	18,886		286										
1964	7	13,712	12,171	0	1,541	7	13,712	12,171	0	1,541										
1965	5	11,479	10,816	0	663	3	10,908	10,391	0	517	2	571	425		146					
1966	7	10,020	9,541	234	245	1	735	735			6	9,285	8,806	234	245					
1967	4	8,097	7,087	0	1,010	4	8,097	7,087	0	1,010										
1968	3	6,476	6,464	0	12						3	6,476	6,464		12					
1969	9	42,072	41,910	80	82	4	7,596	7,513	1	82	5	34,476	34,397	79						
1970	7	51,566	51,294	0	272	4	29,265	28,993	0	272	3	22,301	22,301	0						
1971	6	171,646	171,430	23	193	5	53,767	53,574	0	193	1	117,879	117,856	23						
1972	1	16,189	14,493	0	1,696	1	16,189	14,493	0	1,696										
1973	6	435,238	368,852	0	66,386	3	16,771	16,771	0		3	418,467	352,081	0	66,386					
1974	4	2,403,277	2,259,633	143,604	40						4	2,403,277	2,259,633	143,604	40					
1975	13	332,046	292,431	23,303	16,312	3	25,918	25,849	1	68	10	306,128	266,582	23,302	16,244					
1976	16	599,388	559,030	40,111	247	3	11,416	9,660	1,683	73	13	587,972	549,370	38,428	174					
1977	6	26,650	20,654	3,903	2,093						6	26,650	20,654	3,903	2,093					
1978	7	547,369	511,717	26,637	9,015	1	817	613	0	204	6	546,552	511,104	26,637	8,811					
1979	10	90,351	74,170	5,309	10,872	3	9,936	8,939	59	938	7	80,415	65,231	5,250	9,934					
1980	10	152,355	114,760	7,010	30,585	3	13,732	11,515	0	2,217	7	138,623	103,245	7,010	28,368					
1981	10	998,433	365,188	45,145	588,100	2	35,736	32,878	1,627	1,231	5	79,208	33,463	43,518	2,227	3	883,489	298,847	0	584,642
1982	42	2,194,665	814,794	82,862	1,297,009	7	277,198	199,245	7,697	70,256	26	416,719	316,799	75,165	24,755	9	1,500,748	298,750	0	1,201,998
1983	48	3,606,210	1,926,968	157,693	1,521,549	9	147,287	115,812	5,031	26,444	36	3,386,931	1,811,156	133,264	1,442,511	3	71,992	0	19,398	52,594
1984[7]	80	7,598,464	4,874,304	818,053	1,906,107	16	770,190	618,001	42,170	110,019	62	1,339,910	864,537	28,558	446,815	2	5,488,364	3,391,766	747,325	1,349,273
1985	120	2,716,131	1,405,026	434,331	876,774	29	514,878	372,554	26,789	115,535	87	1,586,499	887,368	161,639	537,492	4	614,754	145,104	245,903	223,747
1986	145	4,631,801	2,470,171	347,112	1,814,518	40	1,155,722	654,955	71,718	429,049	98	3,241,514	1,805,462	207,031	1,229,021	7	234,565	9,754	68,363	156,448
1987	203	4,895,387	2,215,985	531,813	2,147,589	51	2,094,341	1,048,833	287,457	758,051	133	2,632,580	1,165,385	244,327	1,222,868	19	168,466	1,767	29	166,670
1988	221	11,231,770	3,063,517	2,146,185	6,022,068	36	1,249,989	583,656	195,650	470,683	123	2,737,887	479,115	182,317	2,076,455	62	7,243,894	2,000,746	1,768,218	3,474,930
1989	207	8,377,938	1,281,592	1,006,722	6,089,624	32	1,948,237	233,442	898,053	816,742	129	3,303,870	1,048,104	987,060	1,268,706	46	3,125,831	46	(878,391)	4,004,176

[1]Includes estimated losses in active cases. Not adjusted for interest or allowable return, which was collected in some cases in which the disbursement was fully recovered.
[2]Includes estimated additional disbursements in active cases.
[3]Excludes excess collections turned over to banks as additional purchase price at termination of liquidation.
[4]No case in 1962 required disbursements.
[5]Deposit Assumption Cases include $347.6 million of disbursements for advances to protect assets and liquidation expenses which had been excluded in prior years.
[6]"Assistance transactions" include: a) Banks merged with financial assistance from FDIC to prevent probable failure through 1988. b) $2,255.6 million of recorded liabilities at book value payable over future years.
[7]Includes CINB Assistance Agreement which had been previously excluded.
[8]Assistance losses, in 1988 and 1989, include estimated costs payable in future years.

Table 127.
Income and Expenses, Federal Deposit Insurance Corporation, by Year, from Beginning of Operations, September 11, 1933, to December 1989
(Dollars in millions)

	Income				Expenses and losses				
Year	Total	Assessment Income	Assessment Credits	Investment and other sources[1]	Total	Deposit insurance losses and expenses	Interest on capital stock[2]	Administrative and operating expenses	Net Income added to deposit insurance fund[3]
Total	**39,801.0**	**25,129.9**	**6,709.1**	**21,380.2**	**26,591.5**	**23,706.1**	**80.6**	**2,804.8**	**13,209.5**
1989	3,494.6	1,885.0	...	1,609.6	4,346.2	4,132.3	...	213.9	(851.6)
1988	3,347.7	1,773.0	...	1,574.7	7,588.4	7,364.5	...	223.9	(4,240.7)
1987	3,319.4	1,696.0	...	1,623.4	3,270.9	3,066.0	...	204.9	48.5
1986	3,260.1	1,516.9	...	1,743.2	2,963.7	2,783.4	...	180.3	296.4
1985	3,385.4	1,433.4	...	1,952.0	1,957.9	1,778.7	...	179.2	1,427.5
1984[6]	3,099.5	1,321.5	...	1,778.0	1,999.2	1,848.0	...	151.2	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	969.9	834.2	...	135.7	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	999.8	869.9	...	129.9	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	848.1	720.9	...	127.2	1,226.6
1980	1,310.4	951.9	521.1	879.6	83.6	(34.6)	...	118.2	1,226.8
1979	1,090.4	881.0	524.6	734.0	93.7	(13.1)	...	106.8	996.7
1978	952.1	810.1	443.1	585.1	148.9[4]	45.6	...	103.3	803.2
1977	837.8	731.3	411.9	518.4	113.6	24.3	...	89.3	724.2
1976	764.9	676.1	379.6	468.4	212.3[4]	31.9	...	180.4[4]	552.6
1975	689.3	641.3	362.4	410.4	97.5	29.8	...	67.7	591.8
1974	668.1	587.4	285.4	366.1	159.2	100.0	...	59.2	508.9
1973	561.0	529.4	283.4	315.0	108.2	53.8	...	54.4	452.8
1972	467.0	468.8	280.3	278.5	59.7	10.1	...	49.6	407.3
1971	415.3	417.2	241.4	239.5	60.3	13.4	...	46.9	355.0
1970	382.7	369.3	210.0	223.4	46.0	3.8	...	42.2	336.7
1969	335.8	364.2	220.2	191.8	34.5	1.0	...	33.5	301.3
1968	295.0	334.5	202.1	162.6	29.1	0.1	...	29.0	265.9
1967	263.0	303.1	182.4	142.3	27.3	2.9	...	24.4	235.7
1966	241.0	284.3	172.6	129.3	19.9	0.1	...	19.8	221.1
1965	214.6	260.5	158.3	112.4	22.9	5.2	...	17.7	191.7
1964	197.1	238.2	145.2	104.1	18.4	2.9	...	15.5	178.7
1963	181.9	220.6	136.4	97.7	15.1	0.7	...	14.4	166.8
1962	161.1	203.4	126.9	84.6	13.8	0.1	...	13.7	147.3
1961	147.3	188.9	115.5	73.9	14.8	1.6	...	13.2	132.5
1960	144.6	180.4	100.8	65.0	12.5	0.1	...	12.4	132.1
1959	136.5	178.2	99.6	57.9	12.1	0.2	...	11.9	124.4
1958	126.8	166.8	93.0	53.0	11.6	...	...	11.6	115.2
1957	117.3	159.3	90.2	48.2	9.7	0.1	...	9.6	107.6
1956	111.9	155.5	87.3	43.7	9.4	0.3	...	9.1	102.5
1955	105.7	151.5	85.4	39.6	9.0	0.3	...	8.7	96.7
1954	99.7	144.2	81.8	37.3	7.8	0.1	...	7.7	91.9
1953	94.2	138.7	78.5	34.0	7.3	0.1	...	7.2	86.9
1952	88.6	131.0	73.7	31.3	7.8	0.8	...	7.0	80.8
1951	83.5	124.3	70.0	29.2	6.6	...	...	6.6	76.9
1950	84.8	122.9	68.7	30.6	7.8	1.4	...	6.4	77.0
1949	151.1	122.7	...	28.4	6.4	0.3	...	6.1	144.7
1948	145.6	119.3	...	26.3	7.0	0.7	0.6	5.7	138.6
1947	157.5	114.4	...	43.1	9.9	0.1	4.8	5.0	147.6
1946	130.7	107.0	...	23.7	10.0	0.1	5.8	4.1	120.7
1945	121.0	93.7	...	27.3	9.4	0.1	5.8	3.5	111.6
1944	99.3	80.9	...	18.4	9.3	0.1	5.8	3.4	90.0
1943	86.6	70.0	...	16.6	9.8	0.2	5.8	3.8	76.8
1942	69.1	56.5	...	12.6	10.1	0.5	5.8	3.8	59.0
1941	62.0	51.4	...	10.6	10.1	0.6	5.8	3.7	51.9
1940	55.9	46.2	...	9.7	12.9	3.5	5.8	3.6	43.0
1939	51.2	40.7	...	10.5	16.4	7.2	5.8	3.4	34.8
1938	47.7	38.3	...	9.4	11.3	2.5	5.8	3.0	36.4
1937	48.2	38.8	...	9.4	12.2	3.7	5.8	2.7	36.0
1936	43.8	35.6	...	8.2	10.9	2.6	5.8	2.5	32.9
1935	20.8	11.5	...	9.3	11.3	2.8	5.8	2.7	9.5
1933-34	7.0	(4)	...	7.0	10.0	0.2	5.6	4.2[5]	-3.0

[1]Includes $689.1 million of interest and allowable return received on funds advanced to receivership and deposit assumption cases and $843.4 million of interest on capital notes advanced to facilitate deposit assumption transactions and assistance to open banks.
[2]Paid in 1950 and 1951, but allocated among years to which it applied. Initial capital of $289 million was retired by payments to the U.S. Treasury in 1947 and 1948.
[3]Assessments collected from members of the temporary insurance funds which became insured under the permanent plan were credited to their accounts at the termination of the temporary funds and were applied toward payment of subsequent assessments becoming due under the permanent insurance funding, resulting in no income to the Corporation from assessments during the existence of the temporary insurance funds.
[4]Includes net loss on sales of U.S. Government securities of $105.6 million in 1976 and $3.6 million in 1978.
[5]Net after deducting the portion of expenses and losses charged to banks withdrawing from the temporary insurance funds on June 30, 1934.
[6]Revised due to restatement of December 31, 1984 financial statements.

Table 129.
Insured Deposits and the Bank Insurance Fund, 1934-1989
(Dollars in millions)

Year (December 31)	Insurance Coverage	Deposits in insured banks[1]		Percentage of insured deposits	Deposit insurance fund	Ratio of deposit insurance fund to—	
		Total	Insured			Total Deposits	Insured deposits
1989	**100,000**	**2,465,922**	**1,873,837**	**76.0**	**13,209.5**	**.54**	**.70**
1988	100,000	2,330,768	1,750,259	75.1	14,061.1	.60	.80
1987	100,000	2,201,549	1,658,802	76.9	18,301.8	.83	1.10
1986	100,000	2,167,596	1,634,302	75.4	18,253.3	.84	1.12
1985	100,000	1,974,512	1,503,393	76.1	17,956.9	.91	1.19
1984	100,000	1,806,520	1,389,874	76.9	16,529.4	.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	.80	1.21
1978	40,000[6]	1,145,835	760,706	66.4	8,796.0	.77	1.16
1977	40,000[5]	1,050,435	692,533	65.9	7,992.8	.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	.77	1.18
1974	40,000	833,277	520,309	62.5	6,124.2	.73	1.18
1973	20,000	766,509	465,600	60.7	5.615.3	.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	.82	1.29
1968	15,000	491,513	296,701	60.2	3,749.2	.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	.78	1.33
1966	15,000	401,096	234,150	58.4	3,252,0	.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	.82	1.48
1963	10,000	313,304[2]	177,381	56.6	2,667.9	.85	1.50
1962	10,000	297,548[3]	170,210	57.2	2,502.0	.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	.85	1.48
1959	10,000	247,589	142,131	57.4	2.089.8	.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	.72	.133
1950	10,000	167,818	91,359	54.4	1,243.9	.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	.71	1.44
1945	5,000	157,174	67,021	42.4	929.2	.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	.69	1.88
1941	5,000	71,209	28,249	39.7	553,5	.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	.68	1.52
1934	5,000[4]	40,060	18,075	45.1	291.7	.73	1.61

[1]Deposits in foreign branches are omitted from totals because they are not insured. Insured deposits are estimated by applying to deposits at the regular Call dates the percentages as determined from the June Call Report submitted by insured banks.

[2]December 20, 1963.

[3]December 28, 1962.

[4]Initial coverage was $2,500 from January 1 to June 30, 1934.

[5]$100,000 for time and savings deposits of in-state governmental units provided in 1974.

[6]$100,000 for Individual Retirement accounts and Keogh accounts provided in 1978.

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