Federal Deposit Insurance Corporation

1992 Annual Report

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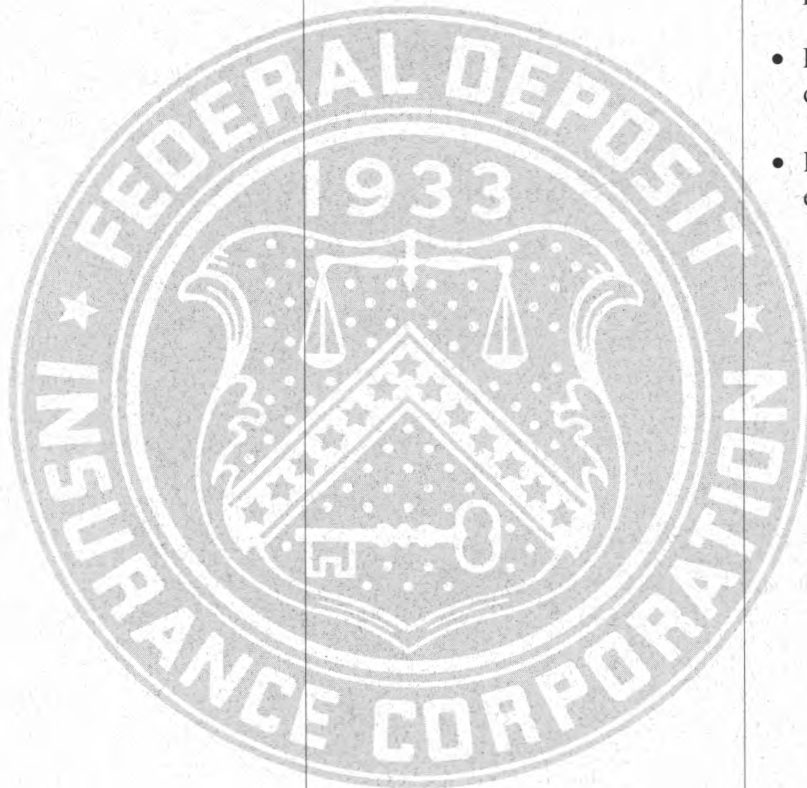
The Federal Deposit Insurance Corporation was created by Congress in 1933 to restore public confidence in the nation's banking system following a severe financial crisis.

To maintain public confidence in banking institutions, the mission of the FDIC is to:

- Protect depositors' accounts
- Promote sound banking practices
- Reduce the disruptions caused by bank failures
- Respond to a changing economy and banking system



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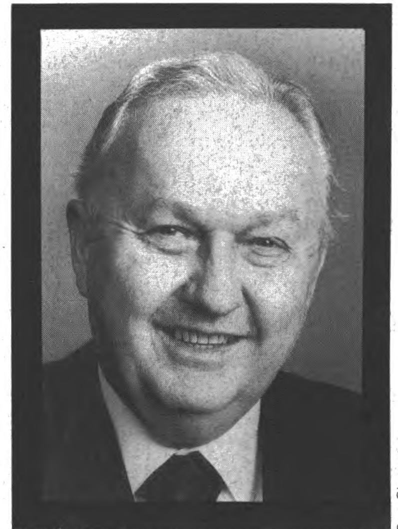
The FDIC's
1992 *Annual Report*
is dedicated to the memory
of two members of
the Board of Directors —
Chairman William Taylor
and Director C.C. Hope, Jr.

Barbara Ries

William Taylor
1939 - 1992

Mr. Taylor passed away on August 20, 1992, at the age of 53, following surgery. He served as FDIC Chairman for only 10 months, after spending most of his professional career with the Federal Reserve System. Mr. Taylor was praised and admired as a dedicated public servant and a man of integrity.


Sue Clemons

C.C.Hope, Jr.
1920 - 1993

Mr. Hope, a member of the FDIC Board since 1986 and a widely respected leader in the fields of banking and education, died of complications from pneumonia on March 1, 1993. He was 73. Mr. Hope's compassion, his sincerity and his sense of humor will long be remembered.

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Table of Contents

Introduction

Chairman's Statement	2

Overview

Highlights of 1992	6
The State of the Banking Industry	8

FDIC Organization

Board of Directors	12
Officials	15
Regional Offices	16
Divisions and Offices	18

Operations of the Corporation

Supervision	22
Resolving Failed Banks	31
When a Bank Fails	37
Legal Activities	44
Economic and Policy Research	51
Other Highlights	56

Regulations and Legislation

Rules and Regulations	64
Legislation Enacted	72

Financial Statements

Bank Insurance Fund (BIF)	76
Savings Association Insurance Fund (SAIF)	103
FSLIC Resolution Fund (FRF)	123

Statistical Tables

A.	Number and Deposits of Failed Banks, 1934-92	168
B.	Insured Banks Closed or Assisted, 1992	169
C.	Recoveries and Losses on Disbursements, BIF, 1934-92	175
D.	Income and Expenses, BIF, 1933-92	176
E.	Deposits and the BIF, 1934-92	177
DD.	Income and Expenses, SAIF, 1989-92	178
EE.	Deposits and the SAIF, 1989-92	178

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FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429

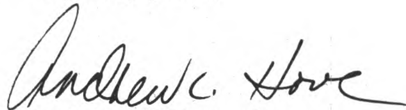
Office of the Chairman

July 15, 1993

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 1992.

Very truly yours,



Andrew C. Hove, Jr.
Acting Chairman

The President of the U.S. Senate

The Speaker of the U.S. House of Representatives

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Chairman's Statement

Banking took important steps toward recovery; the FDIC began exercising new authority to protect the insurance fund

FDIC Acting Chairman Andrew C. Hove, Jr.

For the banking industry and for the Federal Deposit Insurance Corporation, 1992 was a year of new beginnings.

During the year, banking went off the critical list and took important steps toward recovery. The profitability and solvency of commercial banks strongly improved, and many commercial banks, on their own initiative, took advantage of a favorable interest rate environment to strengthen their balance sheets. The numbers told a story of clear improvement in earnings, capital and loan charge-offs — all the vital signs for banking.

Indeed, as the year ended, the Bank Insurance Fund edged toward solvency, even taking into account large reserves set aside for future bank failures.

All these trends were in contrast to widely held expectations of a continuing — perhaps intensifying — crisis when the year began. In 1991, the assets of banks that failed totaled a record $63.1 billion. The FDIC anticipated a significantly higher total in 1992. However, the assets of banks that failed in 1992 totaled $44.2 billion, the second highest annual total in industry history,

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but a third less than the previous year and considerably less than expected at the beginning of the year.

Further, the number and asset size of commercial banks on the problem bank list declined by nearly one-fourth during 1992. At the end of the year, the problem list contained 787 commercial banks with combined assets of $408.2 billion.

We recognize that about one-in-fourteen commercial banks remains on the problem list and that troubled banks still represent a large amount of assets. Banks continue to fail, and in historically large numbers. Banks with significant commercial real estate exposures in weak local economies and in markets where vacancy rates are high remain a concern. In addition, banks remain vulnerable to changes in the interest rate environment. If that environment becomes unfavorable, this exposure could translate into a larger number of bank failures. Nevertheless, the growth in capital, the improvement in asset quality, and other positive trends in 1992 point toward a stronger commercial banking industry overall.

Banks and bank supervisors experienced another new beginning in 1992 — a new regulatory environment brought about by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Congress mandated that capital and strong prudential supervision were to be the first lines of defense against bank failures, that weak banks would not be allowed to gamble with insured deposits and that riskier banks would pay more for deposit insurance.

During the year, FDIC staff in Washington — in cooperation with other federal banking regulators — devoted long hours to writing regulations to put FDICIA into effect. The staff also put much thought into meeting congressional intent without burdening the banking industry with superfluous regulatory demands.

Difficult decisions had to be made: decisions establishing a framework for prompt corrective action based on capital standards, creating a risk-related insurance premium schedule, and others. Much of this *Annual Report* is devoted to describing the efforts of the Corporation to bring FDICIA into effect.

The law specifically and significantly increased the responsibilities of the FDIC, in large part by explicitly recognizing that one of the purposes of banking regulation is to protect the insurance fund. In addition, the law explicitly recognized that, to protect the fund, the FDIC must have appropriate and effective tools.

FDICIA is already resulting in a better capitalized and more soundly managed banking industry. In the process, the law is fostering a fundamental goal of public policy: a strong banking industry that can serve as an engine for economic growth without exposing the taxpayers to insurance losses.

For the FDIC, one event mars the celebration of 1992 as a year of recovery and revival: the death of Chairman William Taylor last August.

Bill Taylor was a dedicated public servant, a strong leader, and a person of principles who followed not a career, but a vocation. He saw bank regulation as high drama, high adventure and a higher calling.

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Bill Taylor headed the FDIC for 10 months, not very long by any measure. But it was long enough to leave the Corporation with a legacy: his deep concern for the solvency and integrity of the insurance fund; his deep concern for the integrity — the safety and soundness — of the banking system; and his deep concern for personal integrity.

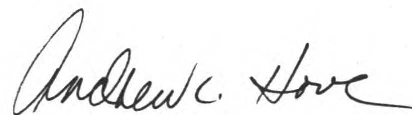
The death of Bill Taylor was followed all too soon by the loss of his fellow Board member, C.C. Hope, Jr., who died March 1, 1993. C.C. had three professions: he was a banker, an educator and a public official. In whatever role he was playing, he always brought out the best in people, whether it was the best sentiment or the best effort. That was easy for C.C.: He managed by example.

Throughout all the difficult deliberations the Board faced during his service, C.C. remained the calm voice of reason and experience. His enthusiasm, his positive outlook on life, his sense of humor, his sense of values, and his compassion for the people around him and the community at large made C.C. what he was: loved, admired and respected.

In hindsight, 1992 will undoubtedly be seen as a year of transition. What lies ahead? No one knows with certainty what the future will bring, but the staff of the FDIC, educated in adversity, seasoned by experience, accustomed to difficult decisions, can undoubtedly face the future with confidence.

Over the previous decade, bank failures soared to levels not seen since the Great Depression. During those years, the FDIC was able to cushion the collapse of about one-tenth of our banking system, contain the damage from it, and proceed to cleaning up the wreckage — all means to the end of maintaining public confidence in our financial system. It was an enormous undertaking. To meet it, the FDIC went through fundamental changes and shouldered once-unimaginable responsibilities.

We were guided by one principle: We were not doing a job; we were performing a mission. The mission was successful: Confidence was maintained. Every employee of the FDIC can feel proud of that success — success that was won under the pressure to act in the blinding light of public scrutiny and criticism. ❖



Andrew C. Hove, Jr.
Acting Chairman
July 15, 1993

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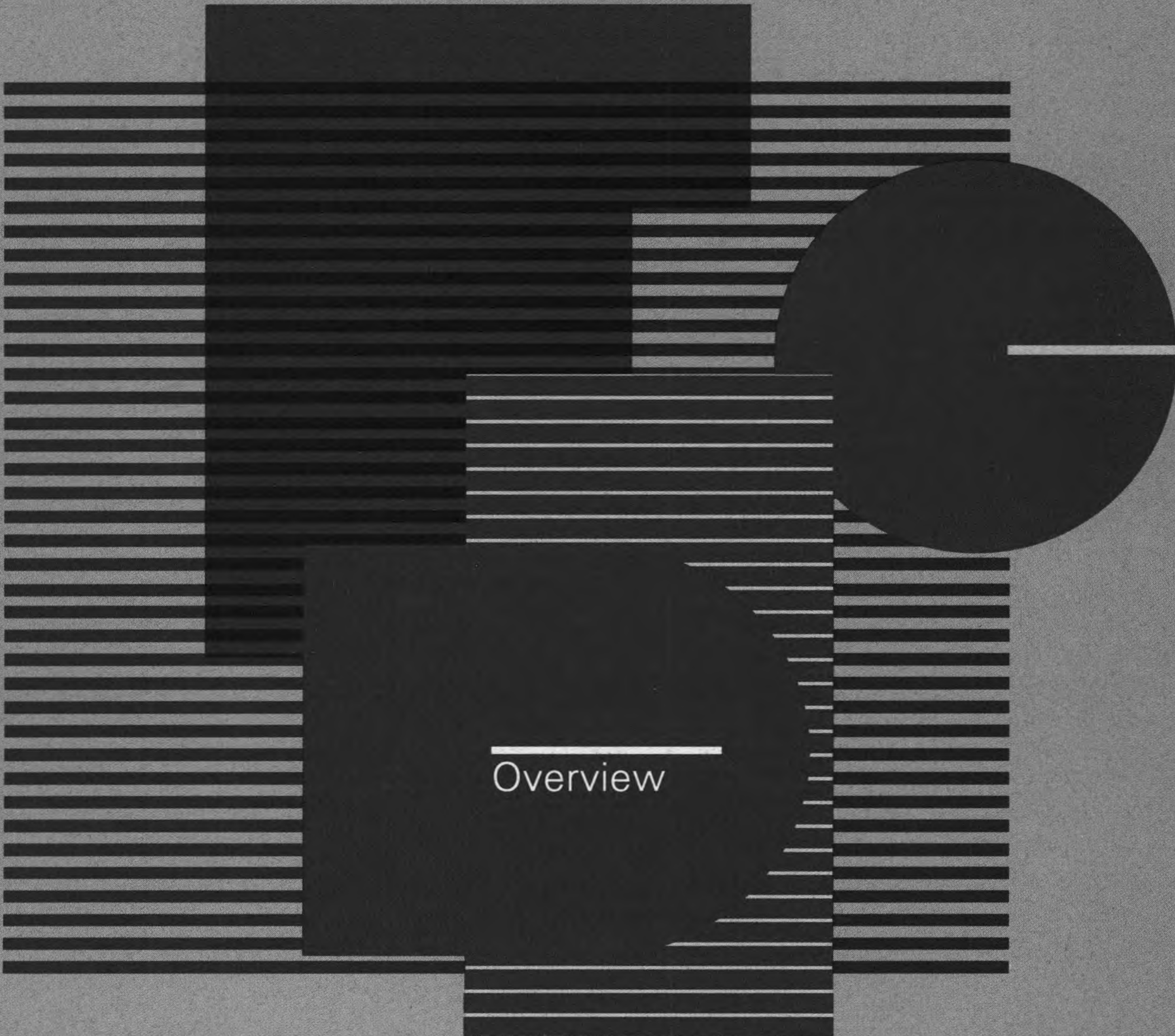

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Highlights of 1992

January 24
The FDIC established a new, full-service savings bank to assume the assets, deposits and certain other liabilities of the $7.2 billion-asset CrossLand Savings Bank, FSB, Brooklyn, New York, after the thrift was closed by the Office of Thrift Supervision.

March 1
The FDIC began an Affordable Housing Program to provide home ownership opportunities for low- and moderate-income families, in compliance with a provision of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). The FDIC voluntarily implemented the program months before Congress appropriated $5 million for this purpose.

March 9
A U.S. District Court approved a $1.3 billion settlement of about 170 lawsuits against former Drexel Burnham Lambert official Michael R. Milken and other parties, with more than $500 million of the settlement to be shared by the FDIC and the Resolution Trust Corporation (RTC).

June 12
In a transaction that was unusual because of the large number of acquiring institutions, the FDIC approved the assumption of insured deposits of American Savings Bank of White Plains, New York, and a small subsidiary in Riverhead, New York, by eight different banks in New York and New Jersey.

August 20
FDIC Chairman William Taylor, 53, died after surgery. FDIC Vice Chairman Andrew C. Hove, Jr., became Acting Chairman.

September 15
The FDIC Board approved replacing the flat-rate insurance premium system with one that charges higher rates to banks and savings associations that pose greater risk to the deposit insurance funds, effective January 1, 1993.

September 15
The Board approved FDICIA's "prompt corrective action" rules, which provide sanctions ranging from restrictions on dividends and management fees to the closing of institutions when capital falls below certain levels.

October 30
In one of the largest failed bank transactions in FDIC history, the agency established 20 bridge banks to assume deposits and certain other liabilities and assets of the 20 bank subsidiaries of First City Bancorporation of Texas, Inc., Houston. (On January 27, 1993, the FDIC announced the sale of the 20 bridge banks to 12 different financial institutions, with the dominant share going to Texas Commerce Bancshares, a subsidiary of Chemical Banking Corporation.)

November 2
The FDIC announced an internal reorganization that replaces the Division of Accounting and Corporate Services with the Division of Finance, the Division of Information Resources Management, and the Office of Corporate Services.

November 23
The FDIC and RTC received $400 million in cash from Ernst & Young in the FDIC's largest accounting malpractice settlement to date. The payment was part of a multi-agency settlement of malpractice claims arising out of Ernst & Young's accounting services to various failed banks and thrifts.

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December 1 and 2
The FDIC auctioned off 218 commercial real estate properties for a record $412 million during a two-day national auction in Dallas of assets from failed banks and thrifts. Bids also were received via satellite from Boston, Los Angeles and Miami. Another 146 properties eligible for the auction sold prior to the event for $262 million, making for a combined sale of $674 million.

December 19
Starting on this date, FDICIA mandated that new deposits of certain employee benefit plans made in undercapitalized institutions and other institutions not authorized by the FDIC to accept brokered deposits will be covered by insurance only up to $100,000 per plan, not $100,000 per participant. The law change primarily affects certain company pension and profit-sharing plans.

December 19
The prompt corrective action rule (see the September 15th highlight) took effect. Expectations of multiple bank failures triggered by the new rule (the so-called "December surprise") failed to materialize. ❖

Bank Insurance Fund (BIF)
(Dollars in Millions)

	For the year ended December 31		
	1992	**1991**	**1990**
Income	**$ 6,301**	$ 5,790	$ 3,857
Operating Expense	**361**	284	220
Liquidation/Insurance Losses and Expense	**(1,197)**	16,578	12,803
Effect of Accounting Change for Postretirement Benefits*	**210**	—	—
Net Income (Loss)	**6,927**	(11,072)	(9,166)
Insurance Fund Balance	**(101)**	(7,028)	4,044
Fund as a Percentage of Insured Deposits	**(0.01)%**	(0.36)%	0.21%

Selected Bank Statistics⁺
(Dollars in Millions)

	1992	1991	1990
Total Insured Institutions	**11,852**	12,343	12,788
Problem Banks	**863**	1,090	1,046
Total Assets of Problem Banks	**$464,441**	$609,809	$408,766
Bank Failures	**120**	124	168
Assisted Banking Organizations	**2**	3	1
Total Assets of Failed and Assisted Banks	**$ 44,232**	$ 63,204	$ 15,677
Number of Failed Bank Receiverships	**972**	1,136	1,041

* New reporting item required by the Financial Accounting Standards Board for 1992. See Note 15 to BIF Financial Statements.
⁺ BIF-insured depository institutions (commercial banks, savings banks and insured branches of foreign banks).

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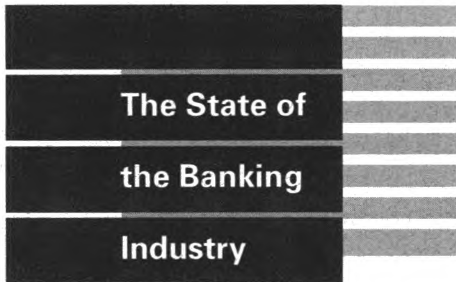

Commercial banks earned record profits, savings bank conditions improved, but problems still exist

Commercial banks insured by the FDIC earned record profits in 1992, due to extremely favorable interest rates and improving asset quality. Savings banks insured by the Bank Insurance Fund (BIF) also benefited from the favorable interest rate environment, reporting, as an industry, the first full-year profit in four years. Still, some commercial banks and savings banks continue to struggle with historically high levels of troubled real estate assets. The following is an overview of conditions in these two segments of the banking industry.

Commercial Banks*

Commercial banks reported net income of $32.2 billion in 1992, easily eclipsing, by 30 percent, the previous record of $24.9 billion set in 1988. The 1992 net income also represents an 80 percent improvement over the $17.9 billion earned in 1991.

Commercial bank profitability, as measured by return on average assets (ROA), rose in 1992 to 0.96 percent, the highest level since the creation of the FDIC in 1933. By comparison, the industry's ROA in 1991 was 0.54 percent. Fewer than one-in-fifteen banks was unprofitable in 1992, the lowest proportion since 1981. Eighty percent of the 11,461 insured commercial banks reporting financial results to the FDIC had higher earnings than in 1991.

Increased net interest income and significantly lower loan-loss provisioning were the main factors in commercial banks' improved earnings. Higher gains from sales of investment securities also contributed to the improvement, although to a lesser degree.

Net interest income was $11.6 billion higher than in 1991. The increase was due to the historically wide spread between short- and longer-term interest rates, as well as the declining trend in overall interest rates during 1992. The decline in interest rates that persisted through much of the year also contributed to the improvement in net interest income, as banks' liabilities were repriced downward more rapidly than their assets.

Indicators of asset quality — delinquent and nonaccrual loans, net loan losses, provisions for future loan losses and real estate acquired through foreclosure — all improved in 1992. Net loan losses declined for the first time since 1978. These developments represent a more fundamental improvement in the outlook for future bank performance than the increase in net interest income, which is dependent on highly unusual interest rate conditions that are not likely to persist.

Total assets of insured commercial banks grew by $75 billion, or 2.2 percent, in 1992. For the second consecutive year, however, loans declined, falling by more than $20 billion. At the end of 1992, total loans at commercial banks were $77 billion lower than at the end of 1990. Most of the shrinkage has been in commercial and industrial loans and loans for real estate construction and development. The greatest declines in loan volume occurred at banks in the Northeast and in California. Most of the growth in commercial bank assets resulted from increased holdings of investment securities, mainly U.S. Treasury and mortgage-backed securities maturing in one to five years.

*Includes 63 commercial banks with $8.9 billion in assets at year-end 1992 whose deposits are insured by the Savings Association Insurance Fund.

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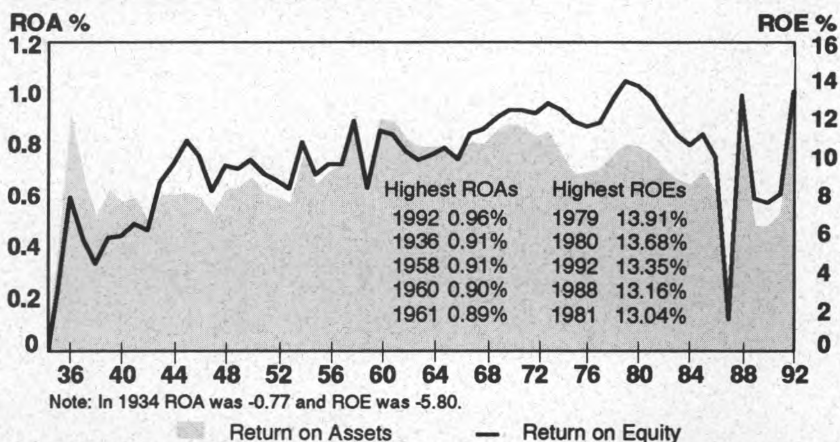
The strong earnings environment supported a substantial increase in equity capital, an important cushion against possible losses. Equity capital grew by $32 billion (14 percent) in 1992, as the industry's average equity capital-to-assets ratio increased to 7.52 percent from 6.75 percent. This is its highest level since the end of 1965. Retained earnings (net income less dividends) contributed $18.4 billion to equity capital. Banks paid out 43 percent of their earnings in dividends, the lowest proportion since 40 percent was paid out in 1981.

The number of banks continued to shrink in 1992. At year-end, 11,461 commercial banks reported financial results to the FDIC, a net decrease of 460 banks in the year. There were 428 unassisted mergers during the year, and another 98 commercial banks were closed. New bank charters fell to 72, but 21 of these were temporary "bridge banks" established by the FDIC as part of the failed bank resolution process. The 51 charters issued to non-bridge banks in 1992 was the lowest annual total since 1951.

The number of commercial banks on the FDIC's "problem list" declined by 229 institutions in 1992, to 787 at the end of the year. This is the lowest number since 1983, and marks the first time since 1984 that the number has fallen below 1,000.

Annual Return on Assets (ROA) and Equity (ROE) of Insured Commercial Banks, 1934-1992



Note: In 1934 ROA was -0.77 and ROE was -5.80.

Savings Banks

There were 414 BIF-insured savings banks at year-end 1992, accounting for about nine percent of all deposits insured by the fund. These institutions are predominately located in the Northeast, which has been hard hit by weak real estate markets.

BIF-insured savings banks reported net income of $1.4 billion in 1992, their first full-year profit since 1988. The industry's return to profitability is attributable to favorable interest rate conditions, the FDIC's resolution of failing institutions and declining inventories of troubled assets at the remaining institutions.

Total assets held by savings banks plunged by $22 billion during 1992, reflecting the failure of 22 savings banks holding $28.5 billion, more than 10 percent of the industry's assets. Despite the removal of troubled institutions and improving asset quality at the remaining institutions, nearly one-in-five savings banks remains on the FDIC's problem list. These problem institutions account for more than 26 percent of the savings bank industry's assets. ❖

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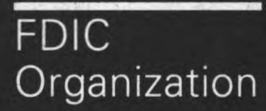

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Board of Directors

Andrew C. Hove, Jr.
Mr. Hove became the FDIC's first Vice Chairman on July 23, 1990, and became Acting Chairman following the death of William Taylor on August 20, 1992. Prior to his appointment as Vice Chairman, Mr. Hove was Chairman and Chief Executive Officer of the Minden Exchange Bank & Trust Company, Minden, Nebraska, where he served in every department during his 30 years with the bank.

Mr. Hove also served as President of the Nebraska Bankers Association in 1984-85 and held other leadership positions in the organization, including President of the Nebraska Bankers Insurance & Services Company and membership on the executive council. He also was active in the American Bankers Association.

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

Other civic activities included: President of the Minden Chamber of Commerce, President of the South Platte United Chambers of Commerce and positions associated with the University of Nebraska.

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

photos by Geof Wade

The FDIC Board of Directors — (l-r) Andrew C. Hove, Jr., the late C.C.Hope, Jr., Stephen R. Steinbrink, and Timothy Ryan — in session September 15, 1992, to consider a risk-related deposit insurance premium system.

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C.C. Hope, Jr.

Mr. Hope was named to the FDIC Board of Directors by President Ronald Reagan on March 10, 1986, and renominated by President George Bush on June 29, 1992. He also was Chairman of the Neighborhood Reinvestment Corporation. 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 was a former President of the American Bankers Association and served as Secretary of the North Carolina Department of Commerce. In the field of education, Mr. Hope was a trustee and former Chairman of the Board of Wake Forest University and was Dean of the Southwestern Graduate School of Banking at Southern Methodist University.

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

Mr. Hope served in the U.S. Navy in World War II and received a battle star for the Battle of Okinawa.

Mr. Hope died of complications from pneumonia on March 1, 1993. He was 73.

Stephen R. Steinbrink

Mr. Steinbrink became Acting Comptroller of the Currency and a member of the FDIC Board of Directors on March 1, 1992, assuming the duties of Comptroller of the Currency Robert L. Clarke.

Mr. Steinbrink was Senior Deputy Comptroller for Bank Supervision Operations from July 1991 until becoming Acting Comptroller. He was Deputy Comptroller for Multinational Banking from March 1990 until July 1991, and served as Director for Bank Supervision/Regional Banks in Dallas, Texas, from 1983 until 1990. He joined the Office of the Comptroller of the Currency in 1967 in Kansas City, Missouri.

A native of Falls City, Nebraska, Mr. Steinbrink is a 1967 graduate of the University of Nebraska.

On April 5, 1993, Eugene A. Ludwig was sworn in as Comptroller of the Currency. Mr. Ludwig, who had been a partner with the law firm of Covington and Burling in Washington, D.C., was nominated as Comptroller by President Bill Clinton.

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Timothy Ryan

Mr. Ryan was sworn in as Director of the Office of Thrift Supervision (OTS) on April 9, 1990, after being nominated by President Bush and confirmed by the U.S. Senate. As OTS Director, he also served as a member of the FDIC's Board of Directors.

Mr. Ryan was a partner and a member of the executive committee of the law firm of Reed Smith Shaw & McClay until his appointment as OTS Director. He was the Solicitor of Labor for the U.S. Department of Labor from 1981 until 1983.

OTS Director Ryan received an A.B. degree from Villanova University and a J.D. from American University Law School. He served as an ammunitions officer in the U.S. Army from 1967 to 1970.

Mr. Ryan left the OTS on December 4, 1992. Jonathan L. Fiechter, the OTS's Deputy Director for Washington operations, became Acting Director. ❖

Senior FDIC staff participate in the discussion at September 15th Board meeting.

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Officials

John W. Stone	Deputy to the Acting Chairman
Paul G. Fritts	Executive Director for Supervision and Resolutions
Stanley J. Poling	Director, Division of Supervision
Harrison Young	Director, Division of Resolutions
John F. Bovenzi	Director, Division of Liquidation
Alfred J. T. Byrne	General Counsel
William R. Watson	Director, Division of Research and Statistics
Steven A. Seelig	Director, Division of Finance
Carmen J. Sullivan	Director, Division of Information Resources Management
Roger A. Hood	Deputy to the Vice Chairman
Robert V. Shumway*	Deputy to the Appointive Director
Thomas E. Zemke	Deputy to the Director (Comptroller of the Currency)
Walter B. Mason	Deputy to the Director (Office of Thrift Supervision)
Robert D. Hoffman+	Inspector General
Mae Culp	Director, Office of Equal Opportunity
Hoyle L. Robinson	Executive Secretary
Alan J. Whitney	Director, Office of Corporate Communications
Jane Sartori	Director, Office of Training and Educational Services
Alice C. Goodman	Director, Office of Legislative Affairs
Janice M. Smith	Director, Office of Consumer Affairs
Alfred P. Squerrini	Director, Office of Personnel Management
James A. Watkins	Director, Office of Corporate Services

*Retired in April 1993.

+Retired in March 1993, and succeeded by James A. Renick.

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Regional Offices

Division of Supervision Regional Directors

Atlanta — **Lyle V. Helgerson**
245 Peachtree Center Avenue, NE
Atlanta, Georgia 30303
(404) 525-0308

Alabama	Georgia	South Carolina	West Virginia
Florida	North Carolina	Virginia	

Kansas City — **James O. Leese**
2345 Grand Avenue, Suite 1500
Kansas City, Missouri 64108
(816) 234-8000

Iowa	Minnesota	Nebraska	South Dakota
Kansas	Missouri	North Dakota	

Boston — **Paul H. Wiechman**
200 Lowder Brook Drive
Westwood, Massachusetts 02090
(617) 320-1600

Connecticut	Massachusetts	Rhode Island
Maine	New Hampshire	Vermont

Memphis — **Bill C. Houston**
5100 Poplar Avenue, Suite 1900
Memphis, Tennessee 38137
(901) 685-1603

Arkansas	Louisiana	Tennessee
Kentucky	Mississippi	

Chicago — **Simona L. Frank**
30 S. Wacker Drive, Suite 3100
Chicago, Illinois 60606
(312) 207-0210

Illinois	Michigan	Wisconsin
Indiana	Ohio	

New York — **Nicholas J. Ketcha, Jr.**
452 Fifth Avenue, 19th Floor
New York, New York 10018
(212) 704-1200

Delaware	Maryland	New York	Puerto Rico
Dist. of Col.	New Jersey	Pennsylvania	Virgin Islands

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

Colorado	New Mexico	Oklahoma	Texas

San Francisco — **George J. Masa**
25 Ecker Street, Suite 2300
San Francisco, California 94105
(415) 546-0160

Alaska	Guam	Montana	Utah
Arizona	Hawaii	Nevada	Washington
California	Idaho	Oregon	Wyoming

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Division of Liquidation Regional Directors

Chicago — **Bart L. Federici**
30 S. Wacker Drive, 32nd Floor
Chicago, Illinois 60606
(312) 207-0200

Alabama	Indiana	Minnesota	South Carolina
Arkansas	Iowa	Mississippi	South Dakota
Delaware	Kansas	Missouri	Tennessee
Dist of Col.	Kentucky	Nebraska	Virginia
Florida	Louisiana	North Carolina	West Virginia
Georgia	Maryland	North Dakota	Wisconsin
Illinois	Michigan	Ohio	

New York — **Thomas A. Beshara**
452 Fifth Avenue, 21st Floor
New York, New York 10018
(212) 704-1200

Connecticut	New Hampshire	Pennsylvania	Vermont
Maine	New Jersey	Puerto Rico	Virgin Islands
Massachusetts	New York	Rhode Island	

Dallas — **G. Michael Newton***
1910 Pacific Avenue, Suite 1700
Dallas, Texas 75201
(214) 754-0098

Oklahoma	Texas

*Succeeded in 1993 by Arthur F. Lorentzen, Jr.

San Francisco — **Keith W. Seibold**
25 Ecker Street, Suite 1900
San Francisco, California 94105
(415) 546-1810

Alaska	Guam	Nevada	Washington
Arizona	Hawaii	New Mexico	Wyoming
California	Idaho	Oregon	
Colorado	Montana	Utah	

Division of Resolutions Regional Managers

Boston — **Paul M. Driscoll**
200 Lowder Brook Drive
Westwood, Massachusetts 02090
(617) 320-1600

Maine	New Hampshire	Vermont
Massachusetts	Rhode Island	

New York — **Paul F. Doiron**
3 Park Avenue, 38th Floor
New York, New York 10016
(212) 686-2000

Connecticut	Maryland	Pennsylvania
Delaware	New Jersey	Puerto Rico
Dist. of Col.	New York	Virginia

Dallas — **Daniel L. Walker**
1910 Pacific Avenue, Suite 900
Dallas, Texas 75201
(214) 220-3449

Alabama	Kansas	Nebraska	Tennessee
Arkansas	Kentucky	North Carolina	Texas
Florida	Louisiana	North Dakota	West Virginia
Georgia	Michigan	Ohio	Wisconsin
Illinois	Minnesota	Oklahoma	
Indiana	Mississippi	South Carolina	
Iowa	Missouri	South Dakota	

San Francisco — **Michael J. Paulson**
25 Ecker Street, Suite 900
San Francisco, California 94105
(415) 267-0156

Alaska	Guam	Nevada	Washington
Arizona	Hawaii	New Mexico	Wyoming
California	Idaho	Oregon	
Colorado	Montana	Utah	

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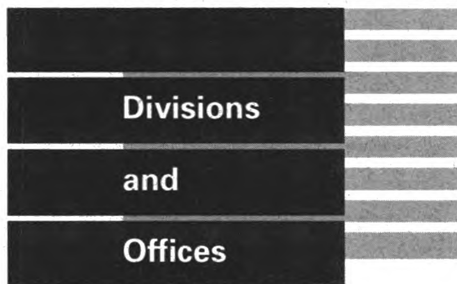

Division of Supervision
Examines state-chartered banks that are not members of the Federal Reserve System for safety and soundness and compliance with consumer and civil rights laws; develops supervisory policies; examines, for back-up enforcement purposes, state member banks, national banks and savings associations.

Division of Resolutions
Coordinates the FDIC's response to failed and failing banks, including the development, negotiation and monitoring of all aspects of the resolution process; manages and disposes of equity positions acquired in resolutions; develops related policies and financing strategies.

Division of Liquidation
Makes payments to closed bank depositors; facilitates deposit transfers to acquirers; manages failed bank receiverships; sells assets of failed institutions to reduce costs to the FDIC.

Legal Division
Provides the FDIC with legal services and support in the following areas: supervision of insured depository institutions; resolution of financially troubled institutions; recovery and liquidation of assets of insolvent institutions; prosecution and defense of civil litigation; enforcement of applicable laws and regulations; and general corporate personnel and administrative matters.

Division of Research and Statistics
Compiles financial and economic data and surveys, including industry trends and market developments; conducts analyses of policy issues facing the FDIC.

Division of Finance
Manages the FDIC's corporate and receivership funds; provides necessary financial statements and reports; administers responsibilities under the Chief Financial Officers Act; provides other services, including accounting, budgeting, travel and relocation, and the audit and collection of premiums from insured financial institutions.

Division of Information Resources Management
Coordinates the FDIC's computer operations and data analysis used by agency officials involved in regulation and insurance activities; fosters the sharing and integration of information; manages the agency's current and future information needs.

Office of Inspector General
Conducts independent audits and investigations to monitor the safeguarding of FDIC assets and detect potential fraud, abuse and mismanagement; provides reports to the FDIC's Board of Directors, agency managers and Congress.

Office of Equal Opportunity
Provides program leadership in efforts to achieve a diverse work force; administers the FDIC's equal employment discrimination complaint procedures; oversees an outreach program for contracts with minority- and women-owned firms.

Office of the Executive Secretary
Processes all matters that go to the FDIC Board of Directors and its committees; ensures compliance with various public disclosure laws; implements employee ethics programs.

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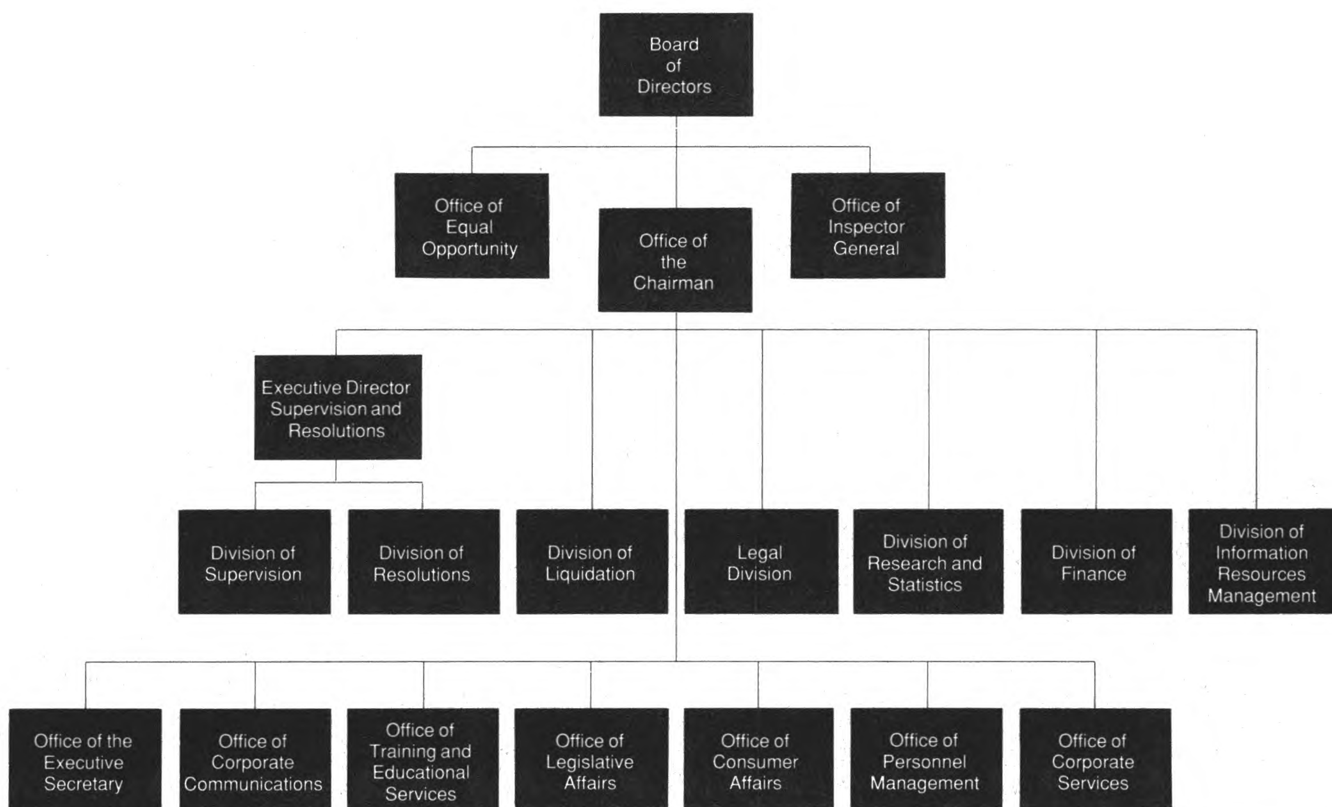

Office of Corporate Communications
Serves as the FDIC's information liaison with the media, depository institutions and the general public; issues publications, press releases and directives to institutions.

Office of Training and Educational Services
Assesses the needs for employee training and education, then designs and implements programs to meet those needs; consults with FDIC management on the training policies and programs that support the agency's mission and business plan.

Office of Legislative Affairs
Monitors and promotes legislation important to the FDIC; helps prepare testimony for the Chairman and other FDIC officials; serves as the agency's congressional liaison.

Office of Consumer Affairs
Handles complaints and inquiries from bankers and consumers; maintains a toll-free "hotline" for consumers; monitors compliance with consumer protection laws; administers a community affairs program; assists the training of examiners and bankers on consumer protection laws and deposit insurance; provides consumer publications.

Office of Personnel Management
Plans, implements and evaluates FDIC personnel management programs, including recruitment and staffing, position management, payroll processing, personnel policies and procedures, labor-management relations and employee benefits.

Office of Corporate Services
Supports the business needs of the FDIC, including: procurement of goods and contracting for services; management and operation of FDIC facilities; construction, furnishing and assignment of office space; publication design and printing; library services; mail, transportation and office supply services. ❖

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Reinforcing confidence in the banking system

After several years of escalating problems in the banking industry, 1992 was a transition year for the areas of the FDIC with oversight responsibilities, primarily the Division of Supervision (DOS). Interest rates dropped to their lowest level in several decades, leading to strengthened bank earnings and a significant decline in the number of problem institutions. While improved economic factors took some pressure off supervision and the industry in 1992, the FDIC was extraordinarily busy developing regulations to implement one of the most comprehensive banking laws enacted in the past 50 years, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

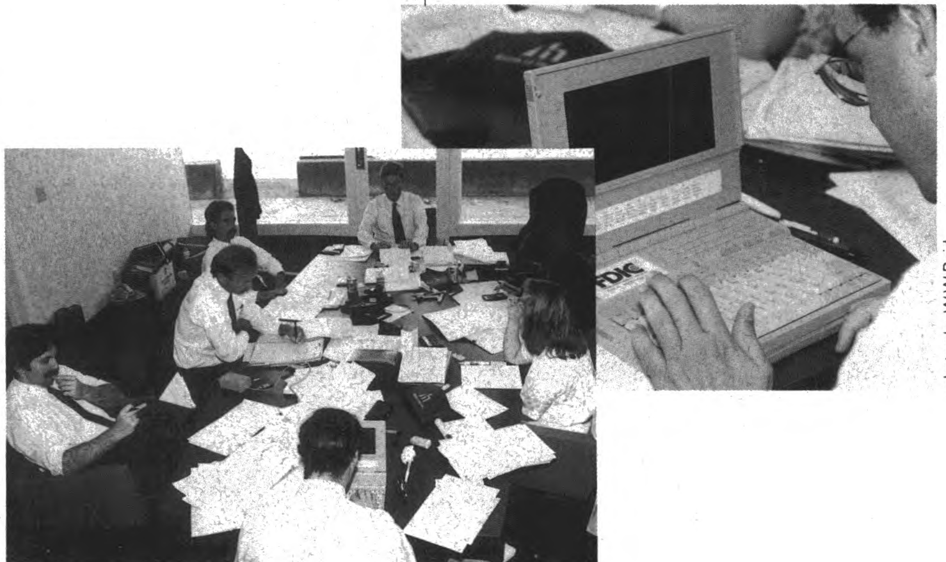
FDICIA put an emphasis on increased supervision to reduce risk to the insurance fund, including requirements that "prompt corrective action" be taken when an insured institution's capital falls below prescribed levels. The prompt corrective action rule went into effect on December 19, 1992.

Although FDICIA mandates closer supervision of all insured financial institutions, the FDIC remains sensitive to the escalating regulatory burden on the industry. The FDIC and the other agencies responded with increased emphasis on uniform supervisory procedures and rulemaking intended to reduce regulatory burdens without diminishing the quality of supervision. For example, in 1992 the FDIC and the Office of Thrift Supervision established a procedure for shared examinations, and the FDIC and the Conference of State Bank Supervisors entered into a coordinated examination agreement.

(See the Economic and Policy Research chapter for additional information on FDIC efforts to reduce regulatory burdens.)

New Supervisory Tools

In addition to prompt corrective action, FDICIA added real estate lending guidelines, restrictions on the industry's use of brokered deposits, and limitations on activities and investments of insured state banks.



Examiners from the Division of Supervision's San Francisco regional office set up shop in a back room of a bank under review. Laptop computers enable the examiners to tap into key financial data and FDIC rules.

photos by W.W.Reid

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FDICIA also authorized the agency, for the first time in its history, to begin charging higher insurance premiums to banks and savings associations that pose greater risks to the deposit insurance funds. Risk-related premiums are intended to foster safety and soundness by giving institutions a financial reward (i.e., a lower deposit insurance premium) for improving their condition. Although FDICIA mandated risk-related premiums no later than January 1, 1994, the FDIC Board of Directors moved ahead quickly and, in September 1992, established a transitional system for calendar year 1993.

Effective with the first semiannual assessment period in 1993, institutions paid insurance premiums ranging from 23 cents to 31 cents per $100 of domestic deposits, depending on their risk classification. The transitional system, which assigns institutions to one of nine risk groups, was designed by the Division of Research and Statistics in conjunction with DOS, the Legal Division and the former Division of Accounting and Corporate Services. Because a portion of the risk calculation depends on supervisory judgment of factors such as asset quality and loan underwriting standards, DOS also established a new unit to manage the risk classification process, including the reconciliation of differences of opinion between the FDIC and other federal regulators, and the handling of appeals from institutions challenging their rating.

(See the Rules and Regulations chapter for additional information on prompt corrective action and other provisions of FDICIA implemented during 1992.)

Examinations

The FDIC is the primary federal regulator of approximately 7,000 state-chartered commercial banks that are not members of the Federal Reserve System and about 500 state-chartered savings banks. The agency also has back-up enforcement authority, for safety and soundness purposes, over all other classes of insured banks and savings associations.

The Division of Supervision conducts four major types of examinations:

- Safety and soundness — to determine an institution's risk to the deposit insurance fund;
- Trust departments — to analyze potential risk to a bank's capital structure;
- Data processing facilities — to ensure that proper procedures and internal controls are being used by banks and independent firms; and

FDIC Examinations 1990-1992

	1992	1991	1990
Safety and Soundness:			
State Nonmember Banks	**4,258**	3,791	3,744
Savings Banks	**188**	298	211
National Banks	**309**	273	105
State Member Banks	**62**	44	24
Savings Associations	**810**	937	2,150
Subtotal	**5,627**	5,343	6,234
Consumer and Civil Rights	**3,993**	3,782	3,639
Trust Departments	**668**	625	525
Data Processing Facilities	**1,506**	1,168	1,077
Total	**11,794**	10,918	11,475

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Bank examiners Marty Tunnell (left) and Mike Yee help the DOS San Francisco office monitor about 1,200 financial institutions in the West. In states such as California, adverse economic conditions have led to rising levels of troubled assets.

Bob Pepping/Contra Costa Times

- Consumer and civil rights — examinations and visitations to monitor compliance in areas such as truth in lending, fair lending and community reinvestment.

(See table on previous page for more details on the number and types of examinations conducted by the FDIC.)

For institutions seeking a review of specific supervisory decisions, an enhanced examination appeals process was established in February that provides institutions with the opportunity to appeal directly to the Director of Supervision at the FDIC headquarters in Washington, D.C.

Call Reports and Off-site Analysis

As the FDIC's supervisory responsibilities continue to expand, the effective use of off-site analysis has become an increasingly important complement to the on-site examination program and general efforts to efficiently allocate staff time and resources. Off-site monitoring depends primarily on the quarterly Report of Condition and Income (Call Report), as well as pertinent information from other sources.

Call Reports submitted by each bank provide regulators with information on assets, liabilities, revenues, expenses, losses and related data on the condition and performance of individual institutions. The FDIC processed approximately 50,000 quarterly Call Reports from state nonmember banks and national banks in 1992. In addition, the FDIC obtains data on deposits at main offices and branches of members of the Bank Insurance Fund (BIF), and makes the information publicly available in the annual *Data Book*. The agency processed surveys for 62,000 such offices in 1992.

The FDIC worked with the Federal Reserve Board, the Office of the Comptroller of the Currency and other federal agencies in 1992 to develop changes to the Call Report for implementation in 1993.

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Many of these changes are in response to various provisions of FDICIA. New items will be added to the Call Report to provide the three federal banking agencies with information in areas such as loans to small businesses and small farms, deposits in "lifeline accounts" (low-cost transaction accounts for low-income customers), "preferred deposits" (certain deposits from state and local governments), and various off-balance-sheet assets. In addition, the Call Report's existing coverage of information on past due and nonaccrual loans, deposits over the $100,000 federal insurance limit and insider loans will be expanded.

The banking regulators, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), adopted a uniform policy in May to provide additional advance notice of changes in Call Report requirements to minimize the impact of these changes on institutions' systems and operations.

The FDIC continually develops and enhances off-site monitoring systems that analyze institutions on the basis of financial performance and growth profiles. New monitoring system procedures, management tracking reports and reporting standards were introduced in 1992 to ensure that potential problems uncovered by off-site analysis are addressed by the FDIC in a more timely manner and that examiners take appropriate follow-up actions promptly.

Problem Banks

Problem banks exhibit financial, operational or managerial weaknesses that warrant a composite "4" or "5" rating under the uniform interagency bank rating system used by the three federal banking agencies. The FDIC seeks immediate correction of these weaknesses because of their potential effect on the deposit insurance funds.

(For information on enforcement actions against open institutions, see the Legal Activities chapter.)

During 1992, the number of problem commercial banks and savings banks insured by the Bank Insurance Fund decreased significantly to 863 from 1,090 a year earlier. Nationwide, increased profits from lower

Bank Insurance Fund (BIF) Problem Banks, 1988-1992 (Year-end)

	1992	**1991**	**1990**	**1989**	**1988**
Total BIF-Insured Institutions*	**11,852**	12,343	12,788	13,239	13,606
Problem Banks	**863**	1,090	1,046	1,109	1,406
Total Assets of Problem Banks ($ billion)	**$ 464.4**	$ 609.8	$ 408.8	$ 235.5	$ 352.2
Percent Change in Number of Problem Banks	**(20.8)**	4.2	(5.7)	(21.1)	(10.7)
Problem Banks as Percent of Total Insured Institutions	**7.3**	8.8	8.2	8.4	10.3

Changes in BIF Problem Bank List, 1988-1992

	1992	1991	1990	1989	1988
Deletions	**648**	456	447	619	680
Additions	**421**	500	384	322	511
Net Change	**(227)**	44	(63)	(297)	(169)

* BIF-insured depository institutions include commercial banks, savings banks and insured branches of foreign banks.

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interest rates helped reduce the number of problem banks. Among the regional economic conditions reducing the problem list was an improvement in certain real estate markets, most notably in Texas and other parts of the Southwest.

Looking ahead, FDICIA's prompt corrective action standards, which require increasingly severe supervisory measures as an institution's capital declines, should, over time, reduce losses to the deposit insurance funds.

Financial Fraud

The FDIC continued to work closely with the Department of Justice and other government agencies to fight fraud against financial institutions.

DOS and Legal Division officials participate in the Attorney General's interagency Bank Fraud Working Group to strengthen the supervisory response to bank fraud and insider abuse. A major project undertaken by the Bank Fraud Working Group in 1992 involved proposed revisions to the rules requiring insured banks and thrifts to report to the government instances of known, attempted or suspected crimes. The proposed rules, which the FDIC Board of Directors agreed to issue for public comment in October, would define more clearly situations necessitating criminal referral reports and would require each institution's management to inform its board of directors when a criminal referral report is filed. During 1992, DOS processed more than 2,600 referrals of possible criminal activity.

The FDIC also promotes interagency cooperation against fraud through participation in a database project which, when completed, will provide the federal financial institution regulatory agencies with a pooled source of information about referrals of suspected criminal activity processed by each member agency.

Examiner training in detecting white-collar crime once again received top priority during 1992. Specially selected examiners in each of the eight DOS regional offices received advanced training in bank fraud detection techniques. The agency also continued to co-sponsor training sessions for FDIC examiners with the FBI and with the other federal regulators.

Money Laundering

As in the past, the FDIC participated in national and international efforts to find new ways to detect and prevent the laundering of money obtained through criminal activities.

The FDIC in 1992 worked with the Financial Action Task Force organized by the "Group of Seven" (G-7) industrialized nations (the United States, France, Germany, Italy, the United Kingdom, Canada and Japan) to concentrate on money laundering matters. The FDIC's assistance included an analysis of the U.S. government's progress in implementing 40 recommendations adopted by the Task Force in 1990 to strengthen each country's anti-money-laundering program.

Money laundering enforcement efforts in the future will be aided by tough new penalties authorized by Congress in the Housing and Community Development Act of 1992, which became law in October. The law includes a provision that makes an insured depository institution's conviction on a money laundering offense grounds for closing the institution or terminating its deposit

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insurance. Such sweeping changes will necessitate continued close interagency cooperation among the FDIC, the U.S. Treasury Department, and other regulators and law enforcement agencies.

Applications

The applications process helps promote safe and sound banking operations by authorizing the FDIC to approve, deny or seek modifications in requests from institutions to establish or expand certain functions. Applications traditionally relate to deposit insurance, the establishment or relocation of branches by FDIC-supervised banks, mergers where the FDIC supervises the resultant bank, and changes in control of state nonmember banks. In certain circumstances, the FDIC decides whether a person may serve as a director, officer or employee of a state nonmember bank. Also, without FDIC consent, state-chartered banks and savings associations may not exercise powers not permitted to national banks or federal savings associations.

As a result of FDICIA, the FDIC is responsible for acting on insurance applications from all banks and thrifts that request deposit insurance. The FDIC worked with the other federal financial institution regulators to modify its policy statement regarding applications for deposit insurance and to ease the burden on applicants dealing with more than one federal agency on this type of request.

FDICIA also changed the circumstances under which a BIF-insured institution and an institution whose deposits are insured by the Savings Association Insurance Fund can merge without paying entrance and exit fees to the insurance funds. This change partly explains why the number of requests for conversions of insurance coverage decreased to 15 in 1992 from 106 in 1991.

(For additional information on applications, see the table on the next page and the coverage of enforcement actions in the Legal Activities chapter.)

Jack S. Kanthal/The Star Ledger

Nicholas J. Ketcha, Jr., Regional Director of the Division of Supervision's New York office, gave an overview of industry conditions to more than 300 bankers at an annual forum in Princeton, New Jersey, in September.

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FDIC Applications
1990-1992

	1992	1991	1990
Deposit Insurance	**85**	69	141
Approved	**84**	62	135
Denied	**1**	7	6
New Branches	**992**	898	1,121
Approved	**992**	898	1,118
Branches	**636**	572	812
Remote Service Facilities	**356**	326	306
Denied	**0**	0	3
Mergers	**359**	405	390
Approved	**359**	404	389
Denied	**0**	1	1
Requests for Consent to Serve*	**1,798**	1,722	1,567
Approved	**1,776**	1,688	1,536
Section 19	**92**	71	81
Section 32	**1,684**	1,617	1,455
Denied	**22**	34	31
Section 19	**1**	2	2
Section 32	**21**	32	29
Notices of Change in Control	**79**	67	79
Letters of Intent Not to Disapprove	**74**	65	79
Disapproved	**5**	2	0
Conversions of Insurance Coverage+	**15**	106	234
Approved	**15**	106	234
Denied	**0**	0	0
Brokered Deposit Waivers	**122**	51	83
Approved	**117**	37	63
Denied	**5**	14	20
Savings Association Activities	**42**	100	104
Approved	**42**	91	84
Denied	**0**	9	20

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

+ Applications to convert from the Savings Association Insurance Fund to the Bank Insurance Fund or vice versa.

Other Interagency Efforts

The FDIC, in conjunction with the Federal Reserve Board and the Office of the Comptroller of the Currency, requested public comment in August on a system under consideration to determine the level of interest rate risk in financial institutions and to ensure that banks have sufficient capital to cover their interest rate risk exposure. This risk measurement system was being developed under provisions of FDICIA that require the banking agencies to revise their risk-based capital standards to take adequate account of interest rate risk. The three agencies expect to issue a uniform final rule in 1993.

The federal regulators of banks and savings associations also deliberated over the appropriate regulatory reporting and capital treatment for "deferred tax assets" as a result of new accounting standards issued by the Financial Accounting Standards Board (FASB Statement No. 109) in February. Deferred tax assets are amounts that will be realized as reductions of future income tax payments or as future tax refunds. These assets include such items as the tax benefit arising from the different

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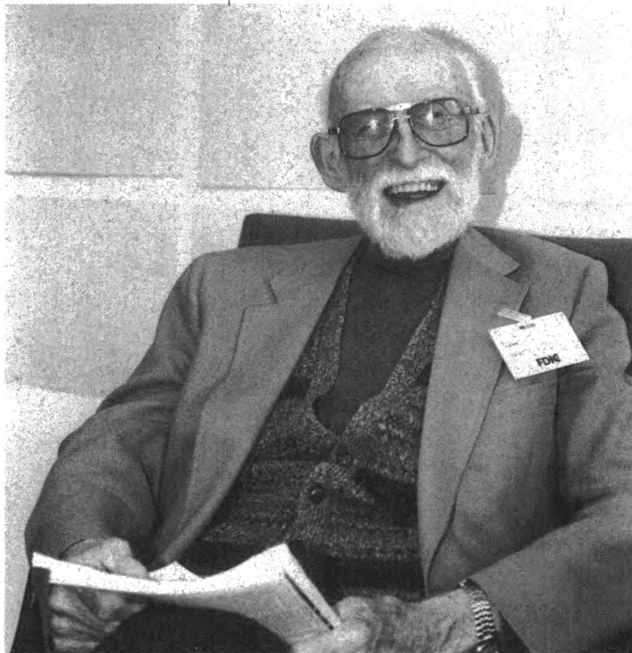
financial reporting and tax treatments of loan losses. Under the auspices of the FFIEC, the agencies in December announced that, beginning in 1993, banks and savings associations should report deferred tax assets under these new standards, although earlier application of FASB Statement No. 109 was permitted subject to certain limitations. The FFIEC also recommended to the regulators that they amend their regulatory capital standards to limit the amount of deferred tax assets that can be used to meet capital requirements.

Under current federal tax law, banks and thrifts are permitted bad debt deductions for loans charged off because of uncollectibility. The banking and thrift agencies in 1992 reached an agreement with the Internal Revenue Service that examiners could furnish a letter to banks and thrifts, if appropriate, to support the validity of the institutions' charge-offs for federal income tax purposes. Guidance concerning these so-called "express determination" letters was distributed to FDIC examiners and FDIC-supervised banks in October.

The FDIC also joined with the other bank and thrift regulators in July in issuing a policy statement intended to improve the coordination and communication between external auditors and government examiners. The policy statement clarifies and makes uniform the agencies' guidelines regarding the information a depository institution should provide to its external auditor and the circumstances under which external auditors may attend meetings between examiners and an institution's management.



W.W.Reid

Rob O'Neill, one of the few remaining members of the FDIC's original supervision staff in 1933, recounted during an October visit to Washington headquarters the initial efforts to examine banks. Now 83 and living in Benton Harbor, Michigan, he was an FDIC examiner in Wisconsin, Indiana and Michigan before retiring in 1966.

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Other Supervisory Activities
The following activities also were noteworthy during 1992:

- The FDIC administers and enforces the registration and reporting provisions of the Securities and Exchange Act of 1934 for publicly held insured nonmember banks. At the end of 1992, there were 213 banks registered with the FDIC, down from 225 one year earlier. In January 1992, FDIC regulations pertaining to reports of bank ownership and securities transactions were amended to be comparable to rules of the Securities and Exchange Commission.

- The FDIC in 1992 approved 43 applications by FDIC-supervised banks to begin exercising trust powers, compared to 49 in 1991. FDIC-supervised banks at year-end 1992 had investment discretion over $194.1 billion in trust assets (an increase from the $168.2 billion at year-end 1991) and responsibility for another $804.5 billion in non-discretionary trust assets (up from $658.5 billion the year before).

- A total of 221 FDIC-supervised banks were registered with the FDIC at year-end for securities transfer activities (down from 232 at year-end 1991). In addition, 43 banks were registered as U.S. Government securities dealers (versus 45 the previous year) and 49 were registered as municipal securities dealers (compared to 52 at year-end 1991).

- FDICIA revised the regulation of brokered deposits. FDIC regulations adopted in May 1992 provide for the registration of deposit brokers and authorize the collection of written reports from deposit brokers regarding funds placed with specific institutions. The FDIC received 468 broker registrations in 1992.

- Agreements were entered into with the National Association of State Boards of Accountancy and the American Institute of Certified Public Accountants to establish a referral program for alleged substandard auditing work or noncompliance with professional standards by certified public accountants who audit banks. Guidance on filing complaints under this program was distributed in September to FDIC examiners and liquidators. ❖

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Resolving Failed Banks

Finding the least costly solution for failed and failing institutions

A bank may be closed by its chartering authority — the state for state-chartered banks or the Comptroller of the Currency for national banks — when it is insolvent, fails to meet capital requirements or otherwise threatens the safety and soundness of the banking system. The primary supervisor informs the FDIC when one of its insured banks is in danger of failing well before the bank is closed, with some exceptions under unusual circumstances.

As soon as another agency or the FDIC's Division of Supervision (DOS) identifies an impending failure, the FDIC's Division of Resolutions (DOR) goes to work to determine the best way to handle the situation. In resolving a failing bank, DOR directs the process by working with other FDIC offices to assemble data about the failing bank, meeting with potential acquirers, soliciting and reviewing bids, and selecting the winning bidder. Depending on the circumstances, prospective acquirers may submit bids

Failed Banks*
1990-1992

	1992	1991	1990		1992	1991	1990
Arizona	**3**	1	5	Missouri	**7#**	0	1
Arkansas	**1**	1	1	Montana	**1**	0	0
California	**12**	4	4	New Hampshire	**3**	12	1
Colorado	**0**	3	7	New Jersey	**5**	4	2
Connecticut	**10**	17	1	New Mexico	**0**	3	2
District of Columbia	**2**	1	1	New York	**7**	2	5
Florida	**2**	10	7	North Carolina	**0**	1	0
Georgia	**2**	0	0	North Dakota	**0**	0	3
Hawaii	**1**	1	0	Ohio	**0**	1	1
Illinois	**2**	2	0	Oklahoma	**2**	1	9
Indiana	**1**	1	0	Pennsylvania	**2**	0	0
Kansas	**2**	1	1	Puerto Rico	**1**	0	0
Kentucky	**0**	0	1	Rhode Island	**2+**	0	0
Louisiana	**2**	5	4	South Carolina	**0**	1	0
Maine	**0**	2	0	Tennessee	**0**	0	1
Maryland	**1**	1	0	Texas	**29^**	31	103
Massachusetts	**16+**	14	7	Vermont	**0**	1	0
Minnesota	**1**	0	1	Virginia	**2**	2	0
Mississippi	**1**	0	0	West Virginia	**0**	1	0
				Total	**120**	124	168

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

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

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

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

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for a variety of transactions, from which the FDIC must select the one that is least costly to the Bank Insurance Fund.

During 1992, the FDIC resolved 120 failed banks and provided assistance to two open banks in danger of failing. As throughout the history of the FDIC, no insured depositor suffered a financial loss as the result of a bank failure.

The FDIC's resolution activity in 1992 was comparable to 1991 (when 124 banks closed and three received open assistance) but had decreased significantly from other recent years (when, for example, failures and assistance transactions exceeded 200 per year in 1987-89). And while the total assets of failed and assisted banks decreased in 1992 to $44.2 billion from the record level of $63.2 billion in 1991, this still was the second highest in FDIC history. Deposits at failed and assisted banks in 1992 totaled $41.2 billion, compared to $53.8 billion in 1991.

Least Cost

The FDIC is required by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) to pursue the least costly resolution of a failed bank. Prior to FDICIA, the FDIC could pursue any resolution alternative, as long as it was less costly than a payout of insured deposits and a liquidation of the assets. Under the new law, the FDIC must analyze all proposals received and compare them to other alternatives. This requires DOR to ask bidders to submit not only proposals to assume all deposits (including the uninsured amounts) but also proposals to assume only the insured deposits.

In 66 of the 120 failures in 1992, or more than half of the cases, uninsured depositors received less than 100 cents on each dollar above the $100,000 insurance limit. This is a significant increase from 1991, when less than 20 percent of the failures involved a loss for uninsured depositors. The difference can be directly attributed to the least-cost requirement of FDICIA. Thus, while the number of bank failures in 1992 was lower than in previous years, the number of uninsured depositors experiencing a loss was significantly greater.

As a consequence of this development, beginning in March 1992, the FDIC resumed the practice of paying "advance" dividends to minimize the hardship on uninsured depositors and other unsecured creditors. Under this approach, the FDIC soon after the bank closing makes a payment to uninsured depositors that is typically between 50 and 80 percent of their claims. The advance dividend is based on the estimated value of the failed bank's assets to be liquidated by the FDIC. If actual collections on the assets exceed this initial estimate, uninsured depositors and other creditors ultimately will receive additional payments on their claims. The FDIC made advance dividend payments in 35 of the 66 resolutions in 1992 when uninsured depositors were not fully protected. The FDIC generally does not pay an advance dividend in cases where the value of the failed institution's assets cannot be reasonably determined at the time of the closing.

Of those 66 failures where uninsured depositors were subject to some loss, 10 were resolved through a payout of insured deposits directly from the FDIC to the depositors, typically within a few days of the closing. Another 14 closings were handled as insured deposit transfers, a

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form of a payout where only the insured deposits are transferred to another bank that acts as a "paying agent" for the FDIC. In these instances, depositors can withdraw their insured funds immediately from the assuming bank or they can establish a banking relationship with the assuming institution. Under a variation on the insured deposit transfer, an "insured purchase and assumption," the insured deposits as well as some assets of the failed bank are assumed by another institution. This approach was used in 36 closings. Additionally, 21 bridge banks were established in 1992 to resolve 22 failed institutions (two failed banks in Kansas City, Missouri, were resolved using a single bridge bank). In six of those transactions, uninsured depositors were not fully protected but they did received advance dividends against their uninsured funds.

(Note: The 66 failures where uninsured depositors suffered some loss do not include the resolution of Independence Bank of Encino, California, on January 30. Independence Bank was controlled by the Bank of Credit and Commerce International — BCCI — a foreign holding company that was closed in 1991 by regulators abroad and in the U.S., and which pled guilty to illegal ownership of U.S. financial institutions, fraud, racketeering and money laundering. Although the FDIC transaction is considered an insured deposit payoff, the agency acted to protect all Independence Bank depositors, including those over the insurance limit, because the FDIC expects to be fully reimbursed for the cost of the resolution out of a special fund established from BCCI assets to compensate victims of that company's actions.)

W.W.Reid

Acting Chairman Hove conducts the press conference at FDIC headquarters on October 30 announcing the closing of 20 bank subsidiairies of First City Bancorporation, Houston, Texas.

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Significant Resolutions
Included in the resolution totals for 1992 were six banking organizations with total assets greater than $3 billion:

- **Twenty banking subsidiaries of First City Bancorporation**
Houston, Texas
Total assets: $8.8 billion
Closed: October 30
This was one of the largest failed bank transactions in FDIC history, and occurred four years after the FDIC provided a $970 million assistance package to the banks under new owners. The FDIC established 20 new, full-service bridge banks, 16 of which assumed all the deposits in the 16 better-capitalized subsidiaries. For the four largest First City bank subsidiaries, only deposits within the $100,000 federal insurance limit (about $4.4 billion) were transferred to the new banks. Customers with deposits in excess of the insurance limit at those four subsidiaries (approximately $268 million) received an advance dividend equal to 80 percent of their uninsured claims. (On January 27, 1993, the FDIC announced the sale of the 20 bridge banks to various acquirers and increased the advance dividend to 90 percent for three of these four subsidiaries.)

- **CrossLand Savings Bank, FSB**
Brooklyn, New York
Total assets: $7.2 billion
Closed: January 24
The agency established a new, full-service savings bank, operating under FDIC control, to assume the assets, deposits and certain other liabilities.

- **Dollar Dry Dock Bank**
White Plains, New York
Total assets: $3.8 billion
Closed: February 21
The FDIC approved the acquisition of certain assets and the assumption of deposits and certain other liabilities by Emigrant Savings Bank, New York, New York. Apple Savings Bank, also of New York City, acquired one of the failed bank's 21 branches.

- **Meritor Savings Bank**
Philadelphia, Pennsylvania
Total assets: $3.6 billion
Closed: December 11
The FDIC approved the acquisition of certain assets and the assumption of deposits by Mellon Bank, N.A., Pittsburgh, Pennsylvania.

- **The Howard Savings Bank**
Newark, New Jersey
Total assets: $3.3 billion
Closed: October 2
The FDIC approved the acquisition of certain assets and the assumption of deposits by First Fidelity Bank, N.A., Newark, New Jersey.

- **American Savings Bank**
White Plains, New York
Total assets: $3.2 billion
Closed: June 12
The FDIC sold its insured deposits (along with those of a small subsidiary bank in Riverhead, New York, closed the same day) to eight different banks in New York and New Jersey, an unusually large number of acquiring institutions.

Resolution Strategies
The FDIC uses several strategies to dispose of the assets and liabilities of a bank when an institution is closed (as opposed to the agency paying off depositors and retaining these assets for later disposition). Typically, prospective acquirers pay a purchase premium to acquire a failed bank's franchise (deposits) as well as certain assets (primarily loans).

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The FDIC found in 1991 and early 1992 that selling assets in the resolution process had become more challenging. Deteriorating market conditions contributed to a general uncertainty about asset values, and as a result, prospective acquirers often were unwilling to purchase loans without some type of FDIC protection. Accordingly, the FDIC experimented with approaches that gave acquirers a limited degree of protection.

The "loss-sharing" structure is now a standard resolution tool for banks with more than $500 million in assets, because the FDIC prefers having bank assets owned and managed in the private sector rather than by the FDIC. Under a typical loss-sharing arrangement, the FDIC agrees to pay 80 percent of losses on charged-off loans (the acquirer of the failed bank assumes the other 20 percent), up to a "transition" dollar amount determined by the FDIC. Above that dollar amount, which is somewhat above the expected credit loss of the shared-loss assets, the FDIC's loss-sharing level typically increases to 95 percent. The transition amount addresses acquirers' concerns about unanticipated losses in a loan portfolio. In addition, these agreements provide for the FDIC to share in any recoveries on charged-off loans, on the same basis as the sharing of losses.

In 83 of the 120 resolutions during 1992, significant portions of the failed banks' assets were sold to assuming banks or third-party acquirers at the time of closing. (These 83 do not include the 21 bridge banks and one conservatorship where assets would be sold at a later date.) Using various resolution strategies, the FDIC returned to the private sector approximately $15.4 billion of the 83 banks' assets (54 percent of their total) that otherwise would have been retained by the FDIC as receiver for the failed banks.

DOR also may use the FDIC's conservatorship or bridge bank authority to take interim ownership of a failed bank to conduct an orderly sales process. In such a situation, the bank is closed by its chartering authority and a new institution with a federal charter is operated under FDIC ownership and management. In 1992, this method was used in responding to the failures of CrossLand Savings Bank, the 20 subsidiary banks of First City Bancorporation, and two failures in Kansas City, Missouri (Metro North State Bank and Merchants Bank) that were folded into a single bridge bank. In general, the FDIC tries to sell the bridge banks as quickly as possible.

Assistance to Open Institutions

Under certain circumstances, the FDIC is authorized to provide financial assistance to prevent the closing of an insured depository institution. Only two institutions received open bank assistance this year: the $21.7 million-asset Freedom Bank of Ranger, Texas, and the $13.2 million-asset Citizens State Bank of Princeton, Texas.

Because of the cost savings inherent in a closed-bank transaction, it is difficult for an open assistance proposal to be judged the least costly, particularly when the institution's failure is imminent. Therefore, for an open assistance proposal to be acceptable, it generally must be submitted well before grounds would exist for the institution's closure. The FDIC in December 1992 updated its policy statement on open

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assistance based on the least-cost test and other changes required by FDICIA.

Prompt Corrective Action
On December 19, 1992, the "prompt corrective action" provisions of FDICIA went into effect. This law includes a requirement that an institution must be closed by regulators if it is "critically undercapitalized" and is not determined to have an adequate capital restoration plan. In general, the law defines critically undercapitalized institutions as having a "tangible equity" to total assets ratio of two percent or less. Tangible equity is a newly defined term that combines elements of core capital (such as common equity capital) and cumulative perpetual preferred stock, minus most intangible assets. Call Report data indicated that as of year-end 1992, only 18 BIF-insured banks with aggregate assets of approximately $2 billion were critically undercapitalized.

This "early intervention" requirement of the law will allow the FDIC to address problems before the franchise value of a failing institution deteriorates significantly. As such, it will expedite the bank closing process (though not necessarily increase the number of bank failures) and provide potential cost savings to the FDIC. Previously, an institution typically was closed by its primary regulator only after its capital had been exhausted.

In addition, prompt corrective action provides the FDIC and other regulators with expanded supervisory powers to prevent an institution from becoming critically undercapitalized. For an institution that does not meet the appropriate minimum capital standard, new powers exist to impose restrictions on dividend payments and other capital distribution, limit management fees, curb asset growth, restrict activities that pose excessive risk to the institution, and in some instances require divestiture of the institution. As a result, it is anticipated that the number of bank failures, and their cost to the Bank Insurance Fund, will decrease over time from what would have been experienced had the new regulation not been in effect.

FSLIC Resolution Fund
In 1992, the responsibility for managing and monitoring the assistance agreements of the FSLIC Resolution Fund (FRF) was transferred from the Resolution Trust Corporation to the FDIC's Division of Resolutions. Since August 1989, when the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established the FRF, Congress has authorized $44 billion to complete the contractual obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC).

At year-end 1992, the FRF portfolio of assets in liquidation had a book value of $5.2 billion, down from $14.4 billion at the the end of 1989. FRF collections and dividends in 1992 totaled $1.7 billion.

(See Notes to the FSLIC Resolution Fund Financial Statements for more information on FRF.) ❖

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When a Bank Fails

Making deposits available; selling assets to replenish the Bank Insurance Fund

As soon as an FDIC-insured bank is closed by its chartering authority, the FDIC is named receiver and the Division of Liquidation (DOL) handles most activities associated with the settling of the failed bank's estate. Many of these receivership activities are analogous to those of a trustee handling the bankruptcy of a business organization.

Depending on the type of transaction arranged by the Division of Resolutions, DOL's most immediate job is to oversee the assumption of deposits by the acquirer of the failed bank or to pay out insured funds to depositors when there is no acquirer. DOL and the Division of Finance also handle the payment of advance dividends to depositors over the $100,000 federal insurance limit in failures where the FDIC's Board of Directors has authorized such payments. (See the previous chapter for a discussion of resolution transactions and advance dividends.)

The DOL claims and closing staff — which can number in the hundreds depending on the size of the failed institution and the type of transaction — verify deposits to be transferred to an acquirer or pay deposit insurance claims and conduct an inventory of the failed bank's assets and records. That effort includes a review and analysis of loan files that will remain with the FDIC for disposition. DOL personnel, with assistance from the Legal Division staff, also conduct an investigation to determine whether fraud or other illegal acts played a role in the bank's failure.

Mary E. Schulte/The Kansas City Star

FDIC staff at bank closings explain how the agency protects depositors. Here David Barr from the Office of Corporate Communications in Washington meets with customers of the failed Metro North State Bank in Kansas City, Missouri.

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In 1992, DOL staffed 120 bank failures throughout the nation, conducted the largest commercial real estate auction in history, implemented an Affordable Housing Program, and began offering health insurance to employees of failed banks. To effectively dispose of assets, the Division used bulk sales and contracted out asset-related business to the private sector when it was cost-effective.

Liquidation Highlights 1990-1992

(Dollars in Billions)

	Total Failed Banks*	Assets of Failed Banks*	Total Collections+	Total Assets in Liquidation (year-end)+
1992	120	$ 44.2	$ 15.1	$ 44.1
1991	124	63.1	13.6	45.0
1990	168	15.7	6.5	30.9

* Excludes open bank assistance transactions.

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

Deposit Insurance

The heart of DOL's work is the payment of insured deposits to depositors of failed institutions. Funds generally were available to bank customers the following business day.

Of the 120 commercial bank and savings bank closings handled in 1992 by the FDIC, 53 were purchase-and-assumption transactions in which all deposits were transferred to an acquiring institution (including 16 bridge banks and one conservatorship), 56 involved the transfer of insured deposits only (including six bridge banks), and in 11 failures insured deposits were paid directly to depositors. In one of those 11 failures—Independence Bank of Encino, California—all deposits were paid out because of special circumstances noted in the previous chapter.

In 1992, DOL made dividend payments totaling $28.8 billion to depositors over the $100,000 insurance limit and to general creditors of failed institutions, including payments to the FDIC for the protection of insured depositors at the time of bank failures. From funds generated through the disposition of assets acquired from failed institutions, DOL periodically makes dividend distributions on a pro rata basis to depositors over the insurance limit and general creditors with proven claims against a receivership. To minimize the impact on uninsured depositors and general creditors, the FDIC continued the practice of declaring an advance dividend payment at bank closing based on projected recoveries.

In connection with DOL's payments to failed bank depositors, several noteworthy transactions occurred in 1992:

- **First City Bancorporation of Texas**
  The failure of the 20 First City banks with $8.8 billion in assets on October 30 was one of the largest in FDIC history. To reopen the banks the next business day with no disruption to customers, employees nationwide were brought in to work throughout the weekend. Claims centers and phone banks were established at various sites, including two in South Texas with bilingual staff members to assist Spanish-speaking customers.

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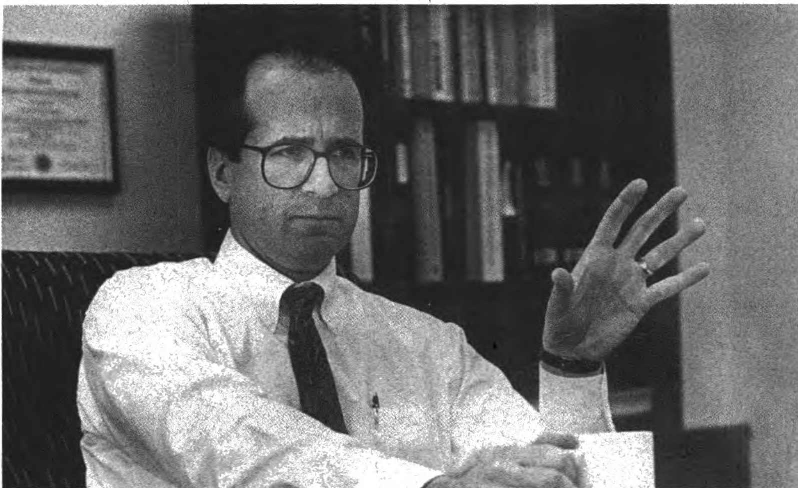
- **Independence Bank Encino, California**
The $575.4 million-asset Independence Bank was the largest failure of a state-chartered bank in California and one of the largest payouts ever. Just hours before the closing on January 30, an agreement was reached with First Interstate Bank of Los Angeles to act as paying agent for all Independence deposits. First Interstate's branches handling the payout were in operation by 4 p.m. the next day.

Other highlights of DOL's activities in 1992 include:

- The Division's work force consisted of 6,427 employees at year-end. To handle the increased activity related to bank failures in New England and to respond to the concerns of New England residents, a new consolidated office was opened in Westborough, Massachusetts. DOL transferred employees to Massachusetts from other regions of the country to assist in processing claims and disposing of assets from failed banks.

- The FDIC, through DOL, began offering a health insurance package in 1992 for employees of failed banks. The FDIC-sponsored medical plan, which provides for continuous coverage for eligible employees and their dependents, was required by the FDIC Improvement Act of 1991 (FDICIA) and is modeled after the requirements in the Consolidated Omnibus Budget and Reconciliation Act (COBRA).



Mike Castagnaro/Worcester Telegram & Gazette

Kenneth C. Gorham manages the FDIC's new liquidation office in Westborough, Massachusetts, established in 1992 to help handle increased activities in New England.

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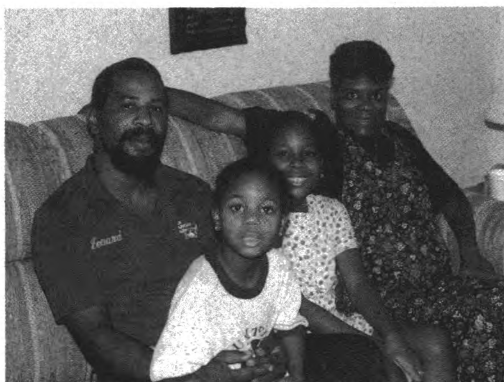

The Leonard Hopkins family purchased their new house in Jacksonville, Florida, at an FDIC auction in July that was part of the agency's new Affordable Housing Program. The FDIC sold 555 properties to low- and moderate-income home buyers in 1992 under the program.

photos by Marilyn Knox

Asset Disposition

The FDIC acquires a wide variety of assets from failed banks, ranging from real estate (office buildings, shopping malls, hotels, homes, undeveloped land) to office items (furniture and equipment) to personal property (automobiles and antiques) to loans. DOL's goal is to maximize the recovery on assets from failed financial institutions at the earliest possible time and in the most cost-efficient manner. To accomplish this, the Division converts assets into cash through a regional network of FDIC consolidated offices and by using asset management contractors. Cash is generated primarily through loan collections and asset sales. In this regard, bulk sales of assets have proven to be an excellent method for converting assets into cash quickly and returning them to the private sector.

DOL began an Affordable Housing Program in 1992 to provide assistance to low- and moderate-income home buyers in purchasing affordable single-family homes in the FDIC's inventory of properties acquired from failed institutions. FDICIA required the agency to establish such a program, contingent on congressional appropriations. However, the Division voluntarily implemented the program in March — months before Congress provided any funding in the fall. The $5 million appropriation will be used to provide discounts and rebates to eligible purchasers and to administer the program.

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Approximately 1,500 properties in DOL's inventory, including single-family homes and four-unit residential properties, were targeted for this program. Qualified purchasers include low- and moderate-income buyers, non-profit organizations and government agencies, with eligibility standards for purchasers and properties established by the U.S. Department of Housing and Urban Development. Under the program, sales efforts are restricted to qualified purchasers for 180 days after acquisition. With cooperation from local financial institutions and state financing agencies, affordable housing auctions were held in Florida and New England, resulting in the sale of approximately 200 homes. Altogether, the FDIC sold 555 properties under the program between March and year-end 1992.

DOL's second national "owned real estate" (ORE) auction was the largest commercial real estate auction in history, with 218 properties from 31 states selling for a record $412 million. In addition, 146 properties eligible for auction were sold for $262 million prior to the auction deadline, for a combined sale of $674 million. The two-day auction was held in Dallas, and bids were accepted via satellite from Boston, Los Angeles and Miami, providing spirited bidding from coast to coast. To facilitate auction sales, the FDIC offered financing and a five percent discount to buyers who paid cash or arranged for other financing.

To supplement real estate marketing efforts by the consolidated offices and to improve overall responsiveness to the public, DOL developed and expanded six regional ORE sales centers primarily to showcase properties valued at over $1 million. The centers provide investors and brokers with information on large properties available for sale. Each center has a showroom to display information on prominent properties and provide materials, including the Division's quarterly catalog of nationwide investment properties, local property listings, individual property flyers, auction and sealed bid notifications and other information designed to broaden the investor's understanding of asset sales.

The following are some of the more prominent ORE sales of 1992:

- Occidental Tower in Dallas, a 24-story office building sold for $37.5 million.
- Goldome Center, Buffalo, New York, which sold for $14.6 million. The main structure was built in 1983 and served as the headquarters for Goldome Bank, which failed in May 1991. The property includes the former main office of Goldome, which was built at the turn of the 20th century and is a Certified Historic Landmark.
- Radisson Lord Baltimore Hotel in Baltimore, Maryland, which sold for $8.5 million during the national auction in December. Built in 1926, this 440-room hotel is situated near Baltimore's Inner Harbor.
- Centurion Plaza, in West Palm Beach, Florida, a 14-story office building that sold for $6.6 million.

Marketing efforts by DOL in 1992 produced total ORE sales of 15,100 properties, including sales by asset management contractors, for $2.3 billion, representing 92 percent of aggregate appraised value.

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The Radisson Lord Baltimore Hotel, a registered historic landmark near the Inner Harbor in Baltimore, Maryland, was sold by the FDIC at its December 1992 auction for $8.5 million.

In addition to real estate sales, DOL continued to market and sell large blocks of loans in bulk packages. Sales of 105,700 loans in 1992 totaled $3.3 billion, representing 103 percent of aggregate appraised value.

Contracting

DOL turns to the private sector to dispose of failed bank assets when it is cost-effective, as mandated by FDICIA. The Division is committed to providing opportunities for minority- and women-owned businesses to obtain asset-related contracts. Working closely with the FDIC's Office of Equal Opportunity and its Minority- and Women-Owned Business Outreach Program, DOL carries out a vendor outreach program and conducts seminars and workshops to encourage participation by minorities and women.

DOL's Assistance Transactions Branch, now called the Contractor Oversight and Monitoring Branch, monitors the performance of 10 asset pools managed by private contractors, with total assets of $12.2 billion at year-end 1992. In addition to the large financial institution asset management contractors, the Division implemented a Regional Asset Liquidation Agreement (RALA) program

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to contract out to smaller firms the management of asset pools valued under $500 million.

During 1992, performing mortgage loans continued to be serviced by a national servicer, ITT Bowest Corporation of San Diego, California, now known as ITT Residential Capital Corporation. Small consumer loans under $50,000 were contracted nationally to Oxford Financial Services, Inc., of Philadelphia, Pennsylvania. The Division's National Mortgage Sales and Servicing Unit and National Small Asset Servicing Unit monitor contracts. The national servicing contracts enable a large number of accounts to be efficiently serviced and facilitate the sale of large blocks of assets to the private sector.

At year-end 1992, the total DOL inventory, including assets serviced by asset management contractors and national servicers, consisted of $44.1 billion in assets—$38.9 billion from 972 failed banks and $5.2 billion from 91 failed thrifts insured by the former Federal Savings and Loan Insurance Corporation.

Recoveries for 1992 totaled $15.1 billion, with loan collections accounting for $7.8 billion, ORE sales for $2.3 billion, loan sales for $3.3 billion and other miscellaneous recoveries for $1.7 billion, including the sale of securities, investment income and professional liability settlements, which are described in the Legal Activities section of this report. ❖

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Legal Activities

Protecting the deposit insurance funds

The FDIC's wide-ranging legal activities include: developing and enforcing regulations; handling legal matters relating to the supervision of FDIC-insured institutions and the resolution and liquidation of failed institutions; pursuing liability claims against failed bank officers, directors and professionals; and generally providing legal advice to the agency on all phases of its operations. The FDIC's Legal Division works closely with other Divisions and Offices in handling these responsibilities.

Legal Workload
At year-end 1992, the Legal Division was handling 46,570 matters, including litigation cases, bankruptcy claims and non-litigation matters. This is 11 percent above the 41,878 matters pending at year-end 1991.

Liquidation-related legal work accounted for 42,388 matters at year-end 1992, which was more than 90 percent of all legal matters outstanding and about a 17 percent increase from the year before. These liquidation-related matters consisted of 23,900 litigation cases, 9,202 bankruptcy claims and 9,286 non-litigation matters, such as asset sales, foreclosures and other collection activities.

The remaining 4,182 legal matters, unrelated to liquidations, involved support for the agency's supervision and regulation efforts, legislative affairs and corporate operations. They consisted of 1,676 litigation cases, 150 bankruptcy matters and 2,356 non-litigation matters.

Compliance and Enforcement Action
The FDIC's Legal Division supports the Division of Supervision in the implementation of enforcement actions to address unsafe or unsound banking practices or violations of laws, rules or regulations.

These actions include: cease-and-desist orders to halt and correct unsafe and unsound banking practices; the removal of officials of state nonmember banks when other corrective measures have proven unsuccessful; civil money penalties against individuals and companies; and other actions designed to ensure that FDIC-insured institutions comply with laws and regulations. Also included in the number of enforcement actions are "cross-guaranty" assessments levied against affiliated banks of failed depository institutions to help recoup losses to the insurance fund caused by the closed institutions.

The FDIC initiated 339 enforcement actions against insured depository institutions and their affiliated parties in 1992.

The FDIC initiated 13 civil money penalty actions against 54 individuals for violating laws, regulations or orders. Penalties of more than $4.4 million were assessed in the 13 actions, of which about $4.2 million was being challenged in court at year-end. Those penalties do not include another category of fines for late submission of required Reports of Condition and Income (Call Reports), for which $83,270 was assessed and collected from 43 banks in 1992.

Professional Liability Claims
The FDIC's Legal Division and the Division of Liquidation aggressively investigate and pursue professional liability claims and criminal matters arising from the actions of officers, directors, attorneys, accountants and others responsible for losses at FDIC-insured institutions.

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Professional liability lawsuits and investigations involving 589 failed institutions were pending at year-end 1992, down about 25 percent from the previous year. This decline is due primarily to fewer bank failures in recent years and to the FDIC's success in resolving previous matters. Nevertheless, due to the resolution of several major cases, the FDIC collected $610 million from professional liability claims in 1992 — almost twice the amount collected during 1991.

In 1992, the FDIC and the Resolution Trust Corporation (RTC) cooperated in the pursuit of several major claims against those responsible for losses at failed banks and thrifts. In March, a U.S. District Court in New York approved a $1.3 billion settlement of about 170 lawsuits against former Drexel Burnham Lambert brokerage house official Michael R. Milken, his investment partnerships and others. More than $500 million of the settlement will be shared by the FDIC and the RTC for the claims of more than 50 failed financial institutions that suffered losses from "junk bonds" sold to them by Milken and his associates at Drexel. The

Compliance, Enforcement and Other Legal Actions 1990 - 1992

	1992	1991	1990
Section 8(a) Termination of Insurance Orders:			
Notifications to Primary Regulator/Orders of Correction	**40**	71	52
Notices of Hearing/Notices of Intent Issued*	**24**	45	35
Temporary Suspension of Insurance Issued*	**1**	0	0
Orders Accepting Voluntary Termination Issued	**2**	1	1
Insurance Termination Orders Issued*	**3**	5	1
Section 8(b) Cease-and-Desist Orders:			
Notices of Charges Issued	**21**	27	32
Orders Issued With Notice*	**14**	25	16
Orders Issued Without Notice	**148**	131	76
Section 8(c) Temporary Orders*	**5**	3	8
Section 8(e) Removal/Prohibition of Director or Officer:			
Notices Issued	**18**	16	9
Orders Issued With Notice*	**21**	9	8
Orders Issued Without Notice	**27**	25	5
Section 8(e) Temporary Removal Orders*	**0**	1	0
Section 8(g) Suspension/Removal for Felony	**0**	1	0
Section 8(p) Terminations/No Longer Accepting Deposits	**17**	5	2
Section 8(q) Terminations/Deposits Assumed	**7**	4	0
Civil Money Penalties Issued	**13**	11	6
Capital Notices Issued	**0**	0	1
Capital Directives Issued*	**1**	0	3
Written Capital Agreements	**0**	2	0
Section 10(c) Orders of Investigation Issued	**10**	5	6
Section 5(e) Cross-guaranty/Notices of Assessment Issued	**5**	2	1
Waivers Issued	**3**	8	4
Section 7(j) Notices of Disapproval of Acquisition	**4**	2	0
Section 19 Officer/Director Requests to Serve – Denials	**1**	2	2
Final Orders Issued*	**0**	1	1
Section 32 Disapprovals of Officers and Directors:			
Notices of Disapproval	**20**	32	29
Rulings on Appeal Issued*	**13**	17	15
Regulation Z (Truth-in-Lending) Requests for Relief:			
Orders Issued Denying Relief from Reimbursement	**3**	11	28
Reconsiderations of Orders Denying Relief*	**3**	3	1
Orders Granting Relief Issued	**0**	0	1
Total Actions Initiated by FDIC	**339**	**356**	**255**

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

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same month, a U.S. Bankruptcy Court approved a reorganization plan for the bankrupt Drexel firm that is expected to bring the FDIC and the RTC several hundred million dollars more for the junk bond losses of failed banks and thrifts. The FDIC and RTC expect to receive the bulk of the Drexel and Milken recoveries in 1993.

In November, the FDIC and RTC received $400 million in cash from the accounting firm of Ernst & Young in a multi-agency settlement of malpractice claims arising out of Ernst & Young's accounting and auditing services to hundreds of failed banks and thrifts.

Apart from civil claims in professional liability matters, the Legal Division and the Division of Liquidation coordinate with other federal banking regulators and the Department of Justice to pursue others who contributed to the failure of insured banks and thrifts, where appropriate, through the criminal justice system.

The Legal Division assisted the Justice Department in 1992 in obtaining the convictions of 30 people who played a role in the demise of insured institutions. The courts ordered these individuals, in the aggregate, to serve more than 154 years in prison. The courts in 1992 also issued orders requiring 37 people convicted of defrauding failed banks and thrifts to pay $106 million in criminal restitution to the FDIC. In many cases where a judge orders restitution, the convicted felon does not have the means to pay the order or is not required to make payment until after release from prison. Approximately $9 million was collected during the year on restitution orders issued in 1992 or in previous years.

However, joint efforts among the regulatory agencies and the Justice Department in 1992 were aimed at making it more difficult for those who defraud insured depository institutions to avoid paying court-ordered restitution, as well as improving overall prosecution efforts. One such action was a joint policy adopted in June by the Justice Department and the federal regulators on the collection and reporting of restitution payable to the agencies. The Justice Department agreed to use its resources to assist the regulators in collecting court-ordered restitution, including taking the lead in identifying the assets of the defendants and initiating follow-up legal proceedings. The agencies also agreed to improve cooperation and communication regarding parallel criminal, civil and administrative matters.

(For more information on the FDIC's efforts to combat financial fraud at open institutions, see the Supervision chapter.)

Management Improvements
Over the past several years, the Legal Division has worked to increase internal resources — including a staff increase of nearly five percent in 1992 — and improve management systems to better handle its large and diverse workload. These efforts proved successful in 1992, most significantly in more efficient and effective use of private law firms that assist the FDIC in legal matters.

While all regulatory, enforcement and internal corporate matters were handled exclusively by FDIC attorneys in 1992, litigation from failed bank liquidations continued to exceed in-house capacity. Outside counsel expenses are the single largest item in the Division's budget,

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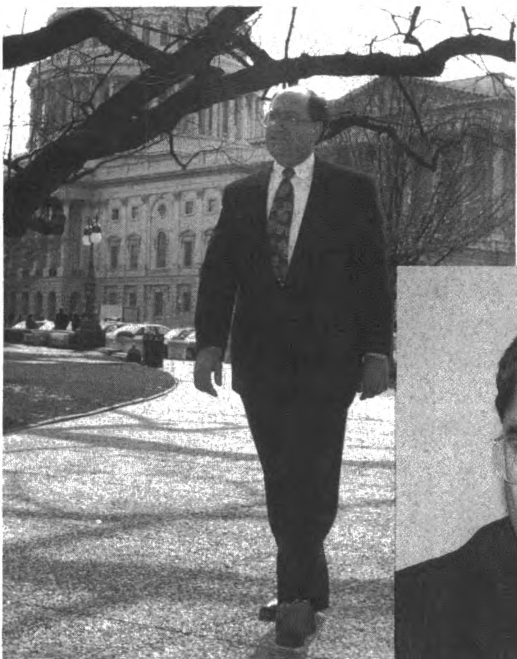

Federal Times/Steve Elfers

Atlantic Photo

(left)
FDIC attorney Andre Douek was one of two Legal Division staff members selected for year-long fellowships on Capitol Hill. He served as a legislative assistant to Senator John B. Breaux (D-Louisiana).

(right)
FDIC General Counsel Alfred J.T. Byrne helped explain regulatory developments at a meeting of bankers.

and a concerted effort was made to better control these costs. Based on calculations showing that it is 29 percent less expensive for the Legal Division to handle its own cases than to use outside counsel, additional efforts were made to keep work in the agency when possible. As of year-end, 57 percent of all Legal Division matters were being handled in-house, up from 39 percent at year-end 1990. The Legal Division further cut costs by continuing to refer cases to the Civil Division of the Justice Department under a 1991 agreement. Largely as a result of these actions, direct outside counsel expenses decreased $63 million from the previous year's total, to $153 million in 1992.

The Legal Division also improved management of outside counsel by developing written policies and procedures on such issues as the selection, retention and evaluation of outside counsel — including promoting the use of minority and women attorneys employed by majority-owned firms — and fee bill reviews.

In September, to promote consistency in the interpretation of federal banking laws and avoid unnecessary regulatory burdens, the FDIC's General Counsel joined the chief legal officers of the Federal Reserve Board, the Office of the Comptroller of the Currency and the Office of Thrift Supervision in issuing joint guidelines on interagency coordination of significant statutory interpretations. These guidelines will help the agencies ensure that appropriate consultation occurs before significant statutory interpretations are issued.

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Litigation Developments
The FDIC, in both its corporate and receivership capacities, was involved in significant litigation during 1992.

Working with the Justice Department and the Office of Thrift Supervision, the FDIC's Legal Division continued to defend a number of lawsuits challenging the capital standards mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Most of these cases involve savings associations that were authorized to acquire insolvent thrifts by the Federal Home Loan Bank Board (FHLBB) prior to the enactment of FIRREA. The acquiring thrifts claim, as part of the transaction and agreement with the FHLBB, the right to count the excess of liabilities over assets as supervisory goodwill that could be used to meet capital requirements. FIRREA changed the law to phase out and preclude using supervisory goodwill as capital, rendering some thrifts insolvent or critically undercapitalized.

In 1992, as in 1991, the U.S. Courts of Appeals uniformly concluded that thrifts are not entitled to relief for the change in the treatment of supervisory goodwill. The D.C. Circuit Court of Appeals (Washington, D.C.) and the Fourth Circuit Court of Appeals (Richmond, Virginia) both held that savings associations were not entitled to relief because they had no contract with the government stating in unmistakable terms their right to use goodwill to meet regulatory capital requirements despite changes in the law. The Fifth Circuit Court of Appeals (New Orleans, Louisiana) and Third Circuit Court of Appeals (Philadelphia, Pennsylvania) held that thrifts could not get injunctive relief from applying the new capital requirements and any constitutional claim had to be brought in the U.S. Court of Claims. However, two District Courts in Albuquerque, New Mexico, and Portland, Oregon, granted some relief in goodwill cases in 1992. The FDIC filed appeals in both cases, which are still pending. The FDIC has also filed appeals in the U.S. Court of Appeals for the Federal Circuit (Washington, D.C.) regarding three adverse decisions on this issue in the U.S. Court of Claims. These appeals also are still pending.

Also during 1992, several federal appellate courts addressed key questions involving the extent to which outside attorneys, accountants and others should be held responsible for not warning regulators or bank management about improper actions by a bank's officers and directors. Complex legal issues involve whether outside professionals should be shielded from an FDIC lawsuit if the bank insider who committed the wrongful act had sufficient influence over the institution to: (1) make any alleged negligence on the part of outside advisers irrelevant or (2) require "imputing" or attributing the insider's wrongful actions (or knowledge) to the bank he or she controlled, and in turn to the FDIC as receiver for the failed institution.

In June, the Ninth Circuit Court of Appeals (San Francisco, California) held in *FDIC v. O'Melveny & Meyers* that the FDIC can sue a law firm for negligence for failing to protect its client (an insured savings association) from harm caused by an insider at the institution. The Court ruled that although it was a corporate insider who intentionally overstated the thrift's financial position, the

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law firm should have made a reasonable and independent investigation to detect and correct false information.

In a similar case involving accounting malpractice — *FDIC v. Ernst & Young* — the Fifth Circuit Court of Appeals in August disagreed with the Ninth Circuit ruling. The FDIC had alleged that Ernst & Young's audits of an insured thrift were negligent and grossly overstated its financial condition, which allowed the institution to sustain substantial additional losses. The Court ruled that the owner knew the true condition of the institution, the owner's knowledge was imputed to the institution, and consequently the FDIC could not prove that the insured institution relied on the allegedly negligent audits. According to the Court, since the failed thrift could not recover damages from the auditors, neither could the FDIC as the successor to the thrift.

In October, though, the Tenth Circuit Court of Appeals (Denver, Colorado) relied on the reasoning by the Ninth Circuit when it found counsel to an insolvent bank negligent and liable for losses caused by third parties in conspiracy with the bank's president and vice president. In *FDIC v. Clark,* the Court held that dishonesty of a bank officer could not be imputed to the FDIC because the bank had no contractual or fiduciary duty to protect its attorneys from the officer's fraud. The Court distinguished its ruling from the Fifth Circuit's in *FDIC v. Ernst & Young* by stating that the latter decision was a narrow holding limited to the specific facts of that case.

Among other significant cases which the courts decided in 1992 were the following:

- **Texas American Bancshares v. Clarke**
In February, the Fifth Circuit Court of Appeals upheld the FDIC's broad discretion in structuring the resolution of a systemic failure within a large multi-bank holding company. This case involved the FDIC's resolution of the 1989 collapse of the 24-bank Texas American Bancshares (TAB) system of Fort Worth, Texas. Creditors of the holding company and other investors alleged that subsidiary banks were closed improperly based on the FDIC's decision to recognize losses on intercompany transactions with other insolvent banks within the system. But the Court affirmed that, under the National Bank Act, the FDIC is required only to pay creditors the amount they would have received if the institution were liquidated and that the agency may selectively provide additional assistance to particular classes of creditors, such as depositors.

- **FDIC v. Canfield**
In February, the Tenth Circuit Court of Appeals overturned a lower court ruling and held that the FDIC's claims against directors and officers of failed institutions are not limited to gross negligence. The decision recognizes that the FDIC can sue under state law for violations of simple negligence, which are easier to prove than violations of gross negligence. In June, the Tenth Circuit voting as a whole affirmed the decision of the three-judge panel that ruled in February.

- **Marquis v. FDIC**
In May, the First Circuit Court of Appeals (Boston, Massachusetts) held that all litigation against a bank that later fails and is put into receivership must be filed as a receivership claim

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with the FDIC as receiver. The Court said that such pre-closing litigation should be put on hold until the receivership claims process is completed and that failure to file with the receiver would result in the case being dismissed. The ruling will assist the FDIC in winding up the affairs of a failed bank because all claims on the institutions's assets will be handled through the receivership claims process, thereby eliminating overlap or contradictions in the courts. If the receivership claims process does not resolve a claim, the interested party still can pursue the original litigation that was stayed by the court.

- **Telematics v. NEMLC Leasing Corp.**
In June, the First Circuit Court of Appeals acknowledged the statutory limits on a court's authority to enjoin actions of the FDIC as receiver by denying a request to prohibit the FDIC from collecting on a certificate of deposit collateralizing a defaulted lease. The Court also noted that FIRREA's administrative claims process provides a remedy for the claimants.

- **Lawson v. FDIC**
In November, the U.S. District Court in Bangor, Maine, dismissed the first case challenging the FDIC's authority to sell a failed bank's deposits and allow the acquiring bank to reduce interest rates paid on those deposits. The Court held that the FDIC's purchase-and-assumption (P&A) agreement with the acquiring bank fully discharged the FDIC's insurance obligation and did not pass on the failed bank's interest rate commitments to the acquiring bank. ❖

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Economic and Policy Research

Compiling the facts and figures on the issues facing the FDIC

The FDIC conducts economic analyses, policy research and numerous other studies to enhance its ability to supervise banks and to protect the deposit insurance funds.

Much of the activity during 1992 involved research required to implement provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). This included formalizing a schedule to recapitalize the Bank Insurance Fund (BIF), planning for higher insurance premiums for institutions that pose greater risks to the funds, and considering ways to reduce the regulatory burden on institutions.

The Insurance Funds

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires the FDIC to rebuild the reserves of the BIF and the Savings Association Insurance Fund (SAIF) to $1.25 for every $100 of insured deposits. FDICIA in 1991 expanded on that mandate for the Bank Insurance Fund by requiring the FDIC to establish a schedule specifying semi-annual target ratios to achieve the designated reserve ratio within 15 years (no similar schedule is required for the SAIF until 1998). FDICIA also requires the FDIC to set deposit insurance assessment rates in accordance with this schedule.

On September 15th, the FDIC Board of Directors adopted a risk-related premium system, effective January 1, 1993. The Division of Research and Statistics (DRS) worked closely with the Division of Supervision (DOS), the Legal Division, the former Division of Accounting and Corporate Services (DACS) and other sections of the FDIC in developing the risk-related premium system.

A DRS preliminary estimate indicated that deposit insurance premiums for about 75 percent of the 12,000 insured commercial banks and savings banks (with about 51 percent of the deposit base) and 60 percent

Geof Wade

Staff from a cross-section of the FDIC helped develop the new risk-related premium system. Preparing various presentations for a planning session were (standing l-r) Martha L. Coulter of the Legal Division, Joseph R. Bauer of the Division of Supervision, and George E. French of the Division of Research and Statistics.

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of the 2,300 insured thrifts (about 43 percent of the deposit base) would remain at their current level — 23 cents per $100 of domestic deposits.

(For additional information on the risk-related premium system, see the Supervision chapter.)

The FDIC Board in September also adopted a BIF recapitalization schedule to bring the fund's reserves to the designated ratio by the end of the year 2006.

The recapitalization schedule incorporates projections for future losses from bank failures and asset and deposit growth in the banking industry. The FDIC will monitor economic and industry conditions regularly to determine if an adjustment to the recapitalization schedule or to the range of premium assessment rates is warranted.

The FDIC, primarily through DRS, DOS and the former DACS, also has conducted considerable research on the financial condition of the SAIF. That fund will assume responsibility from the Resolution Trust Corporation (RTC) for resolving thrift institutions that fail beginning October 1, 1993. Since 1989, the FDIC has used all assessment revenue from SAIF-insured institutions — with the exception of certain assessment revenue from SAIF-insured thrift deposits acquired by BIF-insured banks — to cover costs associated with thrifts that failed before the creation of the RTC in 1989 and for which the FDIC, through the FSLIC Resolution Fund, is responsible. Also, certain assessment revenues were used to fund the RTC initially through the Resolution Funding Corporation.

The SAIF's exposure to insurance losses is difficult to predict, due to the uncertainties of long-term projections for thrift failures and congressional funding for the RTC's caseload through September 30, 1993. Although FIRREA authorizes Treasury funds to supplement the SAIF, no such appropriations were approved by the Treasury for the SAIF's fiscal year 1993 budget. As a result, the SAIF is expected to begin fiscal year 1994 with a minimal fund balance.

(See Notes to the Financial Statements of the SAIF for additional information.)

Deposit Insurance Coverage
FDICIA requires the FDIC to study the rules that base deposit insurance coverage on the "rights and capacities" in which deposit accounts are owned. In general, under existing rules all deposits maintained in the same right and capacity (i.e., owned in the same manner) in one insured institution are added together and protected up to $100,000 in the aggregate. Deposits maintained in different certain categories of ownership are insured separately. For example, individual accounts are insured to $100,000 separately from joint accounts. The DRS staff, working with the Legal Division, the Office of Consumer Affairs and other FDIC sections, conducted the study, which included an analysis of public comments. A staff report, completed in late 1992, found that several potential benefits might result from simplifying the insurance rules but that further study is required.

In September, the FDIC reported to Congress the findings and recommendations of another study mandated by the FDICIA on the feasibility of authorizing insured depository institutions to offer both insured and uninsured

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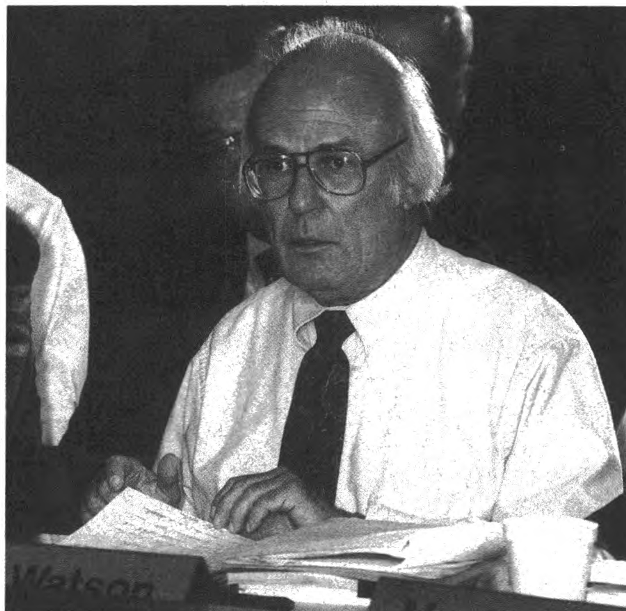

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William R. Watson, Director of the Division of Research and Statistics, briefs the FDIC Board on the implications of the proposed risk-related premium system moments before the September 15th vote implementing the program.

deposit accounts. The purpose of a "two-window" system is to allow banking organizations to compete in "nonbank" activities, such as securities brokerage and insurance sales, without exposing the deposit insurance funds to undue risk. The study concluded that insufficient time has elapsed to determine the effectiveness of the insurance reforms mandated by FDICIA — primarily risk-related premiums and the "prompt corrective action" requirements. Therefore, according to the study, it would be inappropriate to make significant changes in bank powers at this time.

FDICIA also requires the agency to study the cost and feasibility of developing a system that would track the insured and uninsured deposits of any person across all insured institutions. Such a system could be used to analyze the exposure of the federal government with respect to all insured institutions. Initial work on the study was begun in 1992.

Regulatory Burden

The FDIC devoted considerable time during 1992 to evaluating existing regulations and programs to find and eliminate unnecessary burdens and related costs to the banking industry or others.

These efforts included a 90-day review of the regulatory burden, which was requested of all federal regulatory agencies by President Bush. In connection with this review, the FDIC issued a notice in March seeking public comment and suggestions to help identify and accelerate initiatives that could eliminate unnecessary burdens. More than 420 written responses were received, indicating a high level of frustration with regulatory burden, particularly among small and rural banks. A special committee of senior FDIC staff from DOS, the Legal Division and other areas of the agency,

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under the direction of then-Vice Chairman Andrew C. Hove, Jr., made 13 key recommendations for relieving regulatory burden. The findings were forwarded to President Bush. Several of the recommendations have been implemented already by the FDIC, including an increase to $100,000 from $50,000 in the size of real estate transactions that trigger certain appraisal requirements.

This FDIC study was followed by a more comprehensive interagency analysis mandated by FDICIA. The Federal Financial Institutions Examination Council (FFIEC) formed a task force consisting of representatives from the four federal bank and thrift regulatory agencies and the Treasury Department to conduct an extensive review of policies, procedures, recordkeeping and documents required of an institution. The FFIEC also solicited public comment and held hearings.

The resulting FFIEC study, which was sent to Congress in December 1992, agreed that the regulatory burden on the banking system is large and growing. It identified a number of specific areas where burdens could be lessened, including the possible elimination of certain routine applications, reductions in outside audit requirements and a reassessment of consumer law enforcement efforts to ensure that performance, not documentation, is the aim. Most of the suggested changes in the FFIEC report would require congressional action before they could be implemented by the agencies.

Real Estate Studies

DRS conducts continuing analyses of commercial and residential real estate markets. This research is tailored to meet the needs of the FDIC supervision staff in monitoring real estate markets nationally and locally, and of the liquidation staff in selling assets from failed institutions in the most efficient way for the best value.

The *Survey of Real Estate Trends* presents the results of a quarterly survey of approximately 500 senior federal examiners and liquidators regarding the direction of real estate markets in their part of the country. This survey provides information before other data are available to guide examiners and policy makers. During 1992, the survey documented the recovery of real estate markets in the Southwest, the apparent stabilization of markets in the Northeast after a lengthy period of deterioration, and ongoing problems in many large California real estate markets.

A new quarterly report for field examiners providing thorough and consistent data on residential and commercial real estate in their local markets was launched in January. The *Real Estate Report* is a customized compilation of regional real estate statistics and summaries of real estate lending at banks in all regions of the country, with particular emphasis on emerging problems.

Another DRS study, undertaken in connection with the development of new interagency rules governing prudent real estate lending, analyzed declining values of collateral backing commercial real estate loans that the FDIC has acquired in bank failures. The study concluded that prudent loan-to-value ratios are justified because past underwriting practices exposed the Bank Insurance Fund to severe losses.

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Other Research Activities

Other economic and policy research conducted by the FDIC in 1992 included the following:

- A study of the implications of transferring to the deposit insurance funds the earnings on non-interest-bearing "sterile" reserves that depository institutions must hold at Federal Reserve Banks. The study was mandated by FDICIA and was prepared along with the Federal Reserve, the Comptroller of the Currency, the Office of Thrift Supervision and the National Credit Union Administration. It recommended that, if interest is to be paid, it should go to the institutions and not to the insurance funds.

- A review mandated by FDICIA to determine whether sales or underwriting of savings bank life insurance by savings banks in Massachusetts, Connecticut and New York — existing activities not permitted for other depository institutions — pose any significant risks to the Bank Insurance Fund. FDIC recommendations and suggestions will be completed in 1993.

- A joint effort between the FDIC and the other regulatory agencies to decide whether foreign banks operating in the United States should be required to conduct banking operations through subsidiaries rather than branches. The study, which was sent to Congress in December, concluded that foreign banks should retain flexibility to operate through a subsidiary or a branch and that the availability of credit might diminish if foreign banks were required to operate through subsidiaries. It also concluded that U.S. banks operating abroad might be required to operate under similar restrictions if the American government imposes this condition on foreign banks operating here.

- In 1992, DRS completed work on national statistics on insured banks from 1934 — the year the FDIC began operations — through 1991, as well as state-by-state data from 1984 through 1991 for BIF-insured commercial banks and savings banks. The first edition of the *Historical Statistics on Banking* was published in early 1993.

- *FDIC Banking Review,* which features the results of independent research projects conducted by FDIC staff, included articles in 1992 concerning the DRS model for measuring the losses on assets acquired from failed banks, the impact of failed bank acquisitions on acquirers' performance, the financial condition of the BIF, and implications of the statutory "cost test" in handling bank failures. ❖

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Keeping pace with the changing needs of the financial system and the public

Consumer Relations

The FDIC's Office of Consumer Affairs (OCA) provides 24-hour, seven-day assistance via a toll-free "hotline" (1-800-934-3342 or 202-898-3536). More than 101,000 consumers, bankers and other callers sought help from OCA staff in Washington and from OCA and Division of Supervision (DOS) personnel in the eight regional supervision offices during 1992. The Washington and regional offices also received approximately 7,800 written inquiries and complaints in 1992. As in the past, the largest volume of calls and inquiries related to deposit insurance coverage.

As a result of the Division of Supervision's review of bank compliance with Truth-in-Lending Act requirements for accurate disclosures of interest rates and finance charges, 12,397 people received total reimbursements of $1,422,751 from 160 banks during the year.

Community outreach efforts continued to be the main focus of the OCA's eight regional Community Affairs Officers (CAOs), who met during the year with bankers, community and consumer groups, government officials and local citizens to provide information on matters such as the Community Reinvestment Act (CRA) and fair lending. CAOs provided reports to FDIC management on 23 Metropolitan Statistical Areas for use in evaluating local credit needs and how well financial institutions in those locations are meeting them.

The OCA and the former Division of Accounting and Corporate Services developed an interactive computer system that allows the FDIC staff nationwide to electronically edit and update fair lending data required under the Home Mortgage Disclosure Act (HMDA). The OCA began using an outside contractor to collect the HMDA data from reporting institutions. A total of 2,891 FDIC-supervised institutions that must file HMDA reports submitted data in 1992 for 867,000 mortgage applications and loans for 1991. The OCA also sponsored a two-day HMDA workshop for FDIC examiners that featured a discussion of the 1991 data and guidance on using HMDA data in the examination process.

The OCA assisted Federal Reserve Board staff who prepared rules to implement "truth-in-savings" provisions of the FDIC Improvement Act of 1991 (FDICIA), requiring depository institutions to disclose fees, interest rates and other deposit account terms to consumers. The OCA at year-end also was working with staff of the other financial institution regulatory agencies to implement other provisions of FDICIA that will give incentives to institutions to offer no-frills, low-cost "lifeline accounts" to low-income people and to lend in economically distressed areas.

Training

The FDIC's Office of Training and Educational Services (OTES) in 1992 began to develop a new curriculum for DOS examiners who specialize in monitoring institutions for compliance with consumer and civil rights laws. This new curriculum combines training from three perspectives: the commercial lender making credit decisions; the traditional DOS examiner reviewing bank records for safe and sound operations; and the compliance examiner monitoring for performance under the Community Reinvestment Act. Although compliance examiners do not perform safety and soundness reviews on the job, DOS officials believe

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these examiners can be better judges of a bank's CRA performance if they are well-trained in areas such as lending techniques and asset quality review.

As in previous years, OCA hosted one-day seminars for bankers on compliance issues and regulations in areas such as fair lending. OCA also co-sponsored with the Division of Supervision the FDIC's first National Compliance Training Conference for more than 200 FDIC employees who specialize in consumer compliance examinations or other community affairs and compliance programs.

The FDIC collaborated with the Federal Reserve Board and the regional Federal Reserve Banks in 1992 to design and implement a new joint training program in core subjects for examiners. By developing a curriculum together and sharing classes, the FDIC and the Federal Reserve expect to train new examiners in a more consistent and cost-effective manner.

A major revision of the FDIC's employee training policy was conducted by OTES to ensure that all employees have access to the training they need when they need it. The changes include decentralizing the approval process so that an employee's supervisor has more say over the training provided, and the opening up of the FDIC's work-related training courses to long-term but temporary employees.

Operations

To place certain key responsibilities of the agency under a more defined functional structure, a Division of Finance (DOF), a Division of Information Resources Management and an Office of Corporate Services (OCS) were created in 1992. These three new units replaced the Division of Accounting and

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An FDIC reorganization during 1992 created a Division of Information Resources Management under the direction of veteran FDIC staff member Carmen J. Sullivan. The new unit is coordinating the agency's computer operations and other means used to gather and analyze information.

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Corporate Services. Also, the responsibilities of the Office of Budget and Corporate Planning were folded into DOF.

The Office of Inspector General's audit activity during 1992 covered 1,591 liquidations and corporate functions, and identified over $55 million in cost recovery and savings to the FDIC. A total of 194 audit reports were issued to the Board of Directors, resulting in a wide range of recommendations to strengthen operations. Action by FDIC management in response to the audits has led to improvements in such areas as liquidation and legal activities, administrative systems, supervision and resolution processes, assistance transactions and data processing security.

The FDIC uses outside contractors to provide a variety of services to help the agency handle its large workload. In 1992, the FDIC shifted to the Office of Corporate Services the responsibility of contracting for asset management. This change centralizes all FDIC procurement and contracting, except for outside legal services, which is administered by the Legal Division. It also allows for uniform procedures and management controls. During the year, 5,424 contracts totaling more than $320.2 million were awarded by OCS to private companies for the support of administrative and liquidation activities, representing increases of 25 percent and 32 percent, respectively, over 1991. The Legal Division at year-end 1992 had 1,286 law firms under contract — primarily to assist with litigation from failed bank liquidations — and paid $153 million in fees and expenses during the year, down from $216 million in 1991. (For more information on the use of outside counsel, see the Legal Activities chapter.)

The FDIC actively pursues initiatives to increase the use of minority- and women-owned businesses as contractors for goods and services ranging from office supplies to outside legal services and the management of real estate acquired from failed banks. Efforts by the Office of Equal Opportunity (OEO), in conjunction with the Division of Liquidation, the Office of Corporate Services and other sections of the FDIC

B.J.Johnson

FDIC officials such as Mae Culp (seated left), Director of the Office of Equal Opportunity (OEO), promote awareness of the FDIC's use of minority- and women-owned businesses. Here she is joined by OEO, Division of Liquidation and Office of Corporate Services employees at the annual convention of the U.S. Hispanic Chamber of Commerce in Dallas in October.

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(not including the Legal Division's separate program for outside counsel), resulted in awarding 21 percent of the contracts and 17 percent of the fees during 1992 to minority- and women-owned businesses. As for the Legal Division's program, $13.6 million, or nine percent of all FDIC outside counsel fees and expenses, went to minority- and women-owned law firms in 1992. That is double the amount paid in 1991. By year-end, 28 percent of the law firms under contract to the FDIC were minority- or women-owned. (In terms of the FDIC's Legal Division, women or minorities accounted for 45 percent of the attorneys and 71 percent of the total Division staff.)

The Office of Corporate Services acquired and furnished 289,440 square feet in additional leased space for the FDIC's growing operations. By year-end, OCS was managing 1.7 million square feet of FDIC-owned office space and approximately 1.3 million square feet of rented space nationwide (the latter at an annual cost of $31 million). Also, OCS modified existing office space in Washington to house a child development center that opened in February 1993.

Public and Congressional Affairs

FDIC officials testified at more than 32 congressional hearings during 1992, on topics ranging from the implementation of FDICIA to the pursuit of claims against directors and officers of failed financial institutions. Congressional interest in FDICIA focused largely on the impact of the law on bank closings and the Bank Insurance Fund, such as the new "least-cost test" provision that during 1992 resulted in more uninsured depositors' sharing in the losses from failed institutions.

Noteworthy was the testimony of Acting Chairman Andrew C. Hove, Jr., on October 26th before the Senate Banking Committee, where he rejected suggestions that federal and state regulators were delaying action on troubled banks until after the November elections. This talk of a "December surprise" drew an unprecedented number of media inquiries to the FDIC's Office of Corporate Communications. The speculation also elicited significant interest from congressional members and staff, who contacted the Office of Legislative Affairs (OLA) to determine if there would be a large number of bank failures when the "prompt corrective action" law took effect on December 19th. Acting Chairman Hove told the Senate committee that low interest rates and improved capital levels, not politics, were delaying or reducing the number of bank failures from previous estimates. He stressed that the FDIC would carry out the congressional intent that, starting December 19th, inadequately capitalized banks would be dealt with before they become insolvent.

Responses to more than 3,000 written inquiries from members of Congress, many on behalf of constituents with questions or problems, were coordinated by the OLA. Apart from these written inquiries, the OLA met with members of Congress and their staffs to answer questions about such matters as increased deposit insurance premiums, risk-related premiums and the implementation of new consumer measures under FDICIA. The latter included the FDIC's new Affordable Housing Program, statutory requirements for uniform disclosures about savings account terms, and incentives for special deposit accounts for low-income individuals.

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Congressional offices, bankers, citizen groups and others continued to express concerns during 1992 about a "credit crunch" and its possible roots in bank supervisory and liquidation activities. Interest was particularly acute about credit availability problems in New England. FDIC officials participated in more than 300 meetings on the subject — including congressional hearings, briefings for Capitol Hill staff and town meetings around the country — to discuss credit availability issues and to clarify supervisory policies. FDIC officials also assisted lawmakers in developing proposals to address credit availability issues.

The Office of Corporate Communications opened a public Reading Room in the agency's headquarters in late 1992 to serve as a central repository for FDIC publications and for documents such as final orders of enforcement actions against banks, evaluations of performance under the Community Reinvestment Act, and letters from the public and others commenting on proposed regulations. (Comment letters

Number of Officials and Employees of the FDIC 1991-1992

	Total		Washington Office		Regional/ Field Offices	
	1992	1991	1992	1991	1992	1991
Executive Offices*	**217**	201	**197**	192	**20**	9
Division of Supervision	**3,996**	3,813	**168**	162	**3,828**	3,651
Division of Liquidation+	**6,427**	6,097	**66**	55	**6,361**	6,042
Legal Division	**2,077**	1,983	**458**	480	**1,619**	1,503
Division of Accounting and Corporate Services^	**1,518**	1,304	**830**	764	**688**	540
Division of Finance^	**0**	0	**0**	0	**0**	0
Division of Information Resources Management^	**2**	0	**1**	0	**1**	0
Division of Research and Statistics	**50**	46	**50**	46	**0**	0
Division of Resolutions	**330**	105	**67**	19	**263**	86
Office of Inspector General	**158**	140	**136**	118	**22**	22
Office of Personnel Management	**229**	247	**222**	242	**7**	5
Office of Equal Opportunity	**40**	36	**40**	36	**0**	0
Office of Corporate Services^	**0**	0	**0**	0	**0**	0
Subtotal	**15,044**	13,972	**2,242**	2,114	**12,802**	11,858
Resolution Trust Corporation+	**7,382**	8,614	**1,453**	1,237	**5,929**	7,377
Total	**22,426**	22,586	**3,695**	3,351	**18,731**	19,235

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

\+ The Division of Liquidation and Resolution Trust Corporation (RTC) totals include temporary employees assigned to field liquidations, most of whom were formerly employed by failed banks or savings associations.

^ In November 1992, the FDIC announced an internal reorganization that replaced the former Division of Accounting and Corporate Services with a Division of Finance (DOF), a Division of Information Resources Management, and an Office of Corporate Services. The responsibilities of the Office of Budget and Corporate Planning were folded into DOF. The reassignment of employees will be completed in 1993.

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in response to proposals issued before December 1992 remain on file in the Office of the Executive Secretary.)

FDIC Staff
Total employment nationwide for the FDIC and the RTC combined was 22,426 at year-end 1992, compared to 22,586 at the close of the previous year. Of these, the FDIC employed 15,044 at year-end 1992, compared to 13,972 at year-end 1991. Since May 1992, there has been a freeze on most permanent FDIC hiring and promotions in order to facilitate the orderly return of FDIC personnel assigned to the RTC. All FDIC career employees assigned to the RTC have the right to return to the agency at times determined by the RTC. (Most of the RTC work force is on temporary appointments.) During the year, 563 RTC-assigned permanent employees were returned to the FDIC, approximately 23 percent of the total to be returned. Of those 563, the FDIC's Division of Liquidation accounted for 57 percent of the placements; the Division of Resolutions for 20 percent; the Legal Division for 14 percent; and the rest joined other Divisions or Offices.

The Division of Supervision hired 405 financial institution examiner trainees during 1992, nearly all of them hired under the Outstanding Scholar Program that requires a college grade point average of at least 3.5 or a ranking in the top 10 percent of the class. DOS anticipates hiring another 300 examiner trainees in 1993. DOS field examiner staff in the safety and soundness area totaled approximately 3,000 at year-end 1992. Another 149 field examiners specialized in monitoring compliance with consumer and civil rights regulations. Their number increased by 41 during the year.

The FDIC's Office of Equal Opportunity administers an Affirmative Employment Program that in 1992 provided employment counseling to 1,313 minorities, women and disabled people who had expressed an interest in working for the Corporation. The program's referral system, which attempts to match applicants with FDIC job openings, played a role in the placement of 37 people in 1992. The OEO also participated in job training and recruitment efforts with the U.S. Department of Veterans Affairs (in a program for disabled veterans) and the Hispanic Association of Colleges and Universities (in a program for recent graduates).

For its various efforts to increase women and minority contracting and employment opportunities, OEO received national and regional recognition during 1992 from organizations that included the National Association of Real Estate Brokers, the National Association of Black Accountants and the San Antonio (Texas) Area Council of Hispanic Employment Program Managers. ❖

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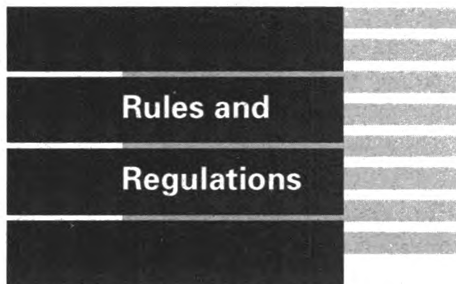

Implementing comprehensive statutory changes in the way institutions are supervised and insured

Final Rules

Prompt Corrective Action

The FDIC revised Parts 308 and 325 of its regulations to implement Section 131 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), which requires the banking regulators to take specified "prompt corrective action" when an insured institution's capital falls below certain levels. Section 131 of FDICIA restricts or prohibits certain activities and requires an insured institution to submit a capital restoration plan when it becomes undercapitalized. The restrictions and prohibitions become more severe as an institution's capital level declines, beginning with measures such as restrictions on dividends and management fees if the payments would result in the institution's becoming undercapitalized, and ultimately leading to the closing of institutions that are critically undercapitalized. The rule was effective December 19, 1992.

Approved: September 15, 1992

Published: *Federal Register*
September 29, 1992

Risk-Related Assessments

The FDIC amended Part 327 of its regulations to establish a transitional system for charging higher insurance rates to those banks and savings associations that pose greater risk to the deposit insurance funds. Under the final rule, a bank or thrift will pay within a range of 23 cents per $100 of domestic deposits (the previous rate for all institutions) to 31 cents per $100 of domestic deposits, depending on its risk classification. The new risk-related system is intended to provide a transition between the previous flat-rate system and the final risk-related premium system that Section 302(a) of FDICIA mandates be implemented no later than January 1, 1994.

To arrive at a risk-based assessment, the FDIC places each bank and thrift in one of nine risk categories using a two-step process. Each institution, based on its capital ratio, is assigned to one of three groups: well-capitalized, adequately capitalized or undercapitalized. Then, the FDIC assigns each institution to one of three subgroups — supervisory subgroups A, B or C — based on an evaluation of the risk posed by the institution.

The transitional risk-related assessment system was effective January 1, 1993. The respective assessment rate increases for affected members of the Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) initially apply to assessments for the first six months of 1993.

Approved: September 15, 1992

Published: *Federal Register*
October 1, 1992

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BIF Recapitalization Schedule
The FDIC revised Part 327 of its regulations to establish a schedule for recapitalizing the Bank Insurance Fund, effective January 1, 1993. The schedule is designed to raise the reserve ratio within 15 years to the level of 1.25 percent, or $1.25 in reserves for every $100 of insured deposits. Until the statutory reserve ratio of 1.25 percent is reached, any changes in the BIF assessment rate will be made in accordance with the recapitalization schedule.

Approved: September 15, 1992

Published: ***Federal Register*** **October 1, 1992**

Brokered Deposits
The FDIC amended Part 337 of its regulations to implement Section 301 of the FDICIA, which tightens restrictions on brokered deposits and interest rates first mandated by Congress in 1989. The rule defines key terms, sets the maximum allowable rates of interest payable by institutions that are not well-capitalized, requires brokers to register with the FDIC, and specifies the records required to be maintained by brokers. The rule took effect June 16, 1992.

Approved: May 29, 1992

Published: ***Federal Register*** **June 5, 1992**

Reports on Loans to Small Businesses, Small Farms
Section 122 of FDICIA mandates that the federal banking agencies adopt regulations requiring annual reports on loans to small businesses and small farms by insured depository institutions in their Reports of Condition. The FDIC revised Part 304 of its regulations to reflect the modification of two required reports that capture this information. The rule took effect July 6, 1992.

Approved: May 28, 1992

Published: ***Federal Register*** **June 5, 1992**

AP/Wide World Photos

Acting Chairman Hove (left) told the Senate Banking Committee on October 26th that predictions of a banking crisis, the so-called "December surprise," were unrealistic. Also testifying: Federal Reserve Board member John P. LaWare (center) and Acting Comptroller of the Currency Stephen R. Steinbrink.

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Real Estate Appraisals

The FDIC approved amendments to Part 323 of the agency's regulations governing real estate appraisals that will reduce the number of transactions requiring an appraisal by a certified or licensed appraiser, thereby reducing the costs to borrowers of loans at FDIC-supervised banks. Banks could determine on their own whether loans below the threshold would require an appraisal. Under rules adopted in 1990, real estate transactions of $50,000 or more were subject to documentation requirements and other provisions of the FDIC's appraisal regulations. After reviewing public comments, the FDIC Board voted to raise the threshold to $100,000. The Board agreed that, based in part on historical losses by banks, the costs of complying with the appraisal regulation for transactions between $50,000 and $100,000 would outweigh the likely reduction in loan losses. The Board also voted to exempt certain other transactions from the appraisal rules. The rule took effect March 16, 1992.

Approved: March 10, 1992

Published: *Federal Register*
March 16, 1992

Real Estate Lending Policies

The FDIC added a new Part 365 to its regulations, which requires banks and thrifts to develop written policies for prudent real estate lending that are appropriate for the size of the institution and the nature and scope of its operations. The regulation, which was required by Section 304 of the FDICIA, suggests maximum loan-to-value limits for various categories of loans under guidelines that institutions should consider when establishing real estate lending standards. Lending policies must include loan underwriting, documentation, approval and reporting standards, as well as portfolio diversification and administration requirements. The policies must be reviewed and approved at least annually by the institution's board of directors. The rule took effect March 19, 1993.

Approved: October 27, 1992

Published: *Federal Register*
December 31, 1992

Loans to Executive Officers

The FDIC adopted new limits on loans that state nonmember banks can make to their executive officers. The amendments to Part 337, which implement Section 306 of FDICIA, affect loans by a bank to its executive officers for purposes other than educational or home loans, such as other types of consumer loans and commercial and agricultural loans. The regulation makes loans to executives at state nonmember banks subject to the same limits as those that apply to officials at banks that are members of the Federal Reserve System. The rule took effect May 28, 1992.

Approved: April 21, 1992

Published: *Federal Register*
April 28, 1992

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"Oakar" Transactions

FDICIA permits BIF-member institutions to consolidate, merge with or acquire the assets or liabilities of SAIF-member institutions, and vice versa. These transactions are commonly referred to as "Oakar" transactions. The FDIC amended Part 303 of its regulations to establish a procedure for applying to the FDIC for approval of an Oakar transaction when the FDIC is the primary federal regulator of the acquiring, assuming or resulting institution. This change was required by Section 501 of FDICIA. The rule took effect February 18, 1992.

Approved: February 10, 1992

Published: *Federal Register* February 18, 1992

Equity Investments

The FDIC revised Parts 333 and 362 of its regulations to implement new statutory restrictions (Section 303 of FDICIA) on the ability of insured state-chartered banks to own corporate stock and mutual fund shares, and to have equity ownership in investments such as real estate development projects. FDICIA prohibits insured state-chartered banks from making equity investments of a type or amount not permitted for national banks, and requires divestiture of these investments by December 19, 1996. The law, however, provides a partial exception for stock and mutual fund ownership by an institution meeting certain conditions. A bank meeting those conditions and receiving FDIC approval to continue making such investments will be subject to an aggregate limit equal to the institution's capital. The rule took effect December 9, 1992.

Approved: October 27, 1992

Published: *Federal Register* November 9, 1992

Purchased Mortgage Servicing Rights

Purchased mortgage servicing rights are intangible assets that represent the acquired rights to service mortgages owned by others and to receive service fee income. Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the FDIC established limits on the amount of purchased mortgage servicing rights that savings associations could count toward regulatory capital. However, Section 475 of FDICIA provides that each appropriate federal banking agency can determine the amount of purchased mortgage servicing rights that may be recognized for capital purposes. As a result, the responsibility for limiting the purchased mortgage servicing rights of savings associations now rests with the Office of Thrift Supervision. Accordingly, the FDIC amended its capital regulations (Part 325) to delete any reference to purchased mortgage servicing rights of savings associations. The rule was adopted and made retroactive to February 18, 1992.

Approved: February 25, 1992

Published: *Federal Register* March 4, 1992

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Securities Disclosure

The FDIC revised Part 335 of its regulations pertaining to reporting requirements of bank ownership and securities transactions by officers, directors and principal shareholders of state nonmember banks. 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. The amendments took effect March 9, 1992.

Approved: January 28, 1992

Published: *Federal Register* February 7, 1992

Minority and Women Outreach Program

As required by FIRREA, the FDIC added a new Part 361 to its regulations establishing an outreach program to maximize the participation of minorities and women, and firms owned or controlled by minorities and women, in all contracts awarded by the FDIC for goods or services. The rule took effect May 26, 1992.

Approved: April 7, 1992

Published: *Federal Register* April 24, 1992

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Proposed Rules

Annual Independent Audits

A proposed new Part 363 would implement new statutory requirements for annual independent audits of insured institutions and other measures to facilitate the early identification of problems in financial management. FDICIA requires each insured institution with total assets over a threshold set by the FDIC to file with the agency annual financial statements audited by an independent public accountant. The accountant must review and attest to the effectiveness of the institution's internal controls and its compliance with safety and soundness regulations, using audit procedures agreed upon by the FDIC. The institution must notify the FDIC of any change in its outside accountant. The institution also will be required to establish and maintain an audit committee composed entirely of outside directors who must review the audit findings with management and the outside accountant. Audit committees of large institutions have more stringent requirements. Accountants also will be required to meet certain qualifications.

Proposed: September 1, 1992

Published: *Federal Register* September 15, 1992

Deposit Insurance Coverage

The FDIC issued a proposal to amend Part 330 of its regulations to implement changes in deposit insurance coverage mandated by FDICIA and to require insured institutions to inform customers of the new rules. Although the majority of the FDIC's deposit insurance regulations remain unchanged by FDICIA, the law altered coverage for certain pension and employee benefit plan accounts. Other provisions of FDICIA eliminate insurance coverage for "benefit-responsive" bank investment contracts, but expand coverage for "457 Plan" deposits to $100,000 per participant at both banks and savings associations, and eliminate separate insurance coverage for accounts held by an insured institution in a fiduciary capacity.

Proposed: October 13, 1992

Published: *Federal Register* October 29, 1992

Risk-Related Assessment System

The FDIC requested comment on what changes, if any, should be made in the transitional risk-related premium system adopted in September 1992 (see description under final rules). In particular, comment was sought on pricing changes that would better reward low-risk institutions and encourage weak institutions to improve. Although experience implementing the transitional system is limited, the FDIC asked for public comment on possible refinements. A final regulation must be issued by July 1, 1993, for changes to be put into effect January 1, 1994.

Proposed: December 15, 1992

Published: *Federal Register* December 31, 1992

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Intangible Assets

Under current FDIC rules, all intangible assets (except for limited amounts of purchased mortgage servicing rights) are deducted from a bank's capital and assets in calculating capital requirements. Purchased mortgage servicing rights may be recognized up to 50 percent of the bank's core capital. An FDIC proposal would allow state nonmember banks to count toward capital requirements another type of intangible asset — limited amounts of purchased credit card relationships, which represent the rights to provide credit card services acquired from others. Both forms of intangible assets would be aggregated under the 50 percent maximum that now applies only to purchased mortgage servicing rights. In addition, purchased credit card relationships would be restricted to 25 percent of the bank's core capital. Any purchased mortgage servicing rights and purchased credit card relationships that exceed these limits, as well as disallowed intangible assets, would continue to be deducted when calculating an institution's core capital.

Proposed: March 24, 1992

Published: *Federal Register* April 1, 1992

Risk-Based Capital

Under the FDIC's risk-based capital framework, a bank's assets are assigned to one of four "risk weight" categories, ranging from zero for items with no or very low credit risk to the bank, to 100 percent, for those posing the highest credit risks. In general, the higher an asset's risk weight, the more capital a bank is expected to hold against the asset. Section 618(b) of the RTC Refinancing, Restructuring and Improvement Act of 1991 requires the federal banking agencies to reduce to 50 percent from the current 100 percent the risk weight for multifamily housing loans that meet certain prudential criteria and for securities collateralized by such loans. In order to implement this provision, the FDIC issued a proposal to amend its risk-based capital guidelines (Part 325) incorporating the statutory criteria as well as four additional criteria to ensure that only those multifamily housing loans that are expected to expose an institution to relatively low levels of credit risk receive a preferential 50 percent risk weight.

Proposed: March 24, 1992

Published: *Federal Register* April 1, 1992

Reports of Apparent Crimes

The FDIC, along with the other federal financial institution regulatory agencies, issued proposed changes in the requirements that insured banks and thrifts promptly report to the government instances of known, attempted or suspected crimes. One reason for the proposal is to more clearly define situations necessitating a report. Also, the agencies are implementing a new uniform criminal referral form. The form will ease compliance with the reporting requirements, enhance law enforcement agencies' ability to investigate and prosecute matters, and help develop and maintain a new interagency database.

Proposed: October 27, 1992

Published: *Federal Register* January 8, 1993

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Advance Notices Of Proposed Rulemaking

Safety and Soundness
Section 132 of FDICIA requires the federal bank regulatory agencies to prescribe certain safety and soundness standards for insured institutions and their holding companies in three main areas: (1) operations and management; 2) asset quality, earnings and stock valuation; and (3) excessive compensation. Final regulations must be issued no later than August 1, 1993, and be effective no later than December 1, 1993. Because of the range and complexity of these issues, the banking regulatory agencies jointly issued a request for responses from the public to more than 50 questions. The agencies at year-end were developing a proposed rule that will be issued for additional public comment.

Proposed: June 16, 1992

Published: ***Federal Register***
July 15, 1992

Interest Rate Risk and Other Types of Exposure
The federal bank regulatory agencies are required by Section 305 of FDICIA to revise risk-based capital standards to take adequate account of three types of risk: interest rate risk; concentration of credit risk; and the risks of nontraditional activities. The FDIC, in conjunction with the Federal Reserve Board and the Office of the Comptroller of the Currency, solicited comments on a concept to ensure that banks with high levels of interest rate risk have sufficient capital to cover their exposure. Interest rate risk exposure would be quantified using a system that determines the impact of interest rate changes on the economic value of a bank's capital. Institutions with interest rate risk exposure in excess of a threshold level would be required to hold capital proportional to that excess risk. The joint request also sought public comment about implementing other provisions of FDICIA that address risks from concentrations of credit and from nontraditional activities. The agencies at year-end were developing a proposed regulation.

Proposed: July 28, 1992

Published: ***Federal Register***
August 10, 1992

Deposit Insurance Study
Section 311 of FDICIA required the FDIC to conduct a one-year study of the rules that base insurance coverage on the "rights and capacities" in which deposit accounts are owned. In general, under existing rules all deposits maintained in the same right and capacity (i.e., owned in the same manner) in one insured institution are added together and protected up to $100,000 in the aggregate, while deposits in different categories of ownership are insured separately. The FDIC Board approved a request for public comment on how, if at all, the agency should revise the rules. After the review period, the FDIC may propose to revise the deposit insurance rules provided the change would protect small depositors, not unduly expand deposit insurance, and be consistent with the insurance provisions of the Federal Deposit Insurance Act.

Proposed: April 21, 1992

Published: ***Federal Register***
April 28, 1992 ❖

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Legislation Enacted

Regulatory relief granted to the industry in 1992

Regulatory Relief
While no major banking statutes were enacted by Congress in 1992, the lawmakers responded to complaints about burdensome banking regulations by relaxing a number of statutory requirements. The revisions were included in the Housing and Community Development Act of 1992 (P.L. 102-550), which served as the vehicle for banking legislation in the last days of the congressional session. The law included provisions that:

- Clarify that the federal bank regulatory agencies have the authority to set thresholds that exempt certain loans from statutory requirements for the use of certified or licensed appraisers.

- Authorize the Federal Reserve Board to issue regulations making exceptions, under certain circumstances, to the limits on loans to a bank's directors, executive officers and principal shareholders.

- Prohibit the FDIC from setting a specific range of compensation for officers, directors and employees of insured financial institutions. This change does not affect the Corporation's authority under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) to restrict compensation at undercapitalized institutions.

- Relieve lenders from a requirement in the Real Estate Settlement Procedures Act that they mail booklets on closing costs to all mortgage loan applicants. The revision states that the booklets need not be sent if the loan application is rejected within three days.

- Clarify that caps on the maximum interest rate that a lender can charge on an adjustable rate mortgage apply only to consumer loans and not to business loans.

- Delay by three months — from March 21, 1993, until June 21, 1993 — the effective date of regulations requiring institutions to disclose fees, interest rates and other deposit account terms under the Truth-in-Savings Act of 1991.

- Permit the Office of Thrift Supervision, under specified circumstances, to raise the percentage of a qualified savings association's investment in certain subsidiaries that can temporarily count as capital.

The Housing and Community Development Act contained numerous other provisions, including one that allows the FDIC to take control of a bank that has been convicted of money laundering.

Disaster Relief
Following the devastation caused by Hurricanes Andrew and Iniki in 1992, Congress passed the Depository Institutions Disaster Relief Act (P.L.102-485). This legislation is designed to facilitate the recovery in affected areas by waiving certain regulatory restrictions on financial institutions, consistent with concerns for the safety and soundness of the institutions.

Among its major provisions, the statute authorizes the federal bank regulatory agencies to waive property appraisal requirements for up to three years. It also permits one-year

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exceptions to the requirements of the Truth-in-Lending Act and the Expedited Funds Availability Act, if the costs of complying with those laws outweigh the public benefits.

The disaster relief law also addresses distortions in the capital ratios of financial institutions created by large, one-time deposits of insurance payments or government assistance payments to people living in the affected areas. In addition, the law authorizes banks to make investments in community development projects that might otherwise be prohibited under safety and soundness regulations.

Appropriations

Congress appropriated funds for specific activities of the FDIC in the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of 1993 (P.L. 102-389).

One such appropriation involved the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC). The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) provided that annual congressional appropriations will cover any shortfall in funds used to meet contractual obligations of the FSLIC. The 1989 law also made the FDIC responsible for administering all FSLIC obligations. Once FIRREA was enacted, the FDIC created the FSLIC Resolution Fund to cover these obligations. For fiscal year 1993, the FDIC asked for approximately $2.6 billion in appropriations for these obligations. Congress in 1992 approved the amount requested.

Funding also was provided to implement consumer legislation enacted in FDICIA regarding affordable housing, basic banking services for low-income individuals and lending in distressed areas.

FDICIA created an affordable housing program within the FDIC to facilitate the sale of failed bank assets to low- and moderate-income buyers, as well as non-profit housing organizations. Because donating or discounting these properties would reduce the amount of money the FDIC recovers for the Bank Insurance Fund and add to the federal deficit, the program is subject to annual congressional appropriations to cover its costs. For fiscal year 1993, Congress in 1992 provided $5 million to fund the first year of the program.

FDICIA also includes the Bank Enterprise Act, which features two new incentives for banks. One provides for reduced deposit insurance premiums for banks that provide certain low-cost, "basic banking" accounts to low-income individuals. The other provides for deposit insurance premium credits to banks doing certain types of community development lending in distressed communities. Bank Enterprise Act programs also are subject to congressional appropriations. Although Congress did not fund the actual programs in 1992, the lawmakers did appropriate $1 million for start-up costs in fiscal year 1993. ❖

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Federal Deposit Insurance Corporation

Bank Insurance Fund

Statements of Income and the Fund Balance (Deficit)

Dollars in Thousands	For the Year Ended December 31	
	1992	1991
Revenue		
Assessments earned (Note 12)	$ 5,587,806	$ 5,160,486
Interest on U.S. Treasury obligations	299,410	471,072
Revenue from corporate-owned assets	255,745	50,051
Other revenue	158,584	108,358
	6,301,545	**5,789,967**
Expenses and Losses		
Administrative expenses (Note 15)	360,793	284,147
Provision for insurance losses (Note 7)	(2,259,690)	15,476,192
Corporate-owned asset expenses	226,433	55,226
Interest and other insurance expenses (Note 13)	836,669	1,046,830
	(835,795)	**16,862,395**
Net Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	**7,137,340**	**(11,072,428)**
Cumulative effect of accounting change for certain postretirement benefits (Note 15)	209,973	-0-
Net Income (Loss)	**6,927,367**	**(11,072,428)**
Fund Balance (Deficit) - Beginning	**(7,027,942)**	**4,044,486**
Fund Balance (Deficit) - Ending	**$ (100,575)**	**$ (7,027,942)**

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

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Federal Deposit Insurance Corporation

Bank Insurance Fund

Statements of Financial Position

Dollars in Thousands	**December 31**	
	1992	**1991**
Assets		
Cash and cash equivalents (Note 3)	$ 3,592,629	$ 1,770,016
Investment in U.S. Treasury obligations, net (Note 4)	1,692,222	3,302,861
Accrued interest receivable on investments and other assets	105,690	163,986
Investment in corporate-owned assets, net (Note 5)	1,461,263	2,340,074
Net receivables from bank resolutions (Note 6)	27,823,964	18,674,760
Property and buildings (Note 8)	161,757	163,466
	34,837,525	**26,415,163**
Liabilities and the Fund Balance (Deficit)		
Accounts payable, accrued and other liabilities (Note 15)	408,394	83,835
Federal Financing Bank borrowings (Note 9)	10,232,977	10,745,964
Liabilities incurred from bank resolutions (Note 10)	13,495,571	6,106,324
Estimated Liabilities for: (Note 11)		
Unresolved cases	10,782,390	16,345,871
Litigation losses	18,768	161,111
Total Liabilities	**34,938,100**	**33,443,105**
Fund Balance (Deficit)	**(100,575)**	**(7,027,942)**
	$34,837,525	**$26,415,163**

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

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Federal Deposit Insurance Corporation

Bank Insurance Fund

Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1992	1991
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 5,586,547	$ 5,163,249
Interest on U.S. Treasury obligations	346,600	600,748
Recoveries from bank resolutions	9,657,301	7,649,667
Recoveries from corporate-owned assets	1,611,846	230,626
Miscellaneous receipts	161,785	39,005
Cash used for:		
Administrative expenses	(412,779)	(340,550)
Interest paid on liabilities incurred from bank resolutions	(520,669)	(259,294)
Disbursements for bank resolutions	(15,292,016)	(20,354,133)
Disbursements for corporate-owned assets	(405,767)	(2,548,063)
Miscellaneous disbursements	(47,608)	(8,288)
Net Cash Provided by (Used by) Operating Activities (Note 19)	**685,240**	**(9,827,033)**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity and sale of U.S. Treasury obligations	1,600,000	2,299,319
Gain on sale of U.S. Treasury obligations	-0-	3,806
Cash used for:		
Property and buildings	(1,652)	(20,916)
Net Cash Provided by Investing Activities	**1,598,348**	**2,282,209**
Cash Flows from Financing Activities		
Cash provided from:		
Federal Financing Bank borrowings	4,540,000	10,607,000
Cash used for:		
Payments of indebtedness incurred from bank resolutions	(1,021)	(2,414,339)
Repayments of Federal Financing Bank borrowings	(4,999,954)	-0-
Net Cash Provided by (Used by) Financing Activities	**(460,975)**	**8,192,661**
Net Increase in Cash and Cash Equivalents	**1,822,613**	**647,837**
Cash and Cash Equivalents - Beginning	**1,770,016**	**1,122,179**
Cash and Cash Equivalents - Ending	**$ 3,592,629**	**$ 1,770,016**

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

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Notes to Financial Statements
Bank Insurance Fund
December 31, 1992 and 1991

1. Legislative History and Reform

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

The Omnibus Budget Reconciliation Act of 1990 (1990 Act) removed caps on assessment rate increases and allowed for semiannual rate increases. In addition, this Act permitted the FDIC, on behalf of the BIF and the SAIF, to borrow from the Federal Financing Bank (FFB) under terms and conditions determined by the FFB.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (1991 Act) was enacted to further strengthen the insurance funds administered by the FDIC. The FDIC's authority to borrow from the U.S. Treasury, on behalf of the BIF and the SAIF, to cover insurance losses was increased from $5 billion to $30 billion. However, the FDIC cannot incur any additional obligation for the BIF or the SAIF if incurring the obligation would result in the amount of total obligations in the respective Fund exceeding the sum of: 1) its cash and cash equivalents; 2) the amount equal to 90 percent of the fair-market value of its other assets; and 3) the total amount authorized to be borrowed from the U.S. Treasury (excluding FFB borrowings). In 1992, for purposes of calculating the maximum obligation limitation, the FDIC allocated the total authorized borrowings of $30 billion to the BIF.

The 1991 Act requires that the FDIC repay U.S. Treasury borrowings under the $30 billion authorization from assessment revenues. The FDIC must provide the U.S. Treasury with a repayment schedule demonstrating that assessment revenues are adequate to make payment when due. In addition, the FDIC has the

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authority to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available for these payments.

Other provisions of the 1991 Act require the FDIC to: 1) implement capital standards and regulatory controls designed to strengthen the banking industry; 2) implement a risk-based assessment system; 3) limit insurance coverage for uninsured liabilities; 4) resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds; and 5) provide a schedule for bringing the reserves in the insurance funds to 1.25 percent of insured deposits.

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

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

2. Summary of Significant Accounting Policies

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

U.S. Treasury Obligations
Securities are intended to be held to maturity and are shown at book value, which is the purchase price of securities less the amortized

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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 calculated on a daily basis and recorded monthly using the constant yield method.

Allowance for Losses on Receivables from Bank Resolutions and Investment in Corporate-Owned Assets

The BIF records as receivable the amounts advanced for assisting and closing banks. The BIF also records as an asset the amounts advanced for investment in corporate-owned assets. Any related allowance for loss represents the difference between the funds advanced and the expected repayment. The latter is based on the estimated cash recoveries from the assets of assisted or failed banks, net of all estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in assistance agreements (the proceeds of which are deferred pending final settlement of the assistance transaction).

Escrowed Funds from Resolution Transactions

In various resolution transactions, the BIF pays the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considers the amount of the deduction for assets purchased to be funds held on behalf of the receivership. The funds will remain in escrow and accrue interest until such time as the receivership uses the funds to: 1) repurchase assets under asset put options; 2) pay preferred and secured claims; 3) pay receivership expenses; or 4) pay dividends.

Litigation Losses

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

Receivership Administration

The BIF is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable

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laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Indirect liquidation expenses incurred by the BIF on behalf of the receiverships are recovered from them through a cost recovery process.

Cost Allocations Among Funds

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

Postretirement Benefits Other Than Pensions

Effective January 1, 1992, the FDIC implemented the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." This new standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This is a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis). In adopting the accounting provisions of the new standard, the BIF will provide the accounting and administration of this liability on behalf of the SAIF, the FRF and the Resolution Trust Corporation (RTC).

Depreciation

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

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

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

Reclassifications
Reclassifications have been made in the 1991 Financial Statements to conform to the presentation used in 1992.

3. Cash and Cash Equivalents

The BIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. In 1992, cash restrictions included $12.4 million for health insurance payable and $842 thousand for funds held in trust. In 1991, cash restrictions included $8.2 million for health insurance payable and $1.1 million for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31	
	1992	**1991**
Cash	$ 71,859	$ 299,311
One-day special Treasury certificates	3,520,770	1,470,705
	$3,592,629	**$1,770,016**

4. U.S. Treasury Obligations

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

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U.S. Treasury Obligations

December 31, 1992

Dollars in Thousands

Maturity	Description	Yield to Maturity at Market	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Bills, Notes & Bonds	2.98%	$1,692,222	$1,729,233	$1,700,000

December 31, 1991

Dollars in Thousands

Maturity	Description	Yield to Maturity at Market	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Bills, Notes & Bonds	4.07%	$1,619,709	$1,647,748	$1,600,000
1-3 years	U.S. Treasury Notes & Bonds	4.52%	1,683,152	1,765,410	1,700,000
			$3,302,861	$3,413,158	$3,300,000

In 1992, the accreted discount, net of amortized premium, was $10.6 million. In 1991, the amortized premium, net of accreted discount, was $47 million.

5. Investment in Corporate-Owned Assets, Net

The BIF acquires assets in certain failing and failed bank cases by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF also can purchase assets remaining in a receivership to facilitate termination. The vast majority of corporate-owned assets are real estate and mortgage loans. The BIF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

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Investment in Corporate-Owned Assets, Net

Dollars in Thousands	**December 31**	
	1992	**1991**
Investment in corporate-owned assets	$1,886,720	$2,999,141
Allowance for losses (Note 7)	(425,457)	(659,067)
	$1,461,263	**$2,340,074**

6. Net Receivables from Bank Resolutions

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

In an effort to maximize the return from the sale or disposition of assets and to minimize realized losses from bank resolutions, the FDIC, as receiver for failed banks, engages in a variety of strategies to dispose of assets held by the banks at time of failure. A failed bank acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit and risk related to such assets. In certain cases, the receiver offers a period of time during which an acquirer can sell assets back to the receivership at a specified value (i.e., an asset "putback" option).

Alternately, the receiver can enter into a loss-sharing arrangement with an acquirer whereby, for specified assets and in accordance with individual contract terms, the two parties share in credit losses and certain qualifying expenses. Typically, these arrangements direct that the receiver pay to the acquirer a specified percentage of the losses triggered by the charge-off of assets covered by the loss-sharing agreement terms. The receiver absorbs the majority of the losses incurred and shares in the acquirer's future recoveries of previously charged-off assets.

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Failed bank assets can also be retained by the receiver to either be managed and disposed of by in-house FDIC liquidation staff or managed and liquidated by private-sector servicers with oversight from the FDIC through administration of asset servicing contracts.

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

As of December 31, 1992 and 1991, the BIF, in its receivership capacity, held assets with a book value of $51.3 billion and $39 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $16.3 billion) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions affecting real estate assets now in the marketplace. These factors could reduce the claimants' actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

Receivables from operating banks include amounts outstanding to qualified institutions under the Capital Instrument Program. This program, which was established at the FDIC by authorization of the Garn-St Germain Depository Institutions Act of 1982, was extended through October 13, 1991, by the Competitive Equality Banking Act of 1987 (authority for this program has not been extended). Under this program, the BIF purchased a qualified institution's capital instrument, such as Net Worth Certificates and Income Capital Certificates (ICCs). The BIF issued, in a non-cash exchange, its non-negotiable promissory note of equal value. In 1992, Dollar Dry Dock Bank, White Plains, NY, was closed by its chartering authority and the outstanding ICC of $25 million was subsequently transferred from an operating bank to a closed bank receivable. In addition, the remaining receivable balance of $49 million was paid in full. The total outstanding capital instruments as of December 31, 1992 and 1991, were $25 million and $74 million, respectively.

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Net Receivables from Bank Resolutions

Dollars in Thousands	December 31	
	1992	1991
Receivables from Operating Banks:		
Operating banks	$ 2,703,305	$ 1,361,054
Capital instruments	-0-	73,500
Notes receivable	164,500	181,500
Accrued interest receivable	3,167	6,876
Allowance for losses (Note 7)	(2,203,158)	(1,198,946)
	667,814	**423,984**
Receivables from Closed Banks:		
Loans and related assets	1,628,857	1,654,632
Resolution transactions	49,277,763	38,737,855
Capital instruments	25,000	-0-
Depositors' claims unpaid	24,983	10,765
Deferred settlements (a)	(403,901)	(403,901)
Allowance for losses (Note 7)	(23,396,552)	(21,748,575)
	27,156,150	**18,250,776**
	$ 27,823,964	**$ 18,674,760**

(a) Proceeds from the sale of equity investments related to the Continental Bank, Chicago, IL, agreement, September 26, 1984, have been deferred pending final termination.

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

The Provision for insurance losses includes the estimated losses for bank resolutions occurring during the year for which an estimated loss had not been previously established. It also includes loss adjustments for bank resolutions that occurred in prior periods.

Transfers consist of bank resolutions that occurred during the year for which an estimated cost had already been recognized in a previous period. Terminations represent any final adjustments to the

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estimated cost figures for those bank resolutions that have been completed and for which the operations of the receivership have ended.

Analysis of Changes in Allowance for Losses and Estimated Liabilities

1992

Dollars in Millions

	Beginning Balance 01/01/92	Provision for Insurance Losses			Net Cash Payments	Transfers/ Terminations	Ending Balance 12/31/92
		Current Year	Prior Year	Total			
Allowance for Losses:							
Operating banks	$ 1,199	$ (100)	$ (31)	$ (131)	$ 24	$ 1,111	$ 2,203
Corporate-owned assets	659	-0-	(223)	(223)	-0-	(11)	425
Closed banks	21,749	(2,711)	(1,504)	(4,215)	-0-	5,863	23,397
Total	**23,607**	**(2,811)**	**(1,758)**	**(4,569)**	**24**	**6,963**	**26,025**
Estimated Liabilities for:							
Assistance agreements	298	1	494	495	(587)	2	208
Litigation losses	161	-0-	(142)	(142)	-0-	-0-	19
Total	**459**	**1**	**352**	**353**	**(587)**	**2**	**227**
Total Allowance/Estimated Liabilities Failed Banks	**24,066**	**(2,810)**	**(1,406)**	**(4,216)**	**(563)**	**6,965**	**26,252**
Estimated Liabilities for:							
Unresolved cases	**16,346**	**5,634**	**(3,678)**	**1,956**	**-0-**	**(7,520)**	**10,782**
Total		**$2,824**	**$(5,084)**	**$(2,260)**			

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1991							
Dollars in Millions							
	Beginning Balance 01/01/91	**Provision for Insurance Losses** Current Year	Prior Year	Total	**Net Cash Payments**	**Transfers/ Terminations**	**Ending Balance 12/31/91**
Allowance for Losses:							
Operating banks	$ 1,207	$ 1	$ 130	$ 131	$ (7)	$ (132)	$ 1,199
Corporate-owned assets	407	-0-	258	258	-0-	(6)	659
Closed banks	16,187	747	(978)	(231)	-0-	5,793	21,749
Total	**17,801**	**748**	**(590)**	**158**	**(7)**	**5,655**	**23,607**
Estimated Liabilities for:							
Assistance agreements	916	(132)	14	(118)	(1,102)	602	298
Litigation losses	152	-0-	9	9	-0-	-0-	161
Total	**1,068**	**(132)**	**23**	**(109)**	**(1,102)**	**602**	**459**
Total Allowance/Estimated Liabilities Failed Banks	**18,869**	**616**	**(567)**	**49**	**(1,109)**	**6,257**	**24,066**
Estimated Liabilities for:							
Unresolved cases	**7,685**	**15,427**	**-0-**	**15,427**	**-0-**	**(6,766)**	**16,346**
Total		**$16,043**	**$(567)**	**$15,476**			

8. Property and Buildings

Property and Buildings		
Dollars in Thousands	**December 31**	
	1992	**1991**
Land	$ 29,631	$ 29,631
Office buildings	151,442	149,790
Accumulated depreciation	(19,316)	(15,955)
	$161,757	**$163,466**

The 1992 increase of $1.7 million for office buildings represents disbursements for completion of the L. William Seidman Center.

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9. Federal Financing Bank (FFB) Borrowings

The FDIC was authorized to borrow from the FFB under the 1990 Act. On January 8, 1991, the FDIC and the FFB entered into a Note Purchase Agreement which is renewable annually and permits the FDIC to borrow funds to meet its financing requirements. Funds borrowed will be repaid to the FFB through the liquidation of assets from failed institutions.

The Note Purchase Agreement provides for the rollover of amounts advanced, plus interest where necessary, on a quarterly basis. It also requires the submission of estimates for subsequent quarter financing needs. Interest is payable quarterly with rates based on the U.S. Treasury bill auction in effect during the quarter plus 12.5 basis points. The agreement also provides the FDIC with the option to repay, at any time, any or all of the principal and interest outstanding.

As of December 31, 1992 and 1991, FFB borrowings were $10.2 billion and $10.6 billion, respectively. Accrued interest was $73 million and $126 million, respectively. Consistent with the terms of the agreement, principal outstanding on January 4, 1993, was rolled over into a new borrowing. As renewed, the Note Purchase Agreement provides for additional borrowing up to a ceiling of $20 billion. The interest rates during 1992 ranged from 2.88 percent to 4.27 percent.

10. Liabilities Incurred from Bank Resolutions

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

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

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Liabilities Incurred from Bank Resolutions

Dollars in Thousands	December 31	
	1992	1991
Escrowed funds from resolution transactions	$12,870,125	$5,606,910
Funds due to bridge banks	376,156	-0-
Funds held in trust	842	1,084
Depositors' claims unpaid	24,983	10,765
Notes indebtedness	1,106	153,194
Estimated liabilities for assistance agreements (Note 7)	208,252	298,171
Accrued interest/other liabilities	14,107	36,200
	$13,495,571	**$6,106,324**

Maturities of Liabilities

Dollars in Thousands

1993	1994	1995	1996
$13,305,961	$16,589	$9,599	$163,422

11. Estimated Liabilities for:

Unresolved Cases

The BIF records as a contingent liability on its financial statements an estimated loss for its probable cost for banks that have not yet failed but the regulatory process has identified as either equity insolvent or in-substance equity insolvent or likely to become in-substance equity insolvent within the foreseeable future. This includes banks that were solvent at year-end, but which have adverse financial trends and, absent some favorable event (such as obtaining additional capital or a merger), will probably become equity deficient

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in the future. The FDIC relies on this finding regarding solvency as the determining factor in defining the existence of the "accountable event" that triggers loss recognition under generally accepted accounting principles.

As with any of its contingent liabilities, the FDIC cannot predict the timing of events with reasonable accuracy. These liabilities and a corresponding reduction in the Fund Balance are recognized in the period in which they are deemed probable and reasonably estimable. It should be noted, however, that future assessment revenues will be available to the BIF to recover some or all of these losses, and that their amounts have not been reflected as a reduction in the losses.

The estimated liabilities for unresolved cases as of December 31, 1992 and 1991, were $10.8 billion and $16.3 billion, respectively. The estimated costs for these probable bank failures are derived in part from estimates of recoveries from the sale of the assets of these banks. As such, they are subject to the same uncertainties as those affecting the BIF's net receivables from bank resolutions (see Note 6). This could understate the ultimate costs to the BIF from probable bank failures.

The FDIC estimates that banks with combined assets ranging from $70 billion to $85 billion could potentially fail in 1993 and 1994. The BIF's resolution costs of these institutions are estimated to range from $8.4 billion to $13.2 billion for 1993 and 1994, of which $10.8 billion has already been recognized as a loss. The greatest concentration of weak bank assets at year-end was in the Northeast region and in California; their condition has been eroded by poor regional economies and weak real estate markets. The further into the future projections of bank solvency are made, the greater the uncertainty of banks failing and the magnitude of the loss associated with those failures. The accuracy of these estimates will largely depend on future economic conditions, particularly in the real estate markets and the level of future interest rates.

Litigation Losses

The FDIC records as a contingent liability on the BIF's financial statements an estimated cost for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and

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estimable in amount. In addition to these losses, the FDIC's Legal Division has determined that estimated losses for unresolved legal cases as high as $404 million could be incurred.

12. Assessments

The 1990 Act authorizes the FDIC to set assessment rates for the BIF members semiannually, to be applied against a member's average assessment base. The assessment rate for all banks for calendar year 1992 was 0.230 percent (23 cents per $100 of domestic deposits). The 1991 Act authorizes the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that will charge higher rates to those banks that pose greater risks to the BIF. Under the new rule, beginning in January 1993, a bank will pay an assessment rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular bank, the FDIC will place each bank in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. For calendar year 1993, the FDIC estimates that banks will pay an average rate of about 25.4 cents per $100 domestic deposits.

The Board expects to review premium rates at least once every six months. The new rate structure is intended to provide a transition between the previous flat-rate system and the final risk-related premium system that the 1991 Act mandated be implemented no later than January 1, 1994.

The 1991 Act requires the FDIC to provide a recapitalization schedule, not to exceed 15 years, that outlines projected semiannual assessment rate increases and interim targeted reserve ratios until the designated reserve ratio of 1.25 percent of insured deposits is achieved. The schedule has been published in the *Federal Register*.

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13. Interest and Other Insurance Expenses

The BIF incurs interest expense on funds borrowed to finance its resolution activity. Other insurance expenses are incurred by the BIF as a result of payments to insured depositors in closed bank payoff activity and the administration of assistance transactions (including funding "bridge bank" operations).

Interest and Other Insurance Expenses

Dollars in Thousands	December 31	
	1992	1991
Interest Expense for:		
Notes payable	$ -0-	$ 12,282
Escrowed funds from resolution transactions	338,153	664,102
FFB borrowings	467,604	237,853
	805,757	**914,237**
Insurance Expense for:		
Resolution transactions	2,569	2,895
Assistance transactions	28,343	129,698
	30,912	**132,593**
	$836,669	**$1,046,830**

14. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan integrated with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in a federally sponsored tax-deferred savings plan available to provide additional retirement benefits. The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and a tax-deferred savings plan.

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Further, automatic and matching employer contributions are provided up to specified amounts under the FERS. Eligible employees may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The BIF pays the employer's portion of the related costs.

Although the BIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $29.8 million and $20.4 million at December 31, 1992 and 1991, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	December 31	
	1992	1991
Civil Service Retirement System	$ 7,804	$ 6,622
Federal Employee Retirement System (Basic Benefit)	23,484	15,667
FDIC Savings Plan	10,250	7,308
Federal Thrift Savings Plan	6,483	3,838
	$48,021	**$33,435**

15. Postretirement Benefit Plans Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retiree's beneficiaries and covered dependents. Eligible retirees are those who have elected the FDIC's health and/or life insurance program and are entitled to an immediate annuity. However, dental coverage is provided to all retirees regardless of the plan selected.

Health insurance coverage is a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical

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wraparound. Dental care is underwritten by Connecticut General Life Insurance Company. The life insurance program is underwritten by Metropolitan Life Insurance Company.

The FDIC contributes toward health insurance premiums at the same rate for both active and retired employees. The FDIC uses a "minimum premium funding arrangement" in which premiums are held in a restricted account. Medical claims and fixed costs are paid to Blue Cross/Blue Shield from this account on a monthly basis. Under this arrangement, the FDIC's liability exposure is limited in any one contract year. The life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans with Metropolitan Life Insurance Company. The dental insurance program provides coverage at no cost to retirees.

As part of adopting SFAS No. 106 (see Note 2), the FDIC elected to immediately recognize the accumulated postretirement benefit liability, measured as of January 1, 1992. The accumulated liability, known as the transition obligation, represents that portion of future retiree benefit costs related to service already rendered by both active and retired employees up to the date of adoption. The BIF recorded an expense of $210 million for this liability, which has been reflected in the Statements of Income and the Fund Balance (Deficit) as the cumulative effect of a change in accounting principle for periods prior to 1992. Additionally the BIF has recorded a receivable of $29 million due from the SAIF, the FRF and the RTC for their proportionate share of the total cost.

In addition to the cumulative effect, the BIF's expense for such benefits in 1992 was $29 million, included in the current year administrative expenses. In the absence of the accounting change, the BIF would have recognized postretirement benefits other than pensions of $2 million.

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Accumulated Postretirement Benefit Obligation by Participant

Dollars in Thousands	1992
Retirees	$ 67,637
Fully eligible active plan participants	12,159
Other active participants	202,586
	$282,382

The FDIC's net periodic postretirement benefit cost for 1992 consisted of: 1) a service cost that represents the benefits attributable to employee service during the year of $27.2 million and 2) an interest cost on the accumulated postretirement benefit obligation of $16.6 million.

The FDIC's transition obligation and net periodic postretirement benefit cost were $238.6 million and $43.8 million, respectively, as of December 31, 1992, and consisted of the following:

Transition Obligation and Net Periodic Postretirement Benefit Cost

Dollars in Thousands	Transition Obligation	Periodic Expense	Total
Funding from SAIF, FRF and RTC	$ 28,577	$14,825	$ 43,402
BIF	209,973	29,007	238,980
	$238,550	**$43,832**	**$282,382**

For measurement purposes, the FDIC assumed the following: 1) a discount rate of 7 percent; 2) an increase in health costs in 1992 of 16.5 percent, decreasing down to an ultimate rate in 1998 of 9 percent; and 3) an increase in dental costs for 1992 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

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If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1992, would have increased by 22.8 percent. The effect of this change on the aggregate of service and interest cost for 1992 would be an increase of 26.1 percent.

The accumulated liability is presented in the Statements of Financial Position - "Accounts payable, accrued and other liabilities." In the absence of the accounting change, this line item would have been $169 million.

16. Commitments

Leases

The BIF currently is sharing in the FDIC's lease space. The BIF's allocated share of lease commitments for office space totals $94.4 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The BIF recognized leased space expense of $40.7 million and $37.3 million for the years ended December 31, 1992 and 1991, respectively.

Leased Space Fees

Dollars in Thousands

1993	1994	1995	1996	1997
$37,032	$29,157	$18,078	$9,639	$471

Asset Putbacks

Upon resolution of a failed bank, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain assets may be "put back," or resold, to the receivership. The value at which the assets are put back and the time limit to put back assets are defined within each agreement. It is possible that the BIF could be called upon to fund the purchase of any or all of the "unexpired puts" at any time prior to expiration. The FDIC's estimate of the volume of assets that are subject to put under existing agreements is $2.3 billion (see Note 17). The total amount that will be repurchased and the losses resulting from these acquisitions is not reasonably estimable at December 31, 1992.

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17. Concentration of Credit Risk

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

Concentration of Credit Risk

Dollars in Millions

	December 31, 1992						
	South-east	**South-west**	**North-east**	**Mid-west**	**Central**	**West**	**Total**
Net receivables from bank resolutions	$1,855(a)	$6,170	$17,750	$ 919	$303	$648	$27,645
Corporate-owned assets, net	12	1,183	98	-0-	79	89	1,461
Asset putback agreements (off-balance sheet)	-0-	-0-	2,159	167	18	-0-	2,344(b)
Total	**$1,867**	**$7,353**	**$20,007**	**$1,086**	**$400**	**$737**	**$31,450**

(a) The net receivable excludes $179 million of the SAIF's allocated share of loss of maximum credit loss exposure from the Southeast Bank, N.A., Miami, FL resolution. There is no risk that the SAIF will not meet this obligation.

(b) See Note 16 Commitments - *Asset Putbacks*.

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Insured Deposits
As of December 31, 1992, the total is approximately $1.9 trillion. This would also be the accounting loss if all the depository institutions were to fail and if any assets acquired as a result of the resolution process provide no recovery.

18. Disclosures about the Fair Value of Financial Instruments

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

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

As stated in Note 11, the carrying amount of the estimated liability for unresolved cases is the total of estimated losses for banks that have not yet failed, but the regulatory process has identified as either equity insolvent or in-substance equity insolvent or likely to become equity insolvent in the foreseeable future. It does not consider discounted future cash flows because the FDIC cannot predict the timing of events with reasonable accuracy. For this reason, the FDIC considers the total estimate of these losses to be the best measure of their fair value.

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It was not practicable to estimate the fair value of net receivables from bank resolutions. These assets are unique, there is no established market and they are not intended for sale to the private sector. The FDIC believes that a sale to the private sector would require indeterminate, but substantial, discounts for financial profit and credit or other risks which would significantly increase the cost of bank resolutions to the FDIC. Further, comparisons with other financial instruments do not provide a reliable measure of their fair value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair value on a discounted cash flow basis. As shown in Note 6, the carrying amount is the original amount advanced net of the estimated allowance for losses, which is the estimated cash recovery value.

19. Supplementary Information Relating to the Statements of Cash Flows

For the year ending December 31, 1992, the BIF did not have non-cash financing activity. The non-cash financing activity for the year ending December 31, 1991, included: 1) a decrease in a note payable totaling $92 million when stock owned by the Corporation was repurchased and the proceeds applied to reduce the indebtedness and 2) an increase to FFB borrowings of $13 million when interest was added to outstanding principal.

As stated in the Summary of Significant Accounting Policies (see Note 2, *Escrowed Funds from Resolution Transactions*), the BIF pays the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considers the assets purchased portion of this transaction to be a non-cash adjustment. Accordingly, for the Statements of Cash Flows presentation, cash outflows for bank resolutions excludes $12.5 billion in 1992 and $4.9 billion in 1991 for assets purchased.

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Reconciliation of Net Income (Loss) to Net Cash Provided by (Used by) Operating Activities

Dollars in Thousands	**December 31**	
	1992	**1991**
Net Income (Loss)	$ 6,927,367	$(11,072,428)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used by) Operating Activities:		
Income Statement Items:		
Provision for insurance losses	(2,259,690)	15,476,192
Amortization of U.S. Treasury securities	10,638	47,042
Interest on Federal Financing Bank borrowings	(53,033)	126,010
Gain on sale of investment	-0-	(3,806)
Depreciation on buildings	3,361	2,667
Change in Assets and Liabilities:		
Decrease in accrued interest receivable on investments and other assets	62,652	191,671
Increase in receivables from bank resolutions	(12,580,132)	(13,149,415)
(Increase) decrease in corporate-owned assets, net	1,099,633	(2,381,880)
Increase (decrease) in accounts payable, accrued and other liabilities	326,014	(2,920)
Increase in liabilities from bank resolutions	7,148,430	939,834
Net Cash Provided by (Used by) Operating Activities	**$ 685,240**	**$ (9,827,033)**

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Financial Statements

Federal Deposit Insurance Corporation

Savings Association Insurance Fund

Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31	
	1992	**1991**
Revenue		
Assessments earned (Note 9)	$172,079	$93,530
Interest earned	6,544	2,908
Entrance fee revenue (Note 4)	9	8
Other revenue	11	-0-
	178,643	**96,446**
Expenses and Losses		
Administrative expenses	39,374	42,362
Provision for insurance losses (Note 10)	(14,945)	20,114
Interest expense	(5)	609
	24,424	**63,085**
Net Income Before Funding Transfer and Cumulative Effect of a Change in Accounting Principle	**154,219**	**33,361**
Cumulative effect of accounting change for certain postretirement benefits (Note 12)	(4,558)	-0-
Net Income Before Funding Transfer	**149,661**	**33,361**
Funding Transfer from the FSLIC Resolution Fund	35,446	42,362
Net Income	**185,107**	**75,723**
Fund Balance - Beginning	**93,920**	**18,197**
Fund Balance - Ending	**$279,027**	**$93,920**

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

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Federal Reserve Bank of St. Louis

Federal Deposit Insurance Corporation

Savings Association Insurance Fund

Statements of Financial Position

Dollars in Thousands	**December 31**	
	1992	**1991**
Assets		
Cash and cash equivalents, including restricted amounts of $93,571 for 1992 and $56,119 for 1991 (Note 3)	$341,151	$ 56,681
Entrance and exit fees receivable, net (Note 4)	84,896	91,015
Due from the FSLIC Resolution Fund (Note 5)	7,183	109,561
Other assets (Note 6)	37,886	7,507
	471,116	**264,764**
Liabilities and the Fund Balance		
Accounts payable, accrued and other liabilities (Note 7)	10,328	24,151
Estimated liability for unresolved cases (Note 8)	3,700	-0-
Total Liabilities	**14,028**	**24,151**
SAIF-Member Exit Fees and Investment Proceeds Held in Reserve (Note 4)	**178,061**	**146,693**
Fund Balance	**279,027**	**93,920**
	$471,116	**$264,764**

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

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Federal Deposit Insurance Corporation

Savings Association Insurance Fund

Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31	
	1992	1991
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$265,365	$ -0-
Interest	9,451	-0-
Entrance and exit fee collections (Note 4)	34,798	40,375
Administrative expenses funded by the FSLIC Resolution Fund	29,561	40,650
Interest on exit fee collections held in reserve	2,698	2,207
Cash used for:		
Administrative expenses	(36,685)	(43,086)
Disbursements for "Oakar" bank resolutions (Note 6)	(20,114)	-0-
Interest paid on liabilities incurred from "Oakar" bank resolutions (Note 6)	(604)	-0-
Net Cash Provided by Operating Activities (Note 16)	**284,470**	**40,146**
Cash and Cash Equivalents - Beginning	**56,681**	**16,535**
Cash and Cash Equivalents - Ending	**$341,151**	**$56,681**

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

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Notes to Financial Statements
Savings Association Insurance Fund
December 31, 1992 and 1991

1. Legislative History and Reform

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

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

The Resolution Funding Corporation (REFCORP) was established by the FIRREA to provide funds to the RTC for use in the thrift industry bailout. The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. However, effective December 12, 1991, as provided by the Resolution Trust Corporation Thrift Depositor Protection Reform Act of 1991, the FICO's authority to issue obligations as a means of financing for the FRF was terminated.

The Omnibus Budget Reconciliation Act of 1990 (1990 Act) removed caps on assessment rate increases and allowed for semiannual rate increases. In addition, this Act permitted the FDIC, on behalf of the BIF and the SAIF, to borrow from the Federal Financing Bank (FFB) on terms and conditions determined by the FFB.

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The Federal Deposit Insurance Corporation Improvement Act of 1991 (1991 Act) was enacted to further strengthen the insurance funds administered by the FDIC. The FDIC's authority to borrow from the U.S. Treasury, on behalf of the BIF and the SAIF, to cover insurance losses was increased from $5 billion to $30 billion. However, the FDIC cannot incur any additional obligation for the BIF or the SAIF if incurring the obligation would result in the amount of total obligations in the respective Fund exceeding the sum of: 1) its cash and cash equivalents; 2) the amount equal to 90 percent of the fair-market value of its other assets; and 3) the total amount authorized to be borrowed from the U.S. Treasury (excluding FFB borrowings). In 1992, for purposes of calculating the maximum obligation limitation, the FDIC allocated the total authorized borrowings of $30 billion to the BIF.

The 1991 Act requires that the FDIC repay U.S. Treasury borrowings under the $30 billion authorization from assessment revenues. The FDIC must provide the U.S. Treasury with a repayment schedule demonstrating that future assessment revenues are adequate to repay principal borrowed and pay interest due.

Operations of the SAIF

The primary purpose of the SAIF is to insure the deposits and to protect the depositors of insured thrifts. In this capacity, the SAIF currently has financial responsibility for: 1) all federally insured depository institutions that became members of the SAIF after August 8, 1989, for which the RTC does not have resolution authority and 2) all deposits insured by the SAIF that are held by BIF-member banks, so-called "Oakar" banks, created pursuant to the "Oakar amendment" provisions found in Section 5(d)(3) of the Federal Deposit Insurance Act. After September 30, 1993, the SAIF will assume financial responsibility for all SAIF-member depository institutions that had not previously been placed under the RTC's control. Any administrative facilities or supplies remaining upon the dissolution of the FRF will be transferred to the SAIF.

The "Oakar amendment" provisions referred to above allow, with approval of the appropriate federal regulatory authority, any insured depository institution to merge, consolidate or transfer the assets and liabilities of an acquired institution without changing insurance

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coverage for the acquired deposits. Such acquired deposits continue to be either SAIF-insured deposits and assessed at the SAIF assessment rate or BIF-insured deposits and assessed at the BIF assessment rate. In addition, any losses resulting from the failure of these institutions are to be allocated between the BIF and the SAIF based on the respective dollar amounts of the institution's BIF-insured and SAIF-insured deposits.

The SAIF is funded from the following sources: 1) reimbursement by the FRF of administrative and supervisory expenses incurred between August 9, 1989, and September 30, 1992 (these expenses have priority over other obligations of the FRF); 2) SAIF-member assessments from "Oakar" banks; 3) other SAIF assessments that are not required for the FICO, the REFCORP (see Note 2) or the FRF; 4) U.S. Treasury payments for the amount, if any, needed to supplement assessment revenue to reach a $2 billion level for each of the fiscal years 1993 through 2000 contingent upon appropriations to the U.S. Treasury for that purpose; 5) U.S. Treasury payments for any additional amounts that may be necessary to ensure that the SAIF has a statutory specified minimum net worth for each of the fiscal years 1992 through 2000 contingent upon appropriations to the U.S. Treasury for that purpose; 6) discretionary payments by the RTC; 7) Federal Home Loan Bank borrowings; and 8) U.S. Treasury and FFB borrowings.

2. Summary of Significant Accounting Policies

Assessment Revenue Recognition

The FICO and, through December 31, 1992, the FRF have priority over the SAIF for receiving and utilizing SAIF-member assessments to ensure availability of funds for specific operational activities. Accordingly, the SAIF recognizes as assessment revenue only that portion of SAIF-member assessments not required by the FICO or the FRF. The REFCORP was established by the FIRREA to provide funds to the RTC and was entitled to SAIF-member assessments not required by the FICO for the repayment of its long-term debt issuance. The REFCORP notified the FDIC on January 15, 1991, that they have no further plans to issue debt and will no longer require funds from the FRF. Assessments on SAIF-insured deposits held by "Oakar" banks are retained in the SAIF and, thus, are not subject to draws by the FICO or the FRF (see Notes 5 and 9).

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

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

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

Postretirement Benefits Other Than Pensions
Effective January 1, 1992, the FDIC implemented the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." This new standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This is a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis). In adopting the accounting provisions of the new standard, the FDIC has concluded that the SAIF will fund its yearly charge for these expenses but the BIF will provide the accounting and administration of this liability on behalf of the SAIF.

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

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Reclassifications

Reclassifications have been made in the 1991 Financial Statements to conform to the presentation used in 1992.

Restatement

The financial statements for 1991 were restated due to the correction of an error. The error occurred primarily in the allocation of assessment revenues from "Oakar" banks between the BIF and the SAIF. Assessment revenues for the SAIF were understated by $5.6 million in 1991 and $1.2 million in 1990. This restatement reflects an adjusted beginning fund balance for correction of the 1990 error.

3. Cash and Cash Equivalents

The SAIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. Substantially all the restricted cash and cash equivalent balances are comprised of the SAIF exit fees collected plus interest earned on exit fees. These funds may only be used to meet the SAIF's potential obligation to the FICO (see Note 4).

Cash and Cash Equivalents

Dollars in Thousands	December 31	
	1992	1991
Cash	$ 198	$ 491
One-day Special Treasury Certificates	340,953	56,190
	$341,151	**$56,681**

4. Entrance and Exit Fees Receivable, Net

The SAIF will receive entrance and exit fees for conversion transactions in which an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). Interim regulations approved by the FDIC's Board of Directors and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in a reserve account until the FDIC and the Secretary of the Treasury determine that it is no longer necessary to reserve such funds for the

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payment of interest on obligations previously issued by the FICO. The exit fee collections are invested in Treasury securities and are held in reserve pending determination of ownership. Interest received on these investments was $2.7 million and $2.2 million for 1992 and 1991, respectively.

The SAIF records entrance fees as revenue after the BIF-to-SAIF conversion transaction is consummated. However, due to the requirement that the SAIF exit fees be held in a reserve account, thereby restricting the SAIF's use of such proceeds, the SAIF does not recognize exit fees, nor any interest earned, as revenue. Instead, the SAIF recognizes the consummation of a SAIF-to-BIF conversion transaction by establishing a receivable from the institution and an identical reserve account to recognize the potential payment to the FICO. As exit fee proceeds are received, the receivable is reduced while the reserve remains pending the determination of funding requirements for interest payments on the FICO's obligations.

Within specified parameters, the interim regulations allow an acquiring institution to pay its entrance/exit fees interest free, in equal annual installments over a period of not more than five years. When an institution elects such a payment plan, the SAIF records the entrance or exit fee receivable at its present value. The discount rates (current value of funds) for 1992 and 1991 were 6 percent and 8 percent, respectively.

Entrance and Exit Fees Receivable, Net

Dollars in Thousands

	Beginning Balance 01/01/92	New Receivables	Collections	Net Change in Unamortized Discount	Ending Balance 12/31/92
Entrance fees	$ -0-	$ 9	$ (9)	$ -0-	$ -0-
Exit fees	91,015	26,163	(34,789)	2,507	84,896
	$91,015	**$26,172**	**$(34,798)**	**$2,507**	**$84,896**

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Entrance and Exit Fees Receivable, Net - Continued

Dollars in Thousands

	Beginning Balance 01/01/91	New Receivables	Collections	Net Change in Unamortized Discount	Ending Balance 12/31/91
Entrance fees	$ -0-	$ 8	$ (8)	$ -0-	$ -0-
Exit fees	49,384	87,985	(40,367)	(5,987)	91,015
	$49,384	**$87,993**	**$(40,375)**	**$(5,987)**	**$91,015**

5. Due from the FSLIC Resolution Fund

The FDIC's Legal Division rendered an opinion in March 1992 that assessments paid by "Oakar" banks on SAIF-insured deposits should be retained by the SAIF and that income recognition (by the SAIF) should be retroactive to the FIRREA's enactment date. As of December 31, 1991, the SAIF recorded a receivable from the FRF of $105 million for "Oakar" assessment revenue and $2.9 million in accumulated interest earned on the assessment proceeds while being held by the FRF.

The SAIF establishes an accounts receivable from the FRF for unfunded administrative expenses, including its share of SFAS No. 106 cost, required to be funded by the FRF through September 30, 1992.

Due from FSLIC Resolution Fund

Dollars in Thousands	December 31	
	1992	1991
Postretirement benefits other than pensions	$5,755	$ -0-
Administrative expenses	1,428	1,711
"Oakar" assessment revenue plus interest	-0-	107,850
	$7,183	**$109,561**

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6. Other Assets

On September 19, 1991, Southeast Bank, N.A., Miami, Florida, which held deposits insured by the BIF and the SAIF pursuant to the "Oakar Amendment" provisions (as explained in Note 1), was closed by its chartering authority. The BIF, which provided the funds and administers the resolution of Southeast Bank, N.A., initially estimated the loss for the failure of Southeast Bank, N.A., and its affiliate Southeast Bank of West Florida, Pensacola, Florida, at $178 million of which the SAIF has responsibility for $20 million (its allocated share of the estimated loss incurred). Accordingly, in 1991, the SAIF established a payable to the BIF for its estimated transaction cost. In 1992, the SAIF transferred $20 million plus $604 thousand in interest expense to the BIF. In late 1992, the BIF reduced its estimate of total resolution cost for this transaction from $178 million to $13 million. This will result in a refund to the SAIF of $18.6 million. Accordingly, the SAIF established a receivable from the BIF for the reduction in the estimated transaction cost. The BIF also owes the SAIF $18.4 million for assessment revenues as a result of the erroneous allocation of assessments from "Oakar" banks for the years 1990 through 1992 (see Note 2).

Other Assets

Dollars in Thousands	December 31	
	1992	1991
Accounts receivable	$ 802	$ 723
Due from the Bank Insurance Fund	37,084	6,784
	$37,886	$7,507

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7. Accounts Payable, Accrued and Other Liabilities

Accounts Payable, Accrued and Other Liabilities

Dollars in Thousands	**December 31**	
	1992	**1991**
Miscellaneous payables	$ 4,174	$ 3,428
Due to the Bank Insurance Fund	6,154	20,723
	$10,328	**$24,151**

8. Estimated Liabilities for:

Unresolved Cases

The SAIF records as a contingent liability on its financial statements an estimated loss for its probable cost for thrifts or "Oakar" banks that have not yet failed, but the regulatory process has identified as either equity insolvent or in-substance equity insolvent or likely to become in-substance equity insolvent within the foreseeable future. The FDIC relies on this finding regarding solvency as the determining factor in defining the existence of the "accountable event" that triggers loss recognition under generally accepted accounting principles.

As with any of its contingent liabilities, the FDIC cannot predict the timing of events with reasonable accuracy. These liabilities and a corresponding reduction in the Fund Balance are recognized in the period in which they are deemed probable and reasonably estimable. It should be noted, however, that future assessment revenues will be available to the SAIF to recover some or all of these losses, and that these amounts have not been reflected as a reduction in the losses.

The estimated liability for unresolved cases is derived in part from estimates of recoveries from the sale of the assets of these probable thrift or "Oakar" bank failures. The estimated cash recoveries from the sale of assets are subject to uncertainties because of changing economic conditions affecting real estate assets now in the marketplace. This could understate the ultimate costs to the SAIF from probable "Oakar" bank or thrift failures.

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The Federal Home Loan Bank Act, as amended by the FIRREA and the 1991 RTC Act, assigned the RTC responsibility for resolving federally insured thrifts previously insured by the FSLIC that are placed in conservatorship or receivership through September 30, 1993. Effective October 1, 1993, the SAIF will be responsible for resolving all federally insured thrifts, except for certain thrifts that had previously been under RTC conservatorship or receivership.

The Office of Thrift Supervision (OTS) estimates that 35 thrifts with $31 billion in total assets will probably fail and require resolution by September 30, 1993, at a cost the RTC estimates will be approximately $4.8 billion. In addition, the OTS estimates that 52 thrifts with $19 billion in total assets may possibly fail by March 31, 1994, at a cost the RTC estimates will be about $2 billion. To the extent that the RTC does not receive funding to carry out its responsibilities through September 30, 1993, the resolutions projected by the OTS will become the SAIF's responsibility.

Litigation Losses

The FDIC records as a contingent liability on the SAIF's financial statements an estimated loss for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and estimable in amount. As of December 31, 1991, no litigation was pending against the SAIF. However, as of December 31, 1992, the FDIC's Legal Division has determined that estimated losses for unresolved legal cases as high as $13.6 million could be incurred.

9. Assessments

The 1990 Act authorizes the FDIC to set assessment rates for the SAIF members semiannually, to be applied against a member's average assessment base. The assessment rate for all thrifts for calendar year 1992 was 0.230 percent (23 cents per $100 of domestic deposits). The 1991 Act authorizes the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that will charge higher rates to those thrifts that pose greater risks to the SAIF. Under the new rule, beginning in January 1993 a thrift will pay an assessment

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rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular thrift, the FDIC will place each thrift in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. For calendar year 1993, the FDIC estimates that thrifts will pay an average rate of about 25.9 cents per $100 of domestic deposits.

The Board expects to review premium rates at least once every six months. The new rate structure is intended to provide a transition between the previous flat-rate system and the final risk-related premium system that the 1991 Act mandated to be implemented no later than January 1, 1994.

Secondary Reserve Offset

The FIRREA authorized insured thrifts to offset against any assessment premiums their pro rata share of amounts that were previously part of the FSLIC's "Secondary Reserve." The Secondary Reserve represented premium prepayments that insured thrifts were required by law to deposit with the FSLIC during the period 1961 through 1973 to quickly increase the FSLIC's insurance reserves to absorb losses if the regular assessments were insufficient. The allowable offset is limited to a maximum of 20 percent of an institution's remaining pro rata share for any calendar year beginning before 1993. After calendar year 1992, there is no limitation on the remaining offset amount.

The Secondary Reserve offset serves to reduce the gross SAIF-member assessments due (excluding assessments from "Oakar" banks), thereby reducing the assessment premiums available to the FICO, the FRF and the SAIF. The remaining Secondary Reserve credit was $197 million and $298 million at year-end 1992 and 1991, respectively.

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SAIF Assessments

Dollars in Thousands	December 31	
	1992	1991
SAIF-member assessments	$1,668,011	$1,868,219
Less: Secondary Reserve offset/other adjustments/credits	(51,153)	(72,992)
FICO assessment	(772,300)	(756,700)
FRF assessment	(844,558)	(1,038,527)
SAIF-Member Assessments Earned, (Net)	**-0-**	**-0-**
SAIF assessments from "Oakar" banks	172,079	93,530
SAIF Assessments Earned	**$ 172,079**	**$ 93,530**

10. Provision for Insurance Losses

Provision for Insurance Losses

Dollars in Thousands	December 31	
	1992	1991
SAIF's allocated share of loss from failure of Southeast Bank, N.A., Miami, FL (see Note 6)	$(18,645)	$20,114
Estimated liability for unresolved cases (see Note 8)	3,700	-0-
	$(14,945)	**$20,114**

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11. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan integrated with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in a federally sponsored tax-deferred savings plan available to provide additional retirement benefits. The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and a tax-deferred savings plan. Further, automatic and matching employer contributions are provided up to specified amounts under the FERS. Eligible employees may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The SAIF pays the employer's portion of the related costs.

Although the SAIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $958 thousand and $1.3 million at December 31, 1992 and 1991, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	December 31	
	1992	1991
Civil Service Retirement System	$ 616	$ 771
Federal Employee Retirement System (Basic Benefit)	1,254	1,303
FDIC Savings Plan	646	754
Federal Thrift Savings Plan	341	318
	$2,857	$3,146

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12. Postretirement Benefit Plans Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retiree's beneficiaries and covered dependents. Eligible retirees are those who have elected the FDIC's health and/or life insurance program and are entitled to an immediate annuity. However, dental coverage is provided to all retirees regardless of the plan selected.

Health insurance coverage is a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound. Dental care is underwritten by Connecticut General Life Insurance Company. The life insurance program is underwritten by Metropolitan Life Insurance Company.

The FDIC contributes toward health insurance premiums at the same rate for both active and retired employees. The FDIC uses a "minimum premium funding arrangement" in which premiums are held in a restricted account. Medical claims and fixed costs are paid to Blue Cross/Blue Shield from this account on a monthly basis. Under this arrangement, the FDIC's liability exposure is limited in any one contract year. The life insurance program provides for basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans with Metropolitan Life Insurance Company. The dental insurance program provides coverage at no cost to retirees.

As part of adopting SFAS No. 106 (see Note 2), the FDIC elected to immediately recognize the accumulated postretirement benefit liability, measured as of January 1, 1992. The accumulated liability, known as the transition obligation, represents that portion of future retiree benefits costs related to service already rendered by both active and retired employees up to the date of adoption. The SAIF recorded an expense of $4.6 million for this liability, which has been reflected in the Statements of Income and the Fund Balance as the cumulative effect of a change in accounting principle for periods prior to 1992.

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In addition to the cumulative effect, the SAIF's expense for such benefits in 1992 was $1.6 million, included in the current year administrative expenses. In the absence of the accounting change, the SAIF would have recognized postretirement benefits other than pensions of $47 thousand.

For measurement purposes, the FDIC assumed the following: 1) a discount rate of 7 percent; 2) an increase in health costs in 1992 of 16.5 percent, decreasing down to an ultimate rate in 1998 of 9 percent; and 3) an increase in dental costs in 1992 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1992, would have increased by 22.8 percent. The effect of this change on the aggregate of service and interest cost for 1992 would be an increase of 26.1 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands	**December 31**
	1992
Service cost (benefits attributed to employee service during the year)	$ 991
Interest cost on accumulated postretirement benefit obligation	605
Net Periodic Postretirement Cost Before Funding Transfer	**1,596**
Funds transferred from the FSLIC Resolution Fund	(1,197)
	$ 399

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13. Commitments

The SAIF currently is sharing in the FDIC's lease space. The SAIF's allocated share of lease commitments for office space totals $3.2 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The SAIF recognized leased space expense of $1.8 million and $1.7 million for the years ended December 31, 1992 and 1991, respectively.

Leased Space Fees

Dollars in Thousands

1993	1994	1995	1996	1997
$1,108	$903	$630	$503	$9

14. Concentration of Credit Risk

The SAIF is counterparty to a financial instrument with an entity located in the Southeast region of the United States experiencing problems in both loans and real estate. The SAIF's maximum exposure to possible accounting loss for this instrument is $179 million.

Insured Deposits
As of December 31, 1992, the total is approximately $729 billion. This would also be the accounting loss if all the depository institutions were to fail and if any assets acquired as a result of the resolution process provide no recovery.

15. Disclosures about the Fair Value of Financial Instruments

Cash and cash equivalents are short-term, highly liquid investments and are shown at actual or approximate fair value. The carrying amount of Due from the FSLIC Resolution Fund, other assets, and accounts payable and other liabilities approximates their fair value due to their short maturities.

As explained in Note 4, the entrance and exit fees receivable is net of discounts calculated using an interest rate comparable to the U.S. Treasury rates for government securities at the time the receivables are accrued. The fair value of these receivables at December 31,

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1992 and 1991, is $85 million and $91 million, respectively, and approximates the amounts presented on the Statements of Financial Position.

As stated in Note 8, the carrying amount of the estimated liability for unresolved cases is the total of losses from thrifts that have not yet failed, but the regulatory process has identified as probably requiring resolution in the near future. It does not consider discounted future cash flows because the FDIC cannot predict the timing of events with reasonable accuracy. For this reason, the FDIC considers the total estimate of these losses to be the best measure of their fair value.

16. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	December 31	
	1992	**1991**
Net Income	$185,107	$ 75,723
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Income Statement Items:		
Provision for insurance losses	(14,945)	20,114
Interest expense	(5)	609
Change in Assets and Liabilities:		
(Increase) decrease in amount due from the FSLIC Resolution Fund	102,378	(92,573)
(Increase) decrease in entrance and exit fees receivable	6,119	(41,631)
Increase in other assets	(11,734)	(5,663)
Decrease in accounts payable, accrued and other liabilities	(13,818)	(672)
Increase in exit fees and investment proceeds held in reserve	31,368	84,239
Net Cash Provided by Operating Activities	**$284,470**	**$ 40,146**

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Financial Statements

Federal Deposit Insurance Corporation

FSLIC Resolution Fund

Statements of Income and Accumulated Deficit

Dollars in Thousands	For the Year Ended December 31	
	1992	1991
Revenue		
Assessments earned (Note 11)	$ 844,558	$ 1,038,527
Interest on U.S. Treasury obligations	28,441	29,599
Other interest	2,068	13,826
Revenue from corporate-owned assets	336,730	188,257
Other revenue	35,377	29,138
	1,247,174	**1,299,347**
Expenses and Losses		
Administrative expenses	34,125	42,004
Interest expense	397,016	968,774
Corporate-owned asset expenses	128,185	117,923
Provision for losses (Note 9)	799,105	1,669,366
Other expenses	71,637	69,446
	1,430,068	**2,867,513**
Net Loss Before Funding Transfer and Cumulative Effect of a Change in Accounting Principle	**(182,894)**	**(1,568,166)**
Cumulative effect of accounting change for certain postretirement benefits (Note 13)	(5,892)	-0-
Net Loss Before Funding Transfer	**(188,786)**	**(1,568,166)**
Funding Transfer to the Savings Association Insurance Fund	(35,446)	(42,362)
Net Loss	**(224,232)**	**(1,610,528)**
Accumulated Deficit - Beginning	**(43,493,787)**	**(41,883,259)**
Accumulated Deficit - Ending	**$(43,718,019)**	**$(43,493,787)**

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

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Federal Deposit Insurance Corporation

FSLIC Resolution Fund

Statements of Financial Position

Dollars in Thousands	December 31	
	1992	1991
Assets		
Cash and cash equivalents (Note 3)	$ 1,787,578	$ 767,339
Net receivables from thrift resolutions (Note 4)	2,004,951	2,932,774
Investment in corporate-owned assets, net (Note 5)	544,746	586,970
Other assets, net (Note 6)	45,729	14,864
	4,383,004	**4,301,947**
Liabilities		
Accounts payable, accrued and other liabilities	157,545	172,432
Liabilities incurred from thrift resolutions (Note 7)	3,495,386	11,810,096
Estimated liabilities for:		
Assistance agreements (Note 8)	2,346,688	7,410,621
Litigation losses (Note 8)	73,404	167,585
Total Liabilities	**6,073,023**	**19,560,734**
Resolution Equity (Note 10)		
Contributed capital	42,028,000	28,235,000
Accumulated deficit	(43,718,019)	(43,493,787)
Total Resolution Equity	**(1,690,019)**	**(15,258,787)**
	$ 4,383,004	**$ 4,301,947**

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

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Federal Deposit Insurance Corporation

FSLIC Resolution Fund

Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31	
	1992	1991
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 844,558	$ 1,050,275
Interest on U.S. Treasury obligations	28,484	30,031
Recoveries from thrift resolutions	1,159,964	1,923,914
Recoveries from corporate-owned assets	505,492	493,506
Miscellaneous receipts	125,914	148,490
Cash used for:		
Administrative expenses	(20,267)	(60,657)
Interest paid on indebtedness incurred from thrift resolutions	(477,306)	(1,262,472)
Disbursements for thrift resolutions	(6,392,868)	(10,126,068)
Disbursements for corporate-owned assets	(234,852)	(117,055)
Miscellaneous disbursements	(206,997)	-0-
Net Cash Used by Operating Activities Before Funding Transfer	**(4,667,878)**	**(7,920,036)**
Funding transfer to the Savings Association Insurance Fund	(29,561)	(40,650)
Net Cash Used by Operating Activities (Note 17)	**(4,697,439)**	**(7,960,686)**
Cash Flows from Investing Activities	**-0-**	**-0-**
Cash Flows from Financing Activities		
Cash provided from:		
U.S. Treasury payments	13,793,000	20,482,000
Cash used for:		
Payments of indebtedness incurred from thrift resolutions	(8,075,322)	(13,010,041)
Net Cash Provided by Financing Activities	**5,717,678**	**7,471,959**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,020,239**	**(488,727)**
Cash and Cash Equivalents - Beginning	**767,339**	**1,256,066**
Cash and Cash Equivalents - Ending	**$ 1,787,578**	**$ 767,339**

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

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1. Legislative History and Reform

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

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

The Resolution Funding Corporation (REFCORP) was established by the FIRREA to provide funds to the RTC for use in the thrift industry bailout. The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. However, effective December 12, 1991, as provided by the Resolution Trust Corporation Thrift Depositor Protection Reform Act of 1991, the FICO's authority to issue obligations as a means of financing for the FRF was terminated.

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Operations of the FRF

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

The FRF is funded from the following sources, to the extent funds are needed, in this order: 1) income earned on, and proceeds from the disposition of, assets of the FRF; 2) liquidating dividends and payments made on claims received by the FRF from receiverships to the extent such funds are not required by the REFCORP or the FICO; and 3) amounts assessed against the SAIF's members by the FDIC that are not claimed by the FICO or by the REFCORP during the period from inception (August 9, 1989) through December 31, 1992. Excluded are assessments paid by BIF-member banks, so-called "Oakar" banks, created pursuant to the "Oakar amendment" provisions found in Section 5(d)(3) of the Federal Deposit Insurance Act (FDI Act) on SAIF-insured deposits. If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as are appropriated by the Congress, to carry out the purpose of the FRF.

The 1991 RTC Act amended the FIRREA by extending the FRF funding of the SAIF administrative and supervisory expenses through September 30, 1992. Upon termination of the RTC (not later than December 31, 1996), all assets and liabilities of the RTC will be transferred to the FRF, after which all future net proceeds from the sale of such assets will be transferred to the REFCORP for interest payments. The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon the dissolution of the FRF, any funds remaining will be paid to the U.S. Treasury. Any administrative facilities and supplies will be transferred to the SAIF.

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2. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Postretirement Benefit Plans Other Than Pensions
Effective January 1, 1992, the FDIC implemented the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." This new standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This is a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis). In adopting the accounting provisions of the new standard, the FDIC has concluded that the FRF will fund its yearly charge for these expenses but the BIF will provide the accounting and administration of this liability on behalf of the FRF.

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Assessment Revenue Recognition
The FICO and, through December 31, 1992, the FRF have priority over the SAIF for receiving and utilizing SAIF-member assessments to ensure availability of funds for specific operational activities. Accordingly, the FRF recognizes as assessment revenue only that portion of SAIF-member assessments not required by the FICO. Assessments on SAIF-insured deposits held by "Oakar" banks are retained in the SAIF and, thus, are not subject to draws by the FICO or the FRF (see Notes 1 and 11).

Wholly Owned Subsidiary
The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until such time as the FADA's litigation liability is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in the line item "Other assets, net" (Note 6). As of December 31, 1992, the value of the investment has been adjusted for projected expenses relating to the liquidation of the FADA. The FADA's estimate of probable litigation losses is $1.6 million. Accordingly, a $1.6 million litigation loss has been recognized as a reduction in the value of the FRF's investment in the FADA. This represents a $400 thousand decrease from probable litigation losses of $2 million at December 31, 1991. Additional litigation losses considered reasonably possible as of December 31, 1992, are estimated to be from $5.4 million to $6.4 million and remain unrecognized. In addition, losses from two potential lawsuits and/or claims against the FADA cannot be estimated at this time.

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

Reclassifications
Reclassifications have been made in the 1991 Financial Statements to conform to the presentation used in 1992.

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3. Cash and Cash Equivalents

The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. In 1992, cash restrictions included $2 million for health insurance payable and $31.4 million for funds held in trust. In 1991, cash restrictions included $2.5 million for health insurance payable and $35.4 million for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31	
	1992	1991
Cash	$ 83,174	$233,875
One-day special Treasury certificates	1,704,404	533,464
	$1,787,578	**$767,339**

4. Net Receivables from Thrift Resolutions

As of December 31, 1992 and 1991, the FRF, in its receivership capacity, held assets with a book value of $3.8 billion and $7 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $435 million) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions affecting real estate assets now in the marketplace. These factors could reduce the FRF's actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

Receivables from operating thrifts include amounts outstanding to qualified institutions under the Capital Instrument Program. The FSLIC purchased capital instruments such as Income Capital Certificates (ICCs) and Net Worth Certificates (NWCs) from insured institutions either in a non-cash exchange (by issuing a note payable of equal value) or by cash payments. The total amount of ICCs outstanding as of December 31, 1992 and 1991, is $157 million. Likewise, the total amount of NWCs outstanding as of December 31, 1992 and 1991, is $115 million and $132 million, respectively.

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The FRF pays interest on notes payable to an assisted institution in cash, while the institution only accrues interest payable on the certificates to the FRF. If an institution is profitable, it will actually pay interest owed to the FRF. Because of the uncertainty surrounding the collection of interest, the FRF only recognizes interest revenue when interest payments are received from an institution.

Net Receivables from Thrift Resolutions

Dollars in Thousands	December 31	
	1992	1991
Receivables from Operating Thrifts:		
Collateralized loans	$ 470,000	$ 560,000
Other loans	264,280	267,880
Capital instruments	272,496	289,471
Preferred stock from assistance transactions	865,193	445,659
Accrued interest receivable	20,125	21,190
Allowance for losses (Note 9)	(971,550)	(659,869)
	920,544	**924,331**
Receivables from Closed Thrifts:		
Resolution transactions	10,449,964	11,361,828
Collateralized advances/loans	322,279	329,682
Other receivables	231,435	249,187
Allowance for losses (Note 9)	(9,919,271)	(9,932,254)
	1,084,407	**2,008,443**
	$2,004,951	**$2,932,774**

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5. Investment in Corporate-Owned Assets, Net

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

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

Investment in Corporate-Owned Assets, Net

Dollars in Thousands	December 31	
	1992	1991
Investment in corporate-owned assets	$3,515,803	$3,554,985
Allowance for losses (Note 9)	(2,971,057)	(2,968,015)
	$ 544,746	**$ 586,970**

6. Other Assets, Net

Other Assets, Net

Dollars in Thousands	December 31	
	1992	1991
Investment in FADA	$25,000	$25,000
Allowance for losses (Note 9)	(9,862)	(13,583)
	15,138	**11,417**
Accounts receivable	1,829	2,726
Allowance for losses	(93)	(26)
	1,736	**2,700**
Due from government agencies	28,855	747
	$45,729	**$14,864**

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7. Liabilities Incurred from Thrift Resolutions

The FSLIC issued promissory notes and entered into assistance agreements in order to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Under the FIRREA, the FRF assumed these obligations. The FRF presents its notes payable and its obligation for assistance agreement payments incurred but not yet paid as a component of the line item "Liabilities incurred from thrift resolutions." Estimated future assistance payments under its assistance agreements are presented as a component of the line item "Estimated liabilities for: Assistance agreements" (see Note 8).

Liabilities Incurred from Thrift Resolutions

Dollars in Thousands	December 31	
	1992	1991
Notes payable to Federal Home Loan Banks/U.S. Treasury	$ 470,000	$ 560,000
Notes payable to acquirers of failed institutions	-0-	700,572
Capital instruments (Note 4)	24,350	41,325
Assistance agreement notes	913,308	7,582,557
Accrued assistance agreement costs	1,866,531	2,437,188
Accrued interest	14,158	111,882
Other liabilities to thrift institutions	207,039	376,572
	$3,495,386	**$11,810,096**

Maturities of Liabilities

Dollars in Thousands

1993	1994	1995	1996	1997	1998
$2,428,881	$167,790	$481,246	$96,477	$226,312	$94,680

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8. Estimated Liabilities for:

Assistance Agreements

The "Estimated liabilities for: Assistance agreements" line item represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The nominal dollar amount of this line item as of December 31, 1992 and 1991, was $2.4 billion and $8 billion, respectively. The interest rates applied as of December 31, 1992 and 1991, were 3.5 percent and 5.6 percent respectively, based on U.S. money rates for federal funds.

Future assistance stems from the FRF's obligation to: 1) fund losses inherent in assets covered under the assistance agreements (e.g., by subsidizing asset write-downs, capital losses and goodwill amortization) and 2) supplement the actual yield earned from covered assets as necessary for the acquirer to achieve a specified yield (the "guaranteed yield"). Estimated total assistance costs recognized for current assistance agreements with institutions involving covered assets include estimates for the loss expected on the assets based on their appraised values. The FRF is obligated to fund any losses sustained by the institutions on the sale of the assets. If asset losses are incurred in excess of those recognized, the possible cash requirements and the accounting loss could be as high as $8 billion, should all underlying assets prove to be of no value (see Note 15). The costs and related cash requirements associated with the maintenance of covered assets are calculated using an applicable cost of funds rate and would change proportionately with any change in market rates.

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

The assistance agreements outstanding as of December 31, 1992 and 1991, were 100 and 131, respectively. The last agreement is scheduled to expire in December 1998.

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The estimated liabilities for assistance agreements are affected by several factors, including adjustments to expected notes payable, the terms of the assistance agreements outstanding and, in particular, the salability of the related covered assets. The variable nature of the FRF assistance agreements will cause the cost requirements to fluctuate. This fluctuation will impact both the timing and amount of eventual cash flows. Although the "Estimated liabilities for: Assistance agreements" line item is presented on a discounted basis, the following schedule details the projected timing of the future cash flows as of December 31, 1992, on a nominal dollar basis:

Dollars in Thousands

1993	1994	1995	1996	1997	1998
$1,587,415	$536,320	$205,150	$91,704	$(14,449)	$8,727

The estimated net recovery in 1997 is a result of the excess actual yield on the performing assets covered under the assistance agreements over the cost of guaranteed yield and capital losses. This net recovery is due to the FRF per the contractual terms of the assistance agreements. In 1998 estimated net payments will again exceed recoveries due to additional capital losses from the mark-to-market adjustments on terminating assistance agreements.

Litigation Losses

The FDIC records as a contingent liability on the FRF's financial statements an estimated cost for unresolved legal cases to the extent those losses are considered to be both probable in occurrence and estimable in amount. In addition to these losses, the FDIC's Legal Division determined that estimated losses as high as $473 million could be incurred.

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

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

Analysis of Changes in Allowance for Losses and Estimated Liabilities

1992

Dollars in Millions

Allowance for Losses:	**Beginning Balance 01/01/92**	**Provision for Losses**	**Net Cash Payments**	**Transfers/ Terminations**	**Ending Balance 12/31/92**
Operating thrifts	$ 660	$340	$ (28)	$ -0-	$ 972
Closed thrifts	9,932	45	-0-	(58)	9,919
Corporate-owned assets	2,968	3	-0-	-0-	2,971
Investment in FADA	13	(3)	-0-	-0-	10
Total Allowances	**13,573**	**385**	**(28)**	**(58)**	**13,872**
Estimated Liabilities for:					
Assistance agreements	7,411	509	(5,444)	(129)	2,347
Litigation losses	168	(95)	-0-	-0-	73
Total Estimated Liabilities	**7,579**	**414**	**(5,444)**	**(129)**	**2,420**
Total		**$799**			

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Analysis of Changes in Allowance for Losses and Estimated Liabilities

1991

Dollars in Millions

Allowance for Losses:	**Beginning Balance 01/01/91**	**Provision for Losses**	**Net Cash Payments**	**Transfers/ Terminations**	**Ending Balance 12/31/91**
Operating thrifts	$ 547	$ 129	$ -0-	$ (16)	$ 660
Closed thrifts	9,730	264	-0-	(62)	9,932
Corporate-owned assets	2,674	294	-0-	-0-	2,968
Investment in FADA	9	4	-0-	-0-	13
Total Allowances	**12,960**	**691**	**-0-**	**(78)**	**13,573**
Estimated Liabilities for:					
Assistance agreements	17,839	918	(9,645)	(1,701)	7,411
Litigation losses	108	60	-0-	-0-	168
Total Estimated Liabilities	**17,947**	**978**	**(9,645)**	**(1,701)**	**7,579**
Total		**$1,669**			

10. Resolution Equity

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

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Resolution Equity

1992

Dollars in Thousands	Beginning Balance 01/01/92	Net Loss	Treasury Payments	Ending Balance 12/31/92
Contributed capital	$ 28,235,000	$ -0-	$13,793,000	$ 42,028,000
Accumulated deficit	(43,493,787)	(224,232)	-0-	(43,718,019)
	$(15,258,787)	**$(224,232)**	**$13,793,000**	**$ (1,690,019)**

1991

Dollars in Thousands	Beginning Balance 01/01/91	Net Loss	Treasury Payments	Ending Balance 12/31/91
Contributed capital	$ 7,753,000	$ -0-	$20,482,000	$ 28,235,000
Accumulated deficit	(41,883,259)	(1,610,528)	-0-	(43,493,787)
	$(34,130,259)	**$(1,610,528)**	**$20,482,000**	**$(15,258,787)**

11. Assessments

The FDIC's Legal Division rendered an opinion in March 1992 that assessments paid by "Oakar" banks on SAIF-insured deposits should be retained by the SAIF, and that income recognition (by the SAIF) should be retroactive to the FIRREA's enactment date. At December 31, 1991, the FRF had recorded a payable to the SAIF of $105 million for "Oakar" assessment revenue. In April 1992, the FRF paid to the SAIF $105 million plus $2.9 million in accumulated interest earned on the assessment proceeds. The FRF will no longer receive the SAIF assessments after December 31, 1992.

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Secondary Reserve Offset
The FIRREA authorized insured thrifts to offset against any assessment premiums their pro rata share of amounts that were previously part of the FSLIC's "Secondary Reserve." The Secondary Reserve represented premium prepayments that insured thrifts were required by law to deposit with the FSLIC during the period 1961 through 1973 to quickly increase the FSLIC's insurance reserves to absorb losses if the regular assessments were insufficient. The allowable offset is limited to a maximum of 20 percent of an institution's remaining pro rata share for any calendar year beginning before 1993. After calendar year 1992, there is no limitation on the remaining offset amount.

The FRF also is required to pay in cash (or reduce an outstanding indebtedness) the remaining portion of the thrift's full pro rata distribution when the institution loses its insured status or goes into receivership. The FRF establishes a payable to that institution or its receiver with a corresponding charge to expense. As of December 31, 1992 and 1991, the Secondary Reserve payable, included in the line item "Accounts payable, accrued and other liabilities," was $110 million and $47 million, respectively.

The remaining Secondary Reserve credit at December 31, 1992 and 1991, was $197 million and $298 million, respectively. This amount will be reduced primarily by offsets against assessment premiums, as it is expected that the thrifts will fully apply any remaining secondary reserve credit against their 1993 assessment, as allowed under the FIRREA.

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan integrated with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in a federally sponsored tax-deferred savings plan available to provide additional retirement benefits. The FERS is a three-part plan consisting of a basic defined benefit plan that provides

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benefits based on years of creditable service and compensation levels, Social Security benefits and a tax-deferred savings plan. Further, automatic and matching employer contributions are provided up to specified amounts under the FERS. Eligible employees may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The FRF pays the employer's portion of the related costs.

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

The liability to employees for accrued annual leave is approximately $4.4 million and $4.8 million at December 31, 1992 and 1991, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	**December 31**	
	1992	**1991**
Civil Service Retirement System	$ 743	$ 809
Federal Employee Retirement System (Basic Benefit)	2,827	2,822
FDIC Savings Plan	1,037	1,006
Federal Thrift Savings Plan	815	717
	$5,422	**$5,354**

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13. Postretirement Benefit Plans Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retiree's beneficiaries and covered dependents. Eligible retirees are those who have elected the FDIC's health and/or life insurance program and are entitled to an immediate annuity. However, dental coverage is provided to all retirees regardless of the plan selected.

Health insurance coverage is a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wraparound. Dental care is underwritten by Connecticut General Life Insurance Company. The life insurance program is underwritten by Metropolitan Life Insurance Company.

The FDIC contributes toward health insurance premiums at the same rate for both active and retired employees. The FDIC uses a "minimum premium funding arrangement" in which premiums are held in a restricted account. Medical claims and fixed costs are paid to Blue Cross/Blue Shield from this account on a monthly basis. Under this arrangement, the FDIC's liability exposure is limited in any one contract year. The life insurance program provides for basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans with Metropolitan Life Insurance Company. The dental insurance program provides coverage at no cost to retirees.

As part of adopting SFAS No. 106 (see Note 2), the FDIC elected to immediately recognize the accumulated postretirement benefit liability, measured as of January 1, 1992. The accumulated liability, known as the transition obligation, represents that portion of future retiree benefit costs related to service already rendered by both active and retired employees up to the date of adoption. The FRF recorded an expense of $5.9 million for this liability, which has been reflected in the Statements of Income and Accumulated Deficit as the cumulative effect of a change in accounting principle for periods prior to 1992.

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In addition to the cumulative effect, the FRF's expense for such benefits in 1992 was $2.3 million, included in the current year administrative expenses. In the absence of the accounting change, the FRF would have recognized postretirement benefits other than pensions of $140 thousand.

For measurement purposes, the FDIC assumed the following: 1) a discount rate of 7 percent; 2) an increase in health cost in 1992 of 16.5 percent, decreasing down to an ultimate rate in 1998 of 9 percent; and 3) an increase in dental costs in 1992 and thereafter of 8 percent. Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate were increased one percent, the accumulated postretirement benefit obligation as of December 31, 1992, would have increased by 22.8 percent. The effect of this change on the aggregate of service and interest cost for 1992 would be an increase of 26.1 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands	**December 31 1992**
Service cost (benefits attributed to employee service during the year)	$1,401
Interest cost on accumulated postretirement benefit obligation	856
Net Periodic Postretirement Benefit Cost Before Funding Transfer	**2,257**
Funds transferred to the Savings Association Insurance Fund	1,197
	$3,454

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14. Commitments

The FRF currently is sharing in the FDIC's lease space. The FRF's allocated share of lease commitments for office space totals $7 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The FRF recognized leased space expense of $8.3 million and $8.7 million for the years ended December 31, 1992 and 1991, respectively.

Leased Space Fees

Dollars in Thousands

1993	1994	1995	1996	1997
$3,517	$2,047	$1,196	$260	$26

15. Concentration of Credit Risk

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

Concentration of Credit Risk

Dollars in Millions	December 31, 1992						
	South-east	South-west	North-east	Mid-west	Central	West	Total
Net receivables from thrift resolutions	$319	$ 476	$247	$72	$ 69	$ 822	$2,005
Investment in corporate-owned assets	5	375	-0-	1	23	141	545
Assistance agreements covered assets, net of estimated capital loss (off-balance sheet)	66	3,713	-0-	-0-	281	3,979	8,039
Total	**$390**	**$4,564**	**$247**	**$73**	**$373**	**$4,942**	**$10,589**

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16. Disclosures about the Fair Value of Financial Instruments

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

It was not practicable to estimate fair values of net receivables from thrift resolutions. These assets are unique, there is no established market and they are not intended for sale to the private sector. The FDIC believes that a sale to the private sector would require indeterminate, but substantial, discounts for financial profit and credit or other risks which would significantly reduce cash recoveries from these assets. Further, comparisons with other financial instruments do not provide a reliable measure of their fair value. Due to these and other factors, the FDIC cannot determine an appropriate market discount rate and, thus, is unable to estimate fair value on a discounted cash flow basis. As shown in Note 4, the carrying amount is the original amount advanced net of the estimated allowance for losses, which is the estimated cash recovery value.

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

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17. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Loss to Net Cash Used by Operating Activities

Dollars in Thousands	December 31	
	1992	1991
Net Loss	$ (224,232)	$ (1,610,528)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Income Statement Items:		
Provision for losses	799,105	1,669,366
Change in Assets and Liabilities		
Decrease in accrued interest receivable on investments and other assets	15,801	58,709
Decrease in thrift resolution receivable	1,488,844	1,859,721
Decrease in corporate-owned assets	39,233	309,027
(Decrease) increase in accounts payable, accrued and other liabilities	(13,451)	536,081
Decrease in liabilities from thrift resolutions	(6,802,739)	(10,783,062)
Net Cash Used by Operating Activities	**$(4,697,439)**	**$ (7,960,686)**

Non-cash financing activities for the year ended December 31, 1992, included canceled notes payable (NWCs) of $13.4 million.

Non-cash financing activities for the year ended December 31, 1991, include: 1) canceled notes payable (NWCs) of $12.7 million; 2) canceled notes payable (ICCs) of $2 million; and 3) issued note payable of $158.7 million.

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18. Subsequent Events

The RTC, under the authority provided in the FIRREA (see Note 8), and in conjunction with the FDIC, First Nationwide Financial Corporation, Columbia Savings and First Nationwide Bank, amended the assistance agreements dated November 4, 1988, December 16, 1988, and December 30, 1988, and the Supervisory Action Agreement dated September 3, 1981.

On January 19, 1993, the FDIC's Board of Directors delegated to the RTC, authority to execute the following partnership agreement on behalf of the FDIC. Under that authority, the FDIC formed a limited partnership with FN Realty Advisors, Incorporated, called Mountain AMD Limited Partnership. FN Realty Advisors, Incorporated has been designated the general partner and the FDIC, as manager of the FRF, is the limited partner. In February 1993, the FDIC made an initial capital contribution of $312 million towards the partnership and provided a capital loan to the FN Realty Advisors for 60% of their capital contribution of $23 million. In addition, the FDIC provided an advance to the Mountain AMD Limited Partnership for working capital in the amount of $7.5 million. The Partnership, in return, paid $335 million to First Nationwide for all of its right, title and interest in and to the AMD pool assets.

Public Law #102-389, which was signed into law on October 6, 1992, appropriated $2.6 billion to the FRF for the fiscal year ending September 30, 1993. The FRF has not requested any of the appropriated funds as of May 15, 1993. However, the FRF does expect to request these funds by September 1993. These appropriations will be used to prepay notes, purchase covered assets, renegotiate assistance agreements and pay normal operating expenses.

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

Comptroller General
of the United States

B-253861

June 30, 1993

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1992 and 1991, of the three funds administered by the Federal Deposit Insurance Corporation (FDIC), and the related statements of income and fund balance (accumulated deficit) and statements of cash flows for the years then ended. For these three funds--the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF)--we found

-- the financial statements of the three funds were reliable in all material respects except for FRF's 1991 statement of income and accumulated deficit, on which we are not opining;

-- internal controls at December 31, 1992, did not provide reasonable assurance that assets were safeguarded against loss from unauthorized use; that transactions were executed in accordance with management authority; and that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets. However, internal controls at December 31, 1992, did provide reasonable assurance that transactions were executed in accordance with significant provisions of selected laws and regulations; and

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

Discussed below are significant matters considered in performing our audits and forming our opinions. This report also outlines each of our conclusions in more detail and discusses the scope of our audits.

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SIGNIFICANT MATTERS

The following information is presented to highlight the condition of the banking and thrift industries, the outlook for the bank and savings association insurance funds, and the reason for our disclaimer on FRF's 1991 statement of income and accumulated deficit.

Banking Industry Improvements Have Improved BIF's Condition

The condition and performance of the nation's commercial and savings banks insured by BIF improved substantially in 1992. Commercial banks posted record earnings of over $32 billion in 1992, and the industry's return on assets increased to 0.96 percent from 0.54 percent at year-end 1991. Similarly, savings banks posted aggregate earnings in 1992 of $1.4 billion, the first time in 4 years that savings banks reported positive earnings. The significant improvement in BIF-insured commercial and savings bank earnings is attributable to favorable interest rates, improved asset quality, and, in the case of savings banks, the resolution of several large troubled institutions. Both commercial and savings banks reported substantially improved capital positions in 1992. Commercial banks' aggregate ratio of equity capital to assets increased to 7.52 percent at year-end 1992 from 6.75 percent reported at year-end 1991. Savings banks reported an aggregate ratio of equity capital to assets of 7.97 percent in 1992, compared to 6.67 percent in 1991. Both commercial and savings banks reported declines in their levels of troubled assets, and reserves as a percentage of troubled loans improved in 1992.

During 1992, 122 commercial and savings banks failed or required regulatory assistance. This number is slightly below the 127 problem commercial and savings banks that failed or required regulatory assistance in 1991, and substantially below the record level of bank failures in 1989. The number and size of BIF-insured banks identified by the regulators as problem institutions declined significantly during 1992. At December 31, 1992, the regulators identified 863 commercial and savings banks, with assets totaling $464.5 billion, as problem institutions. In comparison, at December 31, 1991, 1,090 commercial and savings banks, with assets totaling $609.8 billion, were identified as problem institutions by the regulators.

Improvements in the condition of the banking industry have contributed to the substantial improvement in the condition

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of the Bank Insurance Fund. The Fund had net income of $6.9 billion in 1992, the first time since 1987 that the Fund reported positive net earnings for the year. As a result, the Fund's deficit declined from $7 billion at December 31, 1991, to about $101 million at December 31, 1992.

The Fund's positive earnings and reduction in its deficit position were attributable to increased assessment income and substantial declines in actual and estimated losses from existing and future bank failures during 1992. As of December 31, 1992, FDIC identified few additional large banks beyond those whose losses had been recognized in the Fund's 1991 financial statements and whose potential costs to the Fund are significant as insolvent or more likely than not to fail or to require assistance in the near future. Additionally, losses have been much lower than originally estimated for a number of the banks that failed in 1992 for which losses were recorded on the Fund's 1991 financial statements. Finally, a number of banks for which FDIC had estimated and recorded losses on the Fund's 1991 financial statements have shown improvement such that, at December 31, 1992, FDIC no longer considered them to be insolvent or more likely than not to fail in the near future.

Despite improvements in the Fund's condition, it was still insolvent as of December 31, 1992, and could remain undercapitalized for a number of years, even if insurance losses continue to decline. BIF would need a positive fund balance of approximately $24 billion for its reserves to equal the 1.25 percent designated ratio of reserves to insured deposits established in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Consequently, BIF remains vulnerable to adverse changes in economic conditions and their effect on the banking industry. It took just 4 years to deplete the Fund's $18.3 billion in reserves. Thus, it is vital that the Fund's reserves be rebuilt to enable it to handle any significant levels of bank failures.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) contains provisions to rebuild BIF and to strengthen accounting, auditing, and regulatory practices to minimize future losses to the Fund. FDIC's implementation of a risk-based premium system on January 1, 1993--one year ahead of the implementation date required by FDICIA for such a system--will result in increased assessment revenues to the Fund to rebuild its reserves and at the same time will provide incentives in the form of lower insurance premiums

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to insured institutions to strengthen their financial condition and internal controls. Additionally, the prompt corrective actions and strengthened minimum capital standards required by FDICIA, if properly implemented and enforced by the regulators, should help minimize future losses to the Fund.

To ensure that the Fund's reserves are replenished to a sufficient level and to minimize the risk that its reserves are not again depleted by significant bank failures, it is vital that the accounting, auditing, and regulatory reforms in FDICIA be effectively carried out. We are concerned that the very limited implementing regulations recently issued by FDIC and the accounting rules for loan loss reserves recently adopted by the Financial Accounting Standards Board (FASB)[1] will not facilitate achieving the objectives of the Congress in enacting these reforms.

Thrift Industry Also Reported Improved Condition and Performance in 1992

The condition and performance of the nation's thrift industry insured by SAIF also showed significant improvement in 1992. Thrifts posted record earnings of over $5.1 billion in 1992, compared to earnings of $1.8 billion in 1991. The industry's average return on assets increased to 0.67 percent in 1992, with over half of the industry reporting returns on assets in excess of 0.94 percent for 1992. A major factor contributing to the thrift industry's favorable earnings performance during 1992 was the wide spread between interest earned on assets and thrifts' cost of funds throughout the year.

The industry also reported substantial declines in its level of troubled assets. Thrifts reported $23.8 billion in troubled assets for the fourth quarter of 1992. This represents a decline of $8.2 billion, or about 26 percent, from the $32 billion in troubled assets reported by thrifts at year-end 1991.

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[1]In May 1993, the FASB issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan." This statement does not address many of the concerns we raised with regard to weaknesses in the accounting rules for loan loss reserves in our report, Depository Institutions: Flexible Accounting Rules Lead to Inflated Financial Reports (GAO/AFMD-92-52, June 1, 1992).

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The size of the thrift industry declined in 1992. As of the end of 1992, the Office of Thrift Supervision (OTS), the industry's federal regulator, supervised 1,855 private-sector thrifts with assets totaling $795 billion. In comparison, at the end of 1991, OTS supervised 2,096 thrifts with assets totaling $876 billion. During 1992, 59 thrifts with assets totaling $47.6 billion were transferred to the Resolution Trust Corporation (RTC). Mergers, acquisitions, and conversions of thrift institution charters to commercial or state savings banks resulted in another 187 thrifts exiting the OTS-regulated thrift industry in 1992. There were five new thrifts chartered during the year.

At year-end 1992, more than 95 percent of the private-sector thrift industry met the recently implemented FDICIA capital standards. The average risk-based capital ratio for the industry equaled about 13.4 percent, significantly above the 8 percent minimum required by the regulators under FDICIA. Eighty-one percent of the thrift industry was reported by OTS as being well-capitalized, while less than one percent was rated critically undercapitalized at December 31, 1992.

Uncertainties Affect Failed Institution Asset Recoveries and Costs of Future Resolution Activities

While both the banking and thrift industries reported improved earnings, asset quality, and capital positions during 1992, a large number of banks and thrifts continued to experience serious problems that threaten their viability. Estimated losses from such open institutions, and on assets held by the funds as a result of resolution or assistance activities, are subject to significant uncertainties.

BIF's estimated liability for troubled banks considered likely to fail in the near future declined from $16.3 billion at December 31, 1991, to $10.8 billion at December 31, 1992. Based on our review of first quarter 1993 financial information submitted to FDIC by BIF-insured institutions, we believe the fund's estimated liability for troubled banks could be further reduced during 1993 since the financial condition of certain banks included in the estimated liability at December 31, 1992, is improving such that they may no longer appear likely to fail. Even with these improvements, however, the level of problem banks continues to represent significant exposure to BIF.

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SAIF also faces exposure to costs from troubled thrifts when it assumes its full resolution responsibilities from RTC on October 1, 1993.[2] OTS recently estimated that 35 thrifts with total assets of $31 billion will probably fail or require resolution by September 30, 1993, at a cost estimated by RTC to be about $4.8 billion. To the extent RTC does not resolve these thrifts and assume the losses, SAIF will become responsible for their resolution and will bear any losses incurred. Additionally, OTS has identified another 52 thrifts with total assets of $19 billion that may require resolution by March 31, 1994. RTC estimates the cost associated with the resolution of these additional thrifts to be about $2 billion. Any losses incurred on these institutions will be borne by SAIF, which reported a fund balance of $279 million at December 31, 1992.

Estimates of potential future resolution costs are subject to significant uncertainties, such as future economic and market conditions and changes in interest rates. These same uncertainties could also affect FDIC's estimates of recoveries on BIF's and FRF's inventory of failed institution assets. These recoveries are used to repay amounts advanced by BIF and FRF to resolve troubled institutions or to purchase assets of terminated receiverships. BIF's and FRF's financial statements at December 31, 1992, include $52.8 billion and $14.5 billion, respectively, of such advances, net of actual recoveries. These amounts are reported as receivables from bank or thrift resolutions and investments in corporate-owned assets on each fund's financial statements.

Because the management and disposition of these assets normally will not generate amounts equal to the amounts advanced by BIF and FRF to resolve the failed institutions or the book values of the corporate-owned assets in BIF's

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[2]FIRREA established RTC to resolve thrifts whose deposits had been insured by FSLIC that were placed into conservatorship or receivership from January 1, 1989, through August 8, 1992. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (Public Law 102-233), enacted on December 12, 1991, extended RTC's resolution authority to thrifts placed into conservatorship or receivership through September 30, 1993. However, in accordance with the provisions of Public Law 102-233, any thrift requiring resolution after September 30, 1993, which had previously been under RTC conservatorship or receivership may be transferred back to RTC for resolution.

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and FRF's failed asset inventories, FDIC establishes an allowance for losses against the receivables and corporate-owned assets. The allowance for losses of $23.8 billion and $12.9 billion at December 31, 1992, for BIF and FRF, respectively, represents the difference between amounts advanced and the expected repayment, net of all estimated liquidation costs. The expected repayment is based primarily on the estimated recovery values of BIF's and FRF's assets in liquidation. At December 31, 1992, BIF and FRF held $38.1 billion and $5.2 billion, respectively, in failed bank and thrift assets. Adverse changes in economic conditions could result in actual recoveries that are less than current estimates.

FRF faces further exposure to costs from the assistance agreements entered into by the former FSLIC to facilitate the merger, acquisition, or stabilization of insolvent thrifts. As successor to FSLIC's liabilities, FRF is obligated under these assistance agreements to compensate the acquirers of troubled thrifts for losses realized on both the disposition and financial performance of the primarily real estate related, poor quality assets of the acquired thrifts. At December 31, 1992, FDIC estimated that FRF would pay more than $2.4 billion over the remaining life of the assistance agreements largely as a result of disposition and performance guarantees. Estimates for future assistance payments are revised on a quarterly basis based on changes in disposition strategies, asset performance, and historical experience. Actual assistance payments could be affected by various factors beyond FDIC's control, such as instabilities in local real estate markets, interest rate fluctuations, and any additional appropriated funds FDIC may receive to achieve cost savings under the agreements.

Improvements Needed in Examination Quality and Regulatory Structure

Effective supervision of banks and thrifts is essential to provide an early warning of problems and minimize losses to the insurance funds. The need to safeguard the assets of the insurance funds and to ensure accountability is demonstrated by the massive savings and loan crisis and also by the rapid depletion of BIF's reserves.

Our recent review of examination practices of the four federal regulatory agencies which supervise and examine all federally insured banks and thrifts--the FDIC, the Office of the Comptroller of the Currency (OCC), the Federal Reserve

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Board (FRB), and OTS--showed that the examinations conducted by these agencies were too limited to fully identify and determine the extent of deficiencies affecting safety and soundness.[3] Accordingly, the ability of federal regulators to provide early warning of the seriousness of bank and thrift weaknesses and to take timely corrective action to minimize losses to the insurance funds was also limited. We found that similar weaknesses affected the quality of bank holding company inspections. The extensive degree of flexibility given to examiners and a lack of minimum requirements were common problems affecting the quality of examinations and inspections.

In our report, we made a number of recommendations to safeguard the insurance funds through strengthening bank and thrift examinations and bank holding company inspections. There were varying degrees of receptiveness to our recommendations on the part of the four regulators. Consequently, we remain concerned that the improvements needed in the quality of examinations to improve their effectiveness as a supervisory tool and to aid in initiating prompt regulatory action to prevent significant losses to the insurance funds will either not be made uniformly or not be made at all by the regulators. This concern, coupled with inconsistencies in examination methods and overlap among the four regulators that undermine their effectiveness and efficiency, suggest the need to reexamine the existing regulatory structure.

Disclaimer on FRF's 1991 Statement of Income and Accumulated Deficit

In our 1990 and 1991 audits[4] of the FSLIC Resolution Fund, we were unable to examine sufficient evidence to determine the reliability of the Fund's receivership asset recovery values at December 31, 1990, or whether a portion of the 1991 changes in the allowance for losses associated with the Fund's receivables from thrift resolutions and investment in corporate-owned assets should have been recorded in 1990.

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[3]Bank and Thrift Regulation: Improvements Needed in Examination Quality and Regulatory Structure (GAO/AFMD-93-15, February 16, 1993).

[4]Financial Audit: FSLIC Resolution Fund's 1990 and 1989 Financial Statements (GAO/AFMD-92-22, December 17, 1991), and Financial Audit: FSLIC Resolution Fund's 1991 and 1990 Financial Statements (GAO/AFMD-92-75, June 30, 1992).

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Because of this limitation on the scope of our work, we cannot express an opinion on FRF's statement of income and accumulated deficit for the year ended December 31, 1991.

MATERIAL INTERNAL CONTROL WEAKNESSES

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. There are two levels of reportable conditions--those that are considered material weaknesses,[5] which could affect the fair presentation of the financial statements, and those that, while not material to the financial statements, are significant matters which merit management's attention.

We identified several material weaknesses in FDIC's internal controls during our 1992 audits. Through substantive audit procedures, we were able to satisfy ourselves that these weaknesses did not have a material effect on the 1992 financial statements of the three funds. However, these weaknesses could result in misstatements in future financial statements and other financial information if not corrected by FDIC management. Additionally, these weaknesses, if not corrected, could adversely affect FDIC's ability to adequately manage and dispose of any failed institution assets transferred from RTC when it terminates its asset disposition operations. RTC is currently scheduled to terminate its operations and transfer any remaining receivership assets to FDIC no later than December 31, 1996.

Weaknesses in Asset Servicer Oversight Expose BIF to Losses and Errors in Recovery Estimates

Internal accounting controls over contractors engaged to service and liquidate over $11 billion in receivership

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[5]A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

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assets from failed banks resolved by BIF are not being consistently implemented or are too limited to effectively assist FDIC in overseeing its asset servicers. We found the following.

- Three of 7 serviced asset pools had not been reconciled to the asset balances recorded in FDIC's financial information system promptly or completely. These three asset pools collectively held $6.7 billion in assets at December 31, 1992.

- FDIC did not have sufficient controls to ensure that (1) the methodology used by servicers for calculating asset recovery estimates was consistent with the methodology FDIC used on assets managed internally and (2) the servicers prepared complete and accurate asset recovery estimates. This weakness increases the risk that servicers' prepared recovery estimates will be inconsistent and could significantly impact the reliability of BIF's allowance for losses.

- Asset servicer internal audits, which FDIC relied on, were not consistently conducted to ensure coverage of critical control areas such as inception balances of asset pools, general ledger reconciliations, and asset recovery estimates. Additionally, significant findings from internal audits of servicer pool operations were not always communicated to the servicers' oversight committee in a timely manner.

These weaknesses in the oversight of contracted asset servicing entities expose BIF to errors in the process used to determine the Fund's estimated losses on bank resolution activity and hinder FDIC from adequately safeguarding receivership assets.

Weak Controls Over FDIC's Asset Management Information System Continue to Result in Data Integrity Problems

Controls to ensure the integrity of data in FDIC's primary system for estimating recoveries from the management and liquidation of receivership assets are not working effectively. The lack of consistent maintenance and updating of system data files to reflect current information impacting the condition and potential recoveries on assets in liquidation and inconsistencies in how estimated recoveries are derived have resulted in errors in system generated information on asset recovery estimates. These

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weaknesses, which were also identified during our 1991 audits of BIF and FRF, could result in future misstatements to both BIF's and FRF's financial statements if corrective action is not taken by FDIC management.

In addition, significant differences in receivership asset book values existed between FDIC's receivership general ledger control accounts and subsidiary records maintained on its asset management information system at December 31, 1992, for both BIF and FRF. Further, FDIC lacks a uniform system for tracking differences between the subsidiary records and control accounts, which has exacerbated this problem. Such differences reduce FDIC's ability to adequately safeguard receivership assets and could result in misstating BIF's and FRF's estimates of recovery values on these assets.

Lack of Monthly Reconciliations Between Loan Servicer and FDIC Exposes Funds to Potential Losses and Reporting Errors

FDIC experienced substantial delays during 1992 in reconciling asset pool balances between its financial information system and the records of the primary servicer of its performing commercial and residential loans of receiverships and corporate-owned assets. As of March 1993, reconciliations of receivership asset book values through November 1992 had not been performed for approximately half of the $2.8 billion in assets serviced by this contractor. Of this amount, assets with December 31, 1992, reported book values of approximately $734 million had not been reconciled since June 1992. The lack of complete and up-to-date monthly reconciliations between the servicer's and FDIC's records adversely affects FDIC's ability to adequately safeguard these assets, and exposes both BIF and FRF to additional losses and errors in financial reporting.

Weaknesses in Time and Attendance Processes Could Affect Expense Allocations Between Funds

FDIC is not consistently adhering to its policies and procedures over the time and attendance reporting process. Additionally, certain responsibilities within the time and attendance reporting process, such as timekeeping and data entry, are not segregated to provide assurance that errors can be detected and corrected in a timely manner. Time and attendance reporting is FDIC's primary means for allocating payroll and other overhead expenses between the three funds

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it administers. Given the significance of employee and overhead costs required to administer and manage the assets of the funds, and the significance of BIF's and FRF's assets relative to those of SAIF, improper allocation of employee time and associated costs to SAIF could result in SAIF incurring substantial costs attributable to the other funds and in material misstatements of SAIF's financial statements.

FDIC officials acknowledge that the Corporation's system of internal controls can be improved. However, they did not always agree that the weaknesses we identified were material to the financial statements of the three funds. In addition, they believe that, in some instances, action had been taken, or was currently being taken, to address the concerns we raised during our audits. Given the nature of the weaknesses we identified in FDIC's system of internal accounting controls over its asset management and liquidation activities and its time and attendance reporting process, and the significance of these activities to the three funds, we believe these weaknesses could, in fact, have a material effect on the financial statements of the three funds.

We will be issuing a separate report on our eval ation of FDIC's system of internal accounting controls as of December 31, 1992, which discusses each of these material weaknesses in more detail, provides our recommendations, and provides more detail on other reportable conditions discussed briefly in a later section of this report. The report will also provide more detail on FDIC's response to our internal control findings and recommendations, and actions FDIC has taken or intends to take to address these weaknesses.

OPINIONS ON FINANCIAL STATEMENTS

Bank Insurance Fund

The financial statements and accompanying notes present fairly, in all material respects, the Bank Insurance Fund's financial position as of December 31, 1992 and 1991, results of operations, and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Misstatements may nevertheless occur in other financial information on the Fund reported by FDIC as a result of the material internal control weaknesses we identified. Additionally, the significant uncertainties previously

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discussed and in footnotes 6 and 11 to the financial statements, and the material internal control weaknesses we identified, may ultimately result in substantial changes in the recovery value of advances to receiverships and corporate-owned assets held by the Fund and may impact the Fund's costs from resolving future bank failures.

Savings Association Insurance Fund

The financial statements and accompanying notes present fairly, in all material respects, the Savings Association Insurance Fund's financial position as of December 31, 1992 and 1991, results of operations, and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Misstatements may nevertheless occur in other financial information on the Fund reported by FDIC as a result of the material internal control weakness we identified. Additionally, the significant uncertainties previously discussed and in footnote 8 to the financial statements, may ultimately result in substantial increases in the Fund's costs from resolving future thrift failures.

FSLIC Resolution Fund

The financial statements and accompanying notes present fairly, in all material respects, the FSLIC Resolution Fund's financial position as of December 31, 1992 and 1991, results of operations for the year ended December 31, 1992, and cash flows for the years ended December 31, 1992 and 1991, in conformity with generally accepted accounting principles. However, because of a scope limitation, we did not express an opinion on the Fund's statement of income and accumulated deficit for the year ended December 31, 1991.

Misstatements may nevertheless occur in other financial information on the Fund reported by FDIC as a result of the material internal control weaknesses we identified. Additionally, the significant uncertainties previously discussed and in footnote 4 to the financial statements, and the material internal control weaknesses we identified, may ultimately result in substantial changes in the recovery value of advances to receiverships and corporate-owned assets held by the Fund. The uncertainties may also result in actual assistance payments substantially different from those FDIC has estimated for the Fund as of December 31, 1992. The use of appropriations to achieve cost savings

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under the Fund's assistance agreements will also affect future assistance payments.

OPINION ON INTERNAL CONTROLS

The internal controls that we evaluated were those designed to

-- safeguard assets against loss from unauthorized use or disposition;

-- assure the execution of transactions in accordance with management authority and with laws and regulations; and

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

Because of the material weaknesses in internal controls described previously, internal controls do not provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management authority; or that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets. However, controls in effect on December 31, 1992, provided reasonable assurance that transactions are executed in accordance with significant provisions of selected laws and regulations.

REPORTABLE CONDITIONS

In addition to material weaknesses, our work identified other reportable conditions which, although not considered to be material, represent significant deficiencies in the design or operation of FDIC's internal controls and should be corrected by FDIC management. These reportable conditions are as follows:

1. General controls over FDIC's computerized information systems did not provide adequate assurance that data files, computer programs, and computer hardware were protected from unauthorized access and modification. The effectiveness of general controls is a significant factor in ensuring the integrity and reliability of financial data. Without the mitigating controls FDIC had in place during 1992, such as manual comparisons,

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the weaknesses in general controls would raise significant concerns over the integrity of information obtained from FDIC's systems.

2. FDIC did not have adequate controls over cash receipt processes at 4 of the 11 consolidated receivership sites during 1992 for which we performed testing of receipt processing controls to provide reasonable assurance that all collections from the internal servicing and liquidation of failed institution assets were completely and accurately recorded for BIF and FRF. As a result, BIF and FRF may not have deposited and recorded all proceeds received from collections and sales of assets in liquidation during 1992.

3. The method of accounting used by two contracted servicers of BIF's failed bank assets did not comply with the requirements of receivership accounting for applying collections. Additionally, FDIC's method of accounting for servicer collections and remittances varied between regional offices. These conditions resulted in incorrect reported balances of receivership assets, the need for adjustments to the receivership general ledgers for the applicable serviced asset pools, and, consequently, a reduction in the ability of FDIC to properly monitor and safeguard the pool assets.

4. FDIC did not have effective controls in place to ensure that assessment income due SAIF was properly recorded in the fund's financial records. Errors in assessment information submitted to FDIC by banks with both BIF and SAIF-insured deposits were not detected on a timely basis through FDIC verification procedures. As a result, SAIF's assessment revenue has been understated since 1990, and significant audit adjustments totaling $18.4 million had to be made to SAIF's current and prior years' financial statements to correct these errors.

5. FDIC did not establish procedures to ensure that all exit fee income was recorded in SAIF's financial records when financial institutions changed their insurance coverage from SAIF to BIF. Reconciliations between general ledger control accounts used to record exit fee income and detailed exit fee activity reports were not performed, and a number of adjustments arising from other verification procedures were not recorded in the general ledger for SAIF. As a result, significant audit adjustments were required to SAIF's financial statements to properly reflect all exit fee activity.

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6. FDIC does not have formal procedures to ensure that adjustments to the financial statements of the three funds were properly authorized. In addition, there are no formal procedures to ensure that all transactions that should be recorded through adjustments are properly considered in preparing the financial statements. The lack of adequate approval and procedures to ensure that all necessary adjustments are considered could result in misstatements to the financial statements of the three funds.

In addition, we noted other less significant matters involving FDIC's system of internal accounting control and its operations which we will be reporting separately to FDIC management.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests for compliance with significant provisions of selected laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred. Although not considered a material noncompliance issue, FDIC did not comply with the Chief Financial Officers (CFO) Act requirement that government corporations submit an annual statement on internal accounting and administrative controls consistent with the requirements of the Federal Managers' Financial Integrity Act. Specifically, FDIC's 1991 report on internal accounting and administrative controls, issued in August 1992, contained no assessment by management of the effectiveness of these controls as required by the CFO Act. FDIC's report on internal accounting and administrative controls in place during 1992 was not completed in time for us to consider it during our audit. However, FDIC has initiated an implementation strategy to achieve full compliance with the CFO Act. FDIC intends to submit its report on internal accounting and administrative controls in place through early 1993 in the near future.

OBJECTIVES, SCOPE, AND METHODOLOGY

The management of FDIC is responsible for

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

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-- establishing and maintaining internal controls and systems to provide reasonable assurance that the internal control objectives previously mentioned are met; and

-- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are free of material misstatement and presented fairly in conformity with generally accepted accounting principles and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with significant provisions of selected laws and regulations.

In order to fulfill these responsibilities, we

-- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements of each of the three funds;

-- assessed the accounting principles used and significant estimates made by FDIC management;

-- evaluated the overall presentation of the financial statements of each of the three funds;

-- evaluated and tested relevant internal controls over the following significant cycles, classes of transactions, and account balances:

   -- troubled institutions,

   -- closed assistance,

   -- assessments,

   -- open assistance,

   -- expenses,

   -- treasury, and

   -- financial reporting; and

-- tested compliance with significant provisions of the Federal Deposit Insurance Act, as amended; the Chief Financial Officers Act; and the Federal Home Loan Bank Act, as amended. The provisions selected for testing included, but were not limited to, those relating to

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-- assessment rates,

-- investment of amounts held by the funds,

-- maximum obligation limitations,

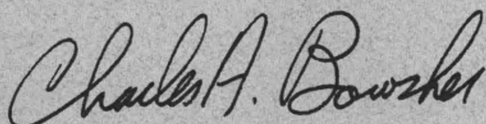
-- disbursements for bank and thrift resolutions,

-- external financial reporting, and

-- accounting for administrative expenses.

We limited our work to accounting and other controls necessary to achieve the objective outlined in our opinion on internal controls. Because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our favorable evaluation of controls related to compliance with laws and regulations to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with such controls may deteriorate.

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



Charles A. Bowsher
Comptroller General
of the United States

May 15, 1993

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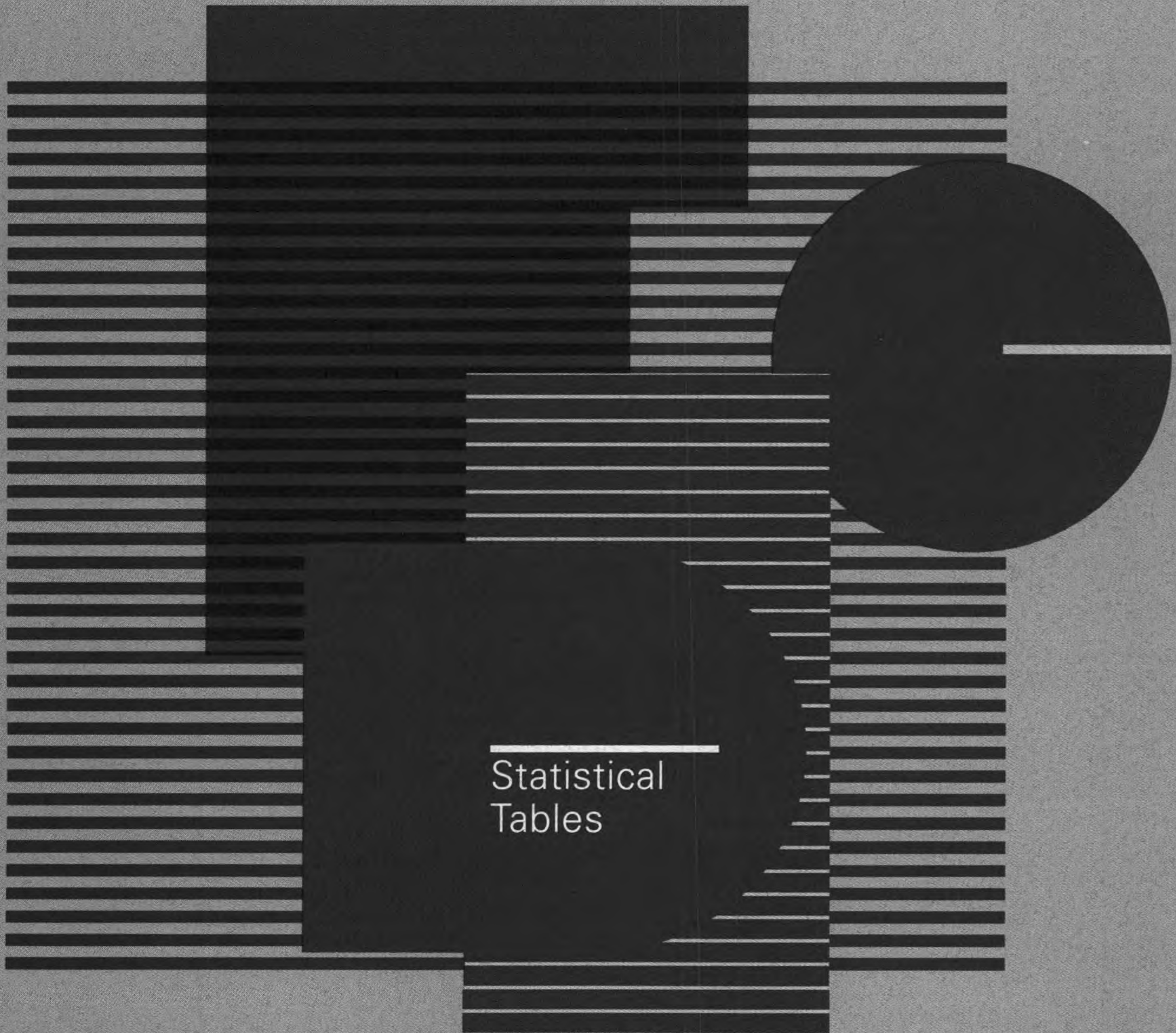

Bank Insurance Fund (BIF)

Tables A through E include data on bank failures and the BIF from the books of specific banks at date of closing and the books of the FDIC as of December 31, 1992.

Savings Association Insurance Fund (SAIF)

Tables DD and EE include data on the SAIF from the books of the FDIC as of December 31, 1992. Data on failures (future Tables AA, BB and CC) will be produced after September 30, 1993, when the SAIF assumes financial responsibility for SAIF-member institutions.

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Table A

Number and Deposits of FDIC–Insured Banks Closed Because of Financial Difficulties, 1934–1992[1]

(Dollars in Thousands)

Year	Number of Insured Banks			Deposits of Insured Banks			Assets
	Total	Without disbursements by FDIC	With disbursements by FDIC	Total	Without disbursements by FDIC	With disbursements by FDIC	
Total	2,015	18	1,997	$207,534,338	$4,298,814	$203,235,524	$246,694,392
1992	120	10	110	41,150,898	4,257,667	36,893,231	44,197,009
1991	124	...	124	53,751,763	...	53,751,763	63,119,870
1990	168	...	168	14,473,300	...	14,473,300	15,660,800
1989	206	...	206	24,090,551	...	24,090,551	29,168,596
1988	200	...	200	24,931,302	...	24,931,302	35,697,789
1987	184	...	184	6,281,500	...	6,281,500	6,850,700
1986	138	...	138	6,471,100	...	6,471,100	6,991,600
1985	120	...	120	8,059,441	...	8,059,441	8,741,268
1984	79	...	79	2,883,162	...	2,883,162	3,276,411
1983	48	...	48	5,441,608	...	5,441,608	7,026,923
1982	42	...	42	9,908,379	...	9,908,379	11,632,415
1981	10	...	10	3,826,022	...	3,826,022	4,859,060
1980	10	...	10	216,300	...	216,300	236,164
1979	10	...	10	110,696	...	110,696	132,988
1978	7	...	7	854,154	...	854,154	994,035
1977	6	...	6	205,208	...	205,208	232,612
1976	16	...	16	864,859	...	864,859	1,039,293
1975	13	...	13	339,574	...	339,574	419,950
1974	4	...	4	1,575,832	...	1,575,832	3,822,596
1973	6	...	6	971,296	...	971,296	1,309,675
1972	1	...	1	20,480	...	20,480	22,054
1971	6	...	6	132,058	...	132,058	196,520
1970	7	...	7	54,806	...	54,806	62,147
1969	9	...	9	40,134	...	40,134	43,572
1968	3	...	3	22,524	...	22,524	25,154
1967	4	...	4	10,878	...	10,878	11,993
1966	7	...	7	103,523	...	103,523	120,647
1965	5	...	5	43,861	...	43,861	58,750
1964	7	...	7	23,438	...	23,438	25,849
1963	2	...	2	23,444	...	23,444	26,179
1962	1	1	0	3,011	3,011	0	N/A
1961	5	...	5	8,936	...	8,936	9,820
1960	1	...	1	6,930	...	6,930	7,506
1959	3	...	3	2,593	...	2,593	2,858
1958	4	...	4	8,240	...	8,240	8,905
1957	2	1	1	11,247	10,084	1,163	1,253
1956	2	...	2	11,330	...	11,330	12,914
1955	5	...	5	11,953	...	11,953	11,985
1954	2	...	2	998	...	998	1,138
1953	4	2	2	44,711	26,449	18,262	18,811
1952	3	...	3	3,170	...	3,170	2,388
1951	2	...	2	3,408	...	3,408	3,050
1950	4	...	4	5,513	...	5,513	4,005
1949	5	1	4	6,665	1,190	5,475	4,886
1948	3	...	3	10,674	...	10,674	10,360
1947	5	...	5	7,040	...	7,040	6,798
1946	1	...	1	347	...	347	351
1945	1	...	1	5,695	...	5,695	6,392
1944	2	...	2	1,915	...	1,915	2,098
1943	5	...	5	12,525	...	12,525	14,058
1942	20	...	20	19,185	...	19,185	22,254
1941	15	...	15	29,717	...	29,717	34,804
1940	43	...	43	142,430	...	142,430	161,898
1939	60	...	60	157,772	...	157,772	181,514
1938	74	...	74	59,684	...	59,684	69,513
1937	77	2	75	33,677	328	33,349	40,370
1936	69	...	69	27,508	...	27,508	31,941
1935	26	1	25	13,405	85	13,320	17,242
1934	9	...	9	1,968	...	1,968	2,661

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

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Federal Reserve Bank of St. Louis

TABLE B

Insured Banks Closed or Assisted by the FDIC Bank Insurance Fund During 1992
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disburse-ments	Estimated Loss[1]	Date of Closing or Assistance	Receiver/ Assuming Bank and Location
Insured Deposit Payoffs								
Assured Thrift & Loan Association San Juan Capistrano, CA	NM	1,992	$57,432	$55,802	$46,806	$17,332	01/03/92	Federal Deposit Insurance Corp.
American National Bank of New York Fleischmanns, NY	N	23,600	18,628	19,615	4,666	4,475	01/24/92	Federal Deposit Insurance Corp.
Independence Bank[2] Encino, CA	NM	33,677	575,418	530,200	528,211	164,310	01/30/92	Federal Deposit Insurance Corp.
Mission Viejo National Bank Mission Viejo, CA	N	2,653	99,045	90,290	88,159	47,394	02/28/92	Federal Deposit Insurance Corp.
Bank of Beverly Hills Beverly Hills, CA	NM	1,503	118,898	115,201	104,115	30,100	04/03/92	Federal Deposit Insurance Corp.
The Financial Center Bank, N.A. San Francisco, CA	N	6,548	199,068	226,327	171,361	62,500	05/04/92	Federal Deposit Insurance Corp.
North American Thrift & Loan Corona Del Mar, CA	NM	1,056	21,254	18,793	19,515	5,300	05/29/92	Federal Deposit Insurance Corp.
The Home State Bank, Longton, KS Longton, KS	NM	1,011	3,675	3,864	3,450	400	06/04/92	Federal Deposit Insurance Corp.
Universal Bank Lanham, MD	NM	1,559	17,288	20,523	16,159	4,600	10/16/92	Federal Deposit Insurance Corp.
Huntington Pacific Thrift & Loan Assn. Huntington Beach, CA	NM	820	41,365	37,290	36,066	2,400	12/04/92	Federal Deposit Insurance Corp.
The Bremen State Bank Bremen, KS	NM	371	2,299	2,382	2,354	400	12/18/92	Federal Deposit Insurance Corp.
Insured Deposit Transfers								
The Citizens Bank Dallas, GA	NM	10,856	48,183	51,286	38,802	16,480	01/10/92	First Nat'l Bank of Paulding County Dallas, GA
Merchant National Bank Fort Myers, FL	N	2,241	28,790	28,983	26,649	7,264	02/07/92	Founders National Trust Bank Fort Myers, FL
National City Bank Coral Springs, FL	N	1,544	18,459	16,661	11,887	3,066	02/21/92	Intercontinental Bank Miami, FL
Bank of Brandywine Valley West Chester, PA	SM	3,771	48,259	47,219	34,194	21,096	02/21/92	Wilmington Trust Co. Wilmington, DE
Columbia Bank Avondale, AZ	SM	2,015	15,272	14,882	14,335	4,662	02/27/92	The Valley National Bank of Arizona Phoenix, AZ
New Heritage Bank Lawrence, MA	NM	1,646	87,681	90,825	76,381	12,200	03/06/92	The First National Bank of Boston Boston, MA
Broadway Bank & Trust Co. Paterson, NJ	NM	40,938	359,945	370,261	293,631	96,400	03/13/92	Hudson United Bank Union City, NJ
United Mercantile B&T Co., N.A. Pasadena, CA	N	1,466	30,756	28,322	22,802	8,100	03/20/92	OneCentral Bank Glendale, CA

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

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Federal Reserve Bank of St. Louis

TABLE B

Insured Banks Closed or Assisted by the FDIC Bank Insurance Fund During 1992
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disbursements	Estimated Loss[1]	Date of Closing or Assistance	Receiver/ Assuming Bank and Location
First Community Bank of Cherokee Woodstock, GA	NM	3,542	$34,385	$34,685	$19,391	$3,300	03/31/92	Etowah Bank Canton, GA
Summit National Bank Torrington, CT	N	13,038	95,450	89,336	80,594	22,700	04/03/92	American Bank of Connecticut Waterbury, CT
Valley Commercial Bank Stockton, CA	NM	3,256	25,504	27,542	17,290	4,800	04/24/92	Union Safe Deposit Bank Stockton, CA
Metropolitan Bank, N.A. Washington, DC	N	1,021	26,885	26,280	21,756	3,900	05/01/92	The Adams National Bank Washington, DC
Brookfield Bank Brookfield, CT	NM	4,879	72,882	68,675	64,624	22,300	05/08/92	Bristol Federal Savings Bank Bristol, CT
Eastwest Bank, N.A. Kihei, HI	N	1,048	2,499	3,158	471	100	10/02/92	First Hawaiian Bank Honolulu, HI
Purchase and Assumption – Insured Deposits Only								
Landmark Bank of Fort Worth Fort Worth, TX	NM	11,527	78,244	77,524	48,609	21,377	02/06/92	Central Bank and Trust Co. Fort Worth, TX
Independence Bank Plano, TX	SM	3,713	20,341	19,480	3,434	2,000	03/19/92	First Western National Bank Carrollton, TX
Southstate Bank for Savings Brockton, MA	SB	34,677	284,344	265,241	234,065	15,800	04/24/92	BayBank Burlington, MA
Shore Bank & Trust Co. Lynn, MA	NM	14,507	172,860	171,576	160,393	17,300	04/24/92	Eastern Bank Lynn, MA
First Exchange Bk of Cape Girardeau Cape Girardeau, MO	SM	7,525	84,930	84,523	63,217	18,400	05/07/92	Commerce Bank of Poplar Bluff, N.A. Poplar Bluff, MO
First Exchange Bk of North St. Louis County Florissant, MO	SM	6,543	47,589	45,739	31,125	2,100	05/07/92	First Bank, A Savings Bank Clayton, MO
First Exchange Bk of Madison Cnty Fredericktown, MO	SM	5,791	33,523	33,108	13,982	3,000	05/07/92	Commerce Bk of St. Francois Cnty Farmington, MO
First Exchange Bank of St. Louis St. Louis, MO	SM	5,774	58,887	59,654	45,077	8,300	05/07/92	Magna Bank of St. Louis St. Louis, MO
Jackson Exchange Bank & Trust Co. Jackson, MO	SM	18,424	125,309	125,249	94,161	14,000	05/07/92	Boatmen's Nat'l Bk of Cape Girardeau Cape Girardeau, MO
Malden Trust Co. Malden, MA	NM	38,172	238,935	237,000	186,754	17,900	05/15/92	Eastern Bank Lynn, MA
Workingmen's Co–Operative Bank Boston, MA	SB	23,205	211,873	189,880	173,403	12,700	05/29/92	The First National Bank of Boston Boston, MA
Mayfair Bank Chicago, IL	NM	5,653	30,702	30,181	13,833	2,800	06/04/92	Foster Bank Chicago, IL
American Savings Bank White Plains, NY	SB	271,753	3,170,975	2,703,900	3,028,429	423,000	06/12/92	Assumed by 7 institutions[3]
Riverhead Savings Bank Riverhead, NY	SB	36,593	366,162	307,000	284,273	7,000	06/12/92	Assumed by 2 institutions[4]
American Interstate Bank Newport Beach, CA	NM	2,790	41,467	41,527	20,679	1,900	06/12/92	Marine National Bank Irvine, CA
American National Bank – Post Oak Houston, TX	N	3,037	20,554	23,223	9,009	1,700	06/25/92	First Prosperity Bank El Campo, TX

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Federal Reserve Bank of St. Louis

TABLE B

Insured Banks Closed or Assisted by the FDIC Bank Insurance Fund During 1992
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disbursements	Estimated Loss[1]	Date of Closing or Assistance	Receiver/ Assuming Bank and Location
Castle Hills National Bank San Antonio, TX	N	2,332	$12,474	$13,198	$660	$400	06/25/92	International Bank of Commerce Laredo, TX
Olympic International Bank & Trust Boston, MA	NM	3,828	130,114	142,322	126,680	38,500	06/26/92	Haymarket Co–Operative Bank Boston, MA
Vernon Bank Vernon, CT	NM	3,742	37,534	36,012	3,656	2,300	06/26/92	Bank of South Windsor South Windsor, CT
First National Bank of Texas Webster, TX	N	6,731	82,462	82,497	38,824	10,600	07/23/92	First Prosperity Bank El Campo, TX
Massachusetts Bank & Trust Co. Brockton, MA	NM	5,354	57,078	58,602	45,905	6,800	07/31/92	Haymarket Co–Operative Bank Boston, MA
Winchendon Savings Bank Winchendon, MA	SB	11,409	66,335	64,118	15,196	5,200	08/14/92	Athol Savings Bank Athol, MA
Attleboro Pawtucket Savings Bank Attleboro, MA	SB	104,823	591,466	567,110	63,257	59,500	08/21/92	New Bedford Institution for Savings New Bedford, MA
The Union Savings Bank Patchogue, NY	SB	64,315	534,559	560,023	279,748	53,800	08/28/92	Home Federal Savings Bank Ridgewood, NY
Seacoast Savings Bank Dover, NH	SB	15,084	84,415	65,150	28,017	3,800	08/28/92	First S&LA of New Hampshire Exeter, NH
The First National Bank of Yorktown Yorktown, TX	N	4,643	30,869	33,190	15,009	19,200	09/10/92	Citizens Bank Kilgore, TX
The Washington Bank Fairfax County, VA	NM	1,985	25,463	26,417	17,711	6,300	09/18/92	The George Mason Bank Fairfax, VA
Plymouth Five Cents Savings Bank Plymouth, MA	SB	30,873	219,993	182,076	42,955	10,200	09/18/92	Citizens Bank of Massachusetts Fairhaven, MA
First Exchange Bk of Little Rock, N.A. Little Rock, AR	N	1,555	20,639	21,170	11,436	1,300	09/24/92	First Commercial Bank, N.A. Little Rock, AR
First City, Texas – Austin, N.A. Austin, TX	N	40,002	336,705	354,500	32	0	10/30/92	New First City, TX – Austin, N.A. Austin, TX[5]
First City, Texas – Dallas Dallas, TX	SM	184,585	1,303,279	1,405,700	2	0	10/30/92	New First City, TX – Dallas, N.A. Dallas, TX[5]
First City, Texas – Houston, N.A. Houston, TX	N	271,095	3,524,997	2,581,800	0	100,000	10/30/92	New First City, TX – Houston, N.A. Houston, TX[5]
First City, Texas – San Antonio, N.A. San Antonio, TX	N	31,887	257,045	286,395	0	0	10/30/92	New First City, TX – San Antonio, N.A. San Antonio, TX[5]
Guaranty – First Trust Co. Waltham, MA	NM	31,422	314,106	313,034	284,763	55,000	11/13/92	Fleet Bank of Massachusetts, N.A. Boston, MA
First New York Bank for Business New York, NY	NM	21,919	493,363	500,733	414,423	143,600	11/13/92	The Merchants Bank of New York New York, NY
Metro North State Bank Kansas City, MO	NM	64,000	449,042	466,600	90,000	194,858	11/13/92	Missouri Bridge Bank, N.A. Kansas City, MO[5]
The Merchants Bank Kansas City, MO	SM	70,000	1,225,561	1,353,500	200,000	314,978	11/20/92	Missouri Bridge Bank, N.A. Kansas City, MO[5]
Burritt Interfinancial Bancorporation New Britain, CT	SB	52,671	523,677	489,387	255,102	59,800	12/04/92	Derby Savings Bank Derby, CT
Heritage Bank for Savings Holyoke, MA	SB	136,800	1,256,016	984,700	211,308	60,000	12/04/92	Fleet Bank of Massachusetts, N.A. Boston, MA

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TABLE B

Insured Banks Closed or Assisted by the FDIC Bank Insurance Fund During 1992
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disbursements	Estimated Loss[1]	Date of Closing or Assistance	Receiver/ Assuming Bank and Location
Eastland Bank Woonsocket, RI	NM	18,456	$71,178	$64,872	$0	$0	12/11/92	Fleet National Bank Providence, RI
Eastland Savings Bank Woonsocket, RI	SB	83,518	491,089	445,202	30,334	47,800	12/11/92	Fleet National Bank Providence, RI
The Rushville National Bank Rushville, IN	N	6,044	33,250	31,890	6,643	7,300	12/18/92	Peoples Trust Company Brookville, IN
Purchase and Assumption – All Deposits								
The Bank of Verde Valley Cottonwood, AZ	SM	1,045	9,790	9,855	1,267	1,365	01/16/92	Stockmen's Bank Kingman, AZ
First State Bank Bangs, TX	NM	3,448	15,191	16,114	9,393	3,632	01/23/92	Texas Bank Brownwood, TX
Banco Nacional, N.A. San Juan, PR	N	3,542	48,134	47,248	39,272	13,849	01/24/92	Eurobank and Trust Co. San Juan, PR
CrossLand Savings, FSB Brooklyn, NY	SB	350,124	7,234,435	6,535,247	1,200,050	1,128,755	01/24/92	CrossLand Federal Savings Bank Brooklyn, NY[6]
Atlantic Trust Company Newington, NH	NM	1,936	20,474	21,442	21,389	8,304	01/30/92	Fleet Bank–NH Nashua, NH
Sentinel Bank Hartford, CT	NM	3,200	74,717	69,771	67,572	31,326	01/31/92	Society for Savings Hartford, CT
Fountain Bank Scottsdale, AZ	SM	2,605	12,836	13,811	9,114	5,022	01/31/92	Bank of Arizona Scottsdale, AZ
Kempton State Bank Kempton, IL	NM	766	3,688	3,573	451	355	02/07/92	Vermilion Valley Bank Piper City, IL
The Central Savings Bank Lowell, MA	SB	58,427	352,038	338,857	150,692	58,871	02/14/92	MASSBANK for Savings Reading, MA
Dollar Dry Dock Bank White Plains, NY	SB	390,142	3,842,434	3,733,163	698,199	556,906	02/21/92	Emigrant Savings Bank New York, NY, and Apple Savings Bank New York, NY
Colony Savings Bank Wallingford, CT	SB	2,337	30,923	27,263	14,312	5,266	02/28/92	The New Haven Savings Bank New Haven, CT
Progressive National Bank of Rayne Rayne, LA	N	1,729	11,280	11,177	1,889	1,100	03/12/92	St. Landry Bank & Trust Co. Opelousas, LA
First Security Bank of Anaconda Anaconda, MT	NM	4,707	30,634	30,201	11,593	2,400	03/16/92	Bank of Montana – Anaconda Anaconda, MT
Southside National Bank Nacogdoches, TX	N	2,235	10,700	10,843	4,590	1,100	03/19/92	Fredonia State Bank Nacogdoches, TX
Farmers & Merchants Bank Tryon, OK	NM	846	3,853	3,876	2,270	100	03/19/92	Union National Bank of Chandler Chandler, OK
The Bank for Savings Malden, MA	SB	62,264	398,499	387,617	151,818	11,800	03/20/92	Medford Savings Bank Medford, MA
Theodore Roosevelt National Bank Washington, DC	N	1,657	12,564	12,159	10,434	1,200	03/26/92	Industrial Bank of Washington Washington, DC
American Bank of Commerce Oklahoma City, OK	NM	3,357	12,477	13,320	3,610	900	03/26/92	Rockwell Bank, N.A. Oklahoma City, OK
Vanguard Savings Bank Holyoke, MA	SB	50,329	436,106	407,745	405,868	102,400	03/27/92	Fleet Bank of Massachusetts, N.A. Boston, MA

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TABLE B

Insured Banks Closed or Assisted by the FDIC Bank Insurance Fund During 1992

(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disbursements	Estimated Loss[1]	Date of Closing or Assistance	Receiver/ Assuming Bank and Location
Placer Bank of Commerce Roseville, CA	SM	2,261	$29,520	$30,301	$19,900	$9,200	03/27/92	American River Bank Sacramento, CA
Red Bird Bank of Dallas Dallas, TX	NM	6,337	37,004	33,373	23,056	4,500	04/09/92	Bank of the Southwest of Dallas Dallas, TX
Fairfield County Trust Co. Stamford, CT	NM	7,640	128,516	132,001	102,718	19,100	04/09/92	Chase Manhattan Bank of Connecticut, N.A. Bridgeport, CT
The Norwalk Bank Norwalk, CT	NM	6,100	80,374	76,824	44,641	8,200	04/24/92	The Bank of Darien Darien, CT
Powder Mill Bank Morris Plains, NJ	NM	3,964	41,847	42,337	39,178	11,300	05/22/92	Valley National Bank Passaic, NJ
Landmark Bank for Savings Whitman, MA	SB	11,062	56,215	43,450	47,739	9,600	06/12/92	Abington Savings Bank Abington, MA
The Somersworth Bank Somersworth, NH	NM	10,991	113,604	103,930	53,162	15,600	06/26/92	New Dartmouth Bank Manchester, NH
State Bank of Springfield Springfield, MN	NM	4,360	29,844	29,059	801	500	07/17/92	Southwest State Bank Windom, MN
Foxworth Bank Foxworth, MS	SM	5,723	34,073	36,142	16,953	1,100	08/07/92	Trustmark National Bank Jackson, MS
Highlands Community Bank, N.A. Clinton Township, NJ	N	1,480	19,428	19,726	11,422	2,700	09/25/92	Somerset Trust Company Bridgewater Township, NJ
Hometown Bank Edison, NJ	NM	1,841	25,274	24,923	20,452	7,000	09/25/92	Somerset Trust Company Bridgewater Township, NJ
The Howard Savings Bank Newark, NJ	SB	460,060	3,272,481	3,392,009	315,134	102,000	10/02/92	First Fidelity Bank, N.A. Newark, NJ
First Constitution Bank New Haven, CT	SB	129,973	1,545,570	1,360,949	245,188	129,000	10/02/92	First Federal Bank, FSB Waterbury, CT
First City, Texas – Alice Alice, TX	NM	12,367	128,072	133,900	10	0	10/30/92	New First City, TX – Alice, N.A. Alice, TX[5]
First City, Texas – Aransas Pass Aransas Pass, TX	NM	6,116	54,242	47,900	10	0	10/30/92	New First City, TX – Aransas Pass, N.A. Aransas Pass, TX[5]
First City, Texas – Beaumont, N.A. Beaumont, TX	N	57,160	529,486	543,800	0	0	10/30/92	New First City, TX – Beaumont, N.A. Beaumont, TX[5]
First City, Texas – Bryan, N.A. Bryan, TX	N	35,484	339,378	309,400	44	0	10/30/92	New First City, TX – Bryan, N.A. Bryan, TX[5]
First City, Texas – Corpus Christi Corpus Christi, TX	SM	47,900	475,869	390,311	58	0	10/30/92	New First City, TX – Corpus Christi, N.A. Corpus Christi, TX[5]
First City, Texas – El Paso, N.A. El Paso, TX	N	40,790	397,513	386,200	10	0	10/30/92	New First City, TX – El Paso, N.A. El Paso, TX[5]
First City, Texas – Graham, N.A. Graham, TX	N	10,651	94,304	98,900	25	0	10/30/92	New First City, TX – Graham, N.A. Graham, TX[5]
First City, Texas – Kountze Kountze, TX	SM	14,334	50,685	54,100	0	0	10/30/92	New First City, TX – Kountze, N.A. Kountze, TX[5]

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TABLE B

Insured Banks Closed or Assisted by the FDIC Bank Insurance Fund During 1992
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disburse-ments	Estimated Loss[1]	Date of Closing or Assistance	Receiver/ Assuming Bank and Location
First City, Texas – Lake Jackson Lake Jackson, TX	NM	10,461	$102,808	$105,900	$10	$0	10/30/92	New First City, TX – Lake Jackson, N.A. Lake Jackson, TX[5]
First City, Texas – Lufkin, N.A. Lufkin, TX	N	16,256	156,563	155,200	0	0	10/30/92	New First City, TX – Lufkin, N.A. Lufkin, TX[5]
First City, Texas – Madisonville, N.A. Madisonville, TX	N	10,785	119,764	125,200	0	0	10/30/92	New First City, TX – Madisonville, N.A. Madisonville, TX[5]
First City, Texas – Midland, N.A. Midland, TX	N	27,384	311,773	307,600	25	0	10/30/92	New First City, TX – Midland, N.A. Midland, TX[5]
First City, Texas – Orange, N.A. Orange, TX	N	16,592	128,683	146,000	0	0	10/30/92	New First City, TX – Orange, N.A. Orange, TX[5]
First City, Texas – San Angelo, N.A. San Angelo, TX	N	12,786	138,231	145,400	10	0	10/30/92	New First City, TX – San Angelo, N.A. San Angelo, TX[5]
First City, Texas – Sour Lake Sour Lake, TX	NM	5,315	54,135	54,900	0	0	10/30/92	New First City, TX – Sour Lake, N.A. Sour Lake, TX[5]
First City, Texas – Tyler, N.A. Tyler, TX	N	23,773	251,382	245,400	0	0	10/30/92	New First City, TX – Tyler, N.A. Tyler, TX[5]
Greenwood Bank of Bethel, Inc. Bethel, CT	NM	2,396	35,149	33,277	31,528	7,900	11/06/92	Union Savings Bank of Danbury Danbury, CT
Investors Bank & Trust Co. Gretna, LA	NM	7,857	47,368	48,118	4,776	3,500	11/13/92	Delta Bank and Trust Co. Belle Chasse, LA
Statewide Thrift & Loan Co. Redwood City, CA	NM	580	10,341	9,464	4,028	1,800	11/13/92	Fireside Thrift Co. Newark, CA
Sailors & Merchants Bank & Trust Vienna, VA	SM	5,972	27,517	31,713	17,842	5,900	12/11/92	First Union Bank of Virginia Vienna, VA
Meritor Savings Bank Philadelphia, PA	SB	387,479	3,560,499	3,196,504	366,885	100,000	12/11/92	Mellon Bank, N.A. Pittsburgh, PA
Open Bank Assistance								
Freedom Bank Ranger, TX	NM	3,400	21,713	20,891	361	0	09/21/92	Peoples State Bank Clyde, TX
Citizens State Bank Princeton, TX	NM	3,171	13,200	12,577	0	599	12/10/92	Princeton Investor Group, Inc. Princeton, TX

[1] Estimated losses are as of 12/31/92. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affects the asset values and projected recoveries. Also, in the case of bridge banks and other large transactions, current loss estimates may vary from original estimates due to changes in bank assets and liabilities at closing and unexpected contingencies subsequent to closing. Further, the final resolution of bridge banks and conservatorships can affect the estimated loss.

[2] The FDIC expects to be fully reimbursed for the cost of this resolution but has established a reserve for the maximum potential loss.

[3] Banco Popular de Puerto Rico, San Juan, PR; Bank of New York, Commercial Bank of New York, and Republic Bank of New York, all of New York, NY; First Federal Savings and Loan of Rochester, Rochester, NY; First Fidelity Bank, Newark, NJ; and Queens County Savings Bank, Flushing, NY.

[4] Bank of New York, New York, NY, and Roslyn Savings Bank, Roslyn, NY.

[5] Bridge bank.

[6] Conservatorship.

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Table C

Recoveries and Losses by the Bank Insurance Fund on Disbursements for Protection of Depositors, 1934–1992

(Dollars in Thousands)

ALL CASES[1]

Year	No. of banks	Disburse–ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	2,067	$100,429,073	$47,078,378	$15,800,666	$37,550,029
1992	122	12,505,522	2,462,476	5,332,804	4,710,242
1991	127	20,449,674	7,473,071	5,983,309	6,993,294
1990	169	10,789,718	6,665,061	1,187,425	2,937,232
1989	207	11,260,693	4,233,785	713,778	6,313,130
1988	221	12,799,148	5,166,257	942,624	6,690,267
1987	203	5,017,575	2,832,214	182,065	2,003,296
1986	145	4,761,472	2,927,354	125,012	1,709,106
1985	120	2,853,009	1,558,936	199,124	1,094,949
1984	80	7,696,036	5,495,143	668,284	1,532,609
1983	48	3,737,473	2,205,209	137,272	1,394,992
1982	42	2,274,930	827,150	36,797	1,410,983
1981	10	998,433	366,908	43,518	588,007
1980	11	152,355	114,760	7,010	30,585
1979	10	90,351	74,234	5,250	10,867
1978	7	548,568	512,927	26,626	9,015
1977	6	26,650	20,654	3,903	2,093
1976	17	599,397	559,430	39,720	247
1975	13	332,046	292,431	23,303	16,312
1974	5	2,403,277	2,259,633	143,604	40
1973	6	435,238	368,852	(1,101)	67,487
1972	2	16,189	14,501	(8)	1,696
1934–71[3]	496	681,319	647,392	347	33,580

Deposit payoff cases[2]

Year	No. of banks	Disburse–ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	598	$14,141,577	$7,174,927	$2,426,284	$4,540,366
1992	25	1,743,669	511,719	666,371	565,579
1991	21	1,469,608	425,147	500,208	544,253
1990	20	2,177,390	886,680	546,919	743,791
1989	32	2,115,125	823,834	467,276	824,015
1988	36	1,252,133	750,732	80,838	420,563
1987	51	2,103,129	1,297,504	117,349	688,276
1986	40	1,155,772	721,887	15,975	417,910
1985	29	523,786	405,141	0	118,645
1984	16	791,766	667,400	29,548	94,818
1983	9	147,287	122,484	0	24,803
1982	7	277,240	205,879	124	71,237
1981	2	35,736	34,598	0	1,138
1980	3	13,732	11,515	0	2,217
1979	3	9,936	9,003	0	933
1978	1	817	613	0	204
1977	0	0	0	0	0
1976	3	11,416	9,660	1,683	73
1975	3	25,918	25,849	1	68
1974	0	0	0	0	0
1973	3	16,771	16,771	0	0
1972	1	16,189	14,501	(8)	1,696
1934–71[3]	293	254,157	234,010	0	20,147

Deposit assumption cases

Year	No. of banks	Disburse–ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	1,389	$63,289,418	$30,817,662	$11,880,361	$20,591,395
1992	95	10,761,492	1,950,757	4,666,671	4,144,064
1991	103	18,338,589	6,857,240	5,473,738	6,007,611
1990	148	8,609,832	5,778,326	640,506	2,191,000
1989	174	4,558,548	2,920,721	246,502	1,391,325
1988	164	2,943,513	760,211	145,549	2,037,753
1987	133	2,754,026	1,533,997	64,716	1,155,313
1986	98	3,377,016	2,127,266	54,224	1,195,526
1985	87	1,625,930	974,796	123,066	528,068
1984	62	1,373,091	932,747	13,448	426,896
1983	36	3,513,617	2,082,725	124,772	1,306,120
1982	26	418,102	322,521	36,673	58,908
1981	5	79,208	33,463	43,518	2,227
1980	7	138,623	103,245	7,010	28,368
1979	7	80,415	65,231	5,250	9,934
1978	6	547,751	512,314	26,626	8,811
1977	6	26,650	20,654	3,903	2,093
1976	13	587,981	549,770	38,037	174
1975	10	306,128	266,582	23,302	16,244
1974	4	2,403,277	2,259,633	143,604	40
1973	3	418,467	352,081	(1,101)	67,487
1972	0	0	0	0	0
1934–71[3]	202	427,162	413,382	347	13,433

Assistance transactions[1]

Year	No. of banks	Disburse–ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	80	$22,998,078	$9,085,789	$1,494,021	$12,418,268
1992	2	361	0	(238)	599
1991	3	641,477	190,684	9,363	441,430
1990	1	2,496	55	0	2,441
1989	1	4,587,020	489,230	0	4,097,790
1988	21	8,603,502	3,655,314	716,237	4,231,951
1987	19	160,420	713	0	159,707
1986	7	228,684	78,201	54,813	95,670
1985	4	703,293	178,999	76,058	448,236
1984	2	5,531,179	3,894,996	625,288	1,010,895
1983	3	76,569	0	12,500	64,069
1982	9	1,579,588	298,750	0	1,280,838
1981	3	883,489	298,847	0	584,642
1980	1	N/A	N/A	N/A	N/A
1979	0	0	0	0	0
1978	0	0	0	0	0
1977	0	0	0	0	0
1976	1	N/A	N/A	N/A	N/A
1975	0	0	0	0	0
1974	1	N/A	N/A	N/A	N/A
1973	0	0	0	0	0
1972	1	N/A	N/A	N/A	N/A
1934–71[3]	1	N/A	N/A	N/A	N/A

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

[2] Includes insured deposit transfer cases.

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

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Table D

Income and Expenses, Bank Insurance Fund, by Year, from Beginning of Operations, September 11, 1933, to December 31, 1992

(Dollars in Millions)

Year	Income					Expenses and Losses			Net Income/ (Loss)
	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Deposit Insurance Losses and Expenses	Administrative and Operating Expenses	
Total	$55,730.7	$38,733.5	$6,709.1	$23,706.3		$55,831.3	$51,871.4	$3,959.9	($100.6)
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(1,196.6)	570.8	6,927.3
1991	5,789.9	5,160.5	0.0	629.4	0.2125%	16,862.3	16,578.2	284.1	(11,072.4)
1990	3,838.3	2,855.3	0.0	983.0	0.1200%	13,003.3	12,783.7	219.6	(9,165.0)
1989	3,494.6	1,885.0	0.0	1,609.6	0.0833%	4,346.2	4,132.3	213.9	(851.6)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	7,364.5	223.9	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	3,066.0	204.9	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,783.4	180.3	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,778.7	179.2	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,848.0	151.2	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	834.2	135.7	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	869.9	129.9	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	720.9	127.2	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(34.6)	118.2	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(13.1)	106.8	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	45.6	103.3	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	24.3	89.3	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	31.9	180.4	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	29.8	67.7	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	100.0	59.2	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	53.8	54.4	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	102.5
1955	105.7	151.5	85.4	39.6	0.0370%	9.0	0.3	8.7	96.7
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	9.5
1933–34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	(3.0)

[1]The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833% due to assessment credits provided in those years. The statutory rate increased to 0.12% in 1990 and to a minimum of 0.15% in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed.

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Table E

Insured Deposits and the Bank Insurance Fund, December 31, 1934–1992

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

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

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

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

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Table DD

Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations, August 9, 1989, to December 31, 1992

(Dollars in Thousands)

	Income				Expenses and Losses					
Year	Total	Assessment Income	Entrance and Exit Fees	Investment and Other Sources	Total	Provision for Losses	Interest Expenses	Administrative and Operating Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
Total	$293,286	$283,804	$19	$9,463	$153,757	$5,169	$604	$147,984	$139,498	$279,027
1992	178,643	172,079	9	6,555	28,982	(14,945)	(5)	43,932	35,446	185,107
1991	96,446	93,530	8	2,908	63,085	20,114	609	42,362	42,362	75,723
1990	18,195	18,195	0	0	56,088	0	0	56,088	56,088	18,195
1989	2	0	2	0	5,602	0	0	5,602	5,602	2

Table EE

Insured Deposits and the Savings Association Insurance Fund, December 31, 1989–1992

		(Dollars in Millions)				Insurance Fund as a Percentage of	
		Deposits in Insured Institutions					
Year	Insurance Coverage	Total	Insured[1]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Deposits	Insured Deposits
1992[2]	$100,000	$760,902	$729,458	95.9	$279.0	0.04	0.04
1991[2]	100,000	810,664	776,351	95.8	93.9	0.01	0.01
1990[2]	100,000	874,738	830,028	94.9	18.2	0.00	0.00
1989	100,000	948,144	882,920	93.1	0.0	0.00	0.00

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

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

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Federal Reserve Bank of St. Louis

Index

Advance Dividends 32, 34, 37

Affordable Housing Program 6, 38, 40, 73

American Savings Bank, White Plains, New York 6, 34

Applications Processing 27-28, 30
- *FDIC Applications, 1990-1992* 28

Assessments (see Deposit Insurance Premiums)

Assistance Transactions 35-36

Bank of Credit and Commerce International (see Independence Bank)

Bank Insurance Fund (BIF) 2, 7, 51-52, 65
- *Highlights* 7
- Financial Statements 76-102

Bridge Banks 33, 35, 38

Call Reports 24-25

Commercial Banks (Financial Performance) 2-3, 8-9
- *Annual Return on Assets and Equity, Insured Commercial Banks, 1934-1992* 9

Community Reinvestment and Consumer Protection 56-57, 72, 73

"Credit Crunch" 60

CrossLand Savings Bank, FSB, Brooklyn, New York 6, 34

Deposit Insurance Coverage 7, 32-33, 38-39, 52-53, 69, 71

Deposit Insurance Premiums 6, 23, 51-52, 64, 69

Dollar Dry Dock Bank, White Plains, New York 34

Economic and Policy Research 51-55

Enforcement Activities 26-27, 44, 45
- *Compliance, Enforcement and Other Legal Actions, 1990-1992* 45

Equal Opportunity 42, 58-59, 61

Examinations 23-24
- *FDIC Examinations, 1990-1992* 23

Failed or Failing Institutions 31-43
- *Failed Banks, 1990-1992* 31

Federal Deposit Insurance Corporation
- Board of Directors 12-14
- Divisions and Offices 18-19
- Financial Statements 75-165
- Highlights 6-7
- Officials 15
- Organization Chart 19
- Regional Offices 16-17
- Reorganization 6, 57-58

FDIC Improvement Act of 1991 (FDICIA)
- Brokered Deposits 30, 65
- Least Cost 32
- Overview 3, 22
- Prompt Corrective Action 6, 7, 22, 26, 36, 59, 64
- Required Studies 52-55, 71
- Risked-based Assessments 23, 64, 69

Federal Financial Institutions Examination Council (FFIEC) 25, 29, 54

Federal Savings and Loan Insurance Corporation (FSLIC) 43, 73

FSLIC Resolution Fund (FRF) 36, 73
- Financial Statements 123-147

Financial Fraud 26, 46

Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) 36, 48, 51, 67, 68, 73

First City Bancorporation of Texas, Inc., Houston, Texas 6, 34, 38

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General Accounting Office (GAO) 148-165

Hope, C.C., Jr. 4, 13

Hove, Andrew C., Jr. 2-4, 6, 12, 54, 59

Howard Savings Bank, Newark, New Jersey 34

Independence Bank, Encino, California 33, 38, 39

Interagency Activities 3, 24-25, 26, 28-29, 46, 47, 54

Legal Activities 44-50

Legislation Enacted in 1992 72-73

Liquidation Activities 7, 37-43
  Contractor Oversight and Monitoring Branch 42
  Liquidation Highlights, 1990-1992 38

Litigation 48-50

Meritor Savings Bank, Philadelphia, Pennsylvania 34

Minority- and Women-Owned Business Outreach Program 42, 58-59, 68

Money Laundering 26

Off-Site Monitoring 24-25

Problem Banks 3, 25-26
  Bank Insurance Fund Problem Banks, 1988-1992 25

Prompt Corrective Action (see FDICIA)

Professional Liability 44-46, 48-49

Real Estate and Real Estate Loans 54, 66

Reports of Condition and Income (see Call Reports)

Resolution Trust Corporation 36, 45-46, 52, 61

Rules and Regulations 53-54, 64-71

Ryan, Timothy 14

Savings Association Insurance Fund (SAIF) 52, 64
  Financial Statements 103-122

Savings Banks (Financial Performance) 9

Staffing 39, 46, 60, 61
  Number of FDIC Officials and Employees, 1991-1992 60

Statistical Tables
  A: Number and Deposits of Banks Closed, 1934-1992 168
  B: Insured Banks Closed or Assisted, Bank Insurance Fund, During 1992 169-174
  C: Recoveries and Losses by the BIF on Disbursements to Protect Depositors, 1934-1992 175
  D: Income and Expenses, BIF, 1933-1992 176
  E: Insured Deposits and the BIF, 1934-1992 177
  DD: Income and Expenses, SAIF, 1989-1992 178
  EE: Insured Deposits and the SAIF, 1989-1992 178

Steinbrink, Stephen R. 13

Supervision 3, 22-30, 44

Taylor, William 3-4, 6

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Alan J. Whitney

Deputy Director:
Caryl A. Austrian

Senior Writer-Editor:
Jay Rosenstein

Associate Editor:
David Barr

Assistant Editors:
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Andrew Porterfield

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