Federal
Deposit
Insurance
Corporation

60 years
of confidence

Annual Report 1993

Cover:
Scenes of concerned depositors, like this 1930 "run" on a New York City bank, were less common after the FDIC was established in 1933.

This page:
Mrs. Lydia Lobsiger receives the first FDIC insurance check, after the May 28, 1934, failure of the Fond Du Lac State Bank, East Peoria, Illinois.

Opposite page:
President Franklin Roosevelt signs the Banking Act of 1933, which created the FDIC and began 60 years of confidence in the U.S. banking system.

9/22/94

1993
Annual
Report

FDIC

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

FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429

Office of the Chairman

July 15, 1994

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 1993.

Very truly yours,

Andrew C. Hove

Andrew C. Hove, Jr.
Acting Chairman

The President of the U.S. Senate

The Speaker of the U.S. House of Representatives

Table of Contents

About two years ago, some observers were predicting the worst for the banking industry and for its federal deposit insurance fund. Bank closings had been running at well over 100 per year — twice reaching the 200 level — and included some rather large institutions. There also was talk of large waves of bank closings to come. However, conditions have gotten much better. As I wrote in last year's Annual Report, we believed at that stage that the banking industry had gone "off the critical list and was taking important steps toward recovery." I am pleased to report now that both the banking industry and its insurance fund are indeed recovering from the strains of the past, and that there is little on the horizon to threaten that recovery.

Failed and Failing Institutions

The FDIC handled 41 bank closings in 1993, the lowest level in 12 years. Those 41 banks, which had combined assets at closing of $3.5 billion, are projected to cost the Bank Insurance Fund (BIF) approximately $566 million. By comparison, 120 banks with $44.2 billion in total assets were closed in 1992. Their estimated cost is $4.7 billion.

As recently as the fall of 1992, the FDIC's "problem list" of BIF-insured institutions requiring special attention was still above the 1,000 level. By year-end 1993, the problem list was down to 472. This and other signs of improvement lead us to project a sharp reduction in the number of bank closings in 1994 and 1995.

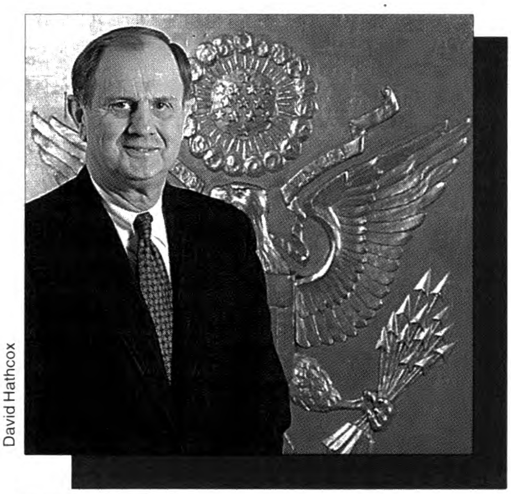
Why did so few banks fail in 1993, and why are we more optimistic about many banks that once had been of concern? The short answer is that many weak institutions either merged with healthier banks or increased their capital levels. A longer explanation, though, would include the following: (1) the continued favorable interest rate environment; (2) a strong and improving economy; (3) two consecutive years of record earnings for the banking industry, which enabled many institutions to strengthen their balance sheets; and (4) the implementation of new regulatory policies and programs that reward prudently managed institutions and penalize those operating in an unsafe or unsound manner. A prime example is the FDIC's risk-related deposit insurance premium system which, as authorized by a 1991 law, replaced in 1993 the flat-rate system used previously.

The Insurance Funds

The reductions in both actual bank failures and in our forecasts for future closings enabled the BIF to end 1993 with a balance of $13.1 billion. That is a significant improvement over the negative balance of $101 million at the close of 1992 and the $7 billion deficit at year-end 1991 — the only years since the FDIC began operations in 1934 that the insurance fund had a negative balance.

The BIF balance at year-end 1993 translates to 69 cents in reserves for every $100 of insured deposits. That is more than half of the way toward the goal mandated by Congress in 1991 for the BIF to achieve a reserve ratio of $1.25 for every $100 of insured deposits by the year 2006. In August 1993, we also fully repaid the BIF's borrowings of working capital from the Federal Financing Bank. This borrowing authority was granted by Congress in 1990 so that the costly bank failures of the past would not severely limit our options in dealing with future bank failures. We first tapped this borrowing authority in 1991, eventually reaching a high of $15.1 billion in June of 1992. But as the pace and cost of bank failures declined, and as our deposit insurance assessment income increased, we repaid all borrowings, with interest.

You will read much more in this *Annual Report* about the improvements in industry conditions and the stronger BIF, along with the role that regulatory policies played in both areas.



David Hathcox

FDIC Acting Chairman
Andrew C. Hove, Jr.

But the bottom line is this: We have come very far, very fast, in restoring the capital and the credibility of the BIF without using a penny of taxpayer funds to cover the costs of bank failures. This is a proud accomplishment for the FDIC, for our fellow state and federal supervisors, and for America's banks.

The FDIC is pleased to report that the Savings Association Insurance Fund (SAIF), which primarily protects depositors at thrift institutions, also continued to build its reserves during the year. By the end of 1993, the SAIF's reserves increased to $1.2 billion from $279 million at year-end 1992. That corresponds to about 17 cents for every $100 of insured deposits, still far below the level of the Bank Insurance Fund, but far above the reserve ratio of four cents per $100 of insured deposits for the SAIF at year-end 1992.

FDIC Administration

With banking problems subsiding, fewer projected bank failures and fewer failed bank assets to sell, the FDIC in 1993 was able to turn more attention to correcting weaknesses in internal operations and controls, as well as improving external relations programs with consumers, bankers and others.

Internally, the FDIC during 1993 continued to "downsize" under an ambitious cost-cutting program that kept spending and staffing levels below budgeted amounts. By year-end, the FDIC was $640.7 million (22 percent) under its annual budget of nearly $3 billion, and staff nationwide was reduced by 830 (5.5 percent) to 14,220. These downsizing efforts will continue through 1994 and beyond, even as we gradually accept the functions and staff of the Resolution Trust Corporation.

We reorganized key areas of the FDIC in 1993 that handle asset liquidation activities, legal affairs and financial management. For example, in September we announced a realignment and a downsizing of our Division of Liquidation, which handles numerous responsibilities involving failed bank customers and the assets we acquire from closed institutions. The Division also was renamed the Division of Depositor and Asset Services to heighten emphasis on providing quality service to the public. Earlier in the year, the Division underwent a reorganization that put renewed emphasis on the oversight of private contractors that service or sell acquired assets on the FDIC's behalf, and on ensuring the integrity of the computer systems that we use to administer and manage these huge inventories of assets.

The workload of our Legal Division continued to shrink in 1993, due to the reduction in bank failures and related activities. The Legal Division increasingly is handling more work in-house as opposed to paying and supervising outside counsel.

Our Division of Finance also was restructured to improve and expand our efforts in areas such as cash management, financial policy development, and audit coordination with the U.S. General Accounting Office (GAO) and our own Inspector General's office. In November, we established the position of Chief Operating Officer in response to President Clinton's request that independent federal agencies designate such an executive who would be responsible for planning, coordinating, evaluating and improving programs and resource management.

These and other cost-saving and efficiency measures directly contributed to the strong performance of the BIF during 1993 and should continue to benefit the FDIC in the future.

Consumer Education and Outreach

The FDIC has long had a commitment to consumer protection; to opening up the communication lines among consumers, bankers and FDIC personnel; and to fostering a better understanding of the deposit insurance rules and bank consumer protection laws in general. Thanks in part to the downturn in bank failure activity during the year, we were able to devote even more time and resources to these efforts, and we think we are having an impact.

At the request of President Clinton, the federal regulators of banks and savings associations began searching for ways to improve the Community Reinvestment Act (CRA) and thereby improve credit conditions, especially in low- and moderate-income neighborhoods. Our joint efforts included seven hearings around the country where we listened to the hopes, frustrations and suggestions of more than 250 witnesses.

In early 1994, we issued proposed changes to CRA enforcement, and we hope soon to agree on new procedures that will help to ensure that every creditworthy borrower is given equal access to the lending resources of our nation's banks and thrifts. The FDIC also undertook a complete review of our programs to detect and prevent illegal loan discrimination, and as a result we are instituting reforms.

In November, we introduced a free quarterly newsletter for consumers with tips and information about deposit insurance and important topics for bank customers. The *FDIC Consumer News* already has proven to be a valuable and popular resource for consumers, bankers, FDIC employees and others.

During the year we also issued an updated version of our brochure *Your Insured Deposit,* developed a training video for bankers that covers changes in the deposit insurance rules, and provided staff experts on deposit insurance and other consumer topics for consumer organizations, banker seminars and the media. We also began testing programs to deliver electronically a wide range of FDIC consumer materials, using personal computers, cable television, kiosks and other means. These and other FDIC initiatives in the areas of consumer protection and education are highlighted throughout this *Annual Report.*

Some Final Thoughts

With the industry recovering nicely, there are many other issues the FDIC will be able to focus more attention on in the future. These include finding new ways to reduce regulatory burdens on institutions while still protecting America's consumers and the deposit insurance funds. I wish to close, however, by focusing a bit more on the past.

As Acting Chairman of the FDIC on two separate occasions in the last few years, I've gained new appreciation for some old beliefs that have helped sustain me through the difficult times throughout my professional career. One, in particular, has to do with not taking good times and good people for granted.

I've often thought, for example, about how quickly the rock-solid Bank Insurance Fund was depleted. We must make sure that we never again put taxpayers at risk or alarm depositors unnecessarily.

I've often thought about how quickly we lost two of the FDIC's greatest leaders and friends — Chairman William Taylor, who passed away in August of 1992, and fellow Board member C.C. Hope, Jr., who died in March of 1993. Everyone at the FDIC is fortunate to have been associated with them, and we must never forget the lessons they taught us about the value of public service.

And I've often thought of how FDIC employees, from coast to coast and top to bottom, have faced the tough times and uncertainties of the past few years with true professionalism. Thanks to them, the FDIC continues to meet its crucial responsibilities to the U.S. financial system and its customers.

Andrew C. Hove

Andrew C. Hove, Jr.
Acting Chairman

January 1

New rules governing the way banks and thrifts calculate deposit insurance premiums took effect. For the first time, FDIC-insured institutions paid premiums based on risk, replacing the flat-rate system that had been in place for almost 60 years.

January 27

The FDIC sold 20 "bridge banks" established in October 1992 to resolve closed bank subsidiaries of First City Bancorporation of Texas, Houston. In an unusual transaction, the FDIC sold the 20 banks to 12 different financial institutions.

March 1

C.C. Hope, Jr., 73, a member of the FDIC Board of Directors since 1986, died in his home town of Charlotte, North Carolina, due to complications from pneumonia.

March 9

The FDIC reported that insured commercial banks earned record profits of $32.0 billion in 1992, which was almost 30 percent above the previous record in 1988 and 80 percent above earnings in 1991.

March 10

Federal regulators announced the first in a series of policy changes intended to increase credit availability, especially for small- and medium-sized businesses. Additional interagency measures were announced during the next few months, such as reducing loan documentation, encouraging banks to use a borrower's reputation and increasing the threshold requiring banks to obtain real estate appraisals.

May 4

The FDIC reported that its Bank Insurance Fund ended 1992 with a balance of negative $101 million, the second consecutive year the Fund finished in the red, but still a substantial improvement from the deficit of $7 billion at the close of 1991.

May 11

The FDIC Board approved new deposit insurance rules affecting certain types of retirement and employee benefit plan accounts. Most of the changes became effective December 19, 1993.

July 22

The FDIC encouraged the state-chartered banks it supervises to work constructively with borrowers experiencing difficulties due to widespread flooding in the Midwest. The FDIC and the other regulatory agencies provided regulatory relief to these banks.

August 10

The four federal bank regulatory agencies, including the FDIC, held the first of seven public hearings across the country to help the agencies develop new regulations and standards for assessing a financial institution's performance under the Community Reinvestment Act.

The agency announced that the Bank Insurance Fund had a positive balance of $6.8 billion at mid-year 1993, and that all working capital borrowings from the U.S. Treasury's Federal Financing Bank had been repaid.

August 12

CrossLand Federal Savings Bank, Brooklyn, New York, was sold by the FDIC to institutional investors for $332 million in a registered public offering. CrossLand Federal had been in FDIC control since the failure on January 24, 1992, of CrossLand Savings Bank, FSB, Brooklyn.

In a move intended to increase loans to areas affected by Midwest flooding, the FDIC and four other federal regulators announced an order exempting lending institutions in the flood areas from certain appraisal requirements on real estate loans.

September 15

The FDIC's Division of Liquidation announced a realignment and name change to the Division of Depositor and Asset Services, effective October 3.

September 29

An additional $391 million was distributed to the FDIC and the Resolution Trust Corporation by a federal judge in the agencies' settlement with Michael Milken and former employees of Drexel Burnham Lambert. In March 1992, the agencies received $375 million in settlements. The aggregate settlement is expected to be nearly $1 billion.

November 5

The FDIC was named receiver for the last bank to be closed in 1993, bringing the total for the year to 41. The last time fewer banks were closed was 1981, when only 10 banks failed.

November 17

President Clinton announced his intention to nominate Washington attorney Ricki Tigert to be the first Chairwoman of the FDIC, a post that has been vacant since the August 1992 death of FDIC Chairman William Taylor.
A week later, the President renominated Acting Chairman Andrew C. Hove, Jr., to serve another term as FDIC Vice Chairman, and nominated Ohio banker Anne Hall to serve as an FDIC Director.

November 22

The agency published the first issue of the *FDIC Consumer News,* a quarterly newsletter to help bankers, consumers and others better understand deposit insurance and other consumer issues.

December 14

At a two-day nationwide auction, the FDIC sold 165 commercial real estate properties for $312.2 million. This was the third year the FDIC has held a nationwide auction; the combined auctions have resulted in the sale of 501 commercial properties for approximately $966 million.

December 15

The FDIC announced third-quarter 1993 earnings for commercial banks, noting that profits for the first nine months of 1993 ($32.6 billion) already exceeded the full-year record of $32.0 billion earned in 1992.

In 1993, insured commercial banks and savings institutions had their best performance ever. Record earnings and other solid gains were reported, due primarily to favorable interest-rate conditions and improving asset quality. More than two-thirds of all institutions reported higher earnings than a year earlier, and fewer than one in 20 institutions were unprofitable.

Commercial Banks

Insured commercial banks reported record net income of $43.4 billion in 1993, more than one-third above the previous record of $32.0 billion, set in 1992. The average return on assets (ROA) for the year was 1.21 percent, the first time in the history of the FDIC that commercial banks' ROA has exceeded one percent.

Improved earnings were mostly attributable to lower provisions for future loan losses, reflecting a more favorable outlook for credit quality. Higher earnings also benefited from rising net interest income; however, the improvement in 1993 resulted from growth in interest-earning assets, while in 1992, net interest income strength stemmed from widening spreads between banks' cost of funds and the yields on their assets.

The decline in troubled assets that began in 1991 accelerated in 1993, as noncurrent loans and other real estate owned shrank by one-third, to the lowest levels seen since 1986. At year-end 1993, commercial banks held $1.23 in reserves for every $1.00 of noncurrent loans. This was the first time in the 12 years that noncurrent loans have been reported that this "coverage ratio" has exceeded 100 percent.

Equity capital growth remained strong during the year, supported by high levels of retained earnings and favorable conditions for new capital issues. Commercial banks' equity capital at year-end equaled 8.01 percent of industry assets. It has been thirty years since the industry's capital ratio has risen above eight percent.

After two years of decline, total loans held by commercial banks grew by almost six percent in 1993. Most of the growth occurred in residential mortgages and consumer loans, but all major loan categories, with the exception of real estate construction and development loans, showed some growth.

The number of insured commercial banks fell below 11,000 in 1993, as new charters remained at historically low levels, and merger activity remained relatively strong. The FDIC's "problem list" improved for the eighth consecutive year, shrinking by 361 banks and $166 billion in assets, to 426 commercial banks with assets of $242 billion at year-end.

Savings Institutions

At the end of 1993 there were 2,264 privately held savings institutions* insured by the FDIC. These institutions held assets totaling $1 trillion, or 21.3 percent of all assets held by FDIC-insured depository institutions. Their combined earnings were a record $7 billion, and their average ROA was 0.72 percent, the highest level seen in 15 years. This was the third consecutive year these institutions reported a net profit. Net income for 1993 was up 4.2 percent, compared with 1992, even as total assets declined by 2.8 percent.

As was the case with commercial banks, the main source of improved earnings at savings institutions was reduced loan-loss provisions. Unlike commercial banks, however, earnings strength was not evenly distributed. Institutions in the Northeast and in California, including some of the largest savings institutions in the U.S., generally were less profitable than the rest of the industry.

Savings institutions also made substantial progress in cleaning up troubled assets in 1993; although they charged off a lower proportion of their total loans than commercial banks, they still reduced their troubled assets by one-third. Reserves for future loan losses declined by almost three percent in 1993, but because of the much greater shrinkage in troubled assets, savings institutions held 65 cents in reserves for each dollar of noncurrent loans at year-end, up from 53 cents at the end of 1992.

The number of insured savings institutions declined by 126 in 1993, as acquisitions by commercial banks and conversions to commercial bank charters absorbed 72 savings institutions. Acquisitions and conversions were also responsible for a net decline in savings institution assets; industry assets would have increased by approximately $5 billion without these transfers. Only eight savings institutions failed in 1993, down from 81 in 1992. ✪

* Includes savings banks and savings associations. Figures do not include 63 SAIF-member institutions in Resolution Trust Corporation conservatorship, and one SAIF-member self-liquidating institution.

Bank Insurance Fund (BIF)
(Dollars in Millions)

	For the year ended December 31		
	1993	1992	1991
Income	$ 6,431	$ 6,301	$ 5,790
Operating Expense	388	361	284
Liquidation/Insurance Losses and Expense	(7,180)	(1,197)	16,578
Effect of Accounting Change for Post-retirement Benefits*	0	(210)	—
Net Income (Loss)	13,223	6,927	(11,072)
Insurance Fund Balance	13,122	(101)	(7,028)
Fund as a Percentage of Insured Deposits	0.69%	(0.01)%	(0.36)%

Selected Bank Statistics
(Dollars in Millions)

Total Insured Institutions+	11,331	11,852	12,343
Problem Banks	472	856	1,089
Total Assets of Problem Banks	$269,201	$464,253	$609,659
Bank Failures	41	120	124
Assisted Banking Organizations	0	2	3
Total Assets of Failed and Assisted Banks	$ 3,539	$ 44,232	$ 63,204
Number of Failed Bank Receiverships	961	972	1,136

* 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 U.S. branches of foreign banks).

Andrew C. Hove, Jr.

Mr. Hove became the FDIC's first Vice Chairman in 1990, and became Acting Chairman in August 1992 following the death of William Taylor. 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. Also involved in local government, Mr. Hove was elected Mayor of Minden from 1974 until 1982 and was Minden's Treasurer from 1962 until 1974.

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

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

Eugene A. Ludwig

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

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

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

Jonathan L. Fiechter

Mr. Fiechter has been Acting Director of the Office of Thrift Supervision (OTS) since December 1992 and has spent the past 23 years in government service. As Acting Director of OTS, Mr. Fiechter also serves as an FDIC Board member.

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

Mr. Fiechter began his government service in 1970 with the Treasury Department, working on issues related to export financing, Treasury's foreign-exchange operations, the creation of the Federal Financing Bank, Treasury debt policy and financial institutions reform.

He is a graduate of Rockford College, Rockford, Illinois, and has done graduate work in economics at the University of Virginia.

photos: Geof Wade

The FDIC Board of Directors – (left to right) Andrew C. Hove, Jr., Eugene A. Ludwig, Jonathan L. Fiechter

Roger A. Hood	Deputy to the Chairman; Chief Operating Officer
John W. Stone	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 Depositor and Asset Services
Douglas H. Jones	Acting General Counsel
William R. Watson	Director, Division of Research and Statistics
Steven A. Seelig	Director, Division of Finance; Chief Financial Officer
Carmen J. Sullivan	Director, Division of Information Resources Management
Thomas E. Zemke	Deputy to the Director (Comptroller of the Currency)
Walter B. Mason	Deputy to the Acting Director (Office of Thrift Supervision)
James A. Renick	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

Division of Supervision – Regional Directors

Atlanta

Lyle V. Helgerson
245 Peachtree Center Avenue, NE
Suite 1200
Atlanta, Georgia 30303
(404) 525-0308

Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia

Boston

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

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Chicago

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

Illinois, Indiana, Michigan, Ohio, Wisconsin

Dallas

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

Colorado, New Mexico, Oklahoma, Texas

Kansas City

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

Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

Memphis

Cottrell L. Webster*
5100 Poplar Avenue
Suite 1900
Memphis, Tennessee 38137
(901) 685-1603

Arkansas, Kentucky, Louisiana, Mississippi, Tennessee

New York

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

Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico, Virgin Islands

San Francisco

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

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

*replaced Bill C. Houston, who retired on December 31, 1993.

Division of Depositor and Asset Services – Regional Directors

Northeast Service Center

Gary P. Bowen
111 Founders Plaza
East Hartford, Connecticut 06108
(203) 290-2000

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

Southeast Service Center

Keith W. Seibold
285 Peachtree Center Avenue, NE
Marquis Tower II, Suite 300
Atlanta, Georgia 30303
(404) 880-3000

Alabama, Delaware, District of Columbia, Florida, Georgia, Kentucky, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia

Midwest Service Center

Bart L. Federici
500 West Monroe
Chicago, Illinois 60606
(312) 382-6000

Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

Southwest Service Center

G. Michael Newton
5080 Spectrum Drive
Suite 1000E
Dallas, Texas 75248
(214) 991-0039

Arkansas, Colorado, Louisiana, New Mexico, Oklahoma, Texas

Western Service Center

Sandra A. Waldrop
Four Park Plaza
Suite 500
Irvine, California 92714
(714) 263-7100

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

Division of Resolutions – Regional Managers

Northeast Region

Paul F. Doiron
200 Lowder Brook Drive
Westwood, Massachusetts 02090
(617) 320-1600

Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virginia
Virgin Islands

Central Region

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

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

Western Region

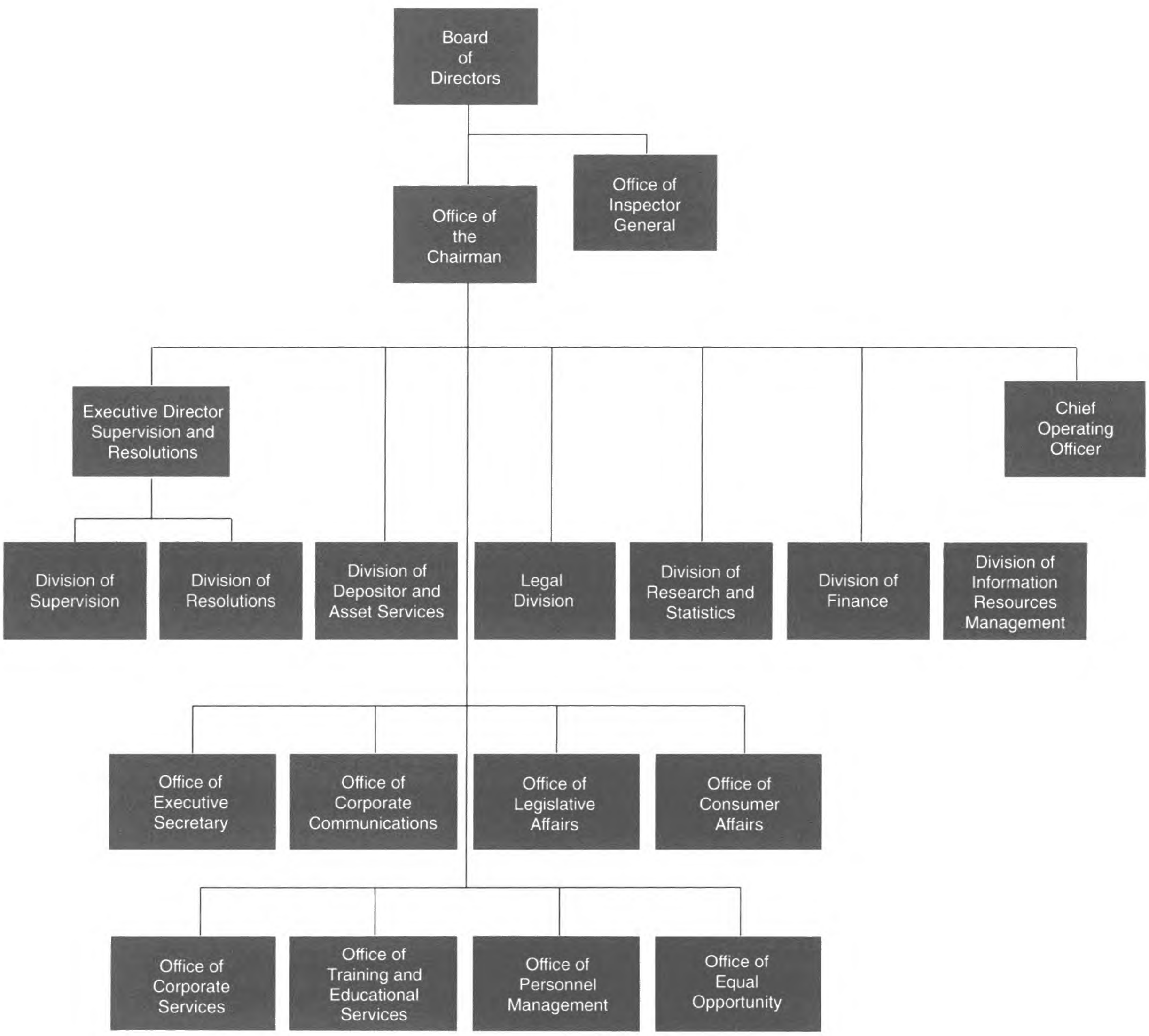
Michael J. Paulson
25 Ecker Street
Suite 900
San Francisco, California 94105
(415) 267-0156

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

Operations of the Corporation

60 years of confidence

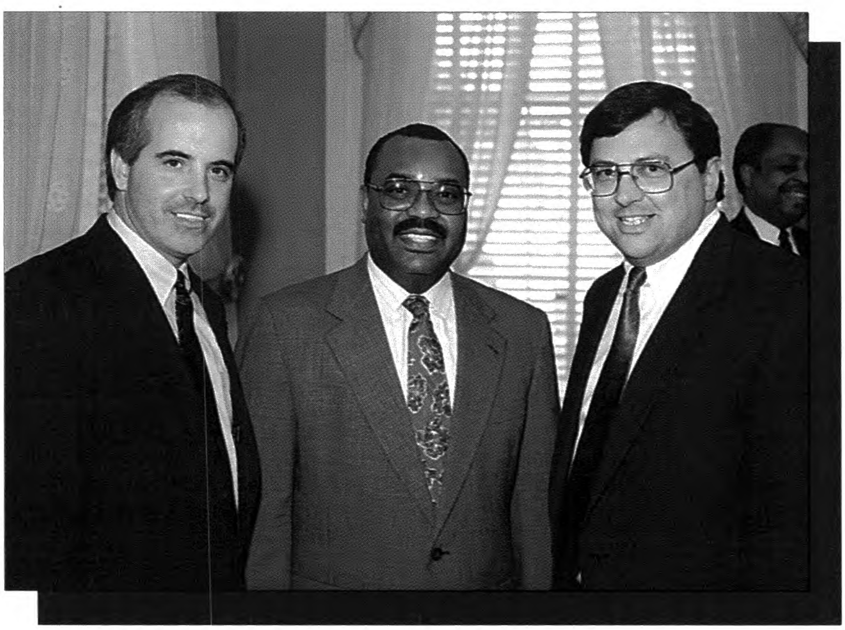
A new sign of protection in the 1930s - failed bank depositors calmly waiting in line to receive their FDIC-insured funds after the February 1939 closing of The New Jersey Title Guarantee & Trust Company, Jersey City, New Jersey.


Board of Directors
Office of Inspector General
Office of the Chairman
Executive Director Supervision and Resolutions
Chief Operating Officer
Division of Supervision
Division of Resolutions
Division of Depositor and Asset Services
Legal Division
Division of Research and Statistics
Division of Finance
Division of Information Resources Management
Office of Executive Secretary
Office of Corporate Communications
Office of Legislative Affairs
Office of Consumer Affairs
Office of Corporate Services
Office of Training and Educational Services
Office of Personnel Management
Office of Equal Opportunity

The chief roles of the Division of Supervision (DOS) include examining approximately 7,000 state-chartered commercial banks that are not members of the Federal Reserve System and 600 state-chartered savings banks for safety and soundness and for compliance with consumer and civil rights laws. DOS also develops the FDIC's supervisory policies, and serves as a back-up regulator of national banks, state banks that are members of the Federal Reserve System, and savings associations.

After several years of declining or stagnant profitability, record bank profits in 1992 and 1993 led to higher capital levels in the industry and a general sense of improving conditions. With the improvement in the overall condition of the financial industry, DOS in 1993 was able to direct its resources toward the mandate to regularly examine all state nonmember banks and to enhance supervision of issues relating to consumer affairs. To that end, the Division's additional role as a back-up regulator significantly decreased in 1993.

DOS continued with its plan of hiring a staff separate from safety and soundness examiners to handle examinations for compliance with consumer laws in areas such as truth-in-savings, fair lending and community reinvestment. An example of the effectiveness of these examinations is illustrated in the Division's review of compliance with Truth-in-Lending Act requirements ensuring accurate disclosure of interest rates and finance charges on loans. As a direct result of these examinations, 21,442 people received total reimbursements of $2,670,904 from 268 banks of the 4,291 banks examined during the year.



Gil Ford

Cottrell L. Webster (center), new Regional Director of the Division of Supervision's Memphis office, on a recent visit to Mississippi, meets Banking Commissioner Joseph H. Neely (left) and bankers association Executive Director McKinley W. Deaver (right).

The FDIC's response to problem bank situations continued to evolve in 1993:

- The full implementation of "prompt corrective action" measures continued into 1993. Prompt corrective action refers to statutory requirements enacted in 1991 that the FDIC and other regulators take certain supervisory actions when insured institutions fall within specified capital categories. The FDIC continued rulemaking in this area in 1993.

- The risk-related insurance premium system went into effect January 1, 1993, and replaced the previous flat-rate system. It is designed to reward well-run institutions with a lower assessment rate while encouraging weaker institutions to improve by charging them a higher rate.

The implementation of the risk-related insurance premium system requires each FDIC-insured institution to be assigned an appropriate risk classification for assessment purposes, based on capital ratios and supervisory risks posed. The result is an institution's placement in one of nine risk categories depending on its classification. Institutions paid rates ranging from 23 cents to 31 cents per $100 of domestic deposits; the average rate at year-end 1993 was about 23.7 cents per $100 at institutions insured by the Bank Insurance Fund (BIF) and 24.7 cents per $100 at institutions insured by the Savings Association Insurance Fund (SAIF). A table on Page 35 shows the number of institutions in each risk category and the assessment rates paid.

The FDIC has developed an appeals process for institutions that wish to challenge their assessment classification. Institutions filed a total of 653 appeals of their insurance classifications during 1993 — most of them were filed in late 1992 in anticipation of the start of the system in 1993. The FDIC agreed to change about 21 percent of the classifications that were appealed. The FDIC also established a toll-free "hotline" to respond to questions from the industry regarding this new program.

Examinations

DOS conducts four major types of examinations: (1) safety-and-soundness examinations to determine an institution's risk to the deposit insurance fund; (2) trust department examinations to analyze potential risk to a bank's capital structure; (3) reviews of data processing facilities to ensure that proper procedures and internal controls are being used by banks and their independent servicers; and (4) examinations for compliance with consumer laws and regulations noted previously. Details of the numbers of examinations are shown below.

The FDIC places particular emphasis on the examination and supervision of "problem banks." These are commercial or savings banks that present financial, operational or managerial weaknesses resulting in a composite "4" or "5" rating under the uniform interagency bank rating system used by the three federal banking agencies. The FDIC and the other federal regulators seek corrections of these deficiencies through the use of enforcement actions. The number of enforcement actions in 1993 was substantially down from previous years, due primarily to improved industry conditions. (See the table on enforcement actions on Page 29.)

To efficiently allocate supervisory staff time and resources, the use of off-site analysis of risk has become an increasingly important complement to the Division of Supervision's on-site examination program. Off-site analysis encompasses the monitoring of financial conditions and trends at all federally insured institutions, primarily by using the quarterly Reports of Condition and Income (Call Report) and pertinent information from other sources.

The focus of off-site monitoring is to detect deterioration or change in financial conditions at insured institutions, particularly large institutions. This effort assists in prioritizing on-site examination resources and maintaining a current assessment of risk.

Collection and Disclosure of Bank Financial Information

The FDIC is responsible each year for collecting and analyzing more than 47,000 quarterly Call Reports filed by state-chartered and national banks. The information collected is used by the FDIC, regulators and others interested in monitoring conditions at individual institutions.

The FDIC also administers and enforces the registration and reporting provisions of the Securities and Exchange Act of 1934 for certain publicly traded institutions. At the end of 1993, 215 banks were registered with the FDIC, up from 213 one year earlier. Copies of reports filed are publicly available through DOS's disclosure unit.

FDIC Examinations
1991-1993

	1993	1992	1991
Safety and Soundness:			
State Nonmember Banks	4,439	4,258	3,791
Savings Banks	375	188	298
National Banks	255	309	273
State Member Banks	92	62	44
Savings Associations	523	810	937
Subtotal	5,684	5,627	5,343
Consumer and Civil Rights	4,291	3,993	3,782
Trust Departments	782	668	625
Data Processing Facilities	1,910	1,506	1,168
Total	12,667	11,794	10,918

Anti-Fraud Activities

The FDIC, through its examinations and other supervisory activities, closely watches for possible fraud and abuse against financial institutions. This includes FDIC regulations that require bank management to file reports of apparent criminal activity with the FDIC and, under a new rule adopted in 1993, to inform the bank's board of directors when a criminal referral report is filed.

The FDIC continues to work closely with the Department of Justice and other government agencies to fight fraud against financial institutions. A crucial part of this effort is the ongoing development of a new interagency database project that will provide all federal financial regulatory agencies with a comprehensive source of information about referrals of suspected criminal activity. During 1993, the FDIC received or originated more than 15,000 referrals of possible criminal activity.

Regulatory Initiatives Affecting Consumers

On March 10, 1993, the FDIC and the three other federal bank and thrift regulatory agencies announced a program designed to eliminate impediments to lending and otherwise improve credit availability. The program involved initiatives in the following areas: (1) lending to small- and medium-sized businesses and farms; (2) real estate lending and appraisals; (3) appeals and complaints regarding supervisory matters; (4) examination processes and application procedures; and (5) paperwork and regulatory burdens.

In response to the growing sales by banks of mutual funds, annuities and other nondeposit investment products not protected by federal deposit insurance, DOS issued guidance in October concerning the sale of these items. The guidance asks banks to develop policies to limit customer confusion concerning the nature of the products purchased, to assure suitability of the product for the customer, and to oversee the activities of third parties selling these products on bank premises. (Additional guidance was issued on an interagency basis in early 1994.)

Also during 1993, the FDIC and the three other federal bank and thrift regulators issued a policy statement on branch closings. The policy statement requires financial institutions to notify their customers and their federal regulator 90 days before closing a banking facility.

In response to serious floods in the Midwest during the summer of 1993, the FDIC encouraged financial institutions to work with borrowers who were having difficulties due to conditions beyond their control and provided supervisory assistance to institutions by waiving certain regulatory requirements.

Other Regulatory Changes

In a continuing effort to promote consistency and reduce regulatory burden, the FDIC and the other federal bank and thrift agencies adopted in September a uniform core examination report. This marks the first time that examiners from all four financial regulatory agencies will use the same report format to present key information and conclusions about an institution's operations. The agencies in December also issued a joint policy statement providing comprehensive and consistent guidance on the maintenance of an adequate allowance for loan losses and an effective loan review system.

Bank Insurance Fund (BIF) Problem Banks, 1989-1993 (Year-end)

	1993	1992	1991	1990	1989
Total BIF-Insured Institutions*	11,331	11,852	12,343	12,788	13,239
Problem Banks	472	856	1,089	1,046	1,109
Total Assets of Problem Banks ($ billion)	$ 269.2	$ 464.3	$ 609.7	$ 408.8	$ 235.5
Percent Change in Number of Problem Banks	(44.9)	(21.4)	4.1	(5.7)	(21.1)
Problem Banks as Percent of Total Insured Institutions	4.2	7.2	8.8	8.2	8.4

Changes in BIF Problem Bank List, 1989-1993

	1993	1992	1991	1990	1989
Deletions	505	648	456	447	619
Additions	121	415	499	384	322
Net Change	(384)	(233)	43	(63)	(297)

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

Because of the potential adverse effect of environmental contamination on the value of property held as collateral and the potential for liability to depository institutions, the FDIC issued guidelines in February that contain information and recommendations about implementing appropriate safeguards and controls that can be tailored to the needs of the lending institution.

A final regulation, interpretive guidelines, and procedures implementing annual audit and reporting requirements were adopted on May 11, 1993. These requirements apply to insured depository institutions with $500 million or more in total assets.

Also, a final rule permitting limited amounts of "purchased credit card receivables" to be counted toward regulatory capital was approved on January 12, 1993. Final rules permitting certain pre-sold housing loans and securities to qualify for favorable capital treatment were approved by the FDIC in February.

Several changes to the Call Report, including a new annual reporting requirement for loans to small businesses and farms, were effective in 1993. Revisions to existing Call Report instructions necessitated by Financial Accounting Standards Board (FASB) Statement Number 109 on accounting for income taxes were developed on an interagency basis and distributed to banks as part of their first quarter 1993 Call Report materials. Optional income tax worksheets were developed to assist smaller banks with their Call Reports under FASB 109.

In December 1993, several other Call Report changes were approved to take effect in 1994. Under

FDIC Applications 1991-1993

	1993	1992	1991
Deposit Insurance	88	85	69
Approved	88	84	62
Denied	0	1	7
New Branches	1,580	992	898
Approved	1,580	992	898
Branches	787	636	572
Remote Service Facilities	793	356	326
Denied	0	0	0
Mergers	326	359	405
Approved	326	359	404
Denied	0	0	1
Requests for Consent to Serve*	1,771	1,798	1,722
Approved	1,758	1,776	1,688
Section 19	98	92	71
Section 32	1,660	1,684	1,617
Denied	13	22	34
Section 19	1	1	2
Section 32	12	21	32
Notices of Change in Control	56	79	67
Letters of Intent Not to Disapprove	56	74	65
Disapproved	0	5	2
Conversions of Insurance Coverage+	7	15	106
Approved	7	15	106
Denied	0	0	0
Brokered Deposit Waivers	70	122	51
Approved	66	117	37
Denied	4	5	14
Savings Association Activities	6	42	100
Approved	6	42	91
Denied	0	0	9
State Bank Activities/Investments#	658	0	0
Approved	646	0	0
Denied	12	0	0

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

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

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

these changes, the reporting of investments in debt and equity securities in the Call Report will conform with the provisions of FASB 115, which was issued in May 1993. Other Call Report revisions for 1994 will provide information about bank sales of mutual funds and annuities and take the first step toward improved disclosures about off-balance-sheet "derivative" contracts, including interest rate swaps and foreign exchange contracts.

(For a complete list of regulations issued in 1993, see the section beginning on Page 45.)

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 in which the FDIC supervises the resulting 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.

Total applications activity increased 15 percent from 1992, due in large part to the implementation of regulations to prohibit state-chartered banks from engaging in activities not permissible for national banks. There are exemptions for state-chartered banks that meet minimum capital requirements if the FDIC determines that the activity does not present a significant risk to the insurance fund. The provisions of the regulation concerning equity investments became effective December 9, 1992, resulting in much of the increase in applications.

The FDIC in 1993 approved 45 applications by FDIC-supervised banks to begin exercising trust powers, compared to 43 in 1992. FDIC-supervised banks at year-end had investment discretion over $209 billion in trust assets (an increase from the $194.1 billion at year-end 1992) and responsibility for another $842.8 billion in non-discretionary trust assets (up from $804.5 billion the year before).

FDIC regulations 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 72 broker registrations in 1993.

A total of 208 FDIC-supervised banks were registered with the FDIC at year-end for securities transfer activities (down from 221 at year-end 1992). In addition, 42 banks were registered as U.S. Government securities dealers (versus 43 the previous year) and 46 were registered as municipal securities dealers (compared to 49 at year-end 1992). ✪

Cherie Umbel

FDIC Acting Chairman Andrew C. Hove, Jr. (second from left) tells a congressional committee in September about the latest efforts to encourage lending in low- and moderate-income areas. Seated with Mr. Hove are (left to right) John P. LaWare of the Federal Reserve Board; Christopher Kerecman of the National Credit Union Administration; and Eugene A. Ludwig, Comptroller of the Currency.

The Division of Resolutions (DOR) plans, executes and monitors the orderly and least costly resolution of failing FDIC-insured institutions. DOR is also responsible for managing the liabilities of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), administering and managing assistance agreements and bridge banks, and selling capital instruments.

Failed Institutions

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established two federal deposit insurance funds for banks and savings associations — the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The FDIC maintains both funds but is currently responsible only for resolving institutions with deposits insured by the BIF. Under FIRREA, as amended in 1993, the Resolution Trust Corporation (RTC) is responsible for resolving all SAIF-insured institutions until no later than June 30, 1995.

An institution may be closed by its chartering authority — the state for state-chartered institutions, the Comptroller of the Currency for national banks or the Office of Thrift Supervision for federal savings associations — when it is insolvent, fails to meet capital requirements or otherwise threatens the safety and soundness of the banking system. The chartering authority informs the FDIC when one of its insured institutions is in danger and is probably going to be closed.

As soon as it is contacted by the chartering authority or the FDIC's Division of Supervision (DOS), DOR begins to determine the best resolution. DOR works with other FDIC offices to gather data about the failing institution, meets with potential acquirers, solicits and reviews bids and recommends the winning bidder to the FDIC Board of Directors.

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. The FDIC must analyze all proposals received and compare them to other alternatives to determine the least costly resolution. This requires DOR to ask bidders to submit not only proposals to assume all deposits but also proposals to assume only the insured deposits. Prospective acquirers may submit bids for a variety of transactions, from which the FDIC must select the one that is least costly to the Bank Insurance Fund (BIF).

During 1993, the pace and volume of failures of BIF-insured institutions declined significantly from recent years. One banking organization with total assets near $1 billion failed in 1993 — far lower than the nine large-bank failures recorded in 1992. Only 41 BIF-insured institutions with $3.5 billion in total assets (at closing) failed in 1993. No BIF-insured institutions received assistance under section 13(c) of the FDI Act in order to keep them from failing. This contrasts with the 120 failures and two assisted banks with $44.2 billion in assets in 1992 and the 124 failures and three assisted banks with $63.1 billion in assets in 1991. These totals for 1993 do not include the final disposition of 21 bridge banks, one conservatorship, and one "stabilized" institution, which are described later in this chapter. As throughout the history of the FDIC, no insured depositor suffered a financial loss as the result of an FDIC-insured institution's failure.

The least-cost requirement is the chief reason that bank failures increasingly have involved a loss for uninsured depositors. In 35 of the 41 failures in 1993, or over 85 percent of the cases, uninsured depositors received less than 100 cents on each dollar above the $100,000 insurance limit. In 1992 and 1991, only 55 percent and 16 percent, respectively, of the failures involved a loss for uninsured depositors. The least-cost requirement became effective December 19, 1991, with the passage of FDICIA.

Of those 35 failures in which uninsured depositors were subject to some loss, five were resolved through a direct payout of insured deposits from the FDIC. The remaining 30 failures were resolved through a "purchase and assumption" (P&A) transaction in which only the insured deposits, as well as some assets of the failed bank, are assumed by another institution.

To minimize the hardship on uninsured depositors and other unsecured creditors subjected to losses in the resolution process, the FDIC often makes "advance dividend" payments soon after the bank's closing, typically for between 50 and 80 percent of the claims. The advance dividend is based on the estimated value of the failed bank's assets to be liquidated by the FDIC. The FDIC made such payments in 26 of the 35 resolutions in 1993 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 closing.

Failed Banks*
1991-1993

	1993	1992	1991
Arizona	0	3	1
Arkansas	0	1	1
California	19	12	4
Colorado	1	0	3
Connecticut	1	10	17
District of Columbia	1	2	1
Florida	0	2	10
Georgia	0	2	0
Hawaii	0	1	1
Illinois	1	2	2
Indiana	0	1	1
Iowa	1	0	0
Kansas	2	2	1
Louisiana	0	2	5
Maine	0	0	2
Maryland	0	1	1
Massachusetts	0	16[+]	14
Minnesota	0	1	0
Mississippi	0	1	0
Missouri	0	7[•]	0
Montana	0	1	0
New Hampshire	0	3	12
New Jersey	0	5	4
New Mexico	0	0	3
New York	1	7	2
North Carolina	1	0	1
Ohio	0	0	1
Oklahoma	0	2	1
Pennsylvania	0	2	0
Puerto Rico	0	1	0
Rhode Island	0	2[+]	0
South Carolina	0	0	1
Texas	10	29^	31
Vermont	1	0	1
Virginia	1	2	2
Washington	1	0	0
West Virginia	0	0	1
Total	**41**	120	124

* 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.

Significant Resolutions

Descriptions of the major resolutions in 1993 follow:

New England Savings Bank, New London, Connecticut

Total assets:	$935 million
Closed:	May 21, 1993

This was the only failure of the year involving a bank with total assets near $1 billion. Certain assets and insured deposits were assumed by Citizens Savings Bank, Providence, Rhode Island.

New First City bridge banks, Texas

Total assets:	$9.1 billion
Resolved:	February 13, 1993

On October 30, 1992, the FDIC established 20 bridge banks to acquire most of the assets and liabilities of the 20 banking subsidiaries of First City Bancorporation of Texas, Houston. Uninsured deposits in four of the 20 banks were not transferred, but customers with uninsured funds received an 80 percent advance dividend on their uninsured claim. (The FDIC later increased the advance dividend to 90 percent for three of the four banks upon the ultimate sale of the bridge banks.) On January 27, 1993, the FDIC announced the sale of the 20 bridge banks to various acquirers. In three of the 20 banks, the sale included a five-year assistance agreement to provide protection on certain assets sold in the resolution. In February 1993, the FDIC returned these 20 banks to the private sector with no anticipated loss to the BIF.

Missouri Bridge Bank, N.A., Kansas City, Missouri

Total assets:	$1.7 billion
Resolved:	April 23, 1993

On November 13, 1992, Missouri Bridge Bank, N.A., was formed to assume certain assets and liabilities of Metro North State Bank, Kansas City, Missouri. Certain assets and liabilities of Merchants Bank, Kansas City, Missouri, also were merged into Missouri Bridge Bank, N.A., on November 20, 1992. On April 23 the Missouri Bridge Bank, N.A., was sold to Boatmen's First National Bank of Kansas City, Kansas City, Missouri. This transaction included a five-year loss-sharing assistance agreement on certain assets.

CrossLand Federal Savings Bank, Brooklyn, New York

Total assets:	$5.3 billion
Resolved:	August 19, 1993

On January 24, 1992, CrossLand Savings, FSB, was closed by the Office of Thrift Supervision and the FDIC established a full-service savings bank to assume its assets, deposits and certain other liabilities. As manager of the conservatorship, the FDIC focused on resolving troubled assets and divesting non-strategic and out-of-market business units. After 19 months of interim ownership, the FDIC determined that the least costly method of disposing of CrossLand was a public stock offering. Institutional investors purchased $282 million of common stock and $50 million of subordinated debt of CrossLand. The FDIC estimates that, compared to the alternatives presented to the FDIC in January 1992, this approach saved the BIF approximately $400 million. This transaction also included a five-year loss-sharing assistance agreement on certain assets.

Heartland Federal Savings & Loan Association, Ponca City, Oklahoma

Total assets:	$886 million
Resolved:	October 9, 1993

Heartland, a federally chartered, SAIF-insured mutual savings association, was the successor to Frontier Federal Savings and Loan Association, Ponca City, Oklahoma, which was closed on August 31, 1988, by the former Federal Home Loan Bank Board as part of a plan to consolidate and "stabilize" 14 insolvent Oklahoma thrifts. Heartland was a stabilized thrift that was controlled by the FDIC as manager of the FSLIC Resolution Fund (FRF). Nearly all of Heartland's loans were purchased by seven institutions, with three of them assuming all of Heartland's deposits.

Resolution Strategies

The FDIC uses several strategies to handle the assets and liabilities of a closed bank. Typically, acquirers pay a purchase premium to acquire a failed bank's deposits (franchise) as well as certain assets, which are primarily loans. The most frequently used resolution strategy is a purchase of assets and an assumption of deposits (a P&A transaction). The least desirable option is a payout of insured deposits directly by the FDIC to the depositors, and the retention of assets for later sale.

DOR primarily uses three methods to sell assets at the time of resolution. First, assets may be sold to an acquiring bank at a discount from book value, with no provisions for loss protection. The acquirer generally has the option of purchasing all assets or just certain assets. Second, the FDIC may offer limited protection, known as "put" protection, which allows an acquirer to return or "put" to the FDIC loans that become nonperforming or adversely classified. DOR has moved away from "put" protection in favor of the third method, loss-sharing.

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 amount, which is somewhat above the expected loss of the shared-loss assets, the FDIC's loss-sharing level typically increases to 95 percent. The acquirer, therefore, has an incentive to prudently manage problem assets. The transition amount addresses acquirers' concerns about unanticipated losses in a loan portfolio. These agreements allow the FDIC to share in any recoveries on charged-off loans, on the same percentage basis as the sharing of losses.

The FDIC's efforts to have acquiring institutions purchase assets at the time of closing resulted in the immediate return to the private sector of more than half of the assets of the 41 banks that failed during 1993 (about $1.9 billion out of the $3.5 billion total). These assets otherwise would have been retained by the FDIC and turned over to the Division of Depositor and Asset Services for disposition.

DOR also may use the FDIC's conservatorship or bridge bank authority to take interim ownership of a failed bank. In these cases, the bank is closed by its chartering authority and a new institution with a federal charter is operated under FDIC ownership and management. This method was used only once in 1993 in the failure of First National Bank of Vermont, Bradford, Vermont. In general, the FDIC tries to sell the bridge banks as quickly as possible.

The FDIC may provide "shared equity" in a resolution, in some form of preferred stock or debt, to help the acquiring bank capitalize its new assets for a short period of time. These capital instruments are generally issued at above-market rates and are structured with incentives for early redemption. Both the BIF and the FRF own such securities and DOR is responsible for their management and ultimate sale. In 1993, DOR sold more than $429 million of capital instruments from 11 different transactions. The BIF and FRF still own capital instruments with a net book value of $192 million at year-end 1993.

At year-end DOR was managing 63 assistance agreements nationwide. Of these, 30 involve open-bank assistance transactions, 22 involve loss-sharing agreements, nine comprise other types of assistance and the remaining two are limited partnership agreements. As of December 31, 1993, approximately $11 billion of assets were covered by the loss-sharing agreements.

FSLIC Resolution Fund

The FRF is the successor to the obligations under all assistance agreements the former FSLIC entered into prior to August 9, 1989. DOR manages the assistance agreements of the FRF. The main goal of the FRF is to manage the acquiring bank's orderly disposition of covered assets within the terms of the assistance agreement.

Much of DOR's focus on the FRF has been the orderly and early termination of the FSLIC agreements. During 1993, DOR reduced FRF's active cases to 20 from 43, and reduced covered assets to $2.4 billion from $8.3 billion. At year-end 1993, the FRF portfolio of assets in liquidation had a book value of $2.7 billion, down from $5.2 billion at the end of 1992. FRF liquidation collections and dividends in 1993 totaled $1.2 billion. The FDIC, as manager of the FRF, seeks annual appropriations from the Department of the Treasury for the outlays required under the outstanding agreements. The appropriation was $15.2 billion in 1992, $2.6 billion in 1993 and $1.2 billion in 1994; $800 million is expected for fiscal 1995. ✪

To more accurately reflect the FDIC's heightened emphasis on providing high-quality service to the public, the Division of Liquidation was reorganized in 1993 and renamed the Division of Depositor and Asset Services (DAS). The Division makes payments to closed bank depositors, converts acquired assets to cash and performs other duties related to failed banks.

The Division's reorganization reflects the improved health of the banking industry and the subsequent sharp decline in the number of bank failures. When the reorganization is complete (by year-end 1996), the number of DAS sites will be reduced to seven from the 19 sites at year-end 1993. During this same period, the number of employees is expected to decrease to 3,300 from 5,665. Cost savings resulting from the realignment are estimated to be at least $430 million by year-end 1997, and $170 million each year thereafter.

DAS's headquarters remains in Washington, but the regional office system has been realigned into five Service Centers in Hartford, Atlanta, Chicago, Dallas, and Irvine, California. Also, the New York regional office is being converted to a new Office of Internal Review, which will be headquartered in Jersey City, New Jersey. The Internal Review Office will identify any deficiencies in the Service Centers and ensure that corrective action is taken promptly. Finally, a national ombudsman program was initiated in 1993 to address the needs and concerns of failed bank customers and the public. Under this program, an ombudsman will be available at each FDIC Service Center. (For Service Center addresses, see Page 11.)

To achieve DAS's goal to provide the best in customer service, training sessions in consumer-related areas were held across the nation during 1993. Division employees attended courses on topics such as customer service, alternative dispute resolution and communications skills. These courses were designed to help DAS employees deal more effectively and courteously with the customers of failed institutions.

Deposit Insurance

The heart of DAS's work is the payment of insured deposits to customers of failed institutions. As in previous years, FDIC-insured funds generally were available to bank customers the next business day following a bank failure.

Of the 41 commercial and savings bank closings handled in 1993 by the FDIC, six were "purchase and assumption" (P&A) transactions in which all deposits were transferred to an acquiring institution, 30 were P&A transactions involving the transfer of insured deposits only (including one bridge bank in Vermont), and five failures involved the direct payment of funds to depositors.

In 1993, DAS made dividend payments totaling $17.4 billion both to general creditors of failed institutions and to depositors over the $100,000 insurance limit. These dividends included payments to the FDIC receiverships for the protection of insured deposits at the time of bank failures. DAS periodically makes dividend payments on a pro rata basis to uninsured depositors and general creditors with proven claims against a receivership. The dividend payments are generated by the disposition of assets acquired from failed institutions. To minimize the impact on uninsured depositors and general creditors of failed banks, the FDIC continued the practice of declaring an advance dividend payment at bank closings, based on projected recoveries from the failed bank's assets. (See Page 21 for more information on advance dividends.)

Michael Quan

Pamela Clarke (right) of Dorchester, Massachusetts, purchased her new apartment building through FDIC's Affordable Housing Program, with assistance from Sharif Abdual-Klaleag of SAAK Realty (left), and Elizabeth Madden of RECOLL.

Two laws enacted in 1993 will affect the FDIC's handling of claims from depositors and non-deposit creditors of failed banks. The Unclaimed Deposits Amendments Act, which the FDIC supported, extended the length of time depositors at failed institutions have to claim and receive their insured funds. Also, the "national depositor preference law" includes requirements that recoveries on failed bank assets are used to pay deposit liabilities, such as the claims of uninsured depositors, before payments are made to non-deposit creditors. Both new laws are explained further in the "Legislation Enacted" chapter of this *Annual Report.*

Asset Disposition

The FDIC's ability to locate healthy institutions to assume deposits and purchase assets of failed banks allows a majority of failed bank assets to be returned to the private sector at the time of resolution. The remaining assets are retained by the FDIC for later sale, loan workout or other disposition. During 1993, DAS successfully resolved a large portion of its asset inventory acquired from failed institutions.

Asset disposition results and significant related activities included the following:

- The book value of assets in liquidation was reduced about 35 percent during the year, to $28 billion from $43.3 billion. Total collections were approximately $12.9 billion.
- 10,275 real estate properties were sold for a total sales price of $2.2 billion. The sales resulted in a recovery of 89.8 percent of the average appraised value.
- Over 136,000 assets, totaling $5.4 billion in book value, were sold in sealed bid offerings and other asset marketing events, exceeding by $1.3 billion the previous high of $4.1 billion set in 1992. Net sales proceeds of $3.3 billion established a new high. These proceeds represented 99.8 percent of appraised value.
- The New York regional office conducted the largest DAS sale of nonperforming commercial real estate loans. The sale, completed in November 1993, involved 118 loans totaling $328.5 million in book value. The winning cash bid of $152.9 million exceeded the appraised value.
- The Midwest Service Center closed a sale of 56 non-performing commercial real estate loans, totaling $164.6 million in book value. The winning bid was $100.5 million, which represented 92.2 percent of the appraised value.
- The National Mortgage Servicing and Sales Unit sold a total of 10,247 mortgage loans with a book value of $811 million for 100.6 percent of book value.
- In its first full year of operation, the National Small Assets Sales Unit, in South Brunswick, New Jersey, sold 34,508 loans totaling $223.6 million in book value for a sales price of $99 million. The assets consisted mainly of small (under $25,000 book value) distressed consumer and business loans serviced by the Division's small-asset servicer, Oxford Financial Services.
- The FDIC's third annual national real estate auction, held in December in Boston, included 197 properties valued at approximately $400 million. The FDIC was able to sell 165 of the properties for $312.2 million. This represented an average price of more than 90 percent of appraised value.

Liquidation Highlights
1991-1993

(Dollars in Billions)

	Total Failed Banks*	Assets of Failed Banks*	Total Collections+	Total Assets in Liquidation (year-end)+
1993	**41**	**$ 3.5**	**$12.9**	**$28.0**
1992	120	44.2	15.1	43.3
1991	124	63.1	13.6	43.3

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

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

Affordable Housing

Created as part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the FDIC's Affordable Housing Program has been successful in selling single-family properties to qualified buyers in need of affordable housing. With congressional appropriations of $5 million for fiscal-year 1993, the program assisted more than 900 qualified buyers.

The Affordable Housing Program provides assistance in the form of credits and grants to low- and moderate-income households for the purchase of eligible homes in the FDIC's inventory of properties.

Some of the people who have been assisted by the FDIC's Affordable Housing Program include:

- A woman in San Antonio, Texas, who plans to turn her newly purchased home into a center for foster children.

- A 12-year-old boy from Lowell, Massachusetts, whose last wish before he died of AIDS in the summer of 1993 was a house for his family. This wish was granted in March through the efforts of the Make-A-Wish Foundation, the Massachusetts Bankers Association and the FDIC's Affordable Housing Program.

- A woman in Dorchester, Massachusetts, who became both a homeowner and a businesswoman far sooner than she had dreamed thanks to her purchase of a three-family home through the Affordable Housing Program.

Minority- and Women-Owned Businesses

DAS is committed to providing minority- and women-owned businesses with opportunities to obtain asset-related contracts, such as the management of real estate acquired from failed banks. DAS accomplishes this goal by working closely with the FDIC's Minority- and Women-Owned Business (MWOB) Program, administered by the Office of Equal Opportunity.

Employees of the DAS Southeast Service Center in Atlanta, for example, participated in 11 MWOB conferences during 1993. One conference in Winter Park, Florida, resulted in 17 new vendor applications being submitted to the FDIC by the end of the meeting. Through such meetings, participation at other "networking" events, advertising in specialty trade publications, mass mailings and other efforts, a total of 129 additional MWOBs were registered as potential vendors during 1993 in the Southeast alone.

DAS's Contractor Oversight and Monitoring Branch sponsored an MWOB workshop through its servicer, Consolidated Asset Recovery Corporation. Held on November 15, in Trumbull, Connecticut, the workshop was directed at appraisal and environmental firms. More than 50 minority firms attended from throughout the Northeast.

DAS was among the exhibitors at the 5th Annual Black Expo USA on August 21 and 22, at the Dallas Convention Center. About 25,000 people attended the event. DAS provided information about the FDIC and the agency's outreach efforts to minorities and women, along with brochures and contact names for the FDIC's asset disposition and contract administration sections. ✪

Michael E. Castognaro/The Worcester Telegram & Gazette

John Pace of the Division of Depositor and Asset Service looks over photos of the many properties for sale at an FDIC office in Westborough, Massachusetts. Similar sales centers are located in Atlanta, Chicago, Dallas and Irvine, California.

The Legal Division is essentially a large law office that provides legal services to its clients, which are the Divisions and Offices of the FDIC. The Legal Division provides the legal services needed to administer deposit insurance, regulate insured depository institutions, resolve failed institutions, and recover and liquidate the assets of those institutions.

The Legal Division staff at year-end totaled 1,994 employees, including 868 attorneys. About 47 percent of the attorneys are women or minorities and 72 percent of the Legal staff are women or minorities. The majority of the Division's employees are located in regional offices, sales centers and consolidated offices, not in Washington.

The Legal Division kept more work within the Division during 1993 and further decreased its reliance on outside counsel. At year-end 1993, more than 63 percent of the pending legal matters were being handled by FDIC attorneys, up from about 57 percent at year-end 1992. As a result, total direct outside counsel costs decreased to approximately $110 million from year-end 1992's total of $153 million. At the same time, the Legal Division increased the percentage of fees and expenses paid to minority- and women-owned law firms to 15.0 percent, from 8.9 percent in 1992. That represents an increase of $2.8 million, to a total of $16.5 million.

Supervisory Matters

During 1993, the Legal Division was actively involved in developing regulations and assisting Congress in efforts to draft legislation that would address supervisory problems relating to financial institutions. The resulting rules, regulations and legislation are described in detail on Pages 45 through 52 of this *Annual Report.*

The Legal Division also was actively involved during the year in the FDIC's efforts to better educate consumers, bankers and FDIC employees regarding deposit insurance rules. The Division assisted the Office of Corporate Communications in producing the first issue of *FDIC Consumer News,* and in revising the FDIC's deposit insurance pamphlet, *Your Insured Deposit*, which is available to all insured institutions and their customers at no cost.

Additionally, the Division wrote and coordinated the production of a deposit insurance training video for bankers. The Division also organized and presented various seminars on deposit insurance for FDIC staff and provided speakers to outside groups.

The Legal Division provides support to the Division of Supervision in its handling of supervisory enforcement matters. The lower interest rates of 1993 produced an increase in earnings for two-thirds of the nation's insured financial institutions, resulting in improved conditions at those institutions. As a consequence, fewer enforcement actions were needed in 1993 to deal with unsafe or unsound conditions at institutions. The FDIC initiated 228 enforcement actions in 1993, down about 30 percent from 1992's 339 actions.

Enforcement actions, such as terminations of insurance and cease-and-desist orders, against institutions were down substantially from previous years. However, actions to remove or prohibit individuals from banking increased significantly in 1993, because these actions frequently take longer to complete than actions against institutions, and because many of the actions against individuals during 1993 stemmed from their activities during the industry's more troubled period a few years ago.

Jun Ro

Panelists meet with representatives of minority- and women-owned law firms attending a Legal Division conference in Chicago about contracting opportunities with the FDIC.

Compliance, Enforcement and Other Related Legal Actions, 1991 - 1993

	1993	1992	1991
Section 8(a) Termination of Insurance Orders:			
Notices to Primary Regulator	4	40	72
*Notices of Hearing	2	24	45
Orders Accepting Voluntary Termination Issued	1	2	1
*Insurance Termination Orders Issued	2	3	5
Section 8(b) Cease-and-Desist Orders:			
Notices of Charges Issued	11	21	27
*Orders Issued With Notice	8	14	25
Orders Issued Without Notice	67	148	131
*Section 8(c) Temporary Orders	2	5	3
Section 8(e) Removal/Prohibition of Director or Officer:			
Notices Issued	20	18	16
*Orders Issued With Notice	30	21	9
Orders Issued Without Notice	44	27	25
Section 8(g) Suspension/Removal for Felony	2	0	1
Section 8 (p) Termination of Insurance Orders (No Deposits)	10	17	5
Section 8 (q) Termination of Insurance Orders (Deposits Assumed)	8	7	4
Civil Money Penalties Issued	15	13	11
Section 5(e) Cross-guaranty Assessments/Waivers			
Notices of Assessment of Liability Issued	2	5	2
Waivers Issued	4	3	8
Section 7(j) Notices Disapproving Acquisition/Control	0	4	2
Section 19 Requests to Serve After Criminal Conviction			
Denials Issued	1	1	2
*Final Orders After Hearing Issued	0	1	1
Section 32 Notices of Addition of Officer/Director			
Notices of Disapproval Issued	11	20	32
*Rulings on Appeal Issued	3	13	17
Regulation Z Requests for Relief from Reimbursement			
Orders Denying Relief Issued	10	3	11
*Reconsiderations of Orders Denying Relief	1	3	3
Orders Granting Relief Issued	0	0	0
+Prompt Corrective Action:			
Dismissal Notice	3	-	-
*Dismissal Directive	0	-	-
Capital Plan Notice	2	-	-
*Capital Plan Directive	1	-	-
Notice of Intent to Reclassify	0	-	-
*Order of Final Disposition as to Reclassification	0	-	-
Supervisory Notice	7	-	-
*Supervisory Directive	3	-	-
+Self Appointment-Conservator	0	-	-
+Self Appointment-Receiver	1	-	-
Other Actions Not Listed Above	5	10	7
Total Actions Initiated by FDIC	228	**339**	**356**

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

+ Recently enacted enforcement power. No data available for 1992 and 1991.

Failed and Failing Institutions

FDIC attorneys assist in a wide range of matters involving failed and failing institutions, and in the disposition of acquired assets. For example, the Legal Division assists the Division of Resolutions (DOR) in the drafting, negotiation and administration of financial assistance agreements.

During 1993, the Division handled the legal documentation of DOR-administered assistance agreements with respect to 11 insured depository institutions. Equity instruments from these 11 institutions were sold or redeemed by the FDIC for about $429 million. The Division also advised DOR in 1993 on legal issues arising from FSLIC Resolution Fund (FRF) assistance agreements and other obligations of the FRF. As a result, significant cost-savings were realized by renegotiating and terminating some FRF assistance agreements early.

Accomplishments by FDIC attorneys nationwide, mostly operating out of the regional and field offices of the Division of Depositor and Asset Services (DAS), include their efforts in two in-house bulk sales of assets of more than $100 million each; assisting DAS in collecting over $438 million in obligations owed to failed insured institutions; and a nationwide auction of 197 commercial properties from failed insured institutions with an appraised value of approximately $400 million.

The Legal Division also works closely with DAS in dealing with major liquidation and litigation policy issues, such as the national depositor preference law enacted in 1993 to change the way the FDIC divides up recoveries from failed bank assets among depositors and non-deposit creditors (see the Legislation Enacted chapter of this *Annual Report*). The Legal Division also handles bankruptcy matters that arise out of the failure of insured institutions. As the receiver of a failed institution, the FDIC is generally the largest creditor in these bankruptcy proceedings.

Corporate Affairs

The Legal Division is responsible for providing legal advice on corporate and administrative matters, labor relations issues, personnel matters, the use of outside counsel, and outreach to women and minorities.

During 1993, in coordination with the Resolution Trust Corporation (RTC), the Legal Division developed conflicts of interest and confidentiality policies to be followed in dealings with outside counsel. In May, the Division organized a national symposium in Chicago for minority-, women- and disabled-owned law firms. This symposium was designed to introduce these firms to the FDIC's operations and to inform them of retention opportunities with the FDIC. Representatives from nearly 400 law firms attended the three-day conference.

Litigation

After an insured institution fails, the Legal Division investigates, and where merited, pursues civil claims against bank and thrift officers and directors, and other advisers arising from mismanagement or misconduct that led to the failure of the institution. During 1993, the Division dealt with matters pertaining to 419 failed insured institutions, including 216 lawsuits, many with multimillion dollar claims. In conjunction with DAS, the Legal Division helped the FDIC recover $266 million in claims. This total includes approximately $37 million provided to the FDIC as part of a $391 million distribution in September to the FDIC and the RTC stemming from the agencies' lawsuits against Michael R. Milken and other former employees of Drexel Burnham Lambert. One of the FDIC's largest recoveries was $40 million to settle the FDIC's claims against former officers and directors of MBank Dallas, which was one of 20 subsidiary banks of Dallas-based MCorp that failed in March 1989.

In addition to pursuing civil claims, the Legal Division and DAS coordinated with other federal banking regulators and the Department of Justice on criminal matters. By year-end 1993, the FDIC had referred 2,372 potential criminal matters to Justice, participated in bank fraud prosecutions and sentencing, and played a major role in collecting several million dollars through criminal restitution orders.

During 1993, the FDIC was involved in several significant cases in areas such as challenges to the FDIC regulations, lawsuits arising out of assistance to banks and thrifts, and other actions against the FDIC as a corporation. These cases included the following:

Bank United of Texas, FSB v. FDIC; and Bluebonnet Savings Bank, FSB v. FDIC

In these two lawsuits, acquirers of certain Texas-based thrifts that failed during 1988-1989 sued the FDIC (as manager of the FRF) for damages of more than $300 million, alleging breaches of assistance agreements. In the Bank United case, the FDIC filed a multimillion dollar counterclaim contending that the acquirers themselves had breached the agreement. In the Bluebonnet case, the FDIC filed a counterclaim seeking a rescission of the agreement because the principal investor made fraudulent disclosures which the Federal Savings and Loan Insurance Corporation relied upon when it entered into the agreement. The parties reached a settlement in the Bank United case and that lawsuit has been dismissed; the Bluebonnet case was still pending at year-end.

First City Bancorporation of Texas, Inc. v. FDIC

A Texas bank holding company filed suit against the FDIC and state and federal chartering authorities for damages of approximately $3 billion, alleging a complex series of claims arising from the October 1992 closing of its subsidiary banks. In December 1993, the FDIC Board of Directors agreed in principle to a settlement that would end the litigation. Final terms of the settlement were still being negotiated.

Thrift challenges to supervisory goodwill standards mandated by a 1989 law

The acquirers of various thrifts that failed before 1990 have brought more than 40 cases challenging regulatory capital standards required by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Most of the cases involve savings associations that were authorized to acquire insolvent thrifts by the former Federal Home Loan Bank Board. The acquiring thrifts claimed a right to count the excess of liabilities over assets as supervisory goodwill that could be used to meet capital requirements. In May 1993, the U.S. Court of Appeals for the Federal Circuit in Washington, DC, ruled in favor of the regulators in the leading case on the subject. However, in August, the same appellate court granted a rehearing and the matter is pending.

McNeily v. United States

The Fifth Circuit Court of Appeals in New Orleans upheld the dismissal of a suit brought by the liquidator of a partnership alleging that government regulators conspired with a failed thrift to cause the partnership to purchase bad loans and covered up the fact. The Court held that the Racketeer Influenced and Corrupt Organizations Act (RICO) is not applicable to government agencies.

John H. Meyer v. FDIC, FSLIC (as receiver for Fidelity Savings)

The U.S. Supreme Court heard arguments in its review of a decision earlier in the year by the Ninth Circuit Court of Appeals in San Francisco which held that: (1) a federal receiver may be held liable for tort damages arising out of an alleged violation of the Constitution; and (2) the federal receiver violated the right to due process by terminating the employment of an officer of a failed financial institution without providing an opportunity for a hearing. (The Supreme Court reversed the Ninth Circuit's decision in early 1994.)

National Trust for Historic Preservation in the United States v. FDIC

The U.S. Court of Appeals for the District of Columbia Circuit refused an appeal to stop the FDIC from selling a Dallas landmark for alleged failure to comply with the National Historic Preservation Act. The Court dismissed the appeal for lack of jurisdiction because the FDIC's anti-injunction statute prohibits a court from taking any action, except at the written request of the FDIC, that would restrain the agency in its receivership capacity. The FDIC subsequently sold the building. A request for a rehearing has been granted.

Marc Development, Inc. v. FDIC

The U.S. Court of Appeals for the Tenth Circuit in Denver *en banc* dismissed two previous opinions that severely limited the FDIC's ability to put a hold on litigation against a financial institution that later fails. The FDIC asserted that federal statute requires the claimant in a pre-closing lawsuit to give notice to the FDIC and provides the agency up to 180 days to review the matter (and possibly settle the matter) before the FDIC would have to defend the lawsuit in court. The two previous decisions limited the FDIC to a 90-day stay of pending litigation. ✪

The primary responsibility of the Division of Research and Statistics (DRS) is to provide support to the FDIC on economic and financial matters. DRS has become the principal provider of banking statistical data within the FDIC. In addition, DRS conducts both current analysis and long-term research projects that address developments affecting the banking industry and its relationship to the economy and to the FDIC.

Research Activities

In 1993, DRS continued to play a major role in implementing the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). The Act requires the FDIC to publish a recapitalization schedule showing the Bank Insurance Fund reaching the statutory target of 1.25 percent of insured deposits within 15 years. DRS developed the recapitalization schedule and recommended to the FDIC Board assessment levels consistent with the schedule. DRS staff monitor economic and industry conditions to determine if an adjustment to the recapitalization schedule or to the range of premium assessment rates is warranted.

The Act also requires the FDIC to develop and implement a system of risk-related insurance assessments. Although the Act did not require the system to be in place until January 1, 1994, the FDIC began a transitional risk-related system on January 1, 1993. DRS designed the system and worked with the Divisions of Supervision and Finance to implement it. The approach used both objective (capital ratios) and subjective (supervisory judgment) criteria to place banks in different insurance groups. Subsequently, DRS staff began investigating whether it is possible to refine the risk-related premium system in a way that combines simplicity with improved risk measurement.

In 1993, DRS staff worked with other Divisions to develop various regulations required by FDICIA. These regulations related to the treatment of nontraditional banking activities and concentrations of credit for purposes of determining risk-based capital levels. DRS staff provided assistance with a separate regulation on the treatment of interest rate risk for risk-based capital purposes.

An increasingly important issue is the financial condition of the Savings Association Insurance Fund (SAIF), which soon will assume responsibility for resolving failing thrift institutions. Considerable uncertainty exists about future demands on the SAIF because the Fund has not assumed its responsibilities from the position of strength envisioned by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. DRS staff assisted the FDIC Chairman's Office, the Treasury Department and the congressional banking committees in analyzing a variety of "what if" scenarios regarding SAIF recapitalization. DRS will continue to devote considerable attention to estimating the FDIC's loss exposure arising from the SAIF.

During the year, real estate markets continued to be a source of concern for the FDIC for two major reasons: (1) the impact of troubled real estate assets on bank earnings and (2) the substantial inventory of properties the FDIC and the Resolution Trust Corporation have inherited as a result of bank and savings association failures. Consequently, DRS monitored and analyzed real estate markets and their effects on banks and the deposit insurance funds. DRS staff also participated in interagency task forces on the classification of troubled real estate loans and the implementation of new rules for real estate lending.

Separately, DRS staff addressed the role of banks in the financing of real estate construction activity. This has been a major issue in the recent past in the context of the "credit crunch." As the recovery in real estate markets spreads to commercial markets and the demand for funds increases, the issue of the availability and the terms governing credit flows will become increasingly important for the safety and soundness of the banking sector as well as the health of the economy in general.

Another focus of DRS was to help determine whether all sectors of the economy have equal access to credit. A key issue of concern is mortgage lending bias. The 1990, 1991 and 1992 Home Mortgage Disclosure Act (HMDA) data showed significant lending disparities in loan rejection rates across racial and ethnic groups — a result that has caused concern among the federal regulatory agencies. In 1993, various statistical analyses and interpretation of the HMDA data were carried out by DRS, and summary analyses were provided to field personnel. DRS also provided support to the Office of Consumer Affairs and the Division of Supervision on HMDA data for the purpose of policy formulation and monitoring for lending bias.

Trends of small-business lending also were a focus of inquiry in DRS. In 1993, staff monitored the available data and analyzed developments in this area to ensure that FDIC officials are aware of the existence and severity of any problems.

DRS continued to assist in the development of the FDIC's estimates of its loss exposure from bank and thrift failures. Part of estimating the FDIC's loss exposure involves projecting failed bank or thrift assets, and part involves estimating the losses in institutions that do fail. DRS performs ongoing analysis of the resolution costs of bank failures and periodically updates a historical model that can be used to predict FDIC losses on assets at banks expected to fail.

Good information on the costs of disposing of different types of assets under various scenarios is crucial to evaluating the costs to the FDIC of alternative resolution techniques. DRS continued to support Corporate-wide efforts to improve the collection and organization of data related to failed bank resolutions. DRS concurrently is developing systems that record and relate all significant resolution events, thus making it possible to combine pre- and post-closing data in failed-bank analysis.

DRS developed a Research Information System (RIS) covering all FDIC-insured depository institutions. This system reduces the amount of time and technical knowledge necessary to access, analyze and publish timely and accurate financial data. RIS data are being made available to FDIC staff in various formats, including a personal computer-based directory, and to the public, such as in this *Annual Report*. DRS also is exploring with the Division of Information Resources Management the development of an Executive Information System that would give FDIC managers access to a broad spectrum of data and other information that would help in decision-making.

Studies

FDICIA requires the FDIC to explore the feasibility of establishing a private reinsurance system. Under such a system, private companies would cover a small percentage of the loss the FDIC incurs from a failed or assisted institution. The primary benefit would be to introduce a form of market-based pricing into federal deposit insurance.

In June 1993, DRS staff completed a report to Congress regarding the feasibility of a private reinsurance system, which concluded that reinsurance is possible but would be difficult to implement. Even though the private sector has indicated limited interest, DRS intends to hold more discussions on the feasibility of reinsurance.

Another study mandated by FDICIA, and completed in June, explored the feasibility and cost of tracking an individual's deposits across all depository institutions. The study also addressed the complexities of deposit insurance coverage, the systems necessary to track insurance coverage, and ways to simplify coverage rules. DRS concluded that implementation of a tracking system would be too costly and would raise serious privacy issues.

DRS began a study in 1993 of the changing role of banking in the financial services industry. The role of banks in the financial intermediation process appears to have been declining in importance for at least the past decade. This study will explore the extent to which this has occurred, and examine the competitive forces and regulatory framework that influence banking's role in the rapidly changing financial services industry.

Publications

As part of its regular activity, DRS originates and issues several publications on an annual basis. These include: *FDIC Banking Review*, a journal presenting the results of independent research completed by FDIC staff; the *Quarterly Banking Profile*, which contains industry-wide financial data on the banking and thrift industries; *Statistics on Banking*, which presents state-by-state, asset-size and charter-type totals for all FDIC-insured institutions; the *Survey of Real Estate Trends*, a quarterly report that summarizes national and regional real estate developments; and the *Data Book*, which presents deposit data for all offices of FDIC-insured banks.

In 1993, DRS also completed a new reference document entitled *Current Issues '94*, which consists of a set of briefing papers on principal issues facing the FDIC. The papers are intended to serve as a useful reference for FDIC Board members and executives, staff of the congressional banking committees, and other interested parties. These briefing papers will be updated to reflect new developments, and new papers will be added as appropriate. ✪

The Division of Finance (DOF) manages the FDIC's corporate and receivership funds and provides a wide range of financial services nationwide. The Division's activities include: the audit and collection of insurance premiums from depository institutions; accounting for 961 receiverships with $28 billion in assets at year-end 1993; administering responsibilities under the Chief Financial Officers Act; preparing financial statements for the three Corporate funds and internal management information reports; providing leadership in cost control and resource allocation; and providing other services in areas such as travel and relocation.

The Division completed its first full year of operation in 1993; it was established in November 1992 to give additional emphasis to the financial function and to consolidate financial management activities within a single Division.

The Bank Insurance Fund

Strengthening the Bank Insurance Fund (BIF) continued to be a major priority during 1993. In 1990, after an unprecedented rise in bank failures, Congress granted the FDIC authority for short-term borrowing from the Federal Financing Bank (FFB). This short-term borrowing authority is in addition to the $30 billion line of credit the FDIC has (but has never used) with the U.S. Treasury. The level of FFB borrowings peaked at $15.1 billion in June of 1992. On August 6, 1993, the final $2.5 billion was repaid, including accrued interest.

By year-end 1993, the BIF balance climbed to a surplus of $13.1 billion, compared to a deficit of $101 million at year-end 1992. The increase is attributable mainly to the improved economy and the reduction in bank failures, as well as increased assessment revenue and successful cost-control measures. The Fund is now more than halfway to meeting the congressionally mandated level of $1.25 for every $100 of insured deposits. The 1993 balance is equal to 69 cents for every $100 of insured deposits.

Initiatives

Monitoring and administering the collection of deposit insurance assessments has become more important in recent years as a result of increases in the assessment rate since 1989 and the advent of risk-related assessments starting on January 1, 1993. The new risk-related system is a major departure from the past, when all institutions were assessed at the same flat rate. DOF coordinated the implementation of the new assessment system, with assistance from the Divisions of Supervision and Research and Statistics, and answered the many questions posed by institutions regarding the system.

DOF also has implemented a pilot program to collect insurance assessments electronically through the Automated Clearing House (ACH) network instead of by mail. Thirty-six BIF-insured institutions voluntarily participated in the program that began in January 1994, through the Federal Reserve Bank of Richmond. Initial results of this pilot program will be evaluated, and recommendations will be made to enhance future operations. The program will benefit both the FDIC and financial institutions by reducing processing time and costs. In the future, the program is expected to be available to all FDIC-insured institutions.

DOF took the lead role in implementing and coordinating the Corporation's responsibilities under the Chief Financial Officers Act of 1990 (CFOA), which deals with overall FDIC internal controls and requires an annual statement to Congress on internal accounting and administrative controls. DOF established an Internal Review Branch to implement the agency's compliance with internal review programs mandated in the CFOA, as well as handle internal review within the Division.

Reports

During the year, DOF developed a quarterly Financial Management Report, which provides FDIC senior management with an integrated analysis of the FDIC's operating budget and the financial position of the three FDIC-administered funds. Refinements also were made to the BIF and SAIF projection models to increase their effectiveness in estimating the insurance funds' short-term financing needs and debt repayment requirements, and in projecting long-term financial performance and funding requirements.

Stricter cost controls in 1993 resulted in FDIC spending of $2.3 billion, which is 22 percent under the budgeted amount of $2.95 billion. In September of 1993, a Budget Review Committee (BRC) was established by Acting Chairman Hove and was chaired by the Chief Financial Officer. The committee recommended to the Chairman and the Board of

Directors an FDIC budget that reflects the realities of the Corporation's diminishing workload. The 1994 budget, approved by the Board on December 14, projects actual spending of $1.95 billion, down an estimated 15 percent from 1993's actual spending levels. A total of 13,116 staff positions were authorized for year-end 1994, a reduction of about 20 percent from the 1993 authorized level. (Actual staffing levels at year-end 1993 are shown in the table on page 37.)

Using recommendations made in a study earlier in the year, cash management functions performed in areas throughout DOF were consolidated under a single branch. The new Treasury Branch within DOF is responsible for establishing and coordinating overall cash management policy and for managing all cash management operations involving funding, cash operations, cash flow forecasting and reporting. By consolidating these functions and segregating them from accounting and financial reporting functions, each supports the other in maintaining a well controlled operating environment. ✪

Risk-Related Premiums

The following table shows the number of institutions insured by the Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF), according to their risk classification and insurance assessment rate, as of December 31, 1993.

	Supervisory Groups		
	A	B	C
Well Capitalized:			
Rate	$0.23/$100	$0.26/$100	$0.29/$100
BIF	9,595	1,112	288
SAIF	1,504	194	52
Adequately Capitalized:			
Rate	$0.26/$100	$0.29/$100	$0.30/$100
BIF	59	48	112
SAIF	49	44	49
Undercapitalized:			
Rate	$0.29/$100	$0.30/$100	$0.31/$100
BIF	3	4	66
SAIF	3	8	26

Average assessment rate: 23.7 cents per $100 of domestic deposits for BIF members; 24.7 cents per $100 of domestic deposits for SAIF members.

Note: BIF numbers exclude bridge banks. SAIF numbers include 63 Resolution Trust Corporation conservatorships.

Planning and organization dominated the activities of the Division of Information Resources Management (DIRM) in its first full year of existence. The Division was established in November 1992 to coordinate the FDIC's computer operations and data analysis. Highlights of its first year include the development of the 1993 and 1994 master plans for the agency's information resources management (IRM), and the 1994 IRM budget, which for the first time gathered all the Corporation's IRM equipment and contractor support funds under a single corporate budget.

DIRM developed or enhanced 24 electronic data processing (EDP) systems during 1993. One of these systems, the Banking Information Tracking System, delivers financial information to 4,000 users around the country, including federal and state bank examiners. A regional information system serves the Division of Supervision's eight regional offices. In another effort, DIRM assisted other FDIC Divisions with the computations of FDIC insurance premiums under the new risk-related premium system. Additionally, DIRM acquired equipment and software to support a new management information system being developed with the Legal Division to better track FDIC legal cases and other matters.

At the same time, DIRM maintained 90 in-house EDP systems, including those used to produce financial analysis information for banking regulators to monitor institutions between examinations, as well as annual surveys of institutions' demand, time and trust deposits.

DIRM supported a wide range of FDIC-wide communication tools in 1993, some to share information specifically within the FDIC, and others to improve communication with other government agencies, the financial community and the public. For example, DIRM installed new technology that allows FDIC staff to communicate by electronic mail (E-mail) with other government offices, including the Federal Reserve Board and the Office of Management and Budget. This inter-agency system will likely be expanded to include the other federal regulators of financial institutions and the Resolution Trust Corporation.

DIRM, assisted by other FDIC offices, also participated with the Veterans Administration and the U.S. Postal Service in a pilot program to make information available to the public electronically. The pilot program featured a computerized kiosk in a shopping mall in Cedar Rapids, Iowa, which enables the public to select and read information about the FDIC and other government agencies. Initially available are the FDIC's publication *Your Insured Deposit* and various other consumer information. The same information also is available to the public in Cedar Rapids through a new interactive cable television system. Plans are being made to expand the pilot program to other cities.

To help meet its responsibility for managing all IRM-related contracts and the purchase of equipment, DIRM in July held a minority- and women-owned business (MWOB) outreach program in conjunction with the Division of Finance, the Office of Corporate Services and the Office of Equal Opportunity. Almost 100 potential MWOB vendors attended the all-day conference in Washington, DC, where they learned about FDIC operations and contracting opportunities. In 1993, 24 percent of the firms issued contracts by DIRM were owned by minorities or women.

Near the end of the year, DIRM began absorbing approximately 250 employees from the Division of Depositor and Asset Services, who are being transferred to DIRM as part of the consolidation of IRM-related services. ✪

Office of Inspector General

The Office of Inspector General (OIG) conducts and coordinates audits, investigations and other activities regarding corporate and receivership programs and operations. These roles are designed to promote economy and efficiency as well as to prevent and detect fraud and abuse. The Inspector General (IG) keeps the FDIC Board of Directors and Congress informed of fraud and other serious problems in areas such as bank supervision, failed bank resolutions, asset liquidation, legal activities and automated system integrity. The IG recommends corrective action for conditions detailed in audits, and reports on management decisions regarding such corrective action.

Effective with a law enacted on December 17, 1993, the FDIC's Inspector General is a presidential appointment. Under prior law, the IG had been an appointee of the FDIC Chairman.

The OIG conducted audits during 1993 that identified more than $82 million in cost recoveries and savings to the FDIC. A total of 179 audit reports were presented to the Board of Directors, resulting in a wide range of recommendations to strengthen operations. The FDIC management's response to the audits has led to improvements across the agency.

Additionally, OIG investigative activities resulted in closing 245 cases, a number of which were closely coordinated or conducted with other agencies' Offices of Inspector General and federal investigative offices. A total of 16 convictions or guilty pleas were obtained and 199 referrals were made to the Department of Justice, the FBI and other federal officials during the year. These investigations resulted in the recovery and restitution of over $2 million to the Corporation.

Office of Corporate Communications

The Office of Corporate Communications (OCC) is an information conduit, providing access to the agency for the media, bankers and the public. The OCC's basic goal is to provide accurate information quickly. Typically, the Office handles about 1,500 telephone, fax and written requests for information each week.

With the assistance of the Divisions and other Offices, OCC edits and distributes Financial Institution Letters, which are agency directives that keep banks and savings associations informed of changes in rules, regulatory proposals issued for comment, and other noteworthy developments. OCC also issues press releases and publications.

The OCC launched the new quarterly publication, *FDIC Consumer News*, in the autumn of 1993 in an effort to keep the public, bankers and even FDIC employees better informed of changes made in deposit insurance rules and other consumer topics. The publication is free to anyone, and the OCC maintains a mailing list for subscriptions.

The FDIC's brochure *Your Insured Deposit* was updated in 1993 with assistance and guidance from the Legal Division to incorporate recent changes in the scope of deposit insurance. The revised booklet was made available in September. A Spanish version will be available in 1994.

The FDIC's reading room, which is managed within OCC, moved into full operation in 1993 as it became a repository for public letters commenting on proposed regulations, evaluations of banks' compliance with the Community Reinvestment Act, FDIC enforcement actions issued against banks and individuals, and other documents.

Office of Consumer Affairs

The Office of Consumer Affairs (OCA) manages the FDIC's community outreach program and helps ensure that appropriate action is taken on consumer complaints alleging unfair or deceptive practices. It handles complaints and inquiries from consumers and bankers; maintains a toll-free 24-hour telephone "hotline" (1-800-934-3342); and serves as the principal contact for the industry and the public on deposit insurance questions. OCA also educates consumers, examiners and bankers about consumer protection and civil rights laws and regulations, and promotes compliance with Fair Lending laws.

OCA logged approximately 90,500 telephone calls through its hotline in Washington and eight Division of Supervision regional offices. The office also received approximately 5,500 written complaints and inquiries during the year. The largest volume of inquiries related to deposit insurance coverage. In response to news and magazine articles on deposit insurance, OCA distributed more than 2,600 deposit insurance pamphlets to consumers.

The OCA helped coordinate seven public hearings held by the FDIC and three other federal financial regulatory agencies to gather information on improving the Community Reinvestment Act of 1977 (CRA), which is intended to encourage banks and thrifts to serve the credit needs of their communities. The agencies heard from more than 250 witnesses. Recommendations were made by leaders of financial institutions, community organizations, consumer advocacy groups, state and local governments and small businesses.

OCA also sponsored or co-sponsored several training conferences, roundtables and forums on CRA and fair lending issues in Arkansas, Illinois, Kansas, Missouri, Montana, Puerto Rico and elsewhere.

OCA's participation in National Consumers Week, which is sponsored by the U.S. Office of Consumer Affairs, included exhibits and the distribution of consumer and civil rights literature at FDIC offices nationwide. OCA staff also participated and distributed literature at a Congressional Expo on Capitol Hill.

The Consumer Affairs Office also is working on an electronic kiosk project with the FDIC's Division of Information Resources Management. The first kiosk opened in Westdale Mall in Cedar Rapids, Iowa, in September 1993. The FDIC pamphlets *Community Reinvestment Act, Consumer Information* and *Your Insured Deposit* were provided for viewing on the kiosk. The information was also made available on a local cable television channel. Plans are being made to expand the kiosk project to other cities in 1994.

OCA also assisted the FDIC's Office of Corporate Communications in the development of *FDIC Consumer News*, a new quarterly publication offered to consumers, bankers and others.

Office of the Executive Secretary

The Office of the Executive Secretary (OES) processes all matters that go before the FDIC Board of Directors and its committees; ensures compliance with public disclosure and regulatory burden reduction laws; and implements the FDIC's ethics programs.

In the area of public information and disclosure, the OES administers the FDIC's compliance with the Freedom of Information Act (FOIA) and the Privacy Act. In 1993, the FDIC received 1,837 FOIA and Privacy Act requests. OES also publishes and updates a looseleaf set of books containing laws, regulations, advisory opinions, policy statements and other material relating to the financial industry.

OES develops ethics policies, resolves questions concerning conflicts of interest and post-employment restrictions, and provides mandatory ethics training to FDIC employees. Implementation of new "standards of conduct" regulations will be a major priority in 1994.

Office of Legislative Affairs

As the agency's liaison with the U.S. Congress and state legislatures, the Office of Legislative Affairs (OLA) monitors and promotes legislation important to the FDIC, prepares testimony and assists Congress in drafting legislation. OLA also identifies areas of congressional concerns and provides information in response to inquiries from congressional offices.

In 1993, the Office responded to 2,555 written inquiries from members of Congress, many on behalf of constituents. OLA staff also met with and responded to phone inquiries from members of Congress and their staffs to answer questions about such matters as deposit insurance rules and FDIC policies for disposing of loans and real estate from failed banks. OLA staff prepared the Chairman and other senior officials for 26 congressional hearings in 1993.

Congressional representatives from New England and the Mid-Atlantic states were particularly interested in local credit conditions during 1993. Congressional delegations met with FDIC officials to ask about the impact of the Corporation's supervisory and liquidation policies on credit availability. OLA coordinated FDIC officials' participation in congressional briefings, hearings and town meetings in these regions. FDIC officials assisted in developing proposals to address credit availability issues, including small business lending and regulatory relief.

The most significant legislation in which OLA was involved during the year was the Resolution Trust Corporation Completion Act (P.L. 103-204). In addition to providing $18 billion for the Resolution Trust Corporation (RTC), the Act authorized up to $8 billion for the Savings Association Insurance Fund (SAIF), which may use appropriated funds, provided that the FDIC makes certain certifications. (See Legislation Enacted, Page 50.) During the consideration of the RTC Completion Act, OLA worked with House and Senate members and their staffs to provide information on SAIF funding needs and to provide assistance with technical and other amendments (for further information on SAIF funding needs, see Page 51.)

With the passage of the federal budget reconciliation bill, Congress established a national depositor preference statute. Depositor preference provides that depositors of failed institutions must be paid in full before any distributions are made to general creditors, a requirement that reduces costs to the insurance funds resulting from failures. The new statute won congressional approval over a proposed fee for FDIC bank examinations. While the FDIC did not formally endorse either proposal, OLA worked with the FDIC's Division of Finance and the Legal Division to provide technical assistance to Congress during the deliberations.

The Senate and House Banking Committees shifted attention in 1993 to issues of banks' lending to small businesses and to serving the needs of low- and moderate-income neighborhoods. On numerous occasions, FDIC officials testified on lending discrimination, fair lending enforcement, and enforcement and reform of the Community Reinvestment Act.

The House passed legislation in 1993 which would provide funding to specialized community development entities through a new "community development fund" and to commercial banks through the Bank Enterprise Act. The legislation also would grant additional regulatory relief to banks. The Senate Banking Committee adopted similar legislation in 1993, which was taken up by the full Senate in 1994. OLA worked with other FDIC offices and divisions to review the legislation and proposed amendments, and to provide technical assistance to members of Congress and their staffs.

Office of Corporate Services

The Office of Corporate Services (OCS) provides a wide variety of services to meet the business needs of the FDIC, ranging from procurement, to managing facilities, to helping produce publications, and to providing transportation.

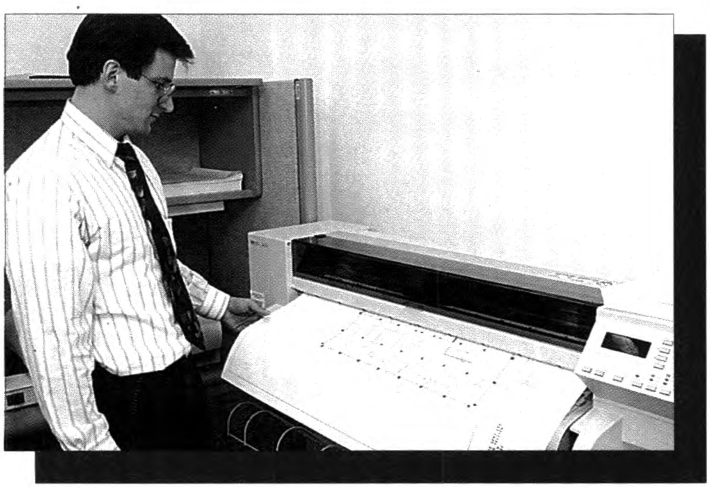
OCS gave priority in 1993 to ensuring that the Corporation's contracting staff and its contractors meet the highest ethical standards. To accomplish this, OCS developed an FDIC Procurement Policy Manual, which outlines contracting policies and procedures, and governs the related activities of FDIC staff and contractors. OCS contracting staff around the country participated in a training program covering ethics, procurement policies and procedures and internal controls to prevent fraud and waste.

A formal contractor "fitness and integrity" program also was initiated to ensure that contractors doing business with the FDIC conform to both the Corporation's standards of conduct and the government's ethics guidelines. OCS conducts periodic compliance reviews of contractors in OCS field sites as well as at headquarters in Washington, DC. A "fitness and integrity" component was added to the computer-based National Contracts System (NCS), which alerts the FDIC to businesses with conflicts of interest, such as loan defaults above $50,000 or involvement in litigation with the FDIC or Resolution Trust Corporation. Contracts are not to be executed with such businesses unless any conflict is resolved.

At the end of the year more than 26,000 companies were registered with the FDIC, including vendors doing business or wanting to do business with the agency. During 1993, OCS awarded 61,772 contracts worth $263.4 million to outside vendors. These contracts included administrative services for the Corporation as well as contracts growing out of FDIC receiverships of failed banks for such services as mortgage brokerage, real estate appraisals and property management (except those awarded by the Legal Division).

Part of OCS's contracting responsibilities is the promotion of the agency's Minority- and Women-Owned Business (MWOB) Program. The Program has four major components: (1) reaching out to identify MWOB firms; (2) promoting MWOB contracting among FDIC Divisions and Offices nationwide; (3) producing quarterly reports and statistics on FDIC's MWOB Program and contracting activities for a report to Congress; and (4) monitoring FDIC field offices and their contractors to ensure that both are in conformance with the Corporation's MWOB policies.

Of the 61,772 contracts awarded by OCS in 1993, 29.2 percent (23.3 percent of the dollar amount) went to MWOB contractors. This success is due in large part to the aggressive promotion of the program. Staff attended numerous national conferences, such as the National Association of Real Estate Brokers and the National Urban League's annual convention, to explain MWOB contracting and to provide technical assistance to firms in developing proposals. OCS, the Divisions of Information Resources Management and Finance, and the Office of Equal Opportunity also sponsored a technical outreach program for about 150 representatives of MWOB firms which were given "statements of work" for future accounting and data processing services the FDIC will require. The FDIC technical teams briefed them on the accounting and data processing functions of the Corporation.



W.W.Reid

Dave Brown of the Office of Corporate Services in Washington monitors a computer that helps design office space housing more than 14,000 FDIC employees nationwide.

Office of Personnel Management

Organizational changes in the FDIC brought new challenges for the agency's Office of Personnel Management (OPM). The Office shifted gears from the demands of only a few years ago for high-volume employee recruitment and job placement processing to dealing with the complexities of downsizing, expanded labor representation, pay and benefits issues, and regulatory and statutory changes affecting employment.

Continuing the trend begun in 1992, nationwide employment at the FDIC and Resolution Trust Corporation (RTC) decreased by 1,461 to 20,998 at year end – the FDIC employed 14,220 and the RTC had 6,778. The reductions at the FDIC primarily resulted from the decline in failed bank liquidation activities, which reduced staffing needs in the Division of Depositor and Asset Services and in related areas of the Legal Division and the Division of Finance. Liquidation-related staff will continue to shrink during 1994.

A freeze on permanent hiring that began in 1992 continued in 1993 in order to make room for returning permanent personnel who were assigned to the RTC. A total of 115 employees returned to the FDIC from the RTC during 1993, leaving 1,615 permanent RTC employees.

As part of a government-wide effort to revamp the recruitment of temporary employees, the U.S. Office of Personnel Management imposed new limits on the FDIC's 55-year-old authority to fill and retain temporary positions used to carry out failed bank liquidation activities. While U.S. OPM recognized the need to hire staff quickly in order to deal with failed institutions, the authority granted in these cases for temporary positions has been limited to no more than two years. At the end of 1993, the FDIC had 5,877 temporary liquidation-related employees and the RTC had 4,542. FDIC's temporary employees may be retained until June 1, 1996, coinciding with completion of downsizing in the liquidation structure.

Also during 1993, OPM completed a comprehensive pay and benefits contract covering about 65 percent of all FDIC employees. And, as a cost- containment measure, the FDIC changed from a single, traditional fee-for-service health insurance program to a variety of options for employees, including managed care.

Number of Officials and Employees of the FDIC 1992 - 1993 (Year-end)

	Total		Washington		Regional/Field	
	1993	1992	1993	1992	1993	1992
Executive Offices*	217	216	186	189	31	27
Division of Supervision	3,971	3,997	178	168	3,793	3,829
Division of Depositor and Asset Services+	5,665	6,429	87	67	5,578	6,362
Legal Division	1,994	2,079	458	433	1,536	1,646
Division of Accounting and Corporate Services^	0	1,255	0	583	0	672
Division of Finance^	820	263	297	219	523	44
Division of Information Resources Management^	351	2	348	2	3	0
Division of Research and Statistics	58	50	58	50	0	0
Division of Resolutions	325	331	69	67	256	264
Office of Inspector General	195	159	175	136	20	23
Office of Personnel Management	220	229	208	222	12	7
Office of Equal Opportunity	39	40	39	40	0	0
Office of Corporate Services^	365	0	214	0	151	0
Subtotal	14,220	15,050	2,317	2,176	11,903	12,874
Resolution Trust Corporation+	6,778	7,409	1,662	1,507	5,116	5,902
Total	20,998	22,459	3,979	3,683	17,019	18,776

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

\+ The Resolution Trust Corporation and the Division of Depositor and Asset Services totals include temporary employees. In October 1993, the Division of Liquidation changed its name to the Division of Depositor and Asset Services.

^ In November 1992, the FDIC announced that the Division of Accounting and Corporate Services was being replaced with the Division of Finance, the Division of Information Resources Management and the Office of Corporate Services.

Office of Training and Educational Services

The Office of Training and Educational Services (OTES) develops and manages training programs aimed at maintaining a highly skilled workforce throughout the FDIC.

The FDIC's reorganization and downsizing, which was announced in 1993, led the OTES staff and the FDIC's management to assess the requirements for handling this kind of change. Their analysis resulted in the following developments in training programs:

- The impact of change on employees was the topic of seminars presented in worksites that will close in 1994. The sessions included stress management and job-search techniques.

  In addition, supervisors were trained to work with employees who are concerned about organizational changes and to help them cope effectively with change.

- Training programs were being designed by OTES to help highly specialized employees in the Division of Resolutions develop a broader base of skills.

- To gauge how organizational change will influence the FDIC's budget and business plan, the OTES studied strategies that businesses have used effectively to deal with mergers and restructuring.

Also in 1993, OTES designed a new management training curriculum working with the Management Education Policy Committee, which is composed of senior FDIC managers. The curriculum, which is expected to be in place in 1994, will include core training at four levels of management, from executives down to team leaders.

In the area of examiner training, OTES assisted the Division of Supervision in implementing a new interagency examination report. During meetings with field examiners and policy specialists, FDIC field procedures were adapted to ensure that the new report would be a useful examination tool for examiners from any of the federal regulatory agencies.

OTES staff also worked with examiners and training specialists from the Office of the Comptroller of the Currency, the Federal Reserve Board and the FDIC to develop new interagency training on determining loan quality when examining financial institutions.

Office of Equal Opportunity

The Office of Equal Opportunity (OEO) provides direction and leadership in programs designed to: prohibit discrimination at the FDIC based on race, color, religion, sex, national origin, age or disability; promote equal employment opportunities; maximize opportunities for minority- and women-owned businesses (MWOB) seeking to work with the FDIC; encourage the preservation and expansion of minority-owned financial institutions; and encourage the use of minority- and women-owned financial institutions as financial agents for the FDIC.

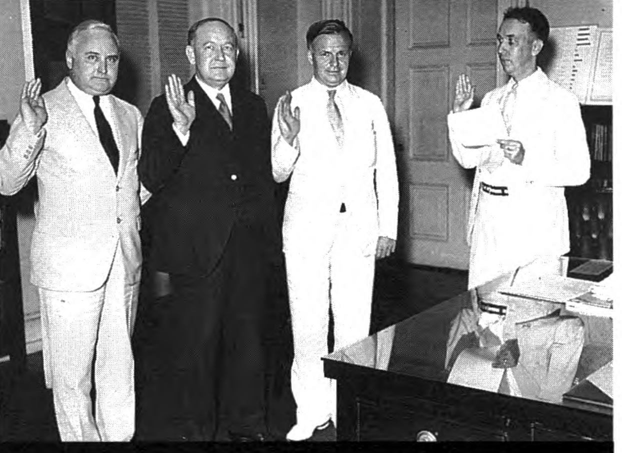
The Office provides advice, information and training regarding the Equal Employment Opportunity complaint process and on the prevention of situations that may result in complaints of alleged discrimination.

The Office conducts a continuous campaign to assist FDIC managers and supervisors in achieving a diverse workforce by encouraging the recruitment and placement of minorities, women and individuals with disabilities. In 1993, 59 percent of the FDIC's workforce was composed of minorities and women.

The Office also helps FDIC Divisions and other offices identify, solicit and hire MWOBs as outside contractors. For non-legal contracts (such as office supplies and real estate management), MWOBs were awarded $61.4 million in total fees in 1993. This represents 23.3 percent of FDIC non-legal contractual dollars for 1993. Legal service contracts from the Legal Division for the same period totaled $16.5 million. This equals 15 percent of the FDIC's legal fees and expenses for the year. The FDIC is dedicated to strengthening its EEO commitment in 1994 and beyond. ✪

Regulations and Legislation

60 years of confidence



The first FDIC Board of Directors is sworn in on September 11, 1933: (left to right) E.G. Bennett; Walter J. Cummings, Chairman; J.F.T. O'Connor, Comptroller of the Currency; and J.F. Douglas, administering the oath of office.

Deposit Insurance

The FDIC approved final amendments to Part 330 governing deposit insurance coverage to implement Section 311 of Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). The amendments primarily affect certain retirement and other employee benefit plan accounts held by a depository institution in a fiduciary capacity, and bank investment contracts (BICs). The vast majority of the FDIC's current deposit insurance regulations, however, remain unchanged. Most of the rule changes became effective on December 19, 1993, but other provisions became effective earlier as mandated by FDICIA.

Approved:
May 11, 1993

Published:
Federal Register
May 25, 1993

Outside Audits

The FDIC added a new Part 363 to its regulations implementing a FDICIA requirement for external audits and audit committees for insured banks and thrifts. The rule applies to institutions with $500 million or more in total assets at the beginning of each fiscal year after December 31, 1992. An institution covered by the rule is required to file an annual report with the FDIC, with its primary federal regulator, and with any appropriate state banking agency within 90 days after the end of its fiscal year. The annual report must contain financial statements audited by an independent public accountant. The independent accountant also must report separately on the institution's compliance with designated safety and soundness laws and regulations. Furthermore, the institution must establish an audit committee composed entirely of independent outside directors, who must review the annual audit findings with management and the independent accountant. This rule became effective July 2, 1993. In adopting the final rule, the FDIC Board reiterated its belief that every institution, regardless of size or charter, should voluntarily have an annual audit of its financial statements by an independent public accountant and establish an independent audit committee.

Approved:
May 11, 1993

Published:
Federal Register
June 2, 1993

State Bank Activities

Final amendments were made to Part 362 implementing Section 303 of FDICIA, which prohibits insured state-chartered banks and their majority-owned subsidiaries from conducting activities "as principal" that are not permitted for national banks. A bank may, however, engage in an otherwise prohibited activity if it meets its minimum capital requirements and the FDIC determines that the activity does not represent a significant risk to the deposit insurance fund. The rule also describes application procedures for an institution seeking FDIC consent to continue or begin an otherwise prohibited activity, and contains timeframes for discontinuing or phasing out prohibited activities. In related matters, Part 303 was amended to place state-chartered banks that are members of the Savings Association Insurance Fund (SAIF) under the same activity restrictions as banks that are members of the Bank Insurance Fund (BIF). Another action eliminated long-standing restrictions on engaging in surety, fidelity and guarantee businesses now subject to FDICIA restrictions. Also, Part 333 was amended to conform certain restrictions on the activities and investments of state-chartered savings associations to Part 362.

Approved:
November 30, 1993

Published:
Federal Register
December 8, 1993

Risk-Related Premiums

The FDIC adopted amendments to Part 327 of its regulations revising the Corporation's "transitional" risk-related premium system, which was adopted in September 1992 as an interim step between the previous flat-rate system and the risk-related system required by Section 302(a) of FDICIA. The amendments clarify or elaborate on the transitional rule concerning such matters as the basis by which risk-related categories are to be assigned. This final system was effective for the assessment period beginning January 1, 1994.

Approved:
June 17, 1993

Published:
Federal Register
June 25, 1993

Brokered Deposits

In general, under a 1991 law, institutions categorized as "well capitalized" can accept funds through deposit brokers without restraint, but other institutions may be subject to restrictions or prohibitions. The FDIC approved final amendments conforming the capital category definitions in its brokered deposit regulations (Part 337.6) to the definitions in the prompt corrective action (PCA) regulations adopted in 1992. The terms "well-capitalized," "adequately capitalized," and "undercapitalized" now have the same meaning under both rules.

Approved:
October 19, 1993

Published:
Federal Register
October 25, 1993

Risk-Based Capital

The FDIC adopted final amendments to its risk-based capital rules (Part 325) permitting construction loans for one-to-four family residences to qualify for favorable treatment under certain conditions. It lowers to 50 percent from 100 percent the "risk weight" of these loans to builders to finance the construction of residences that have been pre-sold and meet other criteria. The final rule carries out Section 618(a) of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.

Approved:
February 23, 1993

Published:
Federal Register
March 3, 1993

Least-Cost Resolutions

The FDIC adopted a final rule amending Part 360 of its regulations to comply with Section 141 of FDICIA, which requires the least-cost resolutions of failed and failing insured depository institutions. The law mandated that by January 1, 1994, the agency issue regulations setting out the statutory prohibition against higher losses to the insurance funds caused by protecting uninsured depositors and non-depositor creditors of insured banks and savings associations. The FDIC has been adhering to these least-cost requirements of FDICIA since its enactment on December 19, 1991.

Approved:
December 14, 1993

Published:
Federal Register
December 22, 1993

Insurance Funds

The FDIC adopted final amendments to Part 327 revising the recapitalization schedule for the Bank Insurance Fund (BIF) adopted in September 1992, while retaining the current deposit insurance assessment rates for BIF- and SAIF-member institutions for the second half of 1993.

Approved:
May 25, 1993

Published:
Federal Register
June 1, 1993

Intangible Assets

The FDIC adopted amendments to its capital rules (Part 325) revising the regulatory capital treatment of intangible assets. The rule allows state nonmember banks to recognize "purchased credit card relationships" (the right to provide credit card services for customers from other credit card issuers) for up to 25 percent of Tier 1 capital. Under previous rules, "purchased mortgage servicing rights" (the acquired rights to service mortgage loans owned by others) were the only intangible assets permitted in meeting capital requirements. State nonmember banks may now count both types of intangibles toward regulatory capital up to an aggregate total of 50 percent of Tier 1 capital.

Approved:
January 12, 1993

Published:
Federal Register
January 28, 1993

Prompt Corrective Action

To further implement the prompt corrective action (PCA) provisions of FDICIA, the FDIC approved amendments to Part 303 relating to applications to conduct certain activities or to seek exceptions from certain restrictions. The FDIC also issued technical amendments to its capital rules (Part 325) to bring them into conformance with the new PCA rules.

Approved:
January 26, 1993

Published:
Federal Register
February 12, 1993

Reports of Apparent Crimes

The federal financial institution regulatory agencies adopted final rules that more clearly define the situations in which insured institutions must file reports of suspected criminal activities with their primary regulator, the U.S. Attorney and the appropriate federal law enforcement agency. At the same time, federal regulators adopted a universal reporting form to be used by all insured institutions.

Approved:
May 4, 1993

Published:
Federal Register
May 17, 1993

Deposit Advertising

The FDIC revoked Section 329.3 of its regulations governing advertisements by insured nonmember banks to solicit deposits. The section has been replaced by the Federal Reserve Board's Regulation DD, which implements the Truth in Savings Act.

Approved:
May 4, 1993

Published:
Federal Register
May 12, 1993 ✪

The first issue of *FDIC Consumer News* was introduced in November. The free newsletter is published quarterly by the Office of Corporate Communications to help explain deposit insurance rule changes and other topics to consumers, bankers and others.

Receivership Rules

The FDIC adopted interim regulations establishing its priority standing among receivership claims at failed banks to implement a new "national depositor preference law" enacted on August 10, 1993. The rule amends Part 360 to clarify that the administrative expenses of the FDIC, when acting as the receiver, will be paid from the liquidation or other resolution of an FDIC-insured institution before any other liabilities are paid, including uninsured depositor claims. The interim rule was adopted with a request for comment.

Approved:
August 10, 1993

Published:
Federal Register
August 13, 1993

Conflicts of Interest

The FDIC, with the concurrence of the Office of Government Ethics (OGE), issued interim financial disclosure requirements for FDIC officers and employees. The rule revokes the FDIC's current financial disclosure regulations and promulgates substantially similar regulations that supplement the financial disclosure requirements issued by the OGE. The rule was adopted along with a request for comment.

Approved:
November 24, 1992

Published:
Federal Register
July 26, 1993 ✪

W.W. Reid

The FDIC Board of Directors regularly meets in open session to discuss and vote on regulations and other matters. Seated at far left are Board members (left to right) Eugene A. Ludwig, Andrew C. Hove, Jr., and Jonathan L. Fiechter.

Community Reinvestment

The four federal bank and thrift regulators jointly issued a proposal to revise their Community Reinvestment Act (CRA) regulations. The proposal would replace the FDIC's existing CRA rules (Part 345) and create three "tests" of lending, service and investment in the community where the institution is located. These objective, performance-based tests would replace the 12 factors now used to assess CRA performance. The three tests would be applied differently depending on the type of institution, its size or specialty. As an alternative to the three tests, an institution could submit a strategic plan that includes measurable goals.

Approved:
December 9, 1993

Published:
Federal Register
December 21, 1993

Appraisal Regulations

The four regulators of banks and thrifts issued a plan to amend their real estate appraisal regulations in response to concerns about the costs to borrowers of real estate appraisals. The amendments to Part 323 of the FDIC's regulations would decrease the number of transactions required to have an appraisal prepared by a certified or licensed appraiser.

Approved:
May 26, 1993

Published:
Federal Register
June 4, 1993, and
November 10, 1993

Interest Rate Risk

The FDIC, the Office of the Comptroller of the Currency and the Federal Reserve Board issued a joint proposal to revise each agency's risk-based capital standards to ensure that banks measure and monitor interest rate risk and maintain adequate capital for that risk. The proposed rule would amend Part 325 of the FDIC's regulations to measure exposure to interest rate risk as the change in the net economic value of an institution resulting from specified changes in market interest rates. To measure this exposure, either a supervisory model or an institution's internal model, if approved, would be used. Institutions exposed to interest rate risk exceeding a supervisory threshold would be determined to have excessive risk. The proposal was required by Section 305 of FDICIA.

Approved:
May 11, 1993

Published:
Federal Register
September 14, 1993

Insurance Coverage Disclosures

The FDIC issued a proposal to amend Part 330 of its regulations to require insured institutions to provide timely disclosures to administrators of employee benefit accounts about whether their funds qualify for "pass-through" insurance coverage. Such coverage means that the $100,000 insurance limit is applied to each participant rather to the total account balance of the entire benefit plan. The accounts affected by the proposed rule include 401(k) retirement accounts, Keogh plan accounts, and corporate pension and profit-sharing plan accounts. With the exception of immediate disclosures to customers opening new accounts, the notices would be provided to plan administrators within two business days.

Approved:
November 30, 1993

Published:
Federal Register
December 8, 1993

Branch Closings

As required by Section 228 of FDICIA, the FDIC adopted an interagency policy statement clarifying how banks and thrifts are to provide advance notice of branch closings to allow customers time to make new banking arrangements. To conform with the policy statement, the FDIC issued a proposed rule that would incorporate the policy statement's definition of a "branch relocation" into the FDIC's separate rules governing applications.

Approved:
August 10, 1993

Published:
Federal Register
September 21, 1993

Safety and Soundness Standards

Section 132 of FDICIA requires federal bank and thrift regulators to establish certain safety and soundness standards for insured depository institutions and their holding companies. The standards are intended to signal emerging problems and to require submission of a compliance plan before these problems impair capital. An interagency proposal would set standards in three categories: operations and management; asset quality, earnings and stock valuation; and employee compensation.

Approved:
June 9, 1993

Published:
Federal Register
November 18, 1993

Capital Standards

The FDIC proposed to amend its capital standards (Part 325) for insured state nonmember banks to permit a limited amount of certain "deferred tax assets" to be included in Tier 1 capital for risk-based and leverage capital purposes. The proposal, based on a recommendation by the Federal Financial Institutions Examination Council, would allow some insured state nonmember banks to include a larger amount of deferred tax assets in their regulatory capital than allowed previously.

Approved:
April 20, 1993

Published:
Federal Register
May 5, 1993

Unrealized Gains and Losses

The FDIC proposed amendments to its leverage- and risk-based capital standards (Part 325) to include in Tier 1 capital the net unrealized holding gains and losses on available-for-sale securities. These unrealized gains and losses are reported as a component of stockholders' equity under Financial Accounting Standards Board (FASB) Rule 115. The federal financial institution regulators announced in August that banks should adopt FASB 115 in preparing their Call Reports as of January 1, 1994, or the beginning of their first fiscal year thereafter, if later. Until a final rule is issued, however, Tier 1 capital will continue to be calculated as currently defined, which requires net unrealized losses on marketable equity securities to be deducted.

Approved:
December 14, 1993

Published:
Federal Register
December 29, 1993

Foreign Branches

The FDIC proposed amendments to Part 346 of its regulations governing foreign banks. Section 202 of FDICIA provides that after December 19, 1992, a state-licensed insured branch of a foreign bank may not engage in any activity that is not permissible for a federal branch of a foreign bank without the approval of both the FDIC and the Federal Reserve Board. In general, if an application to engage in such activity is denied or the foreign bank elects not to continue the activity, a plan of divestiture or cessation must be submitted and carried out within one year.

Approved:
February 23, 1993

Published:
Federal Register
March 2, 1993

Bank Mergers

The FDIC issued a proposal to amend Part 303 of its regulations requiring a published notice of the filing of a merger application under the Bank Merger Act. In case of an emergency, the FDIC proposes to require an applicant to publish notices only twice during the statutory 10-day period, rather than daily. In non-emergencies, the FDIC proposes to revoke the requirement that the notice be published on the same day for each of the five weeks during which the notice must be published and on the 30th day from first publication.

Approved:
June 9, 1993

Published:
Federal Register
June 15, 1993 ✪

Resolution Trust Corporation Completion Act

The Resolution Trust Corporation Completion Act (P.L. 103-204), which was signed into law by President Clinton on December 17, 1993, was the most significant banking statute of the year affecting the FDIC. In addition to providing $18 billion in funding for the Resolution Trust Corporation (RTC), the Act restructured the funding of the Savings Association Insurance Fund (SAIF), accelerated by one year the date on which the RTC is scheduled to terminate operations, and provided for an orderly transfer of RTC assets and operations to the FDIC.

Specifically, the law included provisions that:

- Reduce the maximum authorization of appropriations to the SAIF to $8 billion for payment of losses incurred by the SAIF in fiscal years 1994 through 1998 from the $32 billion originally set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). No funds were actually appropriated under the new law. Instead, the Treasury Department must request funding through the congressional appropriations process.

- Require the FDIC Chairperson to make certain certifications to Congress prior to the expenditure of funds appropriated for the SAIF, the most significant being that SAIF members are unable to pay added insurance assessments without certain adverse effects.

- Prevent the Bank Insurance Fund (BIF) and the SAIF from being used, except in systemic risk cases, to benefit shareholders of a depository institution in conservatorship or receivership or in receipt of FDIC assistance.

- Extend the moratorium on conversions from membership in one insurance fund to the other until the later of August 9, 1994, or the date on which SAIF first meets the designated reserve ratio of $1.25 for every $100 of insured deposits.

- Provide that BIF assessments are not to be used to repay funds borrowed from the U.S. Treasury for SAIF-insurance purposes, and vice versa.

- Require the FDIC and the RTC to establish an interagency transition task force to facilitate the transfer of RTC assets, personnel and operations to the FDIC.

- Accelerate from December 31, 1996, to December 31, 1995, the termination and transfer to the FDIC of RTC operations.

- Extend the RTC's authority to be appointed conservator or receiver of troubled savings associations from September 30, 1993, to a date between January 1 and July 1, 1995, as determined by the Chairperson of the Thrift Depositor Protection Oversight Board.

- Provide for a Presidentially appointed FDIC Inspector General.

- Require the FDIC to prescribe regulations prohibiting the sale of assets of a failed institution to certain persons, such as directors and officers who participated in a material way in activities that led to substantial losses to a failed institution or those who were removed from a failed institution by an enforcement action.

- Require the FDIC to provide tenants a right of first refusal to purchase one-to-four family residences owned by the FDIC, except under certain circumstances, and to give limited preference to offers that would provide for a property's use by homeless individuals and families.

National Depositor Preference Law

Congress included in the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66) a "national depositor preference" law that establishes a uniform order for distributing the assets of failed insured depository institutions. The new law applies to insured institutions that are closed after August 10, 1993. It is expected to reduce the cost of resolutions to the deposit insurance funds.

In general terms, the national depositor preference law provides that the failed institution's assets are to be distributed in the following order: (1) to cover the administrative expenses of the receiver for the insured depository institution; (2) to pay the claims of all depositors; (3) to pay general creditor claims; (4) to pay subordinated creditor claims; and (5) to pay the claims of shareholders. Previously, federal and state laws often set different priorities in terms of the hierarchical order for distributing a failed institution's assets.

By giving priority to the claims of the FDIC and to depositors, the cost of resolving a failed institution is expected to be reduced. The national depositor preference law does not alter the deposit insurance coverage provided by the FDIC.

Unclaimed Deposits

Congress enacted the Unclaimed Deposits Amendment Act of 1993 (P.L. 103-44) to extend the deadline by which depositors must claim their insured deposits after a bank or savings association fails.

Under previous law (Section 12(e) of the Federal Deposit Insurance Act), depositors were required to claim their insured deposits within 18 months after appointment of the FDIC as receiver for a failed bank. If depositors did not claim their funds within the 18-month period, the unclaimed deposits were returned to the FDIC. These depositors were provided an additional three months to file receivership claims and to receive a proportionate share of dividends from liquidation proceeds.

The new law is intended to address concerns that the previous claim periods were too short for depositors and for state governments.

The new law gives the states use of the funds for ten years and a role in locating absent depositors. For institutions for which the FDIC is appointed receiver after the enactment date (June 28, 1993), depositors will have 18 months to claim their deposits from the FDIC or the acquirer. Any deposits not claimed after the 18 months will be offered to the state of the depositor's last known address for treatment under the state's unclaimed property law. If the state has not located the depositor within 10 years of receiving the funds, the state must return the funds to the FDIC. If the state refuses the funds from the FDIC, depositors have until the termination of the receivership to claim their funds from the FDIC. For institutions closed between January 1, 1989, and June 28, 1993, depositors have until the termination of the receivership to claim their deposits from the FDIC.

Disaster Relief

Following the widespread flooding in the Midwest in 1993, Congress passed the Depository Institutions Disaster Relief Act of 1993 (P.L. 103-76) to facilitate the area's recovery by waiving certain regulatory restrictions on depository institutions. Among its major provisions, the statute permits exceptions under certain circumstances from the requirements of the Truth in Lending Act and the Expedited Funds Availability Act. The new law also applies to distortions in the capital ratios of depository institutions that are created by deposits of insurance or governmental assistance payments.

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 1994 (P.L. 103-124).

One such appropriation involves the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC). FIRREA in 1989 created the FSLIC Resolution Fund (FRF), which is managed by the FDIC, to assume most of the assets and liabilities of the former FSLIC. For fiscal year 1994, Congress appropriated $1.171 billion to the FRF for these obligations.

Separately, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires the FDIC to implement an affordable housing program. The 1991 law also provides for annual congressional appropriations to be made to cover any losses resulting from the sale of properties under the program (but not to exceed $30 million in any fiscal year) and for any other costs of the program. For fiscal year 1994, Congress appropriated $7 million to pay for any losses resulting from the sale of properties under the program and for all administrative and holding costs.

FDICIA also provides for annual congressional appropriations to be made to carry out provisions of the Bank Enterprise Act (BEA). The BEA encourages depository institutions to provide deposit and loan services and other financial assistance to economically disadvantaged borrowers and communities, by allowing: (1) a reduced assessment rate for "lifeline" accounts (accounts designed for low- and moderate-income depositors); and (2) credits toward deposit insurance assessments for institutions accepting deposits, making loans and providing financial assistance in distressed communities. Although Congress appropriated $1 million for start-up costs associated with this aspect of FDICIA in fiscal 1993, no funding was provided for fiscal 1994. ✪

Financial Statements

60 years of confidence

On June 30, 1951, FDIC Chairman Maple T. Harl (second from right) presents final payment to Secretary of the Treasury John W. Snyder on a loan made to the FDIC to begin operations. Also present: FDIC Board members H. Earl Cook (far left) and Preston Delano.

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31 1993	1992
Revenue		
Assessments earned (Note 12)	$ 5,784,277	$ 5,587,806
Interest on U.S. Treasury obligations	165,130	299,410
Revenue from corporate-owned assets	258,858	255,745
Other revenue	222,536	158,584
Total Revenue	**6,430,801**	**6,301,545**
Expenses and Losses		
Operating expenses	388,464	360,793
Provision for insurance losses (Note 7)	(7,677,400)	(2,259,690)
Corporate-owned asset expenses	190,641	226,433
Interest and other insurance expenses (Note 13)	306,861	836,669
Total Expenses and Losses	**(6,791,434)**	**(835,795)**
Net Income Before Cumulative Effect of a Change in Accounting Principle	**13,222,235**	**7,137,340**
Cumulative effect of accounting change for certain postretirement benefits (Note 15)	0	(209,973)
Net Income	**13,222,235**	**6,927,367**
Fund (Deficit) - Beginning	**(100,575)**	**(7,027,942)**
Fund Balance (Deficit) - Ending	**$13,121,660**	**$ (100,575)**

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

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1993	1992
Assets		
Cash and cash equivalents (Note 3)	$ 483,239	$ 3,592,629
Investment in U.S. Treasury obligations, net (Note 4)	5,308,476	1,692,222
Accrued interest receivable on investments and other assets	80,776	105,690
Net receivables from bank resolutions (Note 5)	13,624,302	27,823,964
Investment in corporate-owned assets, net (Note 6)	726,584	1,461,263
Property and buildings (Note 8)	158,418	161,757
Total Assets	**20,381,795**	**34,837,525**
Liabilities and the Fund Balance (Deficit)		
Accounts payable, accrued and other liabilities (Note 15)	191,831	408,394
Federal Financing Bank borrowings (Note 9)	0	10,232,977
Liabilities incurred from bank resolutions (Note 10)	4,075,793	13,495,571
Estimated Liabilities for: (Note 11)		
Unresolved cases	2,972,000	10,782,390
Litigation losses	20,511	18,768
Total Liabilities	**7,260,135**	**34,938,100**
Commitments and contingencies (Notes 16 and 17)		
Fund Balance (Deficit)	**13,121,660**	**(100,575)**
Total Liabilities and the Fund Balance (Deficit)	**$20,381,795**	**$34,837,525**

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

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1993	1992
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 5,789,779	$ 5,586,547
Interest on U.S. Treasury obligations	160,697	346,600
Recoveries from bank resolutions	8,739,202	9,545,685
Recoveries from corporate-owned assets	1,241,305	1,486,523
Miscellaneous receipts	32,927	161,785
Cash used for:		
Operating expenses	(538,616)	(301,163)
Interest paid on liabilities incurred from bank resolutions	(169,872)	(520,669)
Disbursements for bank resolutions	(4,197,535)	(14,905,758)
Disbursements for corporate-owned assets	(368,529)	(666,702)
Miscellaneous disbursements	(15,779)	(47,608)
Net Cash Provided by Operating Activities (Note 20)	**10,673,579**	**685,240**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity and sale of U.S. Treasury obligations	1,700,000	1,600,000
Cash used for:		
Purchase of U.S. Treasury obligations	(5,322,969)	0
Property and buildings	0	(1,652)
Net Cash Provided by (Used by) Investing Activities	**(3,622,969)**	**1,598,348**
Cash Flows from Financing Activities		
Cash provided from:		
Federal Financing Bank borrowings	0	4,540,000
Cash used for:		
Payments of indebtedness incurred from bank resolutions	0	(1,021)
Repayments of Federal Financing Bank borrowings	(10,160,000)	(4,999,954)
Net Cash Used by Financing Activities	**(10,160,000)**	**(460,975)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(3,109,390)**	**1,822,613**
Cash and Cash Equivalents - Beginning	**3,592,629**	**1,770,016**
Cash and Cash Equivalents - Ending	**$ 483,239**	**$ 3,592,629**

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

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 (FDICIA) 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. This restriction against incurring additional obligations is known as the Maximum Obligation Limitation (see Note 2). At December 31, 1993, the BIF had approximately $44 billion in remaining obligation authority.

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

Operations of the BIF

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

General

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

U.S. Treasury Obligations

Securities are intended to be held to maturity and are shown at book value, which is the face value of securities plus the unamortized premium or less the unamortized discount. However, in 1992, book value was the purchase price of securities less the amortized premium or plus the unamortized 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 effective interest method.

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

The BIF records as a receivable the amounts advanced 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 putback 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. The litigation loss estimates related to receiverships are included in the Allowance for Losses for Receivables from Bank Resolutions.

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 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 those receiverships through a cost recovery process.

Cost Allocation 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 standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis). In 1992, the BIF provided the accounting and administration of these postretirement benefits on behalf of the SAIF, the FRF and the Resolution Trust Corporation (RTC). In 1993, the FDIC established a plan administrator to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF and the 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.

The Washington, DC, 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.

Maximum Obligation Limitation (MOL)

In 1993 and 1992, for purposes of calculating the maximum obligation limitation, the FDIC allocated the total authorized borrowings of $30 billion to the BIF. In subsequent periods no portion of the $30 billion U.S. Treasury borrowing authority will be allocated to the SAIF unless the SAIF has primary resolution authority for thrift institutions as of the date of the MOL calculation for the SAIF or projected borrowing needs for SAIF-insured institutions. Any future allocation of U.S. Treasury borrowing authority will be based upon projected borrowing needs of the FDIC. "Borrowing needs" is defined as the projected borrowing needed over the next twelve months based on FDIC's financial projection models. Any remaining amount to be allocated will be based on insured deposits as published in the latest FDIC Annual Report.

In calculating the maximum obligation limitation, "other assets" consisting of receivables from bank resolutions and investments in corporate owned assets are valued at 90 percent of their net realizable value. In addition, the BIF's estimated liability for future financial institution failures or assistance transactions is excluded in determining the BIF's total obligations where there is no contractual agreement between FDIC and the troubled institution comprising the estimated liability.

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 1992 Financial Statements to conform to the presentation used in 1993.

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 1993, cash restrictions included $13.8 million for health insurance payable and $3.2 million for funds held in trust. In 1992, cash restrictions included $12.4 million for health insurance payable and $842 thousand for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31 1993	December 31 1992
Cash	$ 52,999	$ 71,859
One-day special Treasury certificates	430,240	3,520,770
	$ 483,239	**$ 3,592,629**

4. U.S. Treasury Obligations

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

U.S. Treasury Obligations

Dollars in Thousands

		December 31, 1993			
Maturity	**Description**	**Yield at Purchase**	**Book Value**	**Market Value**	**Face Value**
Less than one year	U.S. Treasury Notes & Bonds	3.38%	$ 906,328	$ 906,573	$ 900,000
1-3 years	U.S. Treasury Notes & Bonds	4.02%	2,292,267	2,286,586	2,200,000
3-5 years	U.S. Treasury Notes & Bonds	4.59%	2,109,881	2,091,443	2,000,000
			$ 5,308,476	**$ 5,284,602**	**$ 5,100,000**

U.S. Treasury Obligations

Dollars in Thousands

		December 31, 1992			
Maturity	**Description**	**Yield at Purchase**	**Book Value**	**Market Value**	**Face Value**
Less than one year	U.S. Treasury Bills, Notes & Bonds	7.99%	$1,692,222	$1,729,233	$1,700,000

In 1993, the amortized premium, net of unamortized discount, was $208.5 million. In 1992, the unamortized discount, net of amortized premium, was $7.8 million.

5. 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. These arrangements typically direct that the receiver pay to the acquirer a specified percentage of the losses triggered by the charge-off of assets covered by the 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. 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 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 management and disposition of the assets of the assisted or failed bank, net of all estimated liquidation costs.

As of December 31, 1993, and 1992, the BIF, in its receivership capacity, held assets with a book value of $30.1 billion and $51.3 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $7.4 billion in 1993 and $16.3 billion in 1992) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could reduce the claimants' actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

Net Receivables from Bank Resolutions

Dollars in Thousands	**December 31**	
	1993	**1992**
Assets from Open Bank Assistance:		
Redeemable preferred stock	$ 51,045	$ 1,243,156
Subordinated debt instruments	124,000	164,500
Notes receivable	62,037	334,479
Other open bank assistance	33,593	1,125,670
Accrued interest receivable	1,865	3,167
Allowance for loss (Note 7)	(215,446)	(2,203,158)
	57,094	**667,814**
Receivables from Closed Banks:		
Loans and related assets	1,376,597	1,628,857
Resolution transactions	35,742,150	49,277,763
Capital instruments	25,000	25,000
Depositors' claims unpaid	18,758	24,983
Deferred settlements (a)	(403,901)	(403,901)
Allowance for losses (Note 7)	(23,191,396)	(23,396,552)
	13,567,208	**27,156,150**
	$ 13,624,302	**$ 27,823,964**

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

6. 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 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.

Investment in Corporate-Owned Assets, Net

Dollars in Thousands	December 31 1993	December 31 1992
Investment in corporate-owned assets	$1,468,399	$1,886,720
Allowance for losses (Note 7)	(741,815)	(425,457)
	$ 726,584	**$1,461,263**

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

Provision for insurance losses includes the estimated losses for bank resolutions that occurred during the year for which an estimated loss was not established. It also includes loss adjustments for bank resolutions that occurred in prior years.

In the following charts, transfers include reclassifications from the line item "Estimated Liabilities for Unresolved cases" to the line item "Total Allowance/Estimated Liabilities Failed Banks." Terminations represent final adjustments to the estimated cost figures for those bank resolutions that were completed and for which the operations of the receivership ended.

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

Dollars in Millions	Beginning Balance 01/01/93	Provision for Insurance Losses: Current Year	Provision for Insurance Losses: Prior Years	Provision for Insurance Losses: Total	Net Cash Payments	Transfers/ Terminations	Ending Balance 12/31/93
Allowance for Losses:							
Open bank assistance	$ 2,203	$ 40	$ (890)	$ (850)	$ 19	$ (1,157)	$ 215
Corporate-owned assets	425	0	317	317	0	0	742
Closed banks	23,397	(224)	99	(125)	0	(81)	23,191
Total	**26,025**	**(184)**	**(474)**	**(658)**	**19**	**(1,238)**	**24,148**
Estimated Liabilities for:							
Assistance agreements	208	0	34	34	(97)	1	146
Litigation losses	19	0	2	2	0	0	21
Total	**227**	**0**	**36**	**36**	**(97)**	**1**	**167**
Total Allow./Estimated Liab. Failed Banks	**26,252**	**(184)**	**(438)**	**(622)**	**(78)**	**(1,237)**	**24,315**
Estimated Liabilities for:							
Unresolved cases	10,782	818	(7,873)	(7,055)	0	(755)	2,972
Total		**$634**	**$(8,311)**	**$(7,677)**			

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1992

Dollars in Millions	Beginning Balance 01/01/92	Provision for Insurance Losses Current Year	Prior Years	Total	Net Cash Payments	Transfers/ Terminations	Ending Balance 12/31/92
Allowance for Losses:							
Open bank assistance	$ 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 Allow./Estimated Liab. 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)**			

8. Property and Buildings

Dollars in Thousands	December 31 1993	1992
Land	$ 29,631	$ 29,631
Office buildings	151,442	151,442
Accumulated depreciation	(22,655)	(19,316)
	$ 158,418	**$ 161,757**

9. Federal Financing Bank (FFB) Borrowings

The FDIC is 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 that 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 based on the U.S. Treasury bill auction rate 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.

FFB borrowings were $10.2 billion as of December 31, 1992. This obligation was fully satisfied on August 6, 1993. The interest expense on the outstanding borrowings for 1993 and 1992 was $97 million and $468 million, respectively. The effective annualized rate of interest paid on the outstanding borrowings in 1993 was 3.3% and in 1992 was 3.8%.

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.

Liabilities Incurred from Bank Resolutions

Dollars in Thousands	December 31	
	1993	1992
Escrowed funds from resolution transactions	$3,897,677	$12,870,125
Funds due to bridge banks	0	376,156
Funds held in trust	3,195	842
Depositors' claims unpaid	18,758	24,983
Notes indebtedness	1,266	1,106
Estimated liabilities for assistance agreements (Note 7)	146,383	208,252
Accrued interest/other liabilities	8,514	14,107
	$4,075,793	**$13,495,571**

Maturities of Liabilities

Dollars in Thousands

1994	1995	1996
$3,937,915	$1,845	$136,033

11. Estimated Liabilities for:

Unresolved Cases

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

As with any of its estimated losses, 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, 1993, and 1992, were $3 billion and $10.8 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 5). This could understate the ultimate costs to the BIF from probable bank failures.

The FDIC estimates that banks with combined assets of approximately $13 billion will probably fail in 1994 and 1995. The BIF has recognized a loss of $3 billion for these potential failures. The greatest concentration of weak bank assets at year-end was in the Northeast region and in California; these two areas have been affected 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 an estimated loss 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 estimable in amount. In addition to these losses, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $765 million are reasonably possible. This includes $61 million in losses for the BIF in its corporate capacity and $704 million in losses for the BIF in its receivership capacity (see Note 2).

12. Assessments

The 1990 Act authorized 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 FDICIA authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that charges higher rates to those banks that pose greater risks to the BIF. Under the new rule, beginning in 1993, each bank paid an assessment rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular bank, the FDIC placed each bank in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. On June 17, 1993, the Board issued a final rule on the risk-based assessments system effective on October 1, 1993. The final rule made limited changes to the transitional risk-based assessment system effective during 1993. The Board expects to review premium rates at least once every six months. For calendar year 1994, the FDIC estimates that banks will pay an average rate of about 24.3 cents per $100 of domestic deposits.

The FDICIA 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.*

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**	
	1993	**1992**
Interest Expense for:		
Escrowed funds from resolution transactions	$204,969	$338,153
FFB borrowings	96,895	467,604
	301,864	**805,757**
Insurance Expense for:		
Resolution transactions	1,570	2,569
Assistance transactions	3,427	28,343
	4,997	**30,912**
	$306,861	**$836,669**

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 offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in 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 FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

Although the BIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system, 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 $37.7 million and $29.8 million at December 31, 1993, and 1992, respectively.

Pension Benefits and Savings Plans Expenses		
Dollars in Thousands	**December 31**	
	1993	**1992**
Civil Service Retirement System	$ 8,890	$ 7,804
Federal Employee Retirement System (Basic Benefit)	29,254	23,484
FDIC Savings Plan	16,267	10,250
Federal Thrift Savings Plan	8,742	6,483
	$ 63,153	**$ 48,021**

15. Postretirement Benefits 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 weekly 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.

Beginning March 1994, the FDIC health insurance coverage will be self-insured for hospital/medical, prescription drug, mental health and chemical dependency, and the FDIC has purchased additional risk protection through stop-loss and fiduciary liability insurance from Aetna Life Insurance Company. All claims will be administered on an Administrative Services Only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

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 (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 in 1992, which was 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.

The BIF expensed $49 million and $29 million for such benefits for the years ended December 31, 1993, and 1992, respectively. In 1993, the BIF funded the majority of its postretirement liability of $271 million.

For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health costs in 1993 of 14 percent, decreasing down to an ultimate rate in 1998 of 8 percent; and 3) an increase in dental costs for 1993 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, 1993, would have increased by 7.5 percent. The effect of this change on the aggregate of service and interest cost for 1993 would be an increase of 28.8 percent.

Net Periodic Postretirement Benefit Costs		
Dollars in Thousands	**December 31**	
	1993	**1992**
Service cost (benefits attributed to employee service during the year)	$ 30,274	$ 27,204
Interest cost on accumulated postretirement benefit obligation	15,549	16,627
Amortization of prior service cost	39	0
Amortization of unrecognized transition obligation	(1,222)	0
Return on plan assets	4,339	0
	$ 48,979	**$ 43,831**

As stated in Note 2, beginning in December, 1993 the FDIC established a plan administrator to provide accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC. The BIF has transferred the majority of its share of this long-term liability to the plan administrator. In 1992, the BIF provided the accounting and administration of this obligation. The BIF has funded the majority of its obligation and these funds are being managed by the administrator as "plan assets".

Accumulated Postretirement Benefit Obligation by Participant		
Dollars in Thousands	**December 31**	
	1993	**1992**
Retirees	$ 65,956	$ 67,637
Fully eligible active plan participants	12,383	12,159
Other active participants	209,638	202,586
Total Obligation	**287,977**	**282,382**
Plan assets at fair value (1)	270,532	0
Postretirement Benefit Liability Included on the Statements of Financial	**$ 17,445**	**$ 282,382**

(1) Consists of one-day special Treasury Certificates

For 1992, 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, for the year ended December 31, 1992. As stated in Note 2, the BIF funded its 1993 liability to the plan administrator.

16. Commitments

Leases

The BIF currently is sharing in the FDIC's leased space. The BIF's allocated share of lease commitments totals $170.9 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The BIF recognized leased space expense of $46.8 million and $40.7 million for the years ended December 31, 1993, and 1992, respectively.

Leased Space Fees				
Dollars in Thousands				
1994	**1995**	**1996**	**1997**	**1998**
$53,415	$41,861	$28,972	$26,632	$20,027

Asset Putbacks

Upon resolution of a failed bank, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain assets may be "putback," or resold, to the receivership. The value at which the assets are putback and the time limit to putback 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 putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under existing agreements is $11.4 billion (see Note 17). The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the acquirer initiates the asset putback procedures. The FDIC projects that a total of $596 million in book value of assets will be putback.

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, 1993						
	South-east	**South-west**	**North-east**	**Mid-west**	**Central**	**West**	**Total**
Net receivables from bank resolutions	$243 (a)	$2,596	$ 9,292	$477	$56	$ 957 (b)	$13,621
Corporate-owned assets, net	9	562	45	0	32	79	727
Asset putback (off-balance sheet)	0	0	11,375	0	0	0	11,375 (c)
Total	**$252**	**$3,158**	**$20,712**	**$477**	**$88**	**$1,036**	**$25,723**

(a) The net receivable excludes $491 thousand of the SAIF's allocated share of maximum credit loss exposure from the resolution of Southeast Bank, N.A., Miami, FL. There is no risk that the SAIF will not meet this obligation.

b) The net receivable excludes $3.3 million of the SAIF's allocated share of maximum credit loss exposure from the resolution of Olympic National Bank, Los Angeles, CA. There is no risk that the SAIF will not meet this obligation.

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

Insured Deposits

As of December 31, 1993, the total deposits insured by the BIF is approximately $1.9 trillion. This would be the accounting loss if all depository institutions fail and if any assets acquired as a result of the resolution process provide no recovery.

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.

It was not practical to estimate the fair value of net receivables from bank resolutions. These assets are unique, not intended for sale to the private sector and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts, for an interested party to profit from these assets because of credit and other risks. Additionally, a discount of this proportion 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 5, the carrying amount is the original amount advanced net of the estimated allowance for loss, which is 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 (investments, loans, accounts receivable, etc.) and to a lesser degree, other assets acquired from failed banks. 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 reasonably predict the timing of these cash recoveries, it is unable to estimate the 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 loss, which is the 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 which 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.

19. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 112, "Employer's Accounting for Postemployment Benefits", which the FDIC is required to adopt by 1994. This new statement establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. This statement requires employers to recognize the obligation to provide postemployment benefits. However, the BIF's obligation for these benefits is not recognized because the amount cannot be reasonably estimated.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan." Based upon an initial study and analysis, this statement is not expected to have a material impact on the BIF when it is adopted on January 1, 1995.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement is not expected to have a material impact on the BIF when it is adopted on January 1, 1994.

20. Supplementary Information Relating to the Statements of Cash Flows

As stated in the Summary of Significant Accounting Policies (see Note 2, *Escrowed Funds from Resolution Transactions*), 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 $3.7 billion in 1993 and $12.5 billion in 1992 for assets purchased.

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31	
	1993	1992
Net Income	**$13,222,235**	**$6,927,367**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Income Statement Items:		
Provision for insurance losses	(7,677,400)	(2,259,690)
Amortization of U.S. Treasury securities	6,715	10,638
Interest on Federal Financing Bank borrowings	(72,977)	(53,033)
Depreciation on buildings	3,339	3,361
Change in Assets and Liabilities:		
Decrease in accrued interest receivable on investments and other assets	24,915	58,296
Decrease (increase) in receivables from bank resolutions	14,384,772	(12,816,626)
Decrease (increase) in corporate-owned assets, net	418,322	1,101,121
(Decrease) increase in accounts payable, accrued and other liabilities	(216,563)	324,559
(Decrease) increase in liabilities from bank resolutions	(9,419,779)	7,389,247
Net Cash Provided by Operating Activities	**$10,673,579**	**$ 685,240**

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31 1993	1992
Revenue		
Assessments earned (Note 10)	$ 897,692	$ 172,079
Interest earned	25,305	6,544
Entrance fee revenue (Note 5)	48	9
Other revenue	471	11
Total Revenue	**923,516**	**178,643**
Expenses and Losses		
Operating expenses	30,283	39,374
Provision for insurance losses (Note 11)	16,531	(14,945)
Interest expense	0	(5)
Total Expenses and Losses	**46,814**	**24,424**
Net Income Before Funding Transfer and Cumulative Effect of a Change in Accounting Principle	**876,702**	**154,219**
Cumulative effect of accounting change for certain postretirement benefits (Note 13)	0	(4,558)
Net Income Before Funding Transfer	**876,702**	**149,661**
Funding Transfer from the FSLIC Resolution Fund	0	35,446
Net Income	**876,702**	**185,107**
Fund Balance - Beginning	**279,027**	**93,920**
Fund Balance - Ending	**$1,155,729**	**$ 279,027**

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

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1993	1992
Assets		
Cash and cash equivalents, including restricted amounts of $3,285 for 1993 and $93,267 for 1992 (Note 3)	$ 15,735	$ 341,151
Investment in U.S. Treasury obligations, net (Note 4)	1,263,608	0
Entrance and exit fees receivable, net (Note 5)	60,655	84,896
Accrued interest receivable on investments and other assets (Note 6)	28,038	45,181
Net receivables from thrift resolutions (Note 7)	174,948	0
Total Assets	**1,542,984**	**471,228**
Liabilities and the Fund Balance		
Accounts payable, accrued and other liabilities (Note 8)	3,875	10,328
Due to the FSLIC Resolution Fund (Note 7)	175,507	112
Liability incurred from thrift resolutions (Note 7)	932	0
Estimated liability for unresolved cases (Note 9)	18,000	3,700
Total Liabilities	**198,314**	**14,140**
Commitments and contingencies (Notes 14 and 15)		
SAIF-Member Exit Fees and Investment Proceeds Held in Reserve (Note 5)	**188,941**	**178,061**
Fund Balance	**1,155,729**	**279,027**
Total Liabilities and Fund Balance	**$1,542,984**	**$ 471,228**

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

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31	
	1993	1992
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 911,071	$ 265,365
Interest on U.S. Treasury obligations	16,415	9,451
Interest on exit fees	4,406	2,698
Entrance and exit fee collections (Note 5)	31,605	34,798
Operating expenses funded by the FSLIC Resolution Fund	7,182	29,561
Recoveries from "Oakar" bank resolutions	18,645	0
Recoveries from thrift resolutions	2,012	0
Miscellaneous receipts	620	0
Cash used for:		
Operating expenses	(43,047)	(36,685)
Disbursements for thrift resolutions	(3,182)	0
Disbursements for "Oakar" bank resolutions	(3,700)	(20,114)
Interest paid on liabilities incurred from "Oarkar" bank resolutions	0	(604)
Miscellaneous disbursements	(11)	0
Net Cash Provided by Operating Activities (Note 18)	**942,016**	**284,470**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity and sale of U.S. Treasury obligations	51,305	0
Cash used for:		
Purchase of U.S. Treasury obligations	(1,318,737)	0
Net Cash Used for Investing Activities	**(1,267,432)**	**0**
Net (Decrease) Increase in Cash and Cash Equivalents	**(325,416)**	**284,470**
Cash and Cash Equivalents - Beginning	**341,151**	**56,681**
Cash and Cash Equivalents - Ending	**$ 15,735**	**$ 341,151**

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

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 Trust Corporation Completion Act of 1993 (1993 RTC Act) enacted December 17, 1993, extended the RTC's general resolution responsibility through a date between January 1, 1995, and July 1, 1995. The Chairperson of the Thrift Depositor Protection Oversight Board will select the date.

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

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) 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. This restriction against incurring additional obligations is known as the Maximum Obligation Limitation (see Note 2). At December 31, 1993, the SAIF had approximately $1.2 billion in remaining obligation authority.

The FDICIA 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. On a date between January 1, 1995, and July 1, 1995, the SAIF will assume resolution responsibility for all SAIF-member depository institutions that had not been previously placed under the RTC control. 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 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 had 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 or the FRF (through December 31, 1992); 4) U.S. Treasury payments not to exceed $8 billion for losses for fiscal years 1994 through 1998 contingent upon appropriations from the U.S. Treasury for that purpose; 5) U.S. Treasury payments from unused appropriations to the RTC for losses for two years after the date the RTC is terminated; 6) Federal Home Loan Bank borrowings; and 7) U.S. Treasury and FFB borrowings.

The 1993 RTC Act places significant restrictions on funding from sources 4) and 5) above. Among other restrictions, the FDIC must certify to Congress before appropriated funds from either source are used that: 1) SAIF-insured institutions are unable to pay premiums sufficient to cover insurance losses without adversely affecting their ability to raise and maintain capital or to maintain the assessment base; and 2) an increase in premiums could reasonably be expected to result in greater losses to the government.

2. Summary of Significant Accounting Policy

General

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

U.S. Treasury Obligations

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

Escrowed Funds from Resolution Transactions

A thrift operating under a FSLIC assistance agreement was placed into SAIF receivership in 1993 and sold. Since these transactions were executed in order to terminate the assistance agreement, the FRF funded SAIF's payment to the acquirers (the difference between failed thrift liabilities assumed and assets purchased, plus or minus any premium or discount). The SAIF 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 (see Note 7).

Assessment Revenue Recognition

The FICO has priority and, through December 31, 1992, the FRF had priority over the SAIF for receiving and utilizing SAIF-member assessments to ensure availability of funds for specific operational activities. Accordingly, the SAIF recognized as assessment revenue only that portion of SAIF-member assessments not required by: 1) the FICO in 1993 or 1992; and 2) the FRF in 1992. 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 Note 10).

Receivership Administration

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

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 standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. This was a significant change from the FDIC's previous policy of recognizing these costs in the year the benefits were provided (i.e., the cash basis). In 1992, the SAIF funded its yearly charge for these expenses and the BIF provided the accounting and administration of these postretirement benefits on behalf of the SAIF.

In 1993, the FDIC established a plan administrator to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF and the RTC. The SAIF funded its 1993 expense directly to the plan administrator.

Maximum Obligation Limitation (MOL)

In 1993 and 1992, for purposes of calculating the maximum obligation limitation, the FDIC, through its allocation policy, allocated the total authorized borrowings of $30 billion to the BIF. In subsequent periods no portion of the $30 billion U.S. Treasury borrowing authority will be allocated to the SAIF unless the SAIF has primary resolution authority for thrift institutions as of the date of the MOL calculation for the SAIF or projected borrowing needs for SAIF-insured institutions. Any future allocation of U.S. Treasury borrowing authority will be based upon projected borrowing needs of the FDIC. "Borrowing needs" is defined as the projected borrowing needed over the next 12 months based on FDIC's financial projection models. Any remaining amount to be allocated will be based on insured deposits as published in the latest FDIC Annual Report.

In calculating the maximum obligation limitation, "other assets" consisting of receivables from thrift resolutions are valued at 90 percent of their net realizable value. In addition, the SAIF's estimated liability for future financial institution failures or assistance transactions is excluded in determining the SAIF's total obligations where there is no contractual agreement between FDIC and the troubled institution comprising the estimated liability.

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 1992 Financial Statements to conform to the presentation used in 1993.

3. Cash and Cash Equivalents

The SAIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. Substantially all the restricted cash is comprised of the SAIF exit fees collected plus interest earned on exit fees. These funds may only be used to meet the SAIF's potential obligation to the FICO (see Note 5).

In 1993, cash restrictions included $317 thousand for health insurance payable, $375 thousand for cash not invested and $2.593 million for exit fee and related interest collections invested in one-day special Treasury certificates. In 1992, cash restrictions included $406 thousand for health insurance payable and $92.86 million for exit fee and related interest collections.

Cash and Cash Equivalents

Dollars in Thousands	December 31	
	1993	1992
Cash	$ 13,142	$ 198
One-day special Treasury certificates	2,593	340,953
	$ 15,735	**$ 341,151**

4. U.S. Treasury Obligations

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

In 1993, cash restrictions included $121.8 million for exit fee and related interest collections invested in long-term U.S. Treasury notes.

U.S. Treasury Obligations

Dollars in Millions

December 31, 1993

Maturity	Description	Yield at Purchase	Book Value	Market Value	Face Value
Less than one year	U.S. Treasury Notes & Bonds	3.2%	$ 52.2	$ 52.2	$ 51.8
1-3 years	U.S. Treasury Notes & Bonds	4.0%	1,211.4	1,213.0	1,210.0
			$1,263.6	**$1,265.2**	**$1,261.8**

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

5. Entrance and Exit Fees Receivable, Net

The SAIF receives entrance and exit fees for conversion transactions 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). 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 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 $3 million and $2.7 million for 1993 and 1992, 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 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 1993 and 1992 were four percent and six percent, respectively.

Entrance and Exit Fees Receivable, Net (1993)

Dollars in Thousands

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

Entrance and Exit Fees Receivable, Net (1992)

Dollars in Thousands

	Beginning Balance 01/01/92	New Receivables	Collections	Net Change 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**

6. Accrued Interest Receivable on Investments and Other Assets

Approximately half of the accounts receivable balance is comprised of unpaid assessments due from RTC receiverships.

The FRF owes the SAIF $2.7 million in interest on escrowed funds as of December 31, 1993 (as explained in Note 7). In 1993, the FRF paid $7.2 million to the SAIF for operating expenses and postretirement benefits.

As of December 31, 1993, the BIF owes the SAIF: 1) $6.2 million for an allocation adjustment; and 2) $1.9 million for a refund resulting from the change in the loss estimate for the failure of Southeast Bank, N.A., Miami, FL, and its affiliate Southeast Bank of West Florida, Pensacola, FL, which held deposits insured by the BIF and the SAIF pursuant to the "Oakar Amendment" provisions (as explained in Note 2). In 1993, the BIF transferred to the SAIF: 1) $18.6 million resulting from the 1992 revision of the estimated loss for SAIF's allocated share of the failure of Southeast Bank, N.A., Miami, FL, and its affiliate Southeast Bank of West Florida, Pensacola, FL; and 2) $18.4 million for assessment revenues resulting from the erroneous allocation of assessments from "Oakar" banks for the years 1990 through 1992 (see Note 2).

Accrued Interest Receivable on Investments and Other Assets

Dollars in Thousands	December 31	
	1993	**1992**
Accrued interest receivable on investments	$ 11,928	$ 0
Accounts receivable	5,298	802
Due from the FSLIC Resolution Fund	2,670	7,295
Due from the Bank Insurance Fund	8,142	37,084
	$ 28,038	**$ 45,181**

7. Net Receivables from Thrift Resolutions

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

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

Because Heartland was not failing, all uninsured depositors and general trade creditors were paid in full, leaving only the FRF as sole creditor. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF and represents a claim against the receivership's assets. The receiver will reimburse the FRF as claims are satisfied through the liquidation process. As of December 31, 1993, the receiver owes the FRF $175 million. The SAIF accounts currently reflect $932 thousand held in escrow on behalf of the receivership.

As of December 31, 1993, the SAIF, in its receivership capacity, held assets with a book value of $72 million. Estimated cash recoveries from the management and disposition of assets (excluding cash and miscellaneous receivables of $1.6 million) are regularly evaluated, but ultimate recoveries remain uncertain because of changing economic conditions. Any loss as a result of reduced recoveries will be borne by the FRF as provided in the agreement terminating the assistance agreement and as described in the FDIC board case.

8. Accounts Payable, Accrued and Other Liabilities

Dollars in Thousands	December 31	
	1993	1992
Miscellaneous payable	$ 3,350	$ 4,174
Due to the Bank Insurance Fund	525	6,154
	$ 3,875	**$ 10,328**

9. Estimated Liabilities for:

Unresolved Cases

The SAIF records an estimated loss for thrifts or "Oakar" banks that have not yet failed, but have been identified by the regulatory process as likely to fail within the foreseeable future as a result of regulatory insolvency (equity less than 2 percent of assets). The FDIC relies on this finding regarding regulatory insolvency as the determining factor in defining the existence of the "accountable event" that triggers loss recognition under generally accepted accounting principles.

As with any of its estimated losses, 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. This could understate the ultimate costs to the SAIF from probable "Oakar" bank or thrift failures.

For the years ending December 31, 1993, and December 31, 1992, the SAIF was responsible for establishing an estimated loss for those thrifts chartered after August 8, 1989, and for Oakar banks. The RTC was responsible for other thrift institutions (see Note 1).

Litigation Losses

The FDIC records as an estimated loss on the SAIF'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 has determined that losses from a receivership's unresolved legal case totaling $10 million are reasonably possible.

10. Assessments

The 1990 Act authorized 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 FDICIA authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations.

On September 15, 1992, the FDIC's Board of Directors agreed on a transitional risk-based assessment system that charges higher rates to those thrifts that pose greater risks to the SAIF. Under the new rule, beginning in January 1993, each thrift paid an assessment rate of between 23 cents and 31 cents per $100 of domestic deposits, depending on its risk classification. To arrive at a risk-based assessment for a particular thrift, the FDIC placed each thrift in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. On June 17, 1993, the Board issued a final rule on the risk-based assessments system effective on October 1, 1993. The final rule made limited changes to the transitional risk-based assessment system effective during 1993.

The Board expects to review premium rates at least once every six months. For calendar year 1994, the FDIC estimates that thrifts will pay an average rate of about 24.8 cents per $100 of domestic deposits.

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 and the SAIF. The remaining Secondary Reserve credit was $2 million and $200 million for 1993 and 1992, respectively.

SAIF Assessments

Dollars in Thousands	**December 31**	
	1993	**1992**
SAIF-member assessments	$ 1,650,394	$1,668,011
Less: Secondary Reserve offset/other adjustments/credits	(221,404)	(51,153)
Cash received for prior period assessments	(18,439)	0
FICO assessment	(779,214)	(772,300)
FRF assessment	0	(844,558)
Plus: Assessment receivables outstanding	5,269	0
SAIF-Member Assessments Earned, (Net)	**636,606**	**0**
SAIF assessments from "Oakar" banks - current period	261,086	172,079
SAIF Assessments Earned	**$ 897,692**	**$ 172,079**

11. Provision for Insurance Losses

Dollars in Thousands	December 31	
	1993	1992
SAIF's allocated share of loss from failure of Southeast Bank, N.A., Miami, FL	$ (1,469)	$(18,645)
Estimated loss for unresolved cases (see Note 9)	18,000	3,700
	$ 16,531	**$(14,945)**

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in 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 FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

Although the SAIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system, 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 $756 thousand and $958 thousand at December 31, 1993 and 1992, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	December 31	
	1993	1992
Civil Service Retirement System	$1,628	$ 616
Federal Employee Retirement System (Basic Benefit)	1,146	1,254
FDIC Savings Plan	663	646
Federal Thrift Savings Plan	337	341
	$3,774	**$2,857**

13. Postretirement Benefits 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 weekly 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.

Beginning March 1994, the FDIC health insurance coverage will be self-insured for hospital/medical, prescription drug, mental health and chemical dependency, and the FDIC has purchased additional risk protection through stop-loss and fiduciary liability insurance from Aetna Life Insurance Company. All claims will be administered on an Administrative Services Only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare, Inc., and the prescription drug claims administered by Caremark.

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 (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. In 1992, 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.

The SAIF expensed $1.9 million and $1.6 million for such benefits for the years ended December 31, 1993, and 1992, respectively.

For measurement purposes, the FDIC assumed the following: 1) a discount rate of six percent; 2) an increase in health costs in 1993 of 14 percent, decreasing down to an ultimate rate in 1998 of eight percent; and 3) an increase in dental costs in 1993 and thereafter of eight 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, 1993, would have increased by 7.5 percent. The effect of this change on the aggregate of service and interest cost for 1993 would be an increase of 28.8 percent.

Net Periodic Postretirement Cost

Dollars in Thousands	**December 31**	
	1993	**1992**
Service cost (benefits attributed to employee service during the year)	$1,195	$ 991
Interest cost on accumulated postretirement benefit obligation	613	605
Amortization of prior service cost	(48)	0
Amortization of unrecognized transition obligation	171	0
Return on plan assets	2	0
Net Periodic Postretirement Cost Before Funding Transfer	**1,933**	**1,596**
Funds transferred from the FSLIC Resolution Fund	0	(1,197)
	$1,933	**$ 399**

As stated in Note 2, beginning in December 1993, the FDIC established a plan to be supervised by a plan administrator to provide accounting and administration of these benefits program on behalf of the BIF, the SAIF, the FRF and the RTC. The SAIF portion of this long-term liability has been transferred to the plan administrator. In 1992, the BIF provided the accounting and administration of this obligation. The SAIF has funded its obligation and these funds are being managed by the administrator as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant

Dollars in Thousands	December 31, 1993
Retirees	$ 1,852
Full eligible active plan participants	347
Other active participants	5,887
Total Obligation	**8,086**
Less: Plan assets at fair value (a)	7,680
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 406**

(a) Consists of one-day special Treasury certificates

14. Commitments

The SAIF currently is sharing the FDIC's leased space. The SAIF's allocated share of lease commitments totals $3.5 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The SAIF recognized leased space expense of $1.7 million and $1.8 million for the years ended December 31, 1993, and 1992, respectively.

Leased Space Fees

Dollars in Thousands

1994	1995	1996	1997	1998
$1,238	$965	$638	$430	$212

15. Concentration of Credit Risk

The SAIF is counterparty to financial instruments with entities located in two regions of the United States experiencing problems in both loans and real estate. The SAIF's maximum exposure to possible accounting loss for these instruments is $491 thousand for Southeast Bank, N.A., Miami, FL, and $3.3 million for Olympic National Bank, Los Angeles, CA.

Insured Deposits

As of December 31, 1993, the total deposits insured by the SAIF is approximately $696 billion. This would be the accounting loss if all the depository institutions fail and if any assets acquired as a result of the resolution process provide no recovery and to the extent these losses are not covered by the RTC.

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 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 Due from the FSLIC Resolution Fund, short-term receivables, and accounts payable and other liabilities approximates their fair value due to their short maturities. As explained in Note 5, entrance and exit fees receivable are net of discounts calculated using an interest rate comparable to U.S. Treasury Bill or Government bond/note rates at the time the receivables are accrued. The fair value of these receivables at December 31, 1993, and 1992, respectively, is $61 million and $85 million, and is net of an applicable discount based on current rates of interest.

It was not practical to estimate the fair value of net receivables from thrift resolutions. These assets are unique, not intended for sale to the private sector and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. Additionally, a discount of this proportion 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 stated in Note 9, the carrying amount of the Estimated liability for unresolved cases is the total of estimated losses from thrifts or "Oakar" banks that have not yet failed, but which 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.

17. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 112, "Employer's Accounting for Postemployment Benefits", which the FDIC is required to adopt for 1994. This new statement establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. This statement requires employers to recognize the obligation to provide postemployment benefits. However, the SAIF's obligation for these benefits is not recognized because the amount cannot be reasonably estimated.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan." Based upon an initial study and analysis, this statement is not expected to have a material impact on the SAIF when it is adopted on January 1, 1995.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement is not expected to have a material impact on the SAIF when it is adopted on January 1, 1994.

18. Supplementary Information Relating to the Statements of Cash Flows

As stated in the Summary of Significant Accounting Policies (see Note 2, *Escrowed Funds from Resolution Transactions*), the FDIC pays the acquirer the difference between failed thrift liabilities assumed and assets purchased, plus or minus any premium or discount. The SAIF 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 thrift resolutions excludes $932 thousand in 1993 for assets purchased.

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31 1993	1992
Net Income	**$876,702**	**$185,107**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Income Statement Items:		
Provision for insurance losses	16,531	(14,945)
Interest expense	0	(5)
Amortization of U.S. Treasury securities (unrestricted)	37	0
Change in Assets and Liabilities:		
Decrease in amortization of U.S. Treasury Securities (restricted)	3,787	0
Decrease in amount due from the FSLIC Resolution Fund	0	102,378
Decrease in entrance and exit fees receivable	24,241	6,119
Decrease (Increase) in accrued interest receivable and other assets	18,611	(11,734)
(Increase) in receivables from thrift resolutions	(174,948)	0
(Decrease) in accounts payable, accrued and other liabilities	(6,453)	(13,930)
Increase in amount due to the FSLIC Resolution Fund	175,396	112
Increase in liability incurred from thrift resolutions	932	0
(Decrease) in estimated liabilities for unresolved cases	(3,700)	0
Increase in exit fees and investment proceeds held in reserve	10,880	31,368
Net Cash Provided by Operating Activities	**$937,384**	**$284,470**

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Income and Accumulated Deficit

Dollars in Thousands	For the Year Ended December 31 1993	1992
Revenue		
Assessments earned (Note 12)	$ (63)	$ 844,558
Interest on U.S. Treasury obligations	26,768	28,441
Revenue from corporate-owned assets	181,298	336,730
Other revenue	47,280	37,445
Total Revenue	**255,283**	**1,247,174**
Expenses and Losses		
Operating expenses	34,908	34,125
Interest expense	57,080	397,016
Corporate-owned asset expenses	53,461	128,185
Provision for losses (Note 10)	860,425	799,105
Other expenses	9,505	71,637
Total Expenses and Losses	**1,015,379**	**1,430,068**
Net Loss Before Funding Transfer and Cumulative Effect of a Change in Accounting Principle	**(760,096)**	**(182,894)**
Cumulative effect of accounting change for certain postretirement benefits (Note 14)	0	(5,892)
Net Loss Before Funding Transfer	**(760,096)**	**(188,786)**
Funding transfer to the Savings Association Insurance Fund	0	(35,446)
Net Loss	**(760,096)**	**(224,232)**
Accumulated Deficit - Beginning	**(43,667,600)**	**(43,443,368)**
Accumulated Deficit - Ending	**$ (44,427,696)**	**$ (43,667,600)**

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

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position

Dollars in Thousands	December 31 1993	1992
Assets		
Cash and cash equivalents (Note 3)	$ 1,603,931	$ 1,787,578
Net receivables from thrift resolutions (Note 4)	2,238,065	2,004,951
Investment in corporate-owned assets, net (Note 5)	577,161	544,746
Due from the Savings Association Insurance Fund (Note 6)	168,960	0
Other assets, net (Note 7)	38,898	45,729
Total Assets	**4,627,015**	**4,383,004**
Liabilities		
Accounts payable, accrued and other liabilities	106,391	136,752
Liabilities incurred from thrift resolutions (Note 8)	3,596,908	3,465,760
Estimated Liabilities for:		
Assistance agreements (Note 9)	1,290,412	2,346,688
Litigation losses (Note 9)	70,000	73,404
Total Liabilities	**5,063,711**	**6,022,604**
Commitments and contingencies (Notes 15 and 16)		
Resolution Equity (Note 11)		
Contributed capital	43,991,000	42,028,000
Accumulated deficit	(44,427,696)	(43,667,600)
Total Resolution Equity	**(436,696)**	**(1,639,600)**
Total Liabilities and Resolution Equity	**$ 4,627,015**	**$ 4,383,004**

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

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1993	1992
Cash Flows from Operating Activities		
Cash provided from:		
Assessments (Note 12)	$ (63)	$ 844,558
Interest on U.S. Treasury obligations	29,662	28,484
Recoveries from thrift resolutions	1,846,163	1,199,906
Recoveries from corporate-owned assets	393,804	505,492
Miscellaneous receipts	80,513	85,972
Cash used for:		
Operating expenses	(60,797)	(20,267)
Interest paid on indebtedness incurred from thrift resolutions	(50,267)	(477,306)
Disbursements for thrift resolutions	(2,477,719)	(6,376,833)
Disbursements for corporate-owned assets	(327,712)	(179,212)
Miscellaneous disbursements	(43,871)	(278,672)
Net Cash Used by Operating Activities Before Funding Transfer	**(610,287)**	**(4,667,878)**
Funding transfer to the Savings Association Insurance Fund	(7,182)	(29,561)
Net Cash Used by Operating Activities (Note 19)	**(617,469)**	**(4,697,439)**
Cash Flows from Investing Activities	**0**	**0**
Cash Flows from Financing Activities		
Cash provided from:		
U.S. Treasury payments	1,963,000	13,793,000
Cash used for:		
Payment of indebtedness incurred from thrift resolutions	(1,529,178)	(8,075,322)
Net Cash Provided by Financing Activities	**433,822**	**5,717,678**
Net Increase (Decrease) in Cash and Cash Equivalents	**(183,647)**	**1,020,239**
Cash and Cash Equivalents - Beginning	**1,787,578**	**767,339**
Cash and Cash Equivalents - Ending	**$ 1,603,931**	**$ 1,787,578**

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

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 the RTC's control. The Resolution Trust Corporation Completion Act of 1993 (1993 RTC Act), enacted December 17, 1993, extended the RTC's general resolution responsibility through a date between January 1, 1995 and July 1, 1995. The Chairperson of the Thrift Depositor Protection Oversight Board will select the date.

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

Operations of the FRF

The primary purpose of the FRF is to liquidate the assets and contractual obligations of the now defunct FSLIC. The FRF will complete the resolution of all thrifts that failed before January 1, 1989, or were assisted before August 9, 1989. The FIRREA provided that the RTC manage any receiverships resulting from thrift failures that occurred after December 31, 1988 but prior to the enactment of the FIRREA. There 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 (FRF received no assessments in 1993). 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. The 1993 RTC Act amended the termination date of the RTC from December 31, 1996 to no later than December 31, 1995. All assets and liabilities of the RTC will be transferred to the FRF, after which 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.

2. Summary of Significant Accounting Policies

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

Allowance for Losses on Receivables 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. The litigation loss estimates related to its receivership capacity are included in the allowance for losses for receivables from thrift resolutions.

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 those receiverships 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 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 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 1992, the FRF funded its yearly charge for these expenses and the BIF provided the accounting and administration of these postretirement benefits on behalf of the FRF. In 1993, the FDIC established a plan administrator to provide the accounting and administration of these benefits on behalf of the BIF, the SAIF, the FRF, and the Resolution Trust Corporation (RTC). The FRF funded its 1993 expenses directly to the plan administrator.

Assessment Revenue Recognition
The FICO has priority and, through December 31, 1992, the FRF had priority over the SAIF for receiving and utilizing SAIF-member assessments to ensure availability of funds for specific operational activities. Accordingly, the FRF recognized as assessment revenue in 1992 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 12).

Wholly Owned Subsidiary

The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until such time as the FADA's litigation liability is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in the line item "Other assets, net" (Note 7). As of December 31, 1993, the value of the investment has been adjusted for projected expenses relating to the liquidation of the FADA. The FADA's estimate of probable litigation losses is $3.3 million. Accordingly, a $3.3 million litigation loss has been recognized as a reduction in the value of the FRF's investment in the FADA. This represents a $1.7 million increase from probable litigation losses of $1.6 million at December 31, 1992. Additional litigation losses considered reasonably possible as of December 31, 1993, are estimated to be $6 thousand and remain unrecognized.

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 1992 Financial Statements to conform to the presentation used in 1993.

Restatement

The 1992 financial statements were restated due to the correction of errors: 1) there were duplicate entries made during the conversion of the balance sheet balances from the former FSLIC to the FRF; and 2) a legal opinion clarified the FRF's obligation to ongoing institutions for their claims against the Secondary Reserve. These errors overstated the line items "Liabilities incurred from thrift resolutions" by $29.6 million and "Accounts payable, accrued and other liabilities" by $20.8 million, respectively. These restatements adjust the beginning fund balance for 1992 by $50.4 million.

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 1993, cash restrictions included $1 million for health insurance payable and $2.7 million for funds held in trust. In 1992, cash restrictions included $2 million for health insurance payable and $31.4 million for funds held in trust.

Cash and Cash Equivalents

Dollars in Thousands	December 31 1993	December 31 1992
Cash	$ 34,483	$ 83,174
One-day special Treasury certificates	1,569,448	1,704,404
	$ 1,603,931	**$ 1,787,578**

4. Net Receivables from Thrift Resolutions

As of December 31, 1993, and 1992, the FRF, in its receivership capacity, held assets with a book value of $1.8 billion and $3.8 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $226 million in 1993 and $435 million in 1992) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions affecting real estate assets now in the marketplace. These factors could 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, 1993, and 1992, is $62 million and $157 million, respectively. Likewise, the total amount of NWCs outstanding as of December 31, 1993, and 1992, is $3 million and $115 million, respectively.

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.

During 1993, the FDIC's Board of Directors delegated to the RTC, the authority to execute partnership agreements on behalf of the FDIC. Under that authority, the FDIC secured a limited partnership interest in two partnerships, Mountain AMD and Brazos Partners, in order to achieve a least cost resolution.

In the larger of these two partnerships, Brazos Asset Management, Inc. has been designated the general partner of Brazos Partners Limited Partnership and the FDIC, as manager of the FRF, is a limited partner along with Brazos Fort Associates and Brazos Worth Associates. The FDIC issued a note payable to New West Federal Savings and Loan Association (New West), which included capital loans to the Brazos partners, to purchase assets from New West. The FDIC contributed these assets to the partnership. In addition, the FDIC provided an advance to the Brazos Partners Limited Partnership for working capital.

Net Receivables from Thrift Resolutions

Dollars in Thousands	December 31 1993	December 31 1992
Assets from Open Thrift Assistance:		
Collateralized loans	$ 380,000	$ 470,000
Other loans	125,153	264,280
Capital instruments	65,000	272,496
Interest in limited partnerships	972,915	0
Preferred stock from assistance transactions	470,955	865,193
Accrued interest receivable	2,992	20,125
Allowance for losses (Note 10)	(423,296)	(971,550)
	1,593,719	**920,544**
Receivables from Closed Thrifts:		
Resolution transactions	9,677,150	10,449,964
Collateralized advances/loans	305,264	322,279
Other receivables	210,795	231,435
Allowance for losses (Note 10)	(9,548,863)	(9,919,271)
	644,346	**1,084,407**
	$ 2,238,065	**$ 2,004,951**

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**	
	1993	**1992**
Investment in corporate-owned assets	$ 3,565,463	$ 3,515,803
Allowance for losses (Note 10)	(2,988,302)	(2,971,057)
	$ 577,161	**$ 544,746**

6. Due from the Savings Association Insurance Fund

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

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

Because Heartland was not failing, all uninsured depositors and general trade creditors were paid in full, leaving only the FRF as sole creditor. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF and represents a claim against the receivership's assets. The receiver will reimburse the FRF as claims are satisfied through the liquidation process. As of December 31, 1993, the receiver owes the FRF a net receivable of $169 million. This amount includes an allowance for loss of $6.5 million for this transaction.

7. Other Assets, Net

Dollars in Thousands	December 31 1993	December 31 1992
Investment in FADA	$25,000	$25,000
Allowance for losses (Note 10)	(11,258)	(9,862)
	13,742	15,138
Accounts receivable	158	1,829
Allowance for losses	-0-	(93)
	158	1,736
Due from other government agencies	24,998	28,855
	$38,898	$45,729

8. Liabilities Incurred from Thrift Resolutions

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

Liabilities Incurred from Thrift Resolutions

Dollars in Thousands	December 31 1993	December 31 1992
Notes payable to Federal Home Loan Banks/U.S. Treasury	$ 380,000	$ 470,000
Capital instruments (Note 4)	725	24,350
Assistance agreement notes	683,455	913,308
Accrued assistance agreement costs	2,414,915	1,866,531
Accrued interest	7,983	14,158
Other liabilities to thrift institutions	109,830	177,413
	$ 3,596,908	$ 3,465,760

Maturities of Liabilities

Dollars in Thousands

1994	1995	1996	1997	1998
$2,698,318	$481,121	$96,477	$226,312	$94,680

9. Estimated Liabilities for:

Assistance Agreements

The "Estimated liabilities for: Assistance agreements" line item represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The nominal dollar amount of this line item as of December 31, 1993, and 1992, was $1.3 billion and $2.4 billion, respectively. The interest rate applied as of December 31, 1993, and 1992, was 3.5 percent, 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 $2.5 billion, should all underlying assets prove to be of no value (see Note 16). The costs and related cash requirements associated with the maintenance of covered assets are calculated using an applicable cost of funds rate and would change proportionately with any change in market rates.

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

The assistance agreements outstanding as of December 31, 1993 and 1992, were 71 and 100, respectively. The last agreement is scheduled to expire in December 1998.

The estimated liabilities for assistance agreements are affected by several factors, including adjustments to expected notes payable, the terms of the assistance agreements outstanding and, in particular, the 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, 1993, on a nominal dollar basis:

Estimated Assistance Payments

Dollars in Thousands

1994	1995	1996	1997	1998/Thereafter
$882,689	$228,707	$126,429	$31,308	$61,787

Litigation Losses

The FDIC records as an estimated loss 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 has determined that losses from unresolved legal cases totaling $732 million are reasonably possible. This includes $683 million in losses for the FRF in its corporate capacity and $49 million in losses for the FRF in its receivership capacity (see Note 2).

10. 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 final adjustments to the estimated cost figures for those thrift resolutions that were completed and for which the operations of the receivership ended.

Analysis of Changes in Allowance for Losses and Estimated Liabilities

1993

Dollars in Millions

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

Dollars in Millions **1992**

Allowance for Losses:	Beginning Balance 01/01/92	Provision for Losses	Net Cash Payments	Transfers/ Terminations	Ending Balance 12/31/92
Open Thrift Assistance	$ 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**			

11. Resolution Equity

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

Resolution Equity

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

Dollars in Thousands	1992 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	(43,443,368)	(224,232)	0	(43,667,600)
	$ (15,208,368)	**$ (224,232)**	**$ 13,793,000**	**$ (1,639,600)**

12. Assessments

The FRF's authority to receive SAIF assessments expired December 31, 1992 (see Notes 1 and 2).

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, 1993, and 1992, the Secondary Reserve payable, included in the line item "Accounts payable, accrued and other liabilities," was $89.8 million and $110 million, respectively.

The remaining Secondary Reserve credit at December 31, 1993, and 1992, was $2 million and $200 million, respectively. This amount was reduced primarily by offsets against assessment premiums, because most thrifts fully applied their remaining secondary reserve credit against their 1993 assessment. Offsets in 1993 had no impact on the FRF as SAIF assessments were no longer available to the FRF.

13. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can participate in 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 FDIC employees may also participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system, 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 $2.3 million and $4.4 million at December 31, 1993, and 1992, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	**December 31** 1993	**1992**
Civil Service Retirement System	$ 577	$ 743
Federal Employee Retirement System (Basic Benefit)	2,383	2,827
FDIC Savings Plan	1,267	1,037
Federal Thrift Savings Plan	734	815
	$ 4,961	**$ 5,422**

14. Postretirement Benefits 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 weekly 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.

Beginning March 1994, the FDIC health insurance coverage will be self-insured for hospital/medical, prescription drug, mental health and chemical dependency, and FDIC has purchased additional risk protection through stop-loss and fiduciary liability insurance from Aetna Life Insurance Company. All claims will be administered on an Administrative Services Only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare, Inc., and the prescription drug claims administered by Caremark.

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 (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.

The FRF expensed $3 million and $2.3 million for such benefits for the years ended December 31, 1993, and 1992, respectively.

For measurement purposes, the FDIC assumed the following: 1) a discount rate of 6 percent; 2) an increase in health cost in 1993 of 14 percent, decreasing down to an ultimate rate in 1998 of eight percent; and 3) an increase in dental costs in 1993 and thereafter of eight 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, 1993, would have increased by 7.5 percent. The effect of this change on the aggregate of service and interest cost for 1993 would be an increase of 28.8 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands	December 31 1993	December 31 1992
Service cost (benefits attributed to employee service during the year)	$ 1,825	$ 1,401
Interest cost on accumulated postretirement benefit obligation	937	856
Amortization of prior service cost	(74)	0
Amortization of unrecognized transition obligation	262	0
Return on plan assets	3	0
Net Periodic Postretirement Benefit Cost Before Funding Transfer	**2,953**	**2,257**
Funds transferred to the Savings Association Insurance Fund	0	1,197
	$ 2,953	$ 3,454

As stated in Note 2, beginning in December 1993, the FDIC established a plan administrator to provide the accounting and administration on behalf of the BIF, the SAIF, the FRF and the RTC. The FRF portion of this long-term liability has been transferred to the plan administrator. In 1992, the BIF provided the accounting and administration of this obligation. The FRF has funded its obligation and these funds are being managed by the administrator as "plan assets."

Accumulated Postretirement Benefit Obligation by Participant

Dollars in Thousands	December 31 1993
Retirees	$7,937
Full eligible active plan participants	469
Other active participants	2,497
Total Obligation	**10,903**
Less: Plan assets at fair value (a)	10,125
Postretirement Benefit Liability Included in the Statements of Financial Position	**$ 778**

(a) Consists of one-day special Treasury certificates

15. Commitments

The FRF currently is sharing in the FDIC's leased space. The FRF's allocated share of lease commitments totals $23.5 million for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The FRF recognized leased space expense of $8.9 million and $8.3 million for the years ended December 31, 1993, and 1992, respectively.

Leased Space Fees

Dollars in Thousands

1994	1995	1996	1997	1998
$9,842	$6,411	$3,552	$2,861	$822

16. 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, 1993						
	South-east	South-west	North-east	Mid-west	Central	West	Total
Net receivables from thrift resolutions	$ 143	$ 296	$ 61	$ 12	$ 44	$ 1,682	$ 2,238
Investment in corporate-owned assets, net	2	413	2	0	11	149	577
Due from the SAIF	0	169	0	0	0	0	169
Assistance agreements covered assets, net of estimated capital loss (off-balance sheet)	9	2,216	0	0	209	41	2,475
Total	**$ 154**	**$ 3,094**	**$ 63**	**$ 12**	**$ 264**	**$ 1,872**	**$ 5,459**

17. 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 practical to estimate fair values of net receivables from thrift resolutions. These assets are unique, not intended for sale to the private sector and have no established market. The FDIC believes that a sale to the private sector would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. Additionally, a discount of this proportion would significantly increase the cost of bank resolutions to the FRF. 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 loss, which is the estimated cash recovery value.

The majority of the net investment in corporate-owned assets, (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.), and to a lesser degree other assets, acquired from failed thrifts. As with net receivables from thrift resolutions, it was not practical to estimate fair values. Cash recoveries are primarily from the sale of the assets which are poor quality. They are dependent upon market conditions which vary over time, and can occur unpredictably over many years following resolution. Since the FDIC cannot reasonably predict the timing of these cash recoveries, it is unable to estimate fair 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 the estimated cash recovery value.

18. Disclosure about Recent Financial Accounting Standards Board Pronouncements

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 112, (Employer's Accounting for Postemployment Benefits) which the FDIC is required to adopt by 1994. This new statement establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. This statement requires employers to recognize the obligation to provide postemployment benefits. However, the FRF's obligation for these benefits is not recognized because the amount cannot be reasonably estimated.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan." Based upon initial study and analysis, this statement is not expected to have a material impact on the FRF when it is adopted on January 1, 1995.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement is not expected to have a material impact on the FRF when it is adopted on January 1, 1994.

19. Supplementary Information Relating to the Statements of Cash Flows

Dollars in Thousands	December 31	
	1993	1992
Net Loss	**$ (760,096)**	**$ (224,232)**
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Income Statement Items:		
Provision for losses	860,425	799,105
Change in Assets and Liabilities		
Decrease in accrued interest receivable on investments and other assets	79,592	15,801
Decrease in thrift resolution receivable	798,974	1,488,844
(Increase) decrease in corporate-owned assets	(49,660)	39,233
Decrease in accounts payable, accrued and other liabilities	(29,310)	(13,451)
Decrease in liabilities from thrift resolutions	(1,517,394)	(6,802,739)
Net Cash Used by Operating Activities	**$ (617,469)**	**$ (4,697,439)**

Non-cash financing activities for the year ended December 31, 1993, include: 1) canceled notes payable (NWCs) of $6.5 million; and 2) collateralized loans guaranteed by the FRF decreased $90 million (see Note 4). Non-cash financing activities for the year ended December 31, 1992, include: 1) canceled notes payable (NWCs) of $13.4 million; and 2) collateralized loans guaranteed by the FRF decreased $90 million (see Note 4).

GAO

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

Comptroller General
of the United States

B-253861

June 24, 1994

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1993 and 1992, 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 that the financial statements, taken as a whole, were fairly stated as of December 31, 1993.

During our prior year's audits of the 1992 financial statements of the three funds,[1] we identified several significant weaknesses in FDIC's internal controls which adversely affected its ability to manage, liquidate, and report on the large volume of assets acquired from failed financial institutions. These weaknesses also affected FDIC's ability to accurately report transactions associated with BIF's and FRF's resolution and liquidation activity, and increased the risk of misappropriation of assets We noted that this could add to the losses on failed institution assets being incurred by the funds. We also identified significant weaknesses in FDIC's time and attendance processing controls which increased the risk of inappropriate payroll expenditures and exposed SAIF to significant misapplication of payroll and other overhead expenditures. In addition to these weaknesses, which we considered

---

[1]Financial Audit: Federal Deposit Insurance Corporation's 1992 and 1991 Financial Statements (GAO/AIMD-93-5, June 30, 1993) and Financial Audit: Federal Deposit Insurance Corporation's Internal Controls as of December 31, 1992 (GAO/AIMD-94-35, February 4, 1994).

material,[2] we identified other weaknesses in FDIC's internal controls which affected its ability to ensure that internal control objectives were achieved. We made a number of recommendations to address each of the weaknesses identified in our 1992 audits.

In conducting our 1993 audits, we found that FDIC had made significant progress in addressing the internal control weaknesses we identified in our 1992 audits. FDIC's actions during 1993 fully resolved one weakness we considered material and resolved the other weaknesses to the extent that, while still significant conditions, we no longer consider them material. Also, FDIC's actions prior to year-end 1993 adequately addressed four of the six other weaknesses we identified during our 1992 audits. Additional actions FDIC took prior to the completion of our 1993 audits corrected one of the other two weaknesses.

While FDIC has acted aggressively to improve its system of internal controls, additional improvements are needed. Our 1993 audits identified a material weakness in FDIC's internal accounting controls over its process for estimating recoveries it will realize on the management and disposition of BIF's and FRF's inventory of failed institution assets. In addition, despite progress made by FDIC, we continued to identify weaknesses, though not material, in controls over FDIC's time and attendance processes and oversight of contracted asset servicing entities. We also continued to note weaknesses in computer security, although these

---

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

weaknesses were corrected prior to the completion of our 1993 audits.

During our 1993 audits, we noted continued improvement in the condition of the nation's banking and savings institutions. These improvements have resulted in an acceleration of BIF's recapitalization and have reduced both BIF's and SAIF's exposure to significant losses from financial institution failures. We caution, however, that BIF's exposure to losses from past and future institution failures continues to be subject to significant uncertainties. In addition, SAIF is significantly undercapitalized, and building up SAIF's reserves through premium assessments of insured members is a slow process which can be affected by events impacting the savings association industry.

SUMMARY OF RESULTS

The following section presents (1) our opinions on the 1993 financial statements of the three funds administered by FDIC, (2) our opinion on FDIC's internal controls as of December 31, 1993, as it relates to the three funds, (3) the results of our tests for compliance with significant provisions of selected laws and regulations, and (4) the responsibilities of FDIC and the auditor with regard to the financial statements, internal controls, and compliance with laws and regulations.

Opinions on Financial Statements

In our opinion:

-- The financial statements and accompanying notes of the Bank Insurance Fund present fairly, in all material respects, BIF's financial position as of December 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

-- The financial statements and accompanying notes of the Savings Association Insurance Fund present fairly, in all material respects, SAIF's financial position as of December 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

-- The financial statements and accompanying notes of the FSLIC Resolution Fund present fairly, in all material respects, FRF's financial position as of December 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Opinion on Internal Controls

We evaluated whether FDIC's internal controls in effect on December 31, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected.

In our opinion, internal controls as of December 31, 1993, provided reasonable assurance that (1) assets of BIF, SAIF, and FRF were safeguarded against loss from unauthorized acquisition, use, or disposition, (2) transactions of SAIF were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles, and (3) transactions of BIF, SAIF, and FRF were executed in accordance with significant provisions of selected laws and regulations.

However, in our opinion, because of the material weakness in FDIC's process for estimating recoveries on failed institution assets, internal controls as of December 31, 1993, did not provide reasonable assurance that transactions of BIF and FRF were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles. Through substantive audit procedures, we were able to satisfy ourselves that this weakness did not have a material effect on the 1993 financial statements of the two funds.

Misstatements may nevertheless occur in other FDIC-reported financial information on BIF and FRF as a result of the material internal control weakness we identified. Also, significant uncertainties associated with the cost of past and future financial institution failures as discussed below and disclosed in the applicable notes to BIF's and FRF's financial statements may ultimately result in substantial changes in the recovery value of advances to receiverships and corporate-owned assets held by BIF and FRF.

Also, 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 certain controls 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.

Compliance With Laws and Regulations

Our tests for compliance with significant provisions of selected laws and regulations disclosed no material instances of noncompliance. With respect to laws and regulations that we tested, our limited tests would not necessarily detect all material instances of noncompliance. However, nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred.

Responsibilities of the Corporation and the Auditor

The management of FDIC is responsible for (1) preparing the financial statements of BIF, SAIF, and FRF in conformity with generally accepted accounting principles, (2) establishing and maintaining internal controls and systems to provide reasonable assurance that the internal control objectives previously mentioned are met, and (3) complying with applicable laws and regulations.

As the auditor of record, we are responsible for (1) obtaining reasonable assurance about whether the financial statements are free of material misstatement and presented fairly in conformity with generally accepted accounting principles, (2) obtaining reasonable assurance about whether relevant internal controls are in place and operating effectively, and (3) testing compliance with significant provisions of selected laws and regulations.

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

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

SIGNIFICANT MATTERS

The following information is presented to highlight the condition and outlook of the banking and thrift industries and the insurance funds. We also discuss significant uncertainties that could affect the future financial condition of the insurance funds. Also, we discuss FDIC's significant progress in addressing internal control weaknesses we identified during our 1992 audits.

The Condition of FDIC-Insured Institutions Has Continued to Improve

The condition of FDIC-insured commercial banks improved significantly during 1993. Commercial banks posted record earnings of over $43.4 billion, an increase of 36 percent over the previous record of $32 billion set in 1992. The substantial improvements in the condition of commercial banks have been attributable primarily to continued favorable interest rates and significant improvements in asset quality. Both noncurrent loans and other real estate owned (repossessed collateral) have declined from a peak of 3.19 percent of total assets in mid-1991, to 1.61 percent of total assets at the end of 1993, the lowest level since 1986. Commercial banks have also realized large increases in noninterest income, which accounted for over 23 percent of total earnings in 1993. As a result of improved earnings and asset quality, commercial banks' equity capital increased to over 8 percent of total assets for the first time in 30 years.

The substantial improvement in the condition of FDIC-insured commercial banks has also been reflected in the continued reduction in the number of these banks identified by FDIC as problem institutions. At year-end 1993, 426 commercial banks, with total assets of $242 billion, were identified by FDIC as problem institutions, the lowest number since 1982. This represents a substantial decline from the 787 commercial banks, with total assets of $408 billion, which FDIC identified as problem institutions at year-end 1992. Similarly, bank failures have declined significantly. During 1993, 42 FDIC-insured commercial banks failed. In comparison, during 1992, 98 commercial banks failed. Commercial bank failures in 1993 represent the fewest since 1982, when 34 failed.

111

The condition of FDIC-insured savings institutions also continued to improve during 1993. Privately-held FDIC-insured savings institutions (those not under the government's control) earned $7 billion in 1993. This is the third consecutive year of positive earnings for savings institutions after four consecutive years of losses. Full-year net income and the average return on assets were the highest reported by savings institutions during the past 10 years, with nearly 95 percent of savings institutions reporting positive earnings for 1993. Positive earnings were attributable primarily to favorable interest rates and the decline in troubled assets. Troubled assets, such as noncurrent loans and leases and other real estate owned, declined to 2.1 percent of total industry assets in 1993 from 3.07 percent in 1992. As a result of improved earnings and asset quality, savings institutions' 1993 equity capital increased to 7.85 percent of total industry assets from 7.22 percent in 1992.

Continued improvements in the financial condition of FDIC-insured savings institutions has also resulted in a significant decline in the number and size of savings institutions identified by regulators as problem institutions. As of December 31, 1993, regulators identified 146 savings institutions, with assets totaling $92 billion, as problem institutions. In comparison, as of December 31, 1992, 276 savings institutions, with assets totaling $184 billion, were identified as problem institutions by the regulators.

Strengthened Banking Industry Has Accelerated BIF's Recapitalization

The continued improvements in the condition of the banking industry have substantially accelerated the recapitalization of BIF. During 1993, BIF reported net income of $13.2 billion, the second consecutive year of positive results after four consecutive years of losses. This improvement resulted principally from insurance assessments and the reduction of reserves no longer considered necessary for insurance losses. The net income increased the fund balance from a $101 million deficit as of December 31, 1992, to a $13.1 billion positive balance, or about 0.69 percent of insured deposits as of December 31, 1993. FDIC currently projects that by 1996, BIF will achieve the ratio of reserves to insured deposits of 1.25 percent designated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This is 10 years earlier than anticipated by FDIC in its initial recapitalization schedule prepared in September 1992. Under the fund recapitalization requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), FDIC was required to establish a recapitalization schedule for BIF to achieve the designated reserve ratio not later than 15 years after the schedule was implemented and to set insurance assessments in accordance with this schedule. However, if this goal is achieved sooner, as currently projected, FDIC will be able to significantly reduce assessment rates far earlier than had been anticipated.

112

SAIF Remains Significantly Undercapitalized

While the current condition of BIF is very positive, SAIF continues to be significantly undercapitalized. SAIF was created by FIRREA in 1989 without any initial capitalization. Over the past 4 years, assessments from SAIF-insured members have increased SAIF's fund balance to $1.2 billion as of

December 31, 1993. Despite this growth, SAIF's ratio of reserves to estimated insured deposits as of December 31, 1993, was only 0.17 percent--substantially below the reserve ratio of 1.25 percent designated by FIRREA. FDIC's most recent projections indicate that SAIF will not achieve the designated 1.25 percent ratio of reserves to estimated insured deposits until the year 2004, when its fund balance is estimated to be about $7 billion.

The projected growth of SAIF's fund balance is based, in part, on the assumption that SAIF will not incur substantial losses from the failure of insured members. The Congress provided safeguards for this risk by enacting legislation to further strengthen the SAIF. Specifically, FDICIA authorized FDIC to borrow up to $30 billion from the U.S. Treasury, on behalf of SAIF or BIF, to cover insurance losses.[3] Also, in December 1993, the Resolution Trust Corporation (RTC) Completion Act extended RTC's resolution responsibility through a date between January 1, 1995, and July 1, 1995.[4] The act also restored to RTC through December 31, 1995, $18.3 billion[5] to resolve troubled savings associations and provided that any of these funds not used by RTC would become available for SAIF's insurance losses from December 31, 1995, through 1997. In addition, the act authorized up to $8 billion for insurance losses in fiscal years 1994 through 1998. However, as explained in the notes to SAIF's financial statements, both FDICIA and the RTC Completion Act contain certain requirements and restrictions regarding SAIF's access 113

---

[3]Through December 31, 1993, FDIC had borrowed no funds from the U.S. Treasury to cover insurance losses of either BIF or SAIF.

[4]RTC was responsible for assisting and resolving troubled SAIF members whose accounts had been insured by FSLIC and that had been placed in conservatorship or receivership from January 1, 1989, through September 30, 1993. The RTC Completion Act extended RTC's resolution responsibility and requires the chairperson of the Thrift Depositor Protection Oversight Board to select the actual date of termination. However, the date is to be no earlier than January 1, 1995, and no later than July 1, 1995.

[5]The act amended section 21A(i) of the Federal Home Loan Bank Act by removing the April 1, 1992, deadline for obligating $25 billion provided to RTC by Public Law 102-233 for resolution activity; through April 1, 1992, RTC had obligated $6.7 billion of the $25 billion.

to and use of these funding sources. If these funds are not available to SAIF when needed, the impact of a single large institution failure could adversely affect SAIF's ability to achieve the designated reserve ratio within the currently projected period and may ultimately affect its solvency.

In addition, the future growth of SAIF's fund balance depends on the amount of assessments collected from insured members. However, from its inception through December 31, 1992, the share of industry assessments received by SAIF was minimal because FIRREA mandated that the Financing Corporation (FICO), the Resolution Funding Corporation (REFCORP), and FRF have prior claim on SAIF member assessments.[6] Beginning in 1993, only FICO continues to have prior claim on assessments from SAIF members, with SAIF receiving all remaining assessments. Each year, FICO receives approximately $800 million of SAIF member assessments to pay bond interest. In 1993, this amounted to approximately 46 percent of SAIF's gross assessment revenue. This claim and its impact on SAIF member assessments will continue until the year 2019, when FICO's bonds fully mature.

Until January 1, 1998, FDIC must set assessment rates at a level that will enable SAIF to achieve the designated reserve ratio within a reasonable period. After January 1, 1998, FDIC must set assessments for SAIF to meet the designated reserve ratio according to a 15-year schedule.[7] Once the

---

[6] FICO was established in 1987 to recapitalize FSLIC, and was given first claim on insurance assessments of SAIF members for payment of interest and custodial costs on its bonds. Although FICO no longer has authority to issue bonds, its claim to the insurance assessments will continue until the 30-year recapitalization bonds mature. In addition, REFCORP, established in 1989 to provide funding for RTC, was entitled to insurance assessments of SAIF members to finance payment of bond principal. REFCORP ceased all future bond issuances in early 1991 and therefore has no further claim to insurance assessments. Finally, FRF, established in 1989 to liquidate the assets and liabilities of the former FSLIC, was entitled, through December 31, 1992, to the insurance assessments not taken by FICO or REFCORP. Any remaining assessments belonged to SAIF.

[7] FDIC may extend the date specified in the schedule to a later date that it determines will, over time, maximize the amount of assessments received by SAIF, net of insurance losses incurred by SAIF.

ratio is met, FDIC can reduce the assessment rates charged to SAIF members. Since SAIF's fund balance is not projected to achieve the designated reserve ratio until the year 2004, FDIC anticipates that SAIF member assessment rates will be significantly higher than those projected for BIF members. FDIC predicts that BIF will achieve its designated reserve ratio 8 years earlier than SAIF, thus allowing FDIC to substantially reduce assessment rates for BIF members long before it can implement similar rate reductions for SAIF members. During this period, FDIC expects the average BIF assessment rate to range from 5 to 12 basis points (5 cents to 12 cents per $100 of deposits), compared to a projected average SAIF assessment of approximately 25 basis points.

Once SAIF reaches the designated reserve ratio, SAIF member assessment rates will continue to be significantly higher than those projected for BIF members because of the required future FICO payments, which equate to approximately 11 basis points. The SAIF Industry Advisory Committee[8] reported in March 1994 that this potentially wide disparity in the assessment rates charged to BIF and SAIF members could adversely affect SAIF members' ability to raise sufficient capital because of their competitive disadvantage with banks. This, in turn, could lead to failures of SAIF members which would result in a shrinking assessment base and less assessments available to fund future FICO payments and build SAIF's reserves to its designated ratio of reserves to estimated insured deposits. The SAIF Industry Advisory Committee recommended a merger of BIF and SAIF to resolve these concerns.

115

Uncertainties Affect the Cost of Past and Future Institution Failures

Estimates of the ultimate cost of past and potential failures are subject to significant uncertainties, such as future market conditions and changes in interest rates. FDIC's estimates of the costs of past resolutions depend, to a large

---

[8]The SAIF Industry Advisory Committee was created by FIRREA to advise the Congress on regulatory and other matters affecting financial institutions that are SAIF members. The committee is comprised of 12 representatives of SAIF members and 6 representatives of the public interest. The committee meets quarterly (or more frequently, if requested by the Congress), and reports to the Congress semiannually. FIRREA specified that the committee will cease to exist on August 9, 1999.

degree, on the level of recoveries FDIC expects to realize on BIF's and FRF's inventory of failed institution assets. Similarly, estimates of future resolution costs encompass both FDIC's judgment concerning the likelihood of the failure of troubled institutions, and the expected cost of those that do fail, based on past resolution experience. Both the realizable value of assets acquired from previously failed institutions and the future viability of troubled institutions can be significantly affected by market conditions and interest rates.

The continued improvement in the condition of BIF-insured institutions allowed FDIC to reduce its estimate of the cost likely to be incurred by BIF in the resolution of troubled institutions by nearly $8 billion during 1993. As of December 31, 1993, BIF's estimated liability for troubled institutions considered likely to fail, as reported on its financial statements, totaled $3 billion. In comparison, as of December 31, 1992, this estimate totaled $10.8 billion. However, the December 31, 1993, estimated liability does not include an additional $410 million reduction which FDIC estimated based upon continued financial improvement of certain institutions as reflected in 1993 year-end reports they filed with regulators. This additional reduction in BIF's exposure to troubled institutions reflects events which occurred during 1993 and, accordingly, should have been recognized in BIF's December 31, 1993, financial statements. However, FDIC reflected the reduction in BIF's March 31, 1994, quarterly financial statements. The effect of omitting this adjustment from BIF's 1993 financial statements is not considered material to the overall fair presentation of BIF's 1993 financial statements. However, it represents nearly 20 percent of BIF's net income for the 3 months ended March 31, 1994. Nevertheless, if the interest rate environment remains relatively stable and levels of problem assets continue to decline, the estimated liability for troubled institutions could be reduced further during 1994.

Significant uncertainties also affect the receivables from bank or thrift resolutions and investments in corporate-owned assets reported on the financial statements of BIF and FRF. These amounts represent funds advanced to resolve previously failed institutions or to purchase assets of terminated receiverships. As of December 31, 1993, BIF's and FRF's financial statements included $14.4 billion and $2.8 billion, respectively, of such advances, net of an allowance for losses. These advances are repaid from collections from the management and disposition of failed institution assets. The allowance for losses represents the difference between amounts advanced and the expected repayment, based on estimates of recoveries to be received from the management and liquidation of the failed institution assets, net of all estimated liquidation costs. In the event of a deterioration in economic conditions, the marketability of these assets could be adversely affected, as could the ability of the responsible debtors to repay their outstanding loans. Should this occur, actual recoveries on these assets could be significantly less than current estimates.

Significant Progress on 1992 Audit Recommendations

In our reports on the results of our 1992 audits of FDIC's financial statements, we identified material weaknesses in FDIC's internal accounting controls over (1) contractors engaged to service and liquidate failed bank assets, (2) data maintained in FDIC's asset management information system and reconciliations between this system and FDIC's general ledger system, (3) reconciliations between FDIC's primary performing commercial and residential loan servicer's systems and FDIC's asset management and general ledger systems, and (4) FDIC's time and attendance reporting process. The weaknesses in FDIC's internal accounting controls over its management and liquidation of failed institution assets adversely affected its ability to safeguard these assets against loss from unauthorized acquisition, use, or disposition and ensure that transactions associated with asset servicing and disposition activities were properly accounted for and reported on BIF's and FRF's financial statements. Also, the weaknesses in internal accounting controls over FDIC's time and attendance reporting process adversely affected its ability to ensure that established policies and procedures were adhered to or that payroll and other related expenses were properly allocated among the three funds.

117

During 1993, FDIC implemented a number of our recommendations to address these weaknesses. FDIC's actions during the year fully resolved one weakness we deemed material and resolved the other weaknesses to the extent that, while still significant conditions during 1993, we no longer consider them material weaknesses. Specifically, FDIC:

-- Developed a computerized report to identify differences between the systems of its performing commercial and residential loan servicer and FDIC's asset management information and general ledger systems. As a result of this automation, FDIC can more efficiently use its resources in identifying and resolving the reconciling items associated with the differences between these systems.

-- Progressed in identifying and resolving differences between book values of receivership and corporate-owned assets recorded in its financial information and asset management information systems. While some consolidated receivership offices continue to experience differences in reported asset book values between the two systems, these differences are not considered material in the aggregate. In addition, FDIC progressed in maintaining and updating system data files to reflect current information affecting the condition and potential recoveries on assets in liquidation.

-- Increased the number of personnel under its Contractor Accounting Oversight Group and assigned to them the responsibility for reconciling monthly the reported asset pool balances between contracted asset servicers' records and FDIC's general ledger control accounts. It also distributed to the servicers' internal audit departments a list of critical audit areas that should be addressed through internal audits each year. In addition, it established a policy requiring the servicers to adopt FDIC's procedures for calculating recovery estimates on serviced assets. While weaknesses still exist in reconciling the serviced asset pool balances to FDIC's general ledger system and performing audit procedures on critical servicer functions, the affect of these weaknesses is no longer considered material.

-- Revised its Time and Attendance Reporting Directive and issued other related guidance to (1) require separation of the timekeeping, data input, and reconciliation functions, (2) emphasize the importance of charging time to the proper fund, (3) address the proper use of the common services fund, and (4) ensure review of time and attendance reports. While FDIC improved time and attendance reporting guidance enough that we no longer consider this weakness material, additional action is needed to ensure consistent adherence to the revised procedures.

In addition to the material weaknesses discussed above, our reports on our 1992 audits also noted other reportable conditions which affected FDIC's ability to ensure that internal control objectives were achieved. These involved weaknesses in FDIC's controls over (1) access to computerized information systems' hardware and software, (2) cash receipts at some consolidated receivership sites, (3) accounting methodologies used by certain asset servicers, (4) recording assessment revenue due SAIF, (5) recording exit fee transactions, and (6) authorization of adjustments to the financial statements. We reported that these weaknesses, though not material, impaired the ability of FDIC's system of internal accounting controls to ensure accurate reporting of financial transactions and proper safeguarding of assets, and we made several recommendations to correct them.

During 1993, FDIC acted to address these weaknesses. For four of the six weaknesses, FDIC's actions addressed our concerns to the extent that, as of December 31, 1993, we no longer considered them to be reportable conditions. Specifically, FDIC:

-- Adopted uniform procedures for processing and reconciling cash receipts at its consolidated receivership offices. Because FDIC is in the process of merging certain consolidated receivership offices as part of its downsizing efforts, continued monitoring of these new procedures is particularly important in view of the anticipated increase in activity at key offices.

-- Established a systematic ongoing process for conducting audits of assessments due SAIF. This process, if implemented as designed, can be an effective internal control. However, if the full potential of this control is to be realized, FDIC will need to ensure that (1) these audits encompass all institutions owing material levels of assessments to SAIF and (2) any resulting material audit adjustments are reflected in the proper accounting period, consistent with generally accepted accounting principles. 119

-- Improved its process for reconciling exit fee reports. During 1993, this improved reconciliation successfully identified material discrepancies, and all adjustments arising out of audits of exit fees were properly recorded in the general ledger.

-- Developed written procedures governing the processing of financial reporting adjustments. The requirements of these procedures, if adhered to, appear adequate to address the concerns we reported during our 1992 audits.

However, FDIC's actions during 1993 did not fully correct the weaknesses we identified in its internal controls over access to computerized information systems software and hardware and accounting methodologies used by certain asset servicers.

Thus, we continue to consider these weaknesses reportable conditions as of December 31, 1993. However, actions to strengthen controls over computer security, which FDIC took before the completion of our audits, if adhered to, should correct this weakness. These actions are discussed in a later section of this report.

MATERIAL INTERNAL CONTROL WEAKNESS EXISTS IN ASSET RECOVERY ESTIMATION PROCESS

During our 1993 audits, we identified a material weakness in FDIC's internal accounting controls over its process for estimating recoveries it will realize on the management and disposition of BIF's and FRF's inventory of failed institution assets. These estimates form the basis for establishing BIF's and FRF's allowance for losses on their respective balances of subrogated claims and investment in corporate-owned assets. Specifically, internal accounting controls are not adequate to ensure that consistent and sound methodologies are used to estimate recoveries on failed institution assets. Also, internal controls are not effective in ensuring that proper documentation is maintained to support recovery estimates.

Although we were able to satisfy ourselves that this weakness did not have a material effect on the 1993 financial statements of the funds, this weakness could result in material misstatements in future financial statements and other financial information if not corrected by FDIC. The magnitude of these misstatements could be further exacerbated when FDIC assumes responsibility for managing and disposing of 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, 1995.

FDIC uses the Liquidation Asset Management Information System (LAMIS) to assist in managing assets of failed institutions that are primarily serviced internally by FDIC personnel. FDIC also contracts with private entities to service large pools of receivership and corporate-owned assets from failed banks resolved by BIF. As of December 31, 1993, BIF and FRF held failed institution assets with a book value of $25 billion and $2.7 billion, respectively. Estimates of recoveries from the management and disposition of these assets are used to determine the allowance for losses on BIF's and FRF's balances of subrogated claims and investments in corporate-owned assets. To ensure the reliability of the aggregate estimated recovery on BIF's and FRF's inventories of failed institution assets, consistent and sound methodologies should be used to develop asset recovery estimates and adequate documentation should be maintained to support them.

During 1993, we found that both FDIC and servicer personnel used inconsistent and unsupported methodologies for estimating recoveries on assets with similar liquidation strategies. Also, the methods for developing the estimates did not always result in recovery estimates which represented the net realizable value of these assets. These weaknesses result in estimates that lose their comparability, diminishing FDIC's ability to accurately report on these assets.

We found:

-- For anticipated loan restructurings and performing loans, most servicers' personnel included in recovery estimates interest income anticipated for the duration of either the loan or the servicing contract. In contrast, FDIC personnel did not include in their estimates any interest income for anticipated loan restructurings and limited anticipated interest income for performing loans to 1 year.

-- For nonperforming loans which are expected to be foreclosed, recovery estimates prepared by servicers' personnel included operating income associated with the loans' underlying collateral, even though FDIC's legal right to rental income had not yet been established. For similar assets serviced by FDIC personnel, operating income was not included in estimating recoveries until the foreclosure actually occurred or FDIC's legal right to the rental income was established.

-- For assets with similar liquidation strategies, certain FDIC and servicers' account officers applied across-the-board discounts to appraised values in estimating recoveries, while other account officers estimated recoveries at 100 percent of appraised value. Similarly, for assets to be disposed of through bulk sales, certain account officers discounted appraised values of these assets, some used 100 percent of the appraised value, and others used FDIC's minimum acceptable price assigned to the assets in estimating recoveries.

-- For failed institution assets constituting investments in subsidiaries, account officers at one servicer estimated recoveries based on the net cash flow to FDIC that was expected from subsidiary dividends, while account officers at another servicer estimated recoveries based on the expected return on specific subsidiary assets without deducting subsidiary liabilities.

-- For assets whose recoveries are estimated based on predetermined formulas,[9] the personnel of one servicing entity applied the recovery formulas against the adjusted pool value of the serviced assets.[10] In contrast, FDIC and other servicing entity personnel followed the guidance in FDIC's Credit Manual, which instructs account officers to apply the predetermined recovery formulas to the assets' book values. The adjusted pool value is generally less than book value because interest income and other income collected on these assets are deducted from the assets' principal balance.

-- For assets whose estimated recoveries are based on payment streams that extend for several years, these cash flows were not discounted to their net present value. Assets with large balloon payments, assets recently or currently in the process of being restructured, and assets which are not easily liquidated often have large payment streams beyond 1 year. The differences between the estimated recoveries calculated by FDIC and servicer personnel on a gross basis and the net present value of these recoveries could be substantial.

During our 1992 audits, we found that estimates of recoveries on failed institution assets were not always supported by documentation in asset files maintained by FDIC and servicer

---

[9]For assets with book values of $250,000 or more and for all judgments, subsidiaries, claims, and restitutions, account officers assigned to manage and liquidate the assets are responsible for preparing complete and accurate recovery estimates for each asset. For those assets with book values less than $250,000, recoveries are calculated using recovery rates contained in FDIC's Credit Manual.

[10]Adjusted pool balance represents the principal balance of the asset, net of specific reserves, as reflected on the accounting records of the relevant failed bank or assuming bank less all subsequent collections, such as principal, interest, and other income.

personnel. This weakness increases the risk that estimates of recoveries may not be reasonable and based on the most current information available. While FDIC has made some progress in addressing these weaknesses, we found similar documentation deficiencies during our 1993 audits. In addition, methodologies used to estimate asset recoveries were not always supported by historical or other evidential data. We found:

-- For assets whose recoveries are based on discounted appraised values, neither FDIC or servicing personnel could provide any data or analysis to support these discounts.

-- For assets whose recoveries are calculated by predetermined formulas, FDIC was unable to provide an analysis of historical data to support the recovery rates. In addition, FDIC did not consider the appraised value of the underlying collateral in calculating recoveries for these assets even though FDIC requires at least one current appraisal (less than 1 year old) for property pledged as collateral except when the collateral value is less than $25,000. Using book values, rather than available appraised values, as a basis for determining recoveries does not consider changes in recoveries that would occur due to changing economic conditions. 123

The use of inconsistent and unsupported methodologies in determining recovery estimates on failed institution assets is largely due to the lack of comprehensive procedures for estimating recoveries. Although FDIC's Credit Manual provides some illustrations on estimating asset recoveries, the guidance and examples provided are not comprehensive enough to consider the numerous liquidation strategies that account officers may use. For a given asset, the Credit Manual does not specifically instruct account officers to base the recovery estimate on the liquidation strategy being pursued. Further, the guidance available in the Credit Manual is often vague and subject to different interpretations by the various user groups.

The weaknesses in FDIC's internal controls over its asset recovery estimation process have resulted in a significant number of errors in asset recovery estimates. We found that for 714 failed institution assets we reviewed, FDIC's recovery estimates were misstated for 372 (52 percent). Because some errors understated recovery estimates while other errors overstated them, the net aggregate effect of these errors did not result in a material misstatement of

BIF's or FRF's financial statements as of December 31, 1993. However, these weaknesses could result in material misstatements if not corrected.

REPORTABLE CONDITIONS

Although FDIC made significant progress during 1993 in addressing the internal control weaknesses identified in our 1992 audits, certain internal control deficiencies still existed in the following areas during 1993 to the point that we consider them reportable conditions.

1. During 1993, FDIC acted to address the weaknesses we identified during our 1992 audits in its time and attendance reporting processes. This action included issuing improved time and attendance reporting procedures and related additional written guidance. However, our 1993 audits found that these required procedures and guidance were not always followed, resulting in deficiencies similar to some of those we identified during our 1992 audits. These deficiencies included continued lack of adherence to required procedures in preparing time and attendance reports, lack of separation of duties between timekeeping and data entry functions, and failure to reconcile payroll reports to timecards to verify that the data on the timecards were properly entered into the payroll system. While FDIC's issuance of revised time and attendance reporting procedures and guidance was a positive step, these revised procedures do not in themselves ensure that time and attendance reporting requirements are being followed. Effective implementation of the revised procedures and guidance should correct the weaknesses that continued to exist in 1993.

2. FDIC uses its computer systems extensively, both in its daily operations and in processing and reporting financial information. Therefore, general controls over the systems are critical to producing accurate and reliable financial statements. During our 1992 audits, we found that general controls[11] over FDIC's computerized information systems did

---

[11]General controls are the policies and procedures that apply to an entity's overall effectiveness and security of operations, and that create the environment in which application controls and certain user controls operate. General controls include the organizational structure, operating procedures, software security features, system development and change control, and physical safeguards designed to ensure that only authorized changes are made to

not adequately ensure that data files, computer programs, and computer hardware were protected from unauthorized access and modification. Our 1993 audits showed that this weakness continued through 1993. However, prior to completion of our fieldwork in May 1994, FDIC revised procedures to address the weakness in its computerized information systems security controls. Specifically, FDIC revised procedures to restrict access to sensitive financial and operating system programs and files. As a result, FDIC's general controls, as revised, should adequately preclude unauthorized access to or modification of data files and programs. Because these changes were recently implemented, this condition will require future monitoring to ensure that general controls remain adequate.

3. In our report on our 1992 audits, we reported that internal controls over contracted asset servicers were not being consistently implemented or were too limited to effectively assist FDIC in overseeing its contracted asset servicers. Although FDIC is addressing these weaknesses and has made significant progress, we found that some of these weaknesses continued during 1993. Specifically, we found that reconciling items related to the reconciliation of servicer pool balances were not cleared promptly for 22 percent of the serviced asset pools. We also found that reconciliations were not performed consistently for an additional 10 percent of the pool balances and, when performed, the reconciliations did not sufficiently document and account for all reconciling items. In addition, we found that FDIC performed only limited review procedures on the balances and activity reported by asset servicing entities, which are the source for recording transactions to FDIC's financial information system.

FDIC attributes the lack of consistent and timely reconciliations to insufficient staff. In addition, we believe the lack of sufficient verification of servicer balances and activity is attributable to inadequate coordination of oversight responsibilities between FDIC's Division of Finance and the Contractor Oversight and Monitoring Branch of its Division of Depositor and Asset Services. These weaknesses in reconciliation and

---

computer programs, that access to data is appropriately restricted, that back-up and recovery plans are adequate to ensure the continuity of essential operations, and that physical protection of facilities is provided.

verification procedures may adversely affect the reliability of the recorded asset balances and servicer accountability.

4. Because FDIC does not maintain subsidiary records for assets in serviced asset pools, it must rely on contracted servicers to establish adequate safeguarding and reporting controls over these serviced assets. In our reports on our 1992 audits, we noted that FDIC had not prepared a detailed reconciliation between asset balances in its financial information system and one of its contracted asset servicer's reported asset pool balance since the pool's inception in August 1991. While FDIC has acted to address this weakness, our work in 1993 found that weak internal controls at this servicing entity persisted. This prevented FDIC from having assurance that assets serviced by this entity were adequately safeguarded and that transactions associated with this serviced asset pool were properly reported to FDIC.

-- We found that the asset pool balance reported on FDIC's financial information system could not be verified to the servicer's general ledger or to its subsidiary records. This is because the servicer did not maintain a general ledger consistent with receivership accounting and because reconciling differences between the subsidiary records and amounts reported to FDIC had not been resolved.[12]

-- Because of the limitations in the servicer's accounting systems, the servicer manually prepares monthly reports to present activity associated with these serviced assets on a basis consistent with FDIC. These reports are the primary source documents FDIC uses to record transactions to its financial information system and to reconcile the asset balances. However, neither FDIC nor the servicer's internal audit department verify activity reflected in these reports.

-- We also found that controls over accountability and timely processing of this servicer's collections need improvement. Control totals should be established for receipts and the total of each day's processed receipts should be reconciled to these control totals. Also, receipts received before an entity's depository deadline should be deposited the same day. However, the servicer does not reconcile checks received each day to checks

[12]Under receivership accounting, collections on assets are applied among principal, interest, and other income so that the legal balance of the asset can be maintained.

processed and deposited, nor does the servicer promptly process all checks received on assets assigned for bulk sale.

Although the servicer was required to maintain a subsidiary record reflecting the legal balances of the serviced assets, its servicing agreement did not specifically require the servicer to maintain its general ledger system on a basis consistent with receivership accounting. Consequently, because the servicer's accounting systems were not maintained so as to reflect the legal balances of the serviced assets, the manually prepared activity reports became necessary in order for FDIC to appropriately apply collections between principal, interest, and other income. However, the accuracy of these reports was not verified by FDIC. We believe this is due to inadequate guidance and coordination of oversight responsibilities between FDIC's Division of Finance and its Contractor Oversight Monitoring Branch.

Because of these limitations in the servicer's accounting systems and the inadequate review of the manually prepared activity reports, significant adjustments were needed to both the activity reports and to FDIC's financial information system to appropriately apply collections each month from August 1991 through August 1993. In addition, large balances of unapplied collections as reported by the servicer have accumulated in FDIC's suspense account. Overall, these conditions have resulted in inaccurate balances on FDIC's financial information system and have prevented FDIC from ensuring that all account balances and activity reflected in its accounting system are complete and accurate. Also, the servicer's failure to reconcile checks received to checks deposited and the holding of checks increases the risk that checks may be lost, misplaced, or stolen, and that cash transactions may be unrecorded or incomplete. 127

In addition to the weaknesses we have discussed, 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.

FDIC'S COMPLIANCE WITH THE CHIEF FINANCIAL OFFICERS ACT

The Chief Financial Officers (CFO) Act requires that government corporations submit an annual statement on internal accounting and administrative controls, including management's assessment on the effectiveness of these controls, consistent with the requirements of the Federal

Managers' Financial Integrity Act. The CFO Act also requires that government corporations have their financial statements audited annually and that corporations submit an annual management report to the Congress.

Our annual audits of FDIC's financial statements satisfy the act's auditing requirement. Also, FDIC's 1992 report on internal accounting and administrative controls, issued in July 1993, contained the results of management's assessment of internal controls in place during 1992. FDIC's assessment identified several deficiencies in internal controls that it considered material.[13] The 1992 report contained specific plans to correct these weaknesses.

FDIC is finalizing its 1993 management report. Based on our review of a draft of this report, we anticipate that FDIC will fulfill the act's reporting requirement by submitting a management report to the Congress that contains the financial statements of the three funds administered by FDIC, the annual audit report, and a statement on internal accounting and administrative controls by the Acting Chairman of FDIC consistent with the requirements of the Federal Managers' Financial Integrity Act.

RECOMMENDATIONS

FDIC has not fully implemented all of the recommendations we made following our 1992 audits. Specifically, FDIC has not promptly and routinely reconciled asset balances reported by servicing entities with its general ledger control accounts, and has not ensured timely and adequate audit coverage of all critical areas of asset servicing operations through the use of asset servicing entities' internal audit departments and FDIC's personnel site visitations. Also, FDIC has not ensured that estimates of recoveries from the management and disposition of failed institution assets are determined utilizing consistent and sound methodologies. FDIC needs to

---

[13]FDIC considers a deficiency material if (1) it violates a statutory requirement, (2) it results in a conflict of interest, (3) it significantly impairs the fulfillment of FDIC's mission, (4) it significantly weakens safeguards against waste, loss, or unauthorized use or misappropriation of funds, property, or other assets, (5) it merits the attention of the Congress, or (6) omitting it from the statements of internal accounting and administrative controls could adversely reflect on the management integrity of FDIC.

continue pursuing corrective actions to fully satisfy these recommendations.

In addition, to address the weaknesses identified during 1993 regarding inconsistent and unsupported asset recovery estimation methodologies, we recommend that the Acting Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Depositor and Asset Services and the Division of Finance to:

-- Revise the Credit Manual to provide more detailed guidance on recovery estimation methods to be used, and ensure that this expanded guidance is strictly adhered to by both consolidated offices and contracted asset servicers' personnel. Specifically, the revised Credit Manual should require that (1) recoveries be estimated based on the type of asset and the liquidation strategy being pursued, (2) cash flows projected to be received beyond 1 year be discounted to their net present value, and (3) account officers adequately document the underlying assumptions they use to calculate the recovery estimates.

-- Analyze and document the basis for the formulas used to calculate recoveries for assets with book values less than \$250,000. In analyzing these formulas, FDIC should consider the use of appraised values to calculate recovery estimates for collateralized assets even if the asset's book value is under \$250,000.

To address the weaknesses identified during 1993 in the oversight of asset servicing entities, we recommend that the Acting Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Depositor and Assets Services and Division of Finance to verify and document the accuracy and completeness of the balances and activity reported to FDIC by contracted asset servicers back to the servicers' detail records.

To address the weaknesses identified during 1993 in the internal controls of one contracted servicer, we recommend that the Acting Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Depositor and Asset Services and the Division of Finance to

-- promptly reconcile servicer asset balances each month and resolve and document reconciling items within 30 days of the reconciliation date;

-- require the servicer to maintain a general ledger and subsidiary records consistent with receivership accounting, and require FDIC's oversight personnel to verify the accuracy of the activity and balances on these systems; and

-- require the servicer to reconcile checks received to checks deposited each day, and reconcile the final month-end balances in FDIC's unapplied collections account to the servicer's subsidiary records and clear these amounts within 30 days after month-end.

To address weaknesses identified in FDIC's time and attendance reporting process, we recommend that the Acting Chairman of the Federal Deposit Insurance Corporation direct FDIC's division and office heads to enforce the revised policies and procedures in FDIC's Time and Attendance Reporting Directive and related guidance to ensure that employee time charges are valid, payroll expenses are charged to the correct fund, and timekeeping and data input functions are separated.

CORPORATION COMMENTS AND OUR EVALUATION

130

In commenting on a draft of our report, FDIC agreed that improvements were needed in its process for estimating recoveries to be received on assets acquired from failed institutions. FDIC outlined major initiatives currently underway which are designed to correct the weaknesses identified in our 1993 audits. FDIC also outlined actions it is currently taking or plans to take to address the other reportable conditions identified in our 1993 audits. These actions, if implemented as intended, should adequately address the weaknesses discussed in our report. During the course of our audits of the 1994 financial statements of the three funds administered by FDIC, we will review the implementation of these corrective actions.

FDIC disagreed that the $410 million reduction in BIF's estimated liability for unresolved cases, which FDIC recognized in the first quarter of 1994, should have been recognized as of December 31, 1993. FDIC noted that financial information it received from financial institutions as of year-end 1993 was just one of a number of factors considered in its quarterly analysis of BIF's exposure to troubled institutions. FDIC noted that other factors used to determine that BIF's estimated liability for unresolved cases should be reduced incorporated information subsequent to

December 31, 1993, and therefore, it was appropriate to include the adjustment in BIF's March 1994 financial statements.

We agree that other factors beyond the financial condition of insured institutions as reported in their unaudited statements of condition and income should be considered in evaluating BIF's exposure to future institution failures. However, the primary accountable event which triggers the reduction of an estimated loss for a troubled institution is the point at which improvements in the institution's financial condition render the loss no longer probable, as defined under generally accepted accounting principles and embodied in FDIC policy.[14] Our review of these institutions' unaudited statements of condition and income as of December 31, 1993, showed from this information alone that an improvement in financial condition sufficient to necessitate a reduction in the estimated loss for these institutions had occurred prior to year-end 1993. The additional information considered in evaluating the likelihood of an institution's failure, such as input from field examiners, only reinforced this conclusion. In fact, in several cases, the examiners referred to specific events, such as capital infusions, which had occurred prior to year-end 1993, as the basis for their opinion that an estimated loss was no longer necessary. Therefore, we believe this $410 million reduction in BIF's estimated liability for unresolved cases should have been recognized on BIF's financial statements as of December 31, 1993.

Charles A. Bowsher
Comptroller General
of the United States

May 6, 1994

---

[14]Statement of Accounting Policy (CORP-17, April 6, 1994). Retroactive to December 31, 1993.

Statistical Tables

60 years of confidence

An FDIC employee verifies account balances to be paid after the September 1937 failure of Fort Greene National Bank, Brooklyn, New York.

Table A

Number and Deposits of BIF-Insured Banks Closed Because of Financial Difficulties, 1934 through 1993[1]
(Dollars in Thousands)

Year	Number of Insured Banks: Total	Without disbursements by FDIC	With disbursements by FDIC	Deposits of Insured Banks: Total	Without disbursements by FDIC	With disbursements by FDIC	Assets
Total	2,056	18	2,038	$210,666,515	$4,298,814	$206,367,701	$250,233,765
1993	41	...	41	3,132,177	...	3,132,177	3,539,373
1992	120	10	110	41,150,898	4,257,667	36,893,231	44,197,009
1991	124	...	124	53,751,763	...	53,751,763	63,119,870
1990	168	...	168	14,473,300	...	14,473,300	15,660,800
1989	206	...	206	24,090,551	...	24,090,551	29,168,596
1988	200	...	200	24,931,302	...	24,931,302	35,697,789
1987	184	...	184	6,281,500	...	6,281,500	6,850,700
1986	138	...	138	6,471,100	...	6,471,100	6,991,600
1985	120	...	120	8,059,441	...	8,059,441	8,741,268
1984	79	...	79	2,883,162	...	2,883,162	3,276,411
1983	48	...	48	5,441,608	...	5,441,608	7,026,923
1982	42	...	42	9,908,379	...	9,908,379	11,632,415
1981	10	...	10	3,826,022	...	3,826,022	4,859,060
1980	10	...	10	216,300	...	216,300	236,164
1979	10	...	10	110,696	...	110,696	132,988
1978	7	...	7	854,154	...	854,154	994,035
1977	6	...	6	205,208	...	205,208	232,612
1976	16	...	16	864,859	...	864,859	1,039,293
1975	13	...	13	339,574	...	339,574	419,950
1974	4	...	4	1,575,832	...	1,575,832	3,822,596
1973	6	...	6	971,296	...	971,296	1,309,675
1972	1	...	1	20,480	...	20,480	22,054
1971	6	...	6	132,058	...	132,058	196,520
1970	7	...	7	54,806	...	54,806	62,147
1969	9	...	9	40,134	...	40,134	43,572
1968	3	...	3	22,524	...	22,524	25,154
1967	4	...	4	10,878	...	10,878	11,993
1966	7	...	7	103,523	...	103,523	120,647
1965	5	...	5	43,861	...	43,861	58,750
1964	7	...	7	23,438	...	23,438	25,849
1963	2	...	2	23,444	...	23,444	26,179
1962	1	1	0	3,011	3,011	0	N/A
1961	5	...	5	8,936	...	8,936	9,820
1960	1	...	1	6,930	...	6,930	7,506
1959	3	...	3	2,593	...	2,593	2,858
1958	4	...	4	8,240	...	8,240	8,905
1957	2	1	1	11,247	10,084	1,163	1,253
1956	2	...	2	11,330	...	11,330	12,914
1955	5	...	5	11,953	...	11,953	11,985
1954	2	...	2	998	...	998	1,138
1953	4	2	2	44,711	26,449	18,262	18,811
1952	3	...	3	3,170	...	3,170	2,388
1951	2	...	2	3,408	...	3,408	3,050
1950	4	...	4	5,513	...	5,513	4,005
1949	5	1	4	6,665	1,190	5,475	4,886
1948	3	...	3	10,674	...	10,674	10,360
1947	5	...	5	7,040	...	7,040	6,798
1946	1	...	1	347	...	347	351
1945	1	...	1	5,695	...	5,695	6,392
1944	2	...	2	1,915	...	1,915	2,098
1943	5	...	5	12,525	...	12,525	14,058
1942	20	...	20	19,185	...	19,185	22,254
1941	15	...	15	29,717	...	29,717	34,804
1940	43	...	43	142,430	...	142,430	161,898
1939	60	...	60	157,772	...	157,772	181,514
1938	74	...	74	59,684	...	59,684	69,513
1937	77	2	75	33,677	328	33,349	40,370
1936	69	...	69	27,508	...	27,508	31,941
1935	26	1	25	13,405	85	13,320	17,242
1934	9	...	9	1,968	...	1,968	2,661

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

Table B
BIF-Insured Banks Closed During 1993
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disburse-ments	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/ Assuming Bank and Location
Insured Deposit Payoffs								
Capital Bank of California Los Angeles, CA	NM	14,000	$198,244	$181,515	$173,892	$25,700	06/18/93	Federal Deposit Insurance Corp.
City Thrift and Loan Association Los Angeles, CA	NM	817	41,568	37,061	36,849	5,100	07/09/93	Federal Deposit Insurance Corp.
Western United National Bank Los Angeles, CA	N	1,200	19,567	18,820	18,094	2,900	09/24/93	Federal Deposit Insurance Corp.
Brentwood Thrift and Loan Association Los Angeles, CA	NM	200	12,288	9,782	9,583	1,500	10/15/93	Federal Deposit Insurance Corp.
Century Thrift and Loan Los Angeles, CA	NM	557	35,088	23,994	23,915	7,600	11/05/93	Federal Deposit Insurance Corp.
Purchase and Assumption - Insured Deposits Only								
Columbia National Bank Santa Monica, CA	N	1,500	45,878	44,984	42,727	12,383	01/22/93	Western Bank Los Angeles, CA
First National Bank of Vermont Bradford, VT	N	36,800	236,003	196,655	45,737	49,672	01/29/93	New First National Bank of Vermont Bradford, VT (bridge bank)
American Bank of Haltom City Haltom City, TX	NM	18,400	94,582	93,843	24,671	11,949	02/05/93	Central Bank & Trust Fort Worth, TX
The Planters National Bank of Rosebud Rosebud, TX	N	2,200	12,994	12,595	5,199	1,452	02/25/93	First National Bank in Cameron Cameron, TX
Jefferson National Bank Watertown, NY	N	32,500	228,292	213,131	171,348	73,434	02/26/93	Fleet Bank of New York Albany, NY
First American Capital Bank, N.A. Laguna Beach, CA	N	2,100	29,228	24,855	18,858	7,020	03/04/93	Orange National Bank Orange, CA
United Bank, N.A. Lancaster, TX	N	9,100	46,870	44,357	147	540	03/18/93	Kilgore First National Bank Kilgore, TX
First State Bank Vega, TX	NM	2,600	17,188	16,257	5,309	2,100	04/01/93	Citizens State Bank of Dalhart Dalhart, TX
Olympic National Bank[2] Los Angeles, CA	N	5,200	84,101	79,532	54,002	12,300	04/02/93	Western Bank Los Angeles, CA
College Boulevard National Bank Overland Park, KS	N	7,400	193,621	178,319	146,798	43,000	04/02/93	First National Bank of Kansas Overland Park, KS
Midland Bank of Kansas Mission, KS	NM	6,900	106,479	99,568	88,949	30,300	04/02/93	Bank IV Kansas, N.A. Wichita, KS
Premier Bank Northridge, CA	NM	4,700	50,860	46,737	42,291	14,000	04/08/93	Trans-World Bank Sherman Oaks, CA
First Western Bank, N.A. San Diego, CA	N	1,400	14,235	13,822	11,885	2,600	04/15/93	Peninsula Bank of San Diego San Diego, CA
Valley National Bank of Fremont County Hamburg, IA	N	2,200	7,037	6,773	1,066	35	04/29/93	The Decatur County State Bank Leon, IA
American Commerce National Bank Anaheim, CA	N	6,300	137,828	117,869	103,366	24,000	04/30/93	Southern California Bank Downey, CA
Wilshire Center Bank, N.A. Los Angeles, CA	N	870	8,752	8,125	8,202	2,700	05/06/93	California Center Bank Los Angeles, CA
Crown National Bank Charlotte, NC	N	1,500	22,262	19,332	15,840	4,000	05/07/93	Lincoln Bank of North Carolina Lincolnton, NC
Palos Verdes National Bank Rolling Hills Estates, CA	N	2,900	50,340	49,625	27,460	6,000	05/20/93	Peninsula Bank, N.A. Palos Verdes, CA
New England Savings Bank New London, CT	SB	92,000	934,853	696,393	189,901	82,000	05/21/93	Citizens Savings Bank Providence, RI
Eagle Bank of Champaign County, N.A. Rantoul, IL	N	2,500	16,975	16,492	4	300	07/01/93	Busey Bank Urbana, IL

Table B

BIF-Insured Banks Closed During 1993 (Continued)
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disburse-ments	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/ Assuming Bank and Location
Emerald City Bank Seattle, WA	NM	1,000	$6,230	$5,496	$198	$300	07/02/93	Key Bank of Washington Tacoma, WA
Jefferson Bank & Trust Lakewood, CO	SM	16,000	75,766	111,994	44,206	35,400	07/02/93	FirstBank of Westland, N.A. Lakewood, CO
First California Bank La Mesa, CA	NM	4,400	79,213	73,821	21,221	11,200	07/09/93	Valle De Oro Bank, N.A. Spring Valley, CA
Fidelity National Bank Houston, TX	N	4,800	41,611	39,162	29,329	11,400	07/22/93	Comerica Bank - Texas Dallas, TX
The Wolfe City National Bank Wolfe City, TX	N	5,000	33,181	31,186	4,502	3,100	07/29/93	Sulphur Springs State Bank Sulphur Springs, TX
Tarrant Bank Fort Worth, TX	NM	10,700	60,470	55,164	36,002	10,100	08/25/93	First Interstate Bank of Texas, N.A. Houston, TX
Maritime Bank of California Los Angeles, CA	NM	1,200	33,248	29,701	20,273	4,400	08/27/93	Western Bank Los Angeles, CA, and Bay Cities National Bank Redondo Beach, CA
Regent Thrift and Loan Association San Francisco, CA	NM	430	7,077	6,413	1,887	200	09/17/93	Metropolitan Bank Oakland, CA
Plaza Bank, N.A. of New Braunfels New Braunfels, TX	N	6,600	51,545	53,747	17,651	7,400	10/14/93	Texas Commerce Bank - New Braunfels, N.A. New Braunfels, TX
The Bank of San Diego San Diego, CA	NM	19,000	295,170	276,196	199,780	39,400	10/29/93	Grossmont Bank La Mesa, CA, and Harbor Bank Long Beach, CA
Purchase and Assumption - All Deposits								
BancCentral Amarillo Amarillo, TX	NM	4,900	33,011	31,981	14,657	1,600	06/10/93	Amarillo National Bank Amarillo, TX
American Bank and Trust San Jose, CA	NM	2,000	34,446	32,662	22,520	3,700	06/18/93	Bank of Santa Clara Santa Clara, CA
City National Bank of Washington Washington, DC	N	1,050	22,868	20,460	15,200	100	06/25/93	Crestar Bank, N.A. Washington, DC
Westheimer National Bank Houston, TX	N	2,300	17,989	19,075	8,254	2,700	07/01/93	NationsBank of Texas, N.A. Dallas, TX
New Atlantic Bank, N.A. Norfolk, VA	N	2,300	15,215	14,674	6,700	1,100	08/12/93	Bank of Hampton Roads Chesapeake, VA
Mid City Bank, N.A. Brea, CA	N	2,400	87,200	80,010	47,114	11,400	10/21/93	Chino Valley Bank Ontario, CA
Bridge Banks [3]								
New First City, Texas - Alice, N.A. Alice, TX	N	12,300	119,085	103,601	10	0	02/13/93	Alice Bank of Texas Alice, TX
New First City, Texas - Aransas Pass, N.A. Aransas Pass, TX	N	6,100	51,252	41,731	10	0	02/13/93	Corpus Christi National Bank Corpus Christi, TX
New First City, Texas - Austin, N.A. Austin, TX	N	40,000	304,464	253,729	32	0	02/13/93	Frost National Bank of San Antonio San Antonio, TX
New First City, Texas - Beaumont, N.A. Beaumont, TX	N	57,100	502,662	415,685	0	0	02/24/93	Texas Commerce Bancshares, Inc. Houston, TX
New First City, Texas - Bryan, N.A. Bryan, TX	N	35,400	321,277	281,268	44	0	02/28/93	Victoria Bank and Trust Victoria, TX
New First City, Texas - Corpus Christi, N.A. Corpus Christi, TX	N	47,900	415,817	329,058	58	0	02/14/93	Mercantile Bank Brownsville, TX
New First City, Texas - Dallas, N.A. Dallas, TX	N	184,500	1,289,749	1,102,414	2	0	02/13/93	Texas Commerce Bancshares, Inc. Houston, TX

Table B

BIF-Insured Banks Closed During 1993 (Continued)
(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disburse-ments	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/ Assuming Bank and Location
New First City, Texas - El Paso, N.A. El Paso, TX	N	40,700	$356,208	$309,741	$10	$0	03/06/93	Southwest Bank El Paso, TX
New First City, Texas - Graham, N.A. Graham, TX	N	10,600	88,412	73,495	25	0	02/13/93	First National Bank of Olney Olney, TX
New First City, Texas - Houston, N.A. Houston, TX	N	271,000	4,185,419	2,045,193	0	0	02/13/93	Texas Commerce Bancshares, Inc. Houston, TX
New First City, Texas - Kountze, N.A. Kountze, TX	N	14,300	47,876	41,395	0	0	02/28/93	Citizens Bank of Kilgore Kilgore, TX
New First City, Texas - Lake Jackson, N.A. Lake Jackson, TX	N	10,400	88,244	78,045	10	0	02/13/93	First Heights Bank, FSB Houston, TX
New First City, Texas - Lufkin, N.A. Lufkin, TX	N	16,200	147,076	130,571	0	0	02/13/93	First Commercial Corporation Little Rock, AR
New First City, Texas - Madisonville, N.A. Madisonville, TX	N	10,700	114,257	92,848	0	0	02/28/93	FBOP Corporation Oak Park, IL
New First City, Texas - Midland, N.A. Midland, TX	N	27,300	305,600	264,592	25	0	02/13/93	Texas Commerce Bancshares, Inc. Houston, TX
New First City, Texas - Orange, N.A. Orange, TX	N	16,500	125,441	105,406	0	0	02/13/93	First Heights Bank, FSB Houston, TX
New First City, Texas - San Angelo, N.A. San Angelo, TX	N	12,700	131,890	112,875	10	0	02/13/93	First National Bank at Lubbock Lubbock, TX
New First City, Texas - San Antonio, N.A. San Antonio, TX	N	31,800	235,391	189,856	0	0	02/13/93	Frost National Bank of San Antonio San Antonio, TX
New First City, Texas - Sour Lake, N.A. Sour Lake, TX	N	5,300	51,498	41,197	0	0	02/28/93	Citizens Bank of Kilgore Kilgore, TX
New First City, Texas - Tyler, N.A. Tyler, TX	N	23,700	235,371	203,528	0	0	02/13/93	First Commercial Corporation Little Rock, AR
Missouri Bridge Bank, N.A. Kansas City, MO	N	111,000	1,700,000	1,613,900	290,000	489,580	04/23/93	Boatmen's First National Bank of Kansas City Kansas City, MO
New First National Bank of Vermont Bradford, VT	N	36,800	236,003	196,655	45,737	49,672 580,452	06/04/93	Merchants Bank Burlington, VT
Conservatorships								
CrossLand Federal Savings Bank[4] Brooklyn, NY	SB	350,000	5,300,000	4,700,000	1,200,050	803,481	08/12/93	Institutional investors

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

1 Estimated losses are as of 12/31/93. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect 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 total estimated loss for this institution is $16 million with an estimated 77.0 percent or $12.3 million attributable to the Bank Insurance Fund and 23.0 percent or $3.7 million attributable to the Savings Association Insurance Fund.

3 Bridge banks are full-service national banks established on an interim basis to assume the deposits, certain liabilities and substantially all of the assets of the failed banks. The Missouri Bridge Bank, N.A., was established with the closing of Metro North State Bank, Kansas City, MO, on November 13, 1992, and The Merchants Bank, Kansas City, MO, on November 20, 1992.

4 CrossLand Federal Savings Bank was established with the January 24, 1992, closing of CrossLand Savings, FSB, Brooklyn, NY, and was subsequently sold to institutional investors in a registered public offering.

Table C

Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 1993

(Dollars in Thousands)

ALL CASES[1]					
Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	2,108	$102,051,021	$56,715,153	$7,645,073	$37,690,795
1993	41	1,755,587	798,252	390,251	567,084
1992	122	12,833,469	5,823,014	2,315,704	4,694,751
1991	127	20,502,584	12,850,480	912,711	6,739,393
1990	169	10,796,130	7,425,229	514,977	2,855,924
1989	207	11,422,319	4,521,631	627,879	6,272,809
1988	221	12,176,825	4,245,491	1,210,594	6,720,740
1987	203	5,029,941	2,916,707	105,898	2,007,336
1986	145	4,712,970	2,955,223	35,990	1,721,757
1985	120	2,916,218	1,673,897	143,769	1,098,552
1984	80	7,696,165	5,503,651	695,077	1,497,437
1983	48	3,759,137	2,235,404	105,140	1,418,593
1982	42	2,275,149	829,794	297,013	1,148,342
1981	10	888,999	69,326	43,518	776,155
1980	11	152,355	114,760	7,010	30,585
1979	10	90,489	74,372	5,250	10,867
1978	7	548,568	512,927	26,626	9,015
1977	6	26,650	20,654	3,903	2,093
1976	17	599,397	561,532	37,618	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	603	$14,438,462	$8,125,635	$1,868,170	$4,444,657
1993	5	262,333	194,269	25,264	42,800
1992	25	1,777,691	891,431	399,351	486,909
1991	21	1,467,039	578,860	393,940	494,239
1990	20	2,178,955	1,017,924	442,719	718,312
1989	32	2,115,948	848,390	429,019	838,539
1988	36	1,252,142	778,386	47,602	426,154
1987	51	2,103,571	1,330,470	81,679	691,422
1986	40	1,155,978	726,278	13,695	416,005
1985	29	523,789	405,503	5,288	112,998
1984	16	791,817	669,241	27,813	94,763
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	1,425	$76,803,822	$43,878,564	$4,788,577	$28,136,681
1993	36	1,493,254	603,983	364,987	524,284
1992	95	11,055,397	4,931,583	1,916,932	4,206,882
1991	103	19,034,016	12,271,589	520,940	6,241,487
1990	148	8,614,876	6,407,238	72,458	2,135,180
1989	174	9,303,993	3,673,181	198,860	5,431,952
1988	164	9,175,894	3,312,886	1,123,504	4,739,504
1987	133	2,765,493	1,585,524	24,219	1,155,750
1986	98	3,398,144	2,167,513	22,295	1,208,336
1985	87	1,630,033	987,180	109,198	533,655
1984	62	1,373,169	939,414	11,544	422,211
1983	36	3,525,432	2,094,713	100,998	1,329,721
1982	26	418,321	325,165	34,248	58,908
1981	5	79,208	33,463	43,518	2,227
1980	7	138,623	103,245	7,010	28,368
1979	7	80,553	65,369	5,250	9,934
1978	6	547,751	512,314	26,626	8,811
1977	6	26,650	20,654	3,903	2,093
1976	13	587,981	551,872	35,935	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	$10,808,737	$4,710,954	$988,326	$5,109,457
1993	0	0	0	0	0
1992	2	381	0	(579)	960
1991	3	1,529	31	(2,169)	3,667
1990	1	2,299	67	(200)	2,432
1989	1	2,378	60	0	2,318
1988	21	1,748,789	154,219	39,488	1,555,082
1987	19	160,877	713	0	160,164
1986	7	158,848	61,432	0	97,416
1985	4	762,396	281,214	29,283	451,899
1984	2	5,531,179	3,894,996	655,720	980,463
1983	3	86,418	18,207	4,142	64,069
1982	9	1,579,588	298,750	262,641	1,018,197
1981	3	774,055	1,265	0	772,790
1980	1	N/A	N/A	N/A	N/A
1979	0	0	0	0	0
1978	0	0	0	0	0
1977	0	0	0	0	0
1976	1	N/A	N/A	N/A	N/A
1975	0	0	0	0	0
1974	1	N/A	N/A	N/A	N/A
1973	0	0	0	0	0
1972	1	N/A	N/A	N/A	N/A
1934-71[3]	1	N/A	N/A	N/A	N/A

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

[2] Includes insured deposit transfer cases.

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

Table D

Income and Expenses, Bank Insurance Fund, by Year, from Beginning of Operations, September 11, 1933, through December 31, 1993
(Dollars in Millions)

	Income					Expenses and Losses			
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Deposit Insurance Losses and Expenses	Administrative and Operating Expenses	Net Income/ (Loss)
Total	$62,161.5	$44,517.8	$6,709.1	$24,352.8		$49,039.9	$44,691.5	$4,348.4	$13,121.6
1993	6,430.8	5,784.3	0.0	646.5	0.2440%	(6,791.4)	(7,179.9)	388.5	13,222.2
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(1,196.6)	570.8	6,927.3
1991	5,789.9	5,160.5	0.0	629.4	0.2125%	16,862.3	16,578.2	284.1	(11,072.4)
1990	3,838.3	2,855.3	0.0	983.0	0.1200%	13,003.3	12,783.7	219.6	(9,165.0)
1989	3,494.6	1,885.0	0.0	1,609.6	0.0833%	4,346.2	4,132.3	213.9	(851.6)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	7,364.5	223.9	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	3,066.0	204.9	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,783.4	180.3	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,778.7	179.2	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,848.0	151.2	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	834.2	135.7	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	869.9	129.9	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	720.9	127.2	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(34.6)	118.2	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(13.1)	106.8	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	45.6	103.3	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	24.3	89.3	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	31.9	180.4	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	29.8	67.7	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	100.0	59.2	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	53.8	54.4	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	102.5
1955	105.7	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 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed. The effective rate in 1993 is based on the new risk-related premium system where institutions pay assessments in the range of 0.23 percent to 0.31 percent.

Table E

Insured Deposits and the Bank Insurance Fund, December 31, 1934 through 1993

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

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

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

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

Table DD

Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations, August 9, 1989, through December 31, 1993

(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	$1,216,802	$1,181,496	$67	$35,239	$22,304	$21,700	$604	$147,984	$139,498	$1,159,796
1993	923,516	897,692	48	25,776	16,531	16,531	0	30,283	0	881,161
1992	178,643	172,079	9	6,555	(14,950)	(14,945)	(5)	43,932	35,446	187,024
1991	96,446	93,530	8	2,908	20,723	20,114	609	42,362	42,362	73,416
1990	18,195	18,195	0	0	0	0	0	56,088	56,088	18,195
1989	2	0	2	0	0	0	0	5,602	5,602	0

Table EE

Insured Deposits and the Savings Association Insurance Fund, December 31, 1989 through 1993

		(Dollars in Millions)				Insurance Fund as a Percentage of	
		Deposits in Insured Institutions					
Year[1]	Insurance Coverage	Total	Insured[2]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Deposits	Insured Deposits
1993	$100,000	$726,473	$695,574	95.7	$1,156.7	0.16	0.17
1992	100,000	760,902	729,458	95.9	279.0	0.04	0.04
1991	100,000	810,664	776,351	95.8	93.9	0.01	0.01
1990	100,000	874,738	830,028	94.9	18.2	0.00	0.00
1989	100,000	948,144	882,920	93.1	0.0	0.00	0.00

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

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

Note:

On October 9, 1993, Heartland Federal Savings and Loan Association, Ponca City, Oklahoma, was closed. Heartland was a SAIF-insured institution that had previously received assistance from the Federal Savings and Loan Insurance Corporation on August 31, 1988. Therefore, all expenses and losses associated with the assistance and final resolution of Heartland are recorded on the books of the FSLIC Resolution Fund (FRF) and do not affect the SAIF. Heartland Savings and Loan Association had $886 million total assets and $695 million total deposits. As of December 31, 1993, the estimated loss to the FRF was $6.5 million. Deposits were acquired by three separate institutions: Commercial Federal Bank, FSB, Omaha, NE; Bank of Oklahoma, N.A., Tulsa, OK; and First National Bank & Trust Company, Ponca City, OK.

60 years
of confidence

The 1993 FDIC Annual Report
is published by:

The Office of
Corporate Communications

Alan J. Whitney
Director

Caryl A. Austrian
Deputy Director

Jay Rosenstein
Senior Writer-Editor

David Barr
Associate Editor

Frank Gresock
Andrew Porterfield
Assistant Editors

Design, Production
and Printing:

The Office of
Corporate Services

Geoffrey L. Wade
Coordinator

Sam Collicchio
Art Director/Designer

Deidre Howard
Deborah Samek
Production Team

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429-9990

P-1400-103-93