FSLIC Resolution Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1998	December 31, 1997
Assets		
Cash and cash equivalents	$ 4,631,379	$ 2,107,171
Receivables from thrift resolutions, net (Note 3)	1,388,579	2,570,486
Securitization funds held by trustee, net (Note 4)	2,796,646	4,890,568
Investment in securitization residual certificates (Note 5)	1,538,339	
Assets acquired from assisted thrifts and terminated receiverships, net (Note 6)	64,101	73,051
Other assets, net (Note 7)	40,721	7,391
Total Assets	**$ 10,459,765**	**$ 9,648,667**
Liabilities		
Accounts payable and other liabilities	$ 40,396	$ 164,401
Notes payable - Federal Financing Bank borrowings (Note 8)	0	849,294
Liabilities from thrift resolutions (Note 9)	74,336	105,168
Estimated Liabilities for: (Note 10)		
Assistance agreements	4,852	6,328
Litigation losses	18,340	2,634
Total Liabilities	**137,924**	**1,127,825**
Commitments and concentration of credit risks (Note 15)		
Resolution Equity (Note 12)		
Contributed capital	135,490,741	135,493,762
Accumulated deficit	(125,243,229)	(126,972,920)
Unrealized gain on available-for-sale securities, net (Note 5)	74,329	
Accumulated deficit, net	(125,168,900)	(126,972,920)
Total Resolution Equity	**10,321,841**	**8,520,842**
Total Liabilities and Resolution Equity	**$ 10,459,765**	**$ 9,648,667**

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

FSLIC Resolution Fund Statements of Income and Accumulated Deficit

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997
Revenue		
Interest on securitization funds held by trustee	$ 262,962	$ 299,854
Interest on U.S. Treasury obligations	109,045	86,959
Interest on advances and subrogated claims	212,645	(28,348)
Gain on conversion of benefit plan (Note 14)	39,297	0
Revenue from assets acquired from assisted thrifts and terminated receiverships	40,124	74,286
Limited partnership equity interests and other revenue	31,593	22,600
Total Revenue	**695,666**	**455,351**
Expenses and Losses		
Operating expenses	56,336	16,732
Provision for losses (Note 11)	(1,290,752)	(1,741,639)
Expenses for goodwill settlements and litigation	154,492	33,833
Interest expense on FFB debt and other notes payable	22,413	130,435
Expenses for assets acquired from assisted thrifts and terminated receiverships	19,652	65,175
Other expenses	3,834	4,412
Total Expenses and Losses	**(1,034,025)**	**(1,491,052)**
Net Income	**1,729,691**	**1,946,403**
Unrealized gain on available-for-sale securities, net (Note 5)	74,329	0
Comprehensive Income	**1,804,020**	**1,946,403**
Accumulated Deficit - Beginning	**(126,972,920)**	**(128,919,323)**
Accumulated Deficit - Ending	**$ (125,168,900)**	**$ (126,972,920)**

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

FSLIC Resolution Fund Statements of Cash Flows

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997
Cash Flows From Operating Activities		
Cash provided from:		
Interest on U.S. Treasury obligations	$ 109,045	$ 86,966
Recoveries from thrift resolutions	890,566	3,791,256
Recoveries from securitization funds held by trustee	2,390,945	1,078,815
Recoveries from limited partnership equity interests	188,801	121,369
Recoveries from assets acquired from assisted thrifts and terminated receiverships	48,580	483,524
Miscellaneous receipts	1,383	13,962
Cash used for:		
Operating expenses	(78,526)	(41,268)
Interest paid on notes payable	(29,997)	(173,981)
Disbursements for thrift resolutions	(177,365)	(390,632)
Disbursements for goodwill settlements and litigation expenses	(154,492)	(26,610)
Disbursements for assets acquired from assisted thrifts and terminated receiverships	(26,952)	(176,933)
Miscellaneous disbursements	(220)	(4,913)
Net Cash Provided by Operating Activities (Note 17)	**3,161,768**	**4,761,555**
Cash Flows From Investing Activities		
Cash provided from:		
Redemption of Securitization Residual Certificates, available-for-sale	260,856	
Cash used for:		
Purchase of Residual Certificates, available-for-sale	(25,425)	
Net Cash Provided from Investing Activities	**235,431**	
Cash Flows From Financing Activities		
Cash used for:		
Return of U.S. Treasury payments	(3,020)	(8,053)
Repayments of Federal Financing Bank borrowings	(838,412)	(3,718,692)
Repayments of indebtedness from thrift resolutions	(31,559)	(31,560)
Net Cash Used by Financing Activities	**(872,991)**	**(3,758,305)**
Net Increase in Cash and Cash Equivalents	**2,524,208**	**1,003,250**
Cash and Cash Equivalents - Beginning	**2,107,171**	**1,103,921**
Cash and Cash Equivalents - Ending	**$ 4,631,379**	**$ 2,107,171**

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

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History

The U.S. Congress created the Federal Savings and Loan Insurance Corporation (FSLIC) through the enactment of the National Housing Act of 1934. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF (except those assets and liabilities transferred to the Resolution Trust Corporation (RTC)), effective on August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

The FIRREA was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. In addition to the FRF, FIRREA created the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these funds. All three funds are maintained separately to carry out their respective mandates.

The FIRREA also created the RTC to manage and resolve 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 FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions. Additionally, funds were appropriated for RTC resolutions pursuant to FIRREA, the RTC Funding Act of 1991, the RTC Refinancing, Restructuring and Improvement Act of 1991, and the RTC Completion Act.

The RTC's resolution responsibility was extended through subsequent legislation from the original termination date of August 8, 1992. Resolution responsibility transferred from the RTC to the SAIF on July 1, 1995.

The RTC Completion Act of 1993 (RTC Completion Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC on August 9, 1989 (FRF-FSLIC), and the other composed of the RTC assets and liabilities transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

The RTC Completion Act requires the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by the RTC. The RTC Completion Act made available approximately $18 billion worth of additional funding. The RTC actually drew down $4.556 billion.

The FDIC must transfer to the REFCORP the net proceeds from the FRF's sale of RTC assets, after providing for all outstanding RTC liabilities. Any such funds transferred to the REFCORP pay the interest on the REFCORP bonds issued to fund the early RTC resolutions. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds (see Note 12).

Operations of the FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the U.S. Treasury to repay RTC Completion Act appropriations and to the REFCORP to pay the interest on the REFCORP bonds.

The FRF has been primarily funded from the following sources: 1) U.S. Treasury appropriations; 2) amounts borrowed by the RTC from the Federal Financing Bank (FFB); 3) amounts recorded from the issuance of capital certificates to REFCORP; 4) funds received from the management and disposition of assets of the FRF; 5) the FRF's portion of liquidating dividends paid by FRF receiverships; and 6) interest earned on Special U.S. Treasury Certificates purchased with proceeds of 4) and 5). 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 Congress, to carry out the objectives of the FRF.

Public Law 103-327 provides $827 million in funding to be available until expended to facilitate efforts to wind up the resolution activity of the FRF. The FRF received $165 million under this appropriation on November 2, 1995. In addition, Public Law 104-208 and Public Law 105-61 authorized the use by the Department of Justice (DOJ) of $26.1 million and $33.7 million, respectively, from the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million. The funding made available to DOJ covers the reimbursement of reasonable expenses of litigation incurred in the defense of claims against the U.S. arising from the goodwill litigation cases.

Additional goodwill litigation expenses incurred by DOJ will be paid directly from the FRF-FSLIC based on a Memorandum of Understanding (MOU) dated October 2, 1998, between FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid $51.2 million to DOJ during 1998. Separate funding for goodwill judgements and settlements is available through Public Law 105-277 (see Note 10).

The VA, HUD and Independent Agencies Appropriations Acts of 1999 and 1998 appropriated $34.7 million for fiscal year 1999 (October 1, 1998, through September 30, 1999) and $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998), respectively, for operating expenses incurred by the Office of Inspector General (OIG). These Acts mandate that the funds are to be derived from the FRF, the BIF, and 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 (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the FDIC acts as receiver or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

Use of Estimates

FDIC management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents primarily consist of Special U.S. Treasury Certificates.

Investment in Securitization Residual Certificates

The Investment in Securitization Residual Certificates is recorded pursuant to the provisions of the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. The Investment in Securitization Residual Certificates is classified as available-for-sale and is shown at fair value with unrealized gains and losses included in Resolution Equity. Realized gains are included in the "Limited partnership equity interests and other revenue" line item with realized losses included in the "Provision for losses" line item when applicable. The FRF does not have any securities classified as held-to-maturity or trading.

Allowance for Losses on Receivables From Thrift Resolutions and Assets Acquired From Assisted Thrifts and Terminated Receiverships

The FRF records a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. The FRF also records as an asset the amounts paid for assets acquired from assisted thrifts and terminated receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Receivership Operations

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

Cost Allocations Among Funds

Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC. Workload-based-allocation percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Postretirement Benefits Other Than Pensions

The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the FRF, the BIF, and the SAIF. Each fund pays its liabilities for these benefits directly to the entity. The FRF's unfunded net postretirement benefits liability for the plan is presented in FRF's Statements of Financial Position.

Disclosure About Recent Financial Accounting Standard Pronouncements

In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the FRF's disclosures for postretirement benefits have been made, the impact is not material.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." The FDIC adopted SFAS No. 130 effective on January 1, 1997. Comprehensive income includes net income as well as certain types of unrealized gain or loss. The only component of SFAS No. 130 that impacts the FRF is unrealized gain or loss on the securitization residual certificates that are classified as available-for-sale, which is presented in the FRF's Statements of Financial Position and the Statements of Income and Accumulated Deficit.

Other recent pronouncements are not applicable to the financial statements.

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. Final judgement on the remaining litigation was made on December 16, 1998. However, a final liquidating dividend to the FRF was still pending at year-end. This liquidating dividend will be disbursed during 1999. The investment in the FADA is accounted for using the equity method and is included in the "Other assets, net" line item (see Note 7).

Related Parties

National Judgments, Deficiencies, and Charge-offs Joint Venture Program. The former RTC purchased assets from receiverships, conservatorships, and their subsidiaries to facilitate the sale and/or transfer of selected assets to several joint ventures in which the former RTC retained a financial interest. These assets are presented in "Assets acquired from assisted thrifts and terminated receiverships, net" line item in the FRF's Statements of Financial Position.

Limited Partnership Equity Interests. Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs that included the National Land Fund, Multiple Investor Fund, N-Series, and S-Series programs. Over the past two years, the majority of the limited partnership equity interests were transferred from the receiverships to the FRF. These assets are included in the "Receivables from thrift resolutions, net" line item in the FRF's Statements of Financial Position.

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

Reclassifications

Reclassifications have been made in the 1997 financial statements to conform to the presentation used in 1998.

3. Receivables From Thrift Resolutions, Net

The thrift resolution process took different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure were made to operating institutions when cost and other criteria were met. These payments resulted in acquiring "Assets from open thrift assistance," which are various types of financial instruments from the assisted institutions.

As of December 31, 1998 and 1997, the FDIC, in its receivership capacity for the former FSLIC and SAIF insured institutions, held assets with a book value of $2.6 billion and $3.6 billion, respectively (including cash and miscellaneous receivables of $1.7 billion and $1.4 billion at December 31, 1998 and 1997, respectively). These assets represent a significant source of repayment of the FRF's receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could cause the FRF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net

Dollars in Thousands

	December 31, 1998	December 31, 1997
Assets from open thrift assistance	$ 529,123	$ 804,217
Allowance for losses	(386,935)	(446,064)
Net Assets From Open Thrift Assistance	**142,188**	**358,153**
Receivables from closed thrifts	72,727,268	76,680,026
Allowance for losses	(71,480,877)	(74,467,693)
Net Receivables From Closed Thrifts	**1,246,391**	**2,212,333**
Total	**$ 1,388,579**	**$ 2,570,486**

Representations and Warranties

The FRF estimated corporate losses related to the receiverships' representations and warranties as part of the FRF's allowance for loss valuation. The allowance for these losses was $81 million and $90 million as of December 31, 1998 and 1997, respectively. There are additional amounts of representation and warranty claims that are considered reasonably possible. As of December 31, 1998, the amount is estimated at $330 million. The RTC provided guarantees, representations, and warranties on approximately $115 billion in unpaid principal balance of loans sold and approximately $141 billion in unpaid principal balance of loans under servicing right contracts that had been sold. In general, the guarantees, representations and warranties on loans sold related to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The representations and warranties made in connection with the sale of servicing rights were limited to the responsibilities of acting as a servicer of the loans. Future losses on representations and warranties could significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as 20 years.

The estimated liability for representations and warranties associated with loan sales that involved assets acquired from assisted thrifts and terminated receiverships are included in "Accounts payable and other liabilities" ($5 million and $18 million for 1998 and 1997, respectively).

4. Securitization Funds Held by Trustee, Net

In order to maximize the return from the sale or disposition of assets, the RTC engaged in numerous securitization transactions. The RTC sold $42.4 billion of receivership, conservatorship, and corporate loans to various trusts that issued regular pass-through certificates through its mortgage-backed securities program. A portion of the proceeds from the sale of the certificates was placed in credit enhancement escrow accounts (escrow accounts) to cover future credit losses with respect to the loans underlying the certificates. In addition, the escrow accounts were established to increase the likelihood of full and timely distributions of interest and principal to the certificate holders and thus increase the marketability of the certificates. FRF's exposure from credit losses on loans sold through the program is limited to the balance of the escrow accounts. The escrow account balance is reduced for claims paid and when the trustee releases the funds at the termination of a securitization deal. Funds are also released if the trustee deems the escrow account balance to be excessive.

Through December 1998, the amount of claims paid was approximately 19 percent of the initial escrow accounts. At December 31, 1998 and 1997, escrow accounts totaled $2.9 billion and $5.2 billion, respectively. At December 31, 1998 and 1997, the allowance for estimated future losses which would be paid from the escrow accounts totaled $0.1 billion and $0.3 billion, respectively.

The FRF earned interest income from the securitization funds held by trustee of $263 million during 1998 and $300 million during 1997.

5. Investment in Securitization Residual Certificates

As part of the securitization transactions described in Note 4, receivership and conservatorship loans were sold to various trusts. In return, the receiverships received a participation in the residual pass-through certificates (residual certificates) issued through its mortgage-backed securities program. The residual certificates entitle the holder to any cash flow from the sale of collateral remaining in the trust after the regular pass-through certificates and actual termination expenses are paid.

In October 1998, the residual certificates were transferred from the receiverships to the FRF. The $1.8 billion transferred to the FRF was offset by amounts owed by the receiverships to the FRF. The residual certificates were adjusted to fair market value for this transaction and as a result, FRF's provision for losses decreased by $0.5 billion and FRF's resolution equity increased by $0.5 billion.

Realized gains and losses are recorded based on the difference between the proceeds at termination and the cost of the original investment. In 1998, the FDIC received $241.3 million in proceeds from deals terminated by December 31, 1998. Additionally, at termination, $48.8 million was deposited into the securitization funds held by trustee. The realized gains are included in "Limited partnership equity interests and other revenue" line item and the realized losses are included in the "Provision for losses" line item. At December 31, 1998, realized gains were $2.7 million and realized losses were $47.1 million.

Investment in Securitization Residual Certificates at December 31, 1998

Dollars in Millions

Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
$ 1,464	$ 81	$ 7	$ 1,538

6. Assets Acquired From Assisted Thrifts and Terminated Receiverships, Net

The FRF's assets acquired from assisted thrifts and terminated receiverships includes: 1) assets the former FSLIC and the former RTC purchased from troubled or failed thrifts and 2) assets the FRF acquired from receiverships and purchased under assistance agreements. The methodology to estimate cash recoveries from these assets, which are used to derive the related allowance for losses, is the same as that for receivables from thrift resolutions (see Note 3).

The FRF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of interest earned on mortgage loans and proceeds from professional liability claims. Expenses are recognized for the management and liquidation of these assets.

Assets Acquired From Assisted Thrifts and Terminated Receiverships, Net

Dollars in Thousands

	December 31, 1998	December 31, 1997
Assets acquired from assisted thrifts and terminated receiverships	$ 216,006	$ 277,607
Allowance for losses	(151,905)	(204,556)
Total	**$ 64,101**	**$ 73,051**

7. Other Assets, Net

Other Assets, Net

Dollars in Thousands

	December 31, 1998	December 31, 1997
Investment in FADA (Note 2)	$ 15,000	$ 15,000
Allowance for loss	(11,074)	(11,074)
Investment in FADA, Net	**3,926**	**3,926**
Accounts receivable	33,200	607
Due from other government entities	3,595	2,858
Other Receivables	**36,795**	**3,465**
Total	**$ 40,721**	**$ 7,391**

8. Notes Payable – Federal Financing Bank Borrowings

Working capital was made available to the RTC under an agreement with the FFB to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding note was due to mature on January 1, 2010; however, the entire principal and interest amounts were paid on August 10, 1998. The FFB borrowing authority ceased upon the termination of the RTC.

The note payable carried a floating rate of interest that was adjusted quarterly. The FFB established the interest rate and during 1998 these rates ranged between 5.487 percent and 5.228 percent.

9. Liabilities From Thrift Resolutions

The FSLIC issued promissory notes and entered into assistance agreements 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. Pursuant to FIRREA, the FRF assumed these obligations.

Notes payable and obligations for assistance agreements are presented in the "Liabilities from thrift resolutions" line item. Estimated future assistance payments are included in the "Estimated liabilities for: Assistance agreements" line item (see Note 10).

Liabilities From Thrift Resolutions

Dollars in Thousands

	December 31, 1998	December 31, 1997
Capital instruments	$ 0	$ 725
Assistance agreement notes payable	62,360	94,680
Interest payable	994	1,419
Other liabilities to thrift institutions	10,982	8,344
Total	**$ 74,336**	**$ 105,168**

10. Estimated Liabilities for:

Assistance Agreements

The estimated liabilities for assistance agreements are $5 million and $6 million at December 31, 1998 and 1997, respectively. The liability represents an estimate of future assistance payments to acquirers of troubled thrift institutions. The balances for both years were not discounted because the remaining assistance agreements will terminate within the next two years, and the discount adjustment was deemed to be immaterial.

There were 33 assistance agreements outstanding as of December 31, 1998 and 1997. The last agreement is scheduled to expire in July 2000.

Litigation Losses

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $144 million are reasonably possible.

Additional Contingency

In *United States v. Winstar Corp*., 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the Federal Home Loan Bank Board to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. To date, approximately 120 lawsuits have been filed against the United States based on alleged breaches of these agreements (Goodwill Litigation).

On July 23, 1998, the U.S. Treasury determined, based on an opinion of the DOJ's Office of Legal Counsel (OLC) dated July 22, 1998, that the FRF is legally available to satisfy all judgments and settlements in the Goodwill Litigation involving supervisory action or assistance agreements. The U.S. Treasury further determined that the FRF is the appropriate source of funds for payment of any such judgments and settlements.

The OLC opinion concluded that the nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. Under the analysis set forth in the OLC opinion, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. On July 31, 1998, the FDIC Board of Directors authorized the payment of four settlements in the Goodwill Litigation aggregating $103.3 million. This payment was made from the FRF-FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements and judgments arising out of the Goodwill Litigation.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On March 19, 1999, DOJ informed the FDIC that, "as a practical matter, there are likely to be substantial recoveries against the government as these matters proceed to resolution." DOJ also advised that "variations among the ... cases [are] so great, including [the government's] possible recovery of fraud related damages and penalties against various plaintiffs, ... [that] it is simply impossible to predict what the overall outcome is likely to be."

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of future judgments and settlements in the Goodwill Litigation. However, based on the response from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the Goodwill Litigation or determine whether any such loss would have a material effect on the financial condition of the FRF-FSLIC.

Section 130 of the Department of Justice Appropriations Act, 1999 (Section 130), as amended, provides to the FRF-FSLIC such sums as may be necessary for the payment of judgments and settlements in the Goodwill Litigation, to remain available until expended. In the Budget for Fiscal Year 2000, the President has requested a permanent appropriation to the FRF-FSLIC of such sums as may be necessary for the payment of judgments and settlements in the Goodwill Litigation, to remain available until expended. It is anticipated that such an appropriation for the Goodwill Litigation judgments and settlements will be adopted. As a consequence, the FDIC believes that even if the Goodwill Litigation judgments and settlements were to exceed other available resources of the FRF-FSLIC, an appropriation is currently available and, it is anticipated, will be available in the future to pay such judgments and settlements. In these circumstances any liabilities for the Goodwill Litigation should have no material impact on the financial condition of the FRF-FSLIC. If an appropriation to the FRF-FSLIC were not available to pay the Goodwill Litigation judgments and settlements, the liabilities of the FRF-FSLIC in respect of the Goodwill Litigation would be material and adversely affect the financial condition of the FRF-FSLIC.

11. Provision for Losses

The provision for losses was a negative $1.3 billion and a negative $1.7 billion for 1998 and 1997, respectively. In both years, the negative provision resulted primarily from decreased losses expected for assets in liquidation. The following chart lists the major components of the negative provision for losses.

Provision for Losses

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 1998
Valuation adjustments:		
Open thrift assistance	$ 12,514	$ (77,900)
Recovery of tax benefits	(115,401)	(39,126)
Closed thrifts	(1,125,523)	(1,481,702)
Assets acquired from assisted thrifts and terminated receiverships	(66,709)	(242,253)
Securitization funds held by trustee	(58,207)	134,424
Investment in securitization residual certificates	47,076	
Miscellaneous receivables	(42)	(88)
Total	**$ (1,306,292)**	**$ (1,706,645)**
Contingencies:		
Assistance agreements	0	1,961
Litigation	15,540	(36,955)
Total	**15,540**	**(34,994)**
Reduction in Provision for Losses	**$ (1,290,752)**	**$ (1,741,639)**

12. Resolution Equity

As stated in Note 1, the FRF is comprised of two distinct pools: The FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.

Resolution Equity at December 31, 1998

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital	$ 44,156,000	$ 91,334,741	$ 135,490,741
Accumulated deficit	(42,057,685)	(83,185,544)	(125,243,229)
Less: Unrealized gain on AFS securities	0	74,329	74,329
Accumulated deficit, net	(42,057,685)	(83,111,215)	(125,168,900)
Total Resolution Equity	**$ 2,098,315**	**$ 8,223,526**	**$ 10,321,841**

Resolution Equity at December 31, 1997

Dollars in Thousands

	FRF-FSLIC		FRF-RTC		FRF Consolidated	
Contributed capital	$	44,156,000	$	91,337,762	$	135,493,762
Accumulated deficit		(42,194,200)		(84,778,720)		(126,972,920)
Total Resolution Equity	**$**	**1,961,800**	**$**	**6,559,042**	**$**	**8,520,842**

Contributed Capital

To date, the former RTC and the FRF-FSLIC received $60.1 billion and $43.5 billion from the U.S. Treasury, respectively. These payments were used to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the RTC issued $31.3 billion in capital certificates to the REFCORP and the FRF-FSLIC issued $670 million of these instruments to the FICO. FIRREA prohibited the payment of dividends on any of these capital certificates.

Accumulated Deficit

The accumulated deficit represents the cumulative excess of expenses over revenue for liquidation activity related to the former FSLIC and the former RTC ($29.7 billion and $87.9 billion were brought forward from the FSLIC and RTC, respectively).

Resolution Equity Restrictions

FRF-FSLIC: The FRF-FSLIC has unrecorded, pending judgments and settlements that are inestimable at this time and that could substantially reduce or eliminate the FRF-FSLIC Resolution Equity (see Note 10).

FRF-RTC: The former RTC drew down $4.556 billion of the approximately $18 billion made available by the RTC Completion Act. The Completion Act requires the FDIC to deposit in the general fund of the U.S. Treasury any funds transferred to the RTC but not needed by the RTC. The FDIC will return these funds to the U.S. Treasury pursuant to the RTC Completion Act. In addition, the FDIC must transfer net proceeds from the sale of RTC assets to pay interest on the REFCORP bonds, after providing for all outstanding RTC liabilities. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds (see Note 1).

13. Pension Benefits, Savings Plans, and Accrued Annual Leave

Eligible FDIC employees (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, which is 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 contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

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

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on FRF's operating expenses.

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

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

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $5.4 million and $11.2 million at December 31, 1998 and 1997, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997
CSRS/FERS Disability Fund	$ 308	$ 168
Civil Service Retirement System	1,382	2,047
Federal Employee Retirement System (Basic Benefit)	4,438	9,473
FDIC Savings Plan	2,619	4,893
Federal Thrift Savings Plan	1,675	3,264
Total	**$ 10,422**	**$ 19,845**

14. Postretirement Benefits Other Than Pensions

On January 2, 1998, FRF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the FRF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999. The OPM assumed the FRF's obligation for postretirement health benefits for retirees and near-retirees for a fee of $32 million. The OPM is now responsible for postretirement health benefits for all employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constitutes both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of $39 million to the FRF.

Postretirement Benefits Other Than Pensions

Dollars in Thousands

		1998		1997
Funded Status at December 31				
Fair value of plan assets [a]	$	14,337	$	68,010
Less: Benefit obligation		14,337		81,614
Under/(Over) Funded Status of the plans	**$**	**0**	**$**	**13,604**
Accrued benefit liability recognized in the Statements of Financial Position	$	0	$	19,099
Expenses and Cash Flows for the Period Ended December 31				
Net periodic benefit cost	$	(919)	$	1,150
Employer contributions		886		1,280
Benefits paid		886		1,280
Weighted-Average Assumptions at December 31				
Discount rate		4.50%		5.75%
Expected return on plan assets		4.50%		5.75%
Rate of compensation increase		4.00%		4.00%

(a) Invested in U.S. Treasury obligations.

For measurement purposes, the per capita cost of covered health care benefits was assumed to increase by an annual rate of 8.75 percent for 1998. Further, the rate was assumed to decrease gradually each year to a rate of 7.75 percent for the year 2000 and remain at that level thereafter.

15. Commitments and Concentration of Credit Risk

Commitments

Letters of Credit

The RTC had adopted special policies that included honoring outstanding conservatorship and receivership collateralized letters of credit. This enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were issued by thrifts that later failed and were used to guarantee tax exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1998 and 1997, securities pledged as collateral to honor these letters of credit totaled $21.4 million and $51.4 million, respectively. The FRF estimated corporate losses related to the receiverships' letters of credit as part of the allowance for loss valuation. The allowance for these losses was $7.6 million and $41.1 million as of December 31, 1998 and 1997, respectively.

Leases

The FRF's allocated share of the FDIC's lease commitments totals $22.8 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC's future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads could cause the amounts allocated to the FRF in the future to vary from the amount shown below. The FRF recognized leased space expense of $6.3 million and $18.2 million for the years ended December 31, 1998 and 1997, respectively.

Lease Commitments

Dollars in Thousands

1999	2000	2001	2002	2003	2004 and Thereafter
$4,776	$4,313	$3,520	$3,149	$2,035	$5,013

Concentration of Credit Risk

As of December 31, 1998, the FRF had gross receivables from thrift resolutions totaling $73.3 billion, gross assets acquired from assisted thrifts and terminated receiverships totaling $216 million, gross securitization funds held by trustee totaling $2.9 billion, and an investment in securitization residual certificates totaling $1.5 billion. The allowance for loss against receivables from thrift resolutions totaled $71.9 billion, the allowance against the assets acquired from assisted thrifts and terminated receiverships totaled $152 million, and the allowance against the securitization funds held by trustee totaled $0.1 billion.

Cash recoveries may be influenced by economic conditions. Similarly, the value of the investment in securitization residual certificates can be influenced by the economy of the area relating to the underlying loans and other assets. Accordingly, the FRF's maximum exposure to possible accounting loss is the recorded (net of allowance) value and is also shown in the table below.

Concentration of Credit Risk at December 31, 1998

Dollars in Millions

	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from thrift resolutions, net	$ 313	$ 165	$ 200	$ 127	$ 72	$ 512	$ 1,389
Assets acquired from assisted thrifts and terminated receiverships, net	0	42	1	0	0	21	64
Securitization funds held by trustee	436	320	376	87	80	1,498	2,797
Investment in securitization residual certificates	319	192	200	68	55	704	1,538
Total	**$ 1,068**	**$ 719**	**$ 777**	**$ 282**	**$ 207**	**$ 2,735**	**$ 5,788**

16. Disclosures About the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of short-term receivables and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

The net receivables from thrift resolutions primarily include the FRF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the FRF's allowance for loss against the net receivables from thrift resolutions. Therefore, the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets (see Note 3), such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the FRF on the subrogated claim does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from thrift resolutions.

Like the corporate subrogated claim, the securitization credit enhancement reserves involve an asset that is unique and is not intended for sale to the private sector. Therefore, it is not practicable to estimate the fair market value of the securitization credit enhancement reserves. These reserves are carried at net realizable value, which is the book value of the reserves less the related allowance for loss (see Note 4).

The majority of the net assets acquired from assisted thrifts and terminated receiverships (except real estate) is comprised of various types of financial instruments, including investments, loans and accounts receivables. Like receivership assets, assets acquired from assisted thrifts and terminated receiverships are valued using discount rates that include consideration of market risk. However, assets acquired from assisted thrifts and terminated receiverships do not involve the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

The investment in securitization residual certificates is adjusted to its fair value at each reporting date using a valuation model which estimates the present value of estimated expected future cash flows discounted for the various risks involved, including both market and credit risks, as well as other attributes of the underlying assets.

17. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands

	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997
Net Income	**$ 1,729,691**	**$ 1,946,403**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Interest on Federal Financing Bank borrowings	18,068	124,322
Provision for losses	(1,290,752)	(1,744,690)
Gain on conversion of benefit plan	(39,297)	0
OIG income recognized	0	792
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	663,799	3,360,072
Decrease in securitization funds held by trustee	2,152,129	779,071
Decrease in assets acquired from assisted thrifts and terminated receiverships	61,928	335,624
Decrease in other assets	5,982	8,480
(Decrease) Increase in accounts payable and other liabilities	(125,545)	20,772
(Decrease) in accrued interest on notes payable	(28,950)	(173,484)
Increase (Decrease) in liabilities from thrift resolutions	2,294	(6,998)
Increase in estimated liabilities for litigation losses	13,897	0
(Decrease) Increase in estimated liabilities for assistance agreements	(1,476)	111,191
Net Cash Provided by Operating Activities	**$ 3,161,768**	**$ 4,761,555**

Noncash Investing Activity

In October 1998, the FRF acquired securitization residual certificates through a noncash purchase from its receiverships. This noncash transaction valued at $1.8 billion was applied to amounts owed by FRF receiverships which resulted in a reduction to the "Receivable from thrift resolutions, net" line item and the creation of the "Investment in securitization residual certificates" line item (see Note 5).

18. Year 2000 Issues

State of Readiness

The FDIC, as administrator for the FRF, is conducting a corporate-wide effort to ensure that all FDIC information systems are Year 2000 compliant. This means the systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. The Year 2000 Oversight Committee is comprised of FDIC division management that oversees the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) leads the internal Year 2000 effort, under the direction of the Oversight Committee. DIRM used a five-phase approach for ensuring that all FDIC systems and software are Year 2000 compliant. The five phases are:

Awareness
The first phase of compliance focuses on defining the Year 2000 problem and gaining executive-level support and sponsorship for the effort.

Assessment
The second phase of compliance focuses on assessing the Year 2000 impact on the Corporation as a whole.

Renovation
The third phase of compliance focuses on converting, replacing or eliminating selected platforms, applications, databases, and utilities, while modifying interfaces as appropriate.

Platform is a broad term that encompasses computer hardware (including mainframe computers, servers, and personal computers) and software (including computer languages and operating systems). Utility programs, or "utilities," provide file management capabilities, such as sorting, copying, comparing, listing and searching, as well as diagnostic and measurement routines that check the health and performance of the system.

Validation
The fourth phase of compliance focuses on testing, verifying and validating converted or replaced platforms, applications, databases, and utilities.

Implementation
The fifth phase of compliance focuses on implementing converted or replaced platforms, applications, databases, utilities, and interfaces.

The Awareness, Assessment, and Renovation phases are complete. The Validation phase is scheduled to be completed during January 1999 when all production applications will be validated for Year 2000 readiness. Implementation of the majority of production applications in Year 2000 ready status will be completed by March 31, 1999. Validation and implementation of new systems and modifications to existing systems will continue throughout 1999.

Year 2000 Estimated Costs

Year 2000 compliance expenses for the FRF are estimated at $2.1 million and $201 thousand at December 31, 1998 and 1997, respectively. These expenses are reflected in the "Operating expenses" line item of the FRF's Statements of Income and Accumulated Deficit. Future expenses are estimated to be $2.6 million. Year 2000 estimated future costs are included in the FDIC's budget.

Risks of Year 2000 Issues

No potential loss with internal system failure has been estimated due to the extensive planning and validation that has occurred.

Contingency Plans

DIRM is currently developing a disaster recovery plan and contingency plans specific to each mission-critical application.

19. Subsequent Events

On April 9, 1999, the United States Court of Federal Claims ruled that the federal government must pay Glendale Federal Bank $908.9 million for breaching a contract that allowed the thrift to count goodwill toward regulatory capital. Both the plaintiffs and the DOJ are expected to appeal the decision. Additionally, on April 16, 1999, in a similar case, another judge of the U.S. Court of Federal Claims, using a different analysis than the one used by the judge in the Glendale Federal case, awarded California Federal Bank $23 million. The California Federal Bank was seeking more than $1.0 billion in damages and is expected to appeal the decision. The analyses of the damage issues in the two cases appear to be irreconcilable. Due to the expected appeals and the conflicting analyses in the two cases, the final outcome is uncertain.