



CHAPTER 9

The Closing Process and the Payment of Insured Depositors

Introduction

When the Federal Deposit Insurance Corporation (FDIC) was created in 1933, the financial impact of a bank failure on a bank's depositors was a major concern. Before federal deposit insurance, depositors typically would recover 50 percent to 60 percent of their money from a failed bank's receivership. Furthermore, depositors often were not able to obtain those funds for several years, because disbursements were made only when a failed bank's assets were liquidated. Consequently, public confidence in the banking system wavered, and depositor runs became more frequent, thus triggering more bank closings. Federal deposit insurance was designed to provide greater protection to depositors, thereby enhancing public confidence and leading to greater financial stability.

The first real tests of whether federal deposit insurance could provide sufficient protection to depositors and maintain public confidence during a banking crisis occurred during the 1980s and early 1990s. This chapter discusses how the FDIC and the Resolution Trust Corporation (RTC) met the challenge and provided timely payments to insured depositors. The discussion in this chapter begins with a summary of the overall level of closing activity and a description of how the FDIC conducts the closing process. The chapter examines how the process for making payments to insured depositors gradually became more sophisticated, allowing the FDIC and the RTC to cope with the increasing demands that were placed on them during the crisis period.

Summary of Closing Activities of Banks and Savings & Loans

Before 1983, the FDIC had two alternatives for the resolution of a failed bank: the purchase and assumption (P&A) transaction or the direct payment of FDIC deposit insur-

ance to the depositors of the failed bank (deposit payoff).¹ The P&A transaction allowed a healthy financial institution to acquire all of the failed bank's deposits. Because all of the deposits were acquired, it was not necessary to determine which accounts were above the limits of FDIC deposit insurance. From the perspective of the depositor, the P&A transaction would appear to be little different than a bank merger.

If the FDIC was unable to find an acquirer for the failed bank's deposits, then the only other option was to conduct a deposit payoff. In such a case, a determination of the amount of FDIC deposit insurance coverage was required for each depositor. A deposit payoff is a major event for both the FDIC and the depositors of the failed bank. The FDIC assesses the amount in each deposit account at the time of the bank closing, determines whether the accounts are within the deposit insurance limits, and pays the depositor with a check for the insured amount. The FDIC would begin the deposit payment process on the first business day after the bank closing, and anxious depositors would come to the bank on that day and stand in line to receive their checks. Depositors having more than the insured amount (currently \$100,000) in deposits would meet with FDIC representatives to determine whether the funds exceeding the insured limit qualified for separate deposit insurance coverage.

A deposit payoff can be disruptive to the local community. Because the depositors would be paid the insured balances in their accounts at the time of the bank failure, any outstanding checks drawn on the accounts would not be paid. The depositors then would have to quickly establish checking accounts in another local bank and make arrangements with their landlords, grocers, and other creditors to cover the unpaid checks.

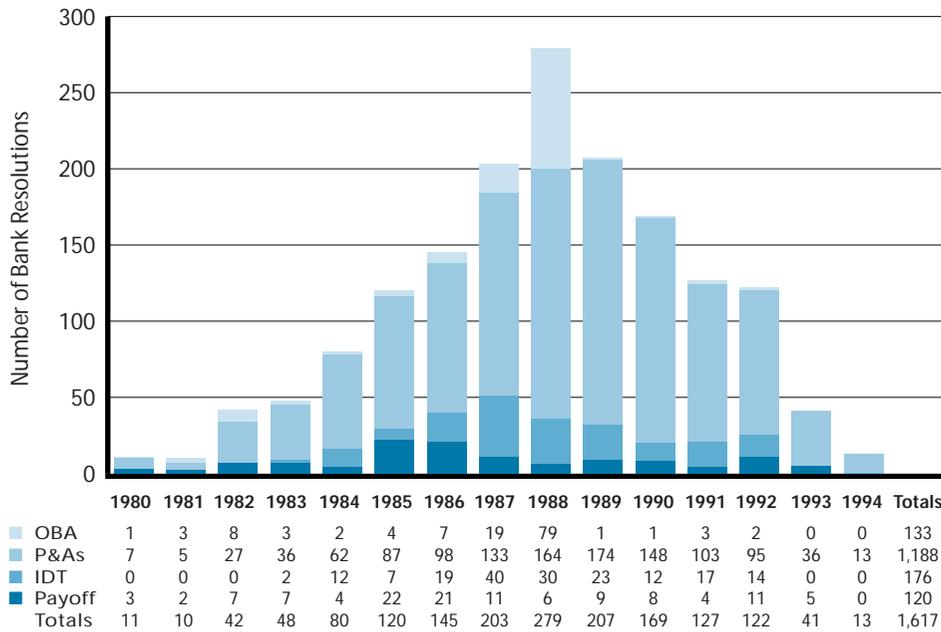
In 1983, to help alleviate those problems, the FDIC developed a new resolution alternative: the insured deposit transfer (IDT). Using this method, all of the insured deposits are transferred to a healthy financial institution and are available immediately. Outstanding checks are honored, and accounts continue to earn interest at their original rates. Immediately before the failed bank closed, the FDIC would contact healthy local financial institutions to request their participation in competitive bidding to acquire the insured portion of the deposit base. The IDT provides additional benefits because the acquiring institution gains new customers, and the FDIC obtains resolution cost savings from the competitive bidding proceeds. Since 1983 the FDIC has used the IDT transaction 176 times (see chart I.9-1) and has conducted 120 deposit payoffs.

The FDIC has found acquirers for approximately 93 percent of the failed bank deposits (via IDTs and P&As, or by providing open bank assistance), thereby avoiding the inconvenience and disruption caused by a deposit payoff. From 1989 to 1995, the RTC conducted 158 IDTs and 92 deposit payoffs (see chart I.9-2) and found a buyer

1. The FDIC also used open bank assistance (OBA), in which an insured bank *in danger of failing* received assistance in the form of a direct loan, an assisted merger, or a purchase of assets.

Chart I.9-1

Distribution of FDIC Transaction Types
1980–1994



Source: FDIC annual reports, 1980–1994.

for approximately 88 percent of the failed savings and loan deposit accounts through IDTs or P&A transactions.

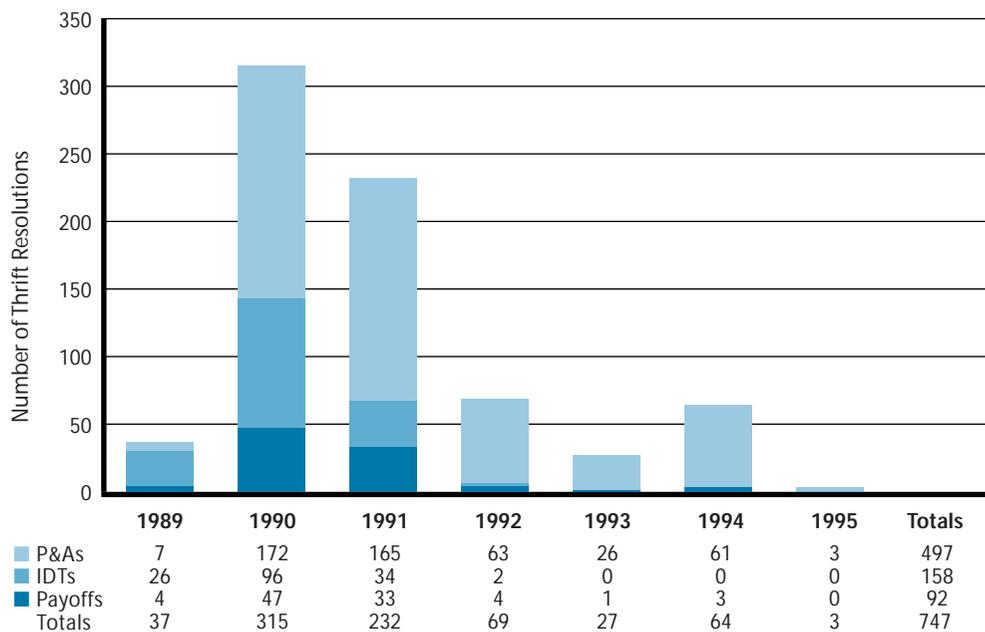
In 1984, FDIC resolution activity began to escalate rapidly. The FDIC resolved a record number of 80 banks that year, eclipsing the previous high of 77 in 1937. Chart I.9-1 shows that the number of FDIC bank resolutions increased each year thereafter, with 279 resolutions in 1988. FDIC bank resolution activity remained high until 1993, when the number of resolutions fell to 41. The RTC, which was created in 1989, resolved 315 failed thrifts in 1990 and 232 failed thrifts in 1991. After 1991, the RTC was able to resolve failed thrifts only as Congress made funding available. As a result, several failed thrifts operated under conservatorship for several months or years while awaiting their final resolution.

Summary of the Closing Process

To prepare for the closing of a failing institution, FDIC employees review the financial and operational information gathered on the institution to determine how many

Chart I.9-2

Distribution of RTC Transaction Types 1989–1995*



* The transactions detailed here are as of time of resolution, not as of time of RTC takeover.

Source: RTC annual reports, 1989–1995.

personnel are needed for the closing. The FDIC appoints a closing manager to oversee the process and to plan, manage, and coordinate all activities related to the closing. The primary factors used in determining the number of persons needed for the closing team are (1) the asset and deposit size of the institution, (2) the number of its branches or locations, and (3) the type of resolution.

Before the actual closing date, the closing team members learn as much as they can about the failing institution. The amount of time available to prepare for the actual closing varies. When the failing institution is attempting to recapitalize, the chartering authority may give it ample opportunity to identify and obtain additional sources of capital. In other cases, widespread fraud or money laundering may be discovered, and the chartering authority will close the institution with little advance notice. To avoid a run on the institution's deposit base, confidentiality of the closing activity is essential.

The closing team is composed of various subteams that ensure that the resolution is conducted in an orderly and expedient manner. The primary subteams are listed below:

Asset Team. This team inventories assets consisting of commercial, real estate, and installment loans; owned real estate (ORE); cash; furniture, fixtures, and equipment;

and other assets such as bank-owned vehicles or repossessed automobiles. Team members review the transaction agreement to determine which assets the assuming institution is buying. The team prepares inventory listings, and the assuming institution signs receipts acknowledging what it has purchased.

Deposit Team. This team determines which deposits are insured. When there is a deposit payoff or a transaction in which only insured deposits will pass to the purchasing institution, the size of this team increases significantly.

The deposit team members, known as claim agents, must be knowledgeable about the rules and regulations governing deposit insurance. They generally must work long hours to determine which deposits are insured and which are not. After the team accomplishes this task, the team prepares a list of accounts identifying which deposits are fully insured and will pass on to the purchasing institution, and which deposits may not be fully insured and have holds placed on them. If the FDIC has been unable to find an institution to assume the failed bank's deposit base, the deposit team is responsible for preparing payoff checks to pay the depositors. The deposit team also helps the asset team to identify account holders who have delinquent loans as well as deposits or to identify a possibility for an offset in cases for which a deposit is being held as collateral for a loan.² In all types of resolution transactions, the deposit team identifies and notifies the general creditors of the failed institution, a process that is similar to that conducted for a regular bankruptcy.

Accounting Team. This group reconciles the institution's general ledger accounts and closes out the failed institution's books. This task can be arduous if the institution is large and has a complex accounting system, or if the institution has accounts that are out of balance and have not been reconciled on a regular basis. This process is similar to completing a year-end audit.

The accounting team reconciles each general ledger account and compiles a final balance sheet on the failed institution. From this balance sheet, the team will compile a new balance sheet (referred to as a pro forma statement) for the assuming institution. The pro forma statement shows the assets and liabilities the acquirer will have assumed. The team prepares another pro forma statement for the FDIC that reflects the assets and liabilities remaining with the receivership. Using these statements, the accounting team determines the amount of cash that must be wired to the assuming institution. The initial wire transfer occurs on the next business day.

Settlement Team. This team works with the acquirer to make adjustments over a 120- to 180-day period for income and expense items not previously accounted for in the initial wire transfer payment. The settlement team also monitors the transaction agreement to ensure that both the assuming institution and the FDIC comply with all

2. Depositors are allowed to apply the uninsured portion of their deposit accounts to their outstanding loan balances. The FDIC requires those depositors to provide it with an explicit request concerning the offset. In cases of delinquent loans, the FDIC may have the right to offset the accounts, regardless of whether they are insured or uninsured, without an explicit request from the depositor.

terms and conditions of the agreement. The settlement process allows for the transfer of funds to and from the assuming institution(s) to pay for assets sold to the assuming institution under the agreements and to reimburse expenses incurred on behalf of the FDIC. Examples of assets that would be sold are loan pools, securities, the failed institution's building(s), and the furniture, fixtures, and equipment in the building(s). Examples of expenses that would be incurred are costs associated with paying the failed institution's employees for working over the weekend and certain data processing fees.

Information Support Team. This team communicates and coordinates with the data processing center, whether that center is on site or off site. The team works with the various subteams to ensure that all of the work for the day has been processed and forwarded to the processing center, and that the necessary reports are generated and distributed. The information support team also supplies, supports, and maintains the data processing equipment and software needed by the closing team.

All of the teams focus on the main objective of the closing process: to control, inventory, and balance the books of the failed institution. The teams complete the critical tasks that are vital to the success of that process.

Deposit Insurance Coverage

The FDIC's insurance limit is the maximum insurance coverage available under applicable insurance regulations. The FDIC set the original limit at \$2,500 in 1933 and increased it to \$5,000, effective June 30, 1934. That limit remained in effect until 1950, when it was increased to \$10,000 as part of the Federal Deposit Insurance Act. The limit was increased to \$15,000 in 1966, to \$20,000 in 1969, and to \$40,000 in 1974. In 1974, the insurance limit for time and savings accounts held by state and political subdivisions was increased to \$100,000. The FDIC extended that same limit to individual retirement accounts (IRAs) and Keogh accounts in 1978. The most recent increase occurred in 1980, when the FDIC raised the maximum insurance coverage to \$100,000 for all types of accounts.

Although the insurance coverage amount is simple to understand, the process for determining the insurance coverage is complex and time-consuming. The FDIC has to identify and define ownership rights and capacities according to statutes. Deposit accounts usually fall into the following categories: single accounts, joint accounts, revocable trusts, irrevocable trusts, corporate and other business accounts, accounts held by depository institutions in fiduciary capacities, employee benefit plan accounts, IRA and Keogh accounts, and public unit accounts.

In applying the \$100,000 deposit insurance limitation, the FDIC examines the statutory rights and capacities of the accounts. The federal statute has always required the FDIC to aggregate all deposit balances held in the same right and capacity before applying the insurance limit. Accounts held in different rights and capacities are each insured up to the \$100,000 limit. The FDIC reviews deposit information to make preliminary

determinations on the number of depositors that may exceed the statutory insurance limit of \$100,000. After the deposit team has located and grouped accounts that are related by name, address, or social security number, the team begins to separate depositor accounts that obviously are fully insured (for example, depositor accounts that are, in aggregate, under the \$100,000 insurance limit) from the depositor accounts that need additional analysis and documentation to qualify for full insurance coverage.

The FDIC has devoted considerable time and effort in trying to inform the public about federal deposit insurance coverage. Most of that effort has focused on what is an insured deposit, and what deposit insurance protection means to a depositor if an institution should fail. Although the rules can be complex, the basic purpose of deposit insurance is clear.

Evolution of the Closing and the Payment Process for Insured Depositors

In the early 1980s, the closing process and payment of insured depositors in a deposit payoff was time-consuming, labor intensive, and methodical. The FDIC had a small, but dedicated field staff of professional claim agents and bank liquidators, supported by senior Washington Headquarter experts, who came together as a team to handle insured bank failures throughout the country. The FDIC's personnel were required to be available on 24-hour notice to travel from their existing failed bank receivership sites to any geographic location of the United States or its Commonwealth states. Because of the limited use of automation and modern communication technologies, the majority of the closed bank work was done manually. If necessary, there were many occasions where FDIC closing personnel worked around the clock to help prepare the new assuming bank for reopening and processing of deposit payoff checks. Starting in November 1982, in response to the rapidly accelerating number of failing banks, the FDIC expanded its liquidation presence by organizing its operations into regions and establishing regional sites in New York City, Atlanta, Chicago, Dallas, Kansas City, and San Francisco. Those offices were staffed to oversee all liquidation activity occurring within their geographical territories.

Early Deposit Payment Process

The following steps reflect the time-consuming and labor-intensive process involved in preparing checks for the payoff of depositors in the early 1980s:

1. All financial transactions conducted before the closing that had not yet been posted to the institution's records and customers' accounts had to be sent to the institution's data processing servicer or to the in-house bookkeeping area for processing and recording. That process was completed immediately after the closing of the institution so that the FDIC would have a current balance sheet for the

institution as of its closing date. In the early 1980s, most bank data processing systems were not compatible with the FDIC's requirements because they were set up for ongoing bank operations and were incapable of producing financial reports at other than month-end increments. That processing inadequacy created some delays in producing final balance sheets.

2. The servicer or in-house processor was instructed to produce deposit statements showing principal and interest as of the closing date. In some cases, the FDIC was required to use the financial institution's manually maintained account ledger cards to produce accurate deposit statements. The servicer also provided a general ledger, a subsidiary ledger, and loan trial balance reports. If the FDIC was unable to obtain that information from the servicer over the closing weekend, the entire process was delayed until accurate information for paying depositors became available.
3. Deposit statements had to be sorted by hand into alphabetical batches based on the account title and name. This step was required to identify all deposits in a certain name or capacity. Each batch was then totaled, and the total of all of the batches was balanced back to the general ledger. Depending on the number of deposit accounts, the number of different types of accounts offered to depositors (such as checking, savings, money market, and certificates of deposit [CDs]), and the method of recordkeeping of the failed institution, this sorting and balancing step could take as long as one or two days.
4. The FDIC had to determine insurance coverage for each depositor. That was the most crucial and time-consuming step in the entire closing process. To determine insurance coverage, the FDIC had to review all the deposit account records, apply the proper FDIC insurance regulations to each account, and prepare a combined account statement for depositors with multiple accounts. After that step was completed, there would be only one account statement for each depositor. The account statements were then balanced to the general ledger to ensure that they were accurate.
5. The FDIC created a list of all depositors and the amount of deposit insurance due to each depositor. That list, known as the deposit liability register, was created from the information on the combined statement and ledger cards and was then balanced back to the general ledger to ensure accuracy. Because the deposit liability register was a typed list with five carbon copies, every mistake a typist made had to be corrected by hand on each copy. Because the majority of deposit payoffs in the 1970s and early 1980s occurred in small towns where the options for locating typists were limited, it often was difficult to find enough typists to get the deposit liability register prepared on time. Sometimes the FDIC contacted local high schools to request that students enrolled in typing classes assist the payoff team. Even when a closing was located in a large metropolitan area

where typists were more readily available, the enormity of the typing task still created a problem. For example, when Sharpstown State Bank, Houston, Texas closed in 1971, more than 100 typists were needed to prepare the deposit liability register for that bank's 27,300 deposit accounts.

6. The deposit insurance checks had to be typed, separated, alphabetized, and balanced back to the general ledger.
7. Finally, a list had to be prepared and deposit insurance checks had to be held because of uninsured funds, past-due loans, or overdrafts. Those checks would then have to be segregated from the other deposit insurance checks.

Before reopening the bank and paying the insured depositors, the FDIC also had to meet with the security team or local police to discuss safety concerns and prepare a press release for the local newspapers and radio and television stations announcing when the payoff would begin. The FDIC also set up offices or private areas for its staff to meet with depositors who may have had uninsured deposit amounts.

Penn Square Bank, N.A.

Under the Banking Act of 1933, the only vehicle used for paying depositors was the Deposit Insurance National Bank (DINB), a new national bank chartered without any capitalization and with limited life powers.³ Two years later, the Banking Act of 1935 gave the FDIC authority to pay off depositors directly or through an existing bank, rather than through a DINB. The FDIC has used the DINB authority only five times since 1935; the last occasion was for the closing of Penn Square Bank, N.A. (Penn Square), Oklahoma City, Oklahoma.

Penn Square, a one-office bank with a separate drive-up facility located in a shopping mall, was the most unusual, most notable, and by far the most difficult closing the FDIC had handled up to that time. The Office of the Comptroller of the Currency (OCC) declared the bank insolvent on Monday, July 5, 1982, which was a federal holiday. The failure quickly attracted nationwide attention because it was the largest deposit payoff in history, and more than half of the bank's \$470.4 million in deposits exceeded the \$100,000 insurance limit. That was not a typical bank failure, for which the total of uninsured deposits was less than 5 percent of the total of all of the bank's deposits.

The FDIC established the Deposit Insurance National Bank of Oklahoma City. All insured deposits in the closed bank were transferred to the DINB, while all assets were passed to the FDIC as the receiver. Penn Square had made an inordinate number of high-risk, energy-related loans. Although the bank had less than \$500 million in depos-

3. The Banking Act of 1933 authorized the FDIC to establish a Deposit Insurance National Bank to assume the insured deposits of a failed bank. A DINB had a limited life of two years and continued to insure deposits still in the bank. Depositors were given up to two years to move their deposit accounts to other institutions.

its, it originated more than \$2.1 billion in loans, which it sold to some of the largest financial institutions in the country. Furthermore, a large number of credit unions and savings and loans, as well as some banks, had CDs with Penn Square. Many of those financial institutions were at risk of insolvency because they were limited to receiving only the insured portion of their deposits after Penn Square failed. Consequently, those institutions lost millions of dollars as a result of their dealings with Penn Square.

Planning for this closure was difficult because the FDIC was facing a number of unusual challenges at the time. The OCC was completing an examination of Penn Square but was unable to provide the FDIC with information before the actual closing took place. FDIC personnel were not experienced in dealing with such a large and complex institution and, therefore, had difficulties in determining which accounts were uninsured. The decision to immediately reopen the institution as a DINB before closing out the failed institution's books further compounded the situation.

Moreover, the FDIC did not have a regional structure set up to provide resources when it was notified of the impending failure of Penn Square. Instead, the FDIC had staff at individual failed bank sites and a corporate headquarters, where the employees of the asset management division were located. When the word was given to prepare for the closing, FDIC staff members who normally handled bank failures were sent to Oklahoma City from individual bank sites all over the country and from Washington, D.C. The FDIC supplemented that staff with a large number of its bank examiners.

The process for paying the depositors of Penn Square presented a multitude of problems for the FDIC because the bank's deposit and loan records were neither accurate nor complete, making it difficult for the FDIC to readily make insurance determinations. The FDIC had little more than 72 hours (Saturday, Sunday, and Monday) to review 24,538 deposit accounts, totaling \$470.4 million, for preliminary insurance determinations. The closing team worked around the clock over that weekend to determine deposit insurance coverage and prepare for the opening of the DINB. Even with that extraordinary effort, FDIC personnel could not fully prepare to deal with the sheer number of depositors or to fully discuss what would happen to a depositor with uninsured deposits.

On Tuesday, July 6, the Associated Press released an article that described the scene at the reopening as follows: "Hundreds of depositors seeking their money crowded the former Penn Square Bank. The bank reopened at 9:00 am and according to FDIC Chairman, William Isaac, would remain open 24 hours a day if need be. By noon, nearly 100 people stood outside the bank's doors in 90 degree heat. A continuous line of cars went through the drive-in lanes." The majority of the FDIC staff members had not previously worked as claim agents; therefore, it was taking an average of three to four hours for a single customer with uninsured funds to get through the process the first day. Even though the FDIC had assured depositors with accounts of less than \$100,000 that they were fully insured and that they could continue to write checks on their new accounts at the newly chartered DINB, the depositors were nervous and came to the

bank to get their money. It took approximately a week before depositors' claims began to be processed in a reasonable time frame.

The claim agents were further challenged by the fact that Penn Square operated in two locations. It was therefore possible for a depositor to collect insured funds twice, because it was impossible for the claim agents to contact staff members at the other location so they could manually cross off the customers they had met with and paid. The same customer could have gone to the other location later that same day and received another check. (Technology was not yet advanced enough to offer the FDIC the convenience of automating the payoff process.)

Another problem, although short-lived, was that some of the local financial institutions would not accept the DINB insurance checks or wanted to put holds on them. That situation caused a near-panic, as customers who thought they were being paid returned to the bank complaining that they could neither cash nor deposit their checks. By Wednesday that situation was resolved when the local institutions agreed to accept the DINB insurance checks.

In addition, Penn Square's \$2.1 billion in loan participations complicated the offset process. Initially, the FDIC determined that when a deposit was offset against a loan, the participant's share of the offset would be paid in cash. Subsequently, the FDIC determined that that was a noncash transaction and that the participant's share should be paid with a receiver's certificate. The FDIC provided the information to the participants and requested the return of funds previously sent to them. However, some of the larger financial institutions sued the FDIC over the offset issue. Ultimately, the courts upheld the receiver's position, and the participants were issued a receiver's certificate.⁴

Penn Square did serve to remind the FDIC and Oklahoma City that there was no such thing as a "painless" bank failure. Today the closure of an institution is far less inconvenient to former bank customers than it was in the early 1980s. The lessons learned from Penn Square were invaluable to the FDIC. Penn Square, as is true for other institutions that have failed, required the FDIC to evaluate and modify its closing process.

Automation of the Deposit Payoff Process

After the Penn Square failure, the FDIC began to automate the deposit payoff process. In 1982 the FDIC began to use portable computers to store the bank's depositor database and drive the printers. Switching from manual systems to computer database systems allowed the FDIC more flexibility in creating lists of deposit accounts, enhanced

4. Loan participants usually receive their pro rata share of any payments made by a debtor that augments the receivership estate. The same holds true if the receiver forecloses on and liquidates the underlying collateral. However, loan participants may suffer a loss greater than they would otherwise incur if the debtors or receivers exercise their right of offset. Because the offset does not "augment the receivership estate," there are no proceeds to be passed on to the loan participants. The loan participants are therefore left with general unsecured claims against the receivership estate for the amounts they have lost as a result of the offset. The general unsecured claims are likely to be worth far less than the 100 cents on the dollar that direct proceeds or cash is worth.

its record-keeping abilities, and increased its efficiency in handling bank failures. Automation, even at this early stage, also increased accuracy while decreasing the amount of time needed to prepare for a deposit payoff.

Although the automated system did not alter the basic steps necessary to identify depositors, determine insured and uninsured amounts, produce lists of deposits, and create checks, it did save considerable time in executing all of those steps. When preparing the automated checks that were paid to insured depositors, the FDIC used the following steps:

1. Working from the financial institution's general ledger or other available records, the closing team members would enter account titles and balances, along with social security numbers (when available) into a spreadsheet program.
2. They then verified, balanced, and converted the spreadsheet into a database file, which allowed them to sort several file types (savings accounts, checking accounts, and certificates of deposit) into one file in any order they desired.
3. The team reviewed the accounts of each depositor to determine if they exceeded the \$100,000 limit. If they did exceed the limit, the database file would flag the account(s).
4. They printed checks (up to the amount of \$100,000) from the database file for each depositor.
5. Finally, team members kept a record of all payments made to depositors in the same database file to ensure the accuracy of accounting for check distribution.

The automated process saved a considerable amount of time. FDIC staff still had to manually enter the initial data and balance to the institution's general ledger, but the additional personnel that had been necessary to manually type and correct each of the five multicolored forms were no longer required.

The FDIC first tested the new system at Western National Bank, a relatively small bank in Santa Ana, California, that failed on August 27, 1982. The bank had 1,949 deposit accounts totaling \$11 million. The automated deposit grouping was run parallel to the manual tally of accounts just in case the new system did not work. The FDIC first relied exclusively on the new automated system in a deposit payoff for the Hohenwald National Bank, Hohenwald, Tennessee, which closed on September 3, 1982. The institution had 4,468 deposit accounts totaling \$26.9 million.

Accomplishments Through the Use of Automation and Planning

As computer technology advanced (computer systems became more portable, the disk storage capacity increased, the database handling capabilities increased, and the price of the equipment and software fell), the FDIC automated its deposit and closing processes

in an increasingly rapid manner. The technology expedited the manner in which the liquidators could handle institutions with larger depositor bases.

In addition, with increased computerization, the FDIC no longer had to deal with the problem of not being able to coordinate the payment of insured deposits in multiple locations (branches) without duplication. It began developing computer network systems that shared software, communicated routinely through modem connections, and could accept and convert data downloads from other automated systems.

In 1983, as the FDIC began an effort to improve the automated deposit payoff process, it identified the need for a software program to track depositor information in case another large financial institution failure resulted in a deposit payoff. The software was structured to capture an institution's deposit account rights and capacities, social security numbers, account numbers, balances, and types of deposit as of the date of closing. The software had the ability to "add in" discovered deposits and withdrawals, compute the interest accrued through the date of closing, and sort the data in a variety of ways. More important, it was able to segregate potential uninsured deposits from the general database. The FDIC used this software just before the closing, and the work was updated daily until the bank failed and the resolution was completed.

Implementation of the Automated Grouping System and Automated Payout System

In 1987, the FDIC developed the Automated Payout System (APS), which greatly enhanced the deposit payoff process. When preparing for a payoff, the APS saved significant amounts of time and money by allowing for a direct download of the failed institution's records into the FDIC's database. The automation of this step resulted in huge savings in the amount of time required to input the information and produce depositor listings from which insurance determinations were made. The APS also printed the payoff checks, the liability register, and the uninsured depositor report. The liability register produced with APS is a tracking system that identified who should be paid, the amount to be paid, the type of account, and any holds that the FDIC may have placed; it saved the claim agents significant time in reconciling or researching the checks and funds disbursed.

The APS not only saved the FDIC valuable time in preparing for a payoff and having the checks readily available for the depositors, but also increased the FDIC's accuracy by automating the transfer of deposit account information and allowing time for more thorough deposit insurance determinations. The FDIC used the APS successfully for the first time at North Central National Bank, Austin, Texas, which closed on April 23, 1987.

Two years later, the FDIC developed the Automated Grouping System (AGS) and combined it with the APS. The AGS/APS could download an institution's deposit information directly into the FDIC's database, which could then be aggregated on the basis of specified identifying fields (including the depositor's name, social security number, and address) to determine the appropriate amount of deposit insurance coverage. Before

the automation of that process, FDIC personnel (anywhere from 5 to 20 or more people) would have to manually alphabetize (or group) the deposit accounts by the same name, rights, and capacities of the accounts, and combine similar accounts to determine insurance coverage. Issues would arise about whether a depositor's name had been duplicated; for example, when a Mary J. Jones and a Mary Jo Jones were listed as depositors. The claim agent was then required to research the institution's deposit information to determine whether Mary J. Jones and Mary Jo Jones were one and the same. With the implementation of AGS/APS, the FDIC was able to eliminate that time-consuming and labor-intensive step.

Automating the deposit payoff process also allowed the FDIC to focus its attention on customer service rather than on the "backroom" operations of the payoff. The FDIC was then able to handle the payment of depositors in a more expeditious manner. It first used AGS/APS successfully at Fulshear State Bank, Fulshear, Texas, which closed on June 8, 1989.

AGS/APS has continued to become more sophisticated. A major enhancement was the development of the "pass with a hold" feature, which allowed the FDIC to transfer money to the assuming institution for funds that the FDIC suspected would be insured after additional documentation proving ownership of the accounts was provided. The assuming institution was allowed to pay the insured portion to the depositor and to hold the potentially uninsured portion until an insurance determination could be made. An example of this feature might have occurred when the failed institution did not keep a copy of the trust agreement for an account held in trust for a family member. Before the pass with a hold enhancement, the potentially uninsured funds remained with the FDIC, and the FDIC then had to initiate a second funding after the additional documentation was received. With the new enhancement, funds were available to the assuming institution so they could be immediately released to the customer.

Another enhancement was the development of FDIC internal management reports that the FDIC used to analyze the deposit base before a closure. The FDIC uses those reports to identify the deposit composition and ascertain how the institution should be marketed. An additional improvement was made in how loans and potential offsets were analyzed and the overall impact of those loans and offsets on the deposit base. The benefit of that enhancement was demonstrated in 1989, when the FDIC completed several deposit analyses two years before the Bank of New England was put into receivership. Those analyses provided the FDIC with a clearer picture of the deposit base composition for the Bank of New England and of how different deposit classes would be affected by the various types of transactions being proposed.

Implementation of U.S. Mail Payoff

In 1988, the FDIC developed the U.S. mail payoff process. The purpose of the process was to get deposit insurance checks into the hands of insured depositors as quickly as possible, thereby eliminating the need for depositors to stand in line at the failed institu-

tion to wait for their checks. The mail payoff process, which made it possible for depositors' checks to be delivered straight to their mailing addresses, has been used consistently for depositor payoffs since 1990.

Advance Planning for a Closing

When a bank closure was impending, FDIC planners would review all the financial and operational information available to prepare for the closing. The FDIC, the OCC, or the state bank examination staff that was monitoring the failing bank would then forward the information to FDIC liquidation personnel. Beginning in 1988, members of the FDIC liquidation staff would join the bank examiners on site to directly obtain the necessary preclosing information. By 1989, members of the FDIC, or the newly created RTC, closing teams would visit the failing institution to download deposit data.

Because most failed savings and loans were in an RTC-controlled conservatorship and their employees were under the management of RTC personnel, the RTC closing team was also able to use the institutions' employees and data processing systems to prepare for the closing. The RTC developed a national manual that divided the closing into three stages: preclosing, closing, and postclosing. The work completed during the preclosing stage was critical when the RTC faced a multi-billion-dollar institution with multiple branch locations and the possibility of multiple acquirers and differing transaction types. Because the FDIC did not use conservatorships, its personnel had to complete their planning off site and without the assistance of the failing institutions' employees. The following three cases demonstrate the benefits of the emphasis on advance planning for impending resolutions.

Southwest FSA, Dallas, Texas

In July 1991, the RTC closed and liquidated the Southwest FSA (Southwest), Dallas, Texas, a large institution with approximately \$2.2 billion in deposits and 67 branches located throughout Texas. Before resolving Southwest, the RTC had prepared for the possibility of multiple acquirers, and because the institution had multiple computer systems, the RTC had to complete various software changes to enable the institution to be broken out by branch and sold to those multiple acquirers. The RTC sold the insured deposits from 45 of the branches to one of two acquirers, and the remaining 22 branches were resolved through a deposit payoff.

For the uninsured depositors at all 67 branches, the RTC had engaged an accounting firm to assist in the closing and claims process. If the RTC had not been able to complete the preclosing computer programming and prepare for multiple acquirers, its closing team would have experienced operational problems in segregating the appropriate branch customers among the two acquirers and the RTC as the receiver.

Columbia Savings and Loan Association, Beverly Hills, California

In September 1991, the RTC closed and liquidated the Columbia Savings and Loan Association (Columbia), Beverly Hills, California. That resolution involved the largest deposit payoff of brokered deposits, \$2.8 billion, in the history of both the RTC and the FDIC. In addition to the \$2.8 billion in brokered deposits at Columbia, the institution had approximately \$2.3 billion in retail deposits. The retail deposits were transferred to an assuming institution in an insured deposit transfer, and the brokered CDs were paid off. The large number of depositors (365,000) and the unique deposit composition required extensive preresolution planning.

To address the brokered deposit situation, the RTC initiated a meeting with executives of the Depository Trust Company (DTC), the Securities Industry Association (SIA), and major deposit brokers in New York City. The DTC held the brokered deposits on behalf of the brokers and their clients, while the SIA and the brokers sold their clients an interest in one of the CDs issued by Columbia. Frequently, the CD was held in the DTC's nominee name. Columbia did not have any documentation to determine who the actual holders of the CDs were, so the RTC thought that it would be wise to meet with this group to explain the closing and claims process. The meeting was held in accordance with an earlier agreement between the FSLIC and the SIA that was adopted by the RTC. The agreement detailed procedures for processing brokered accounts.

The RTC, in addition to meeting with the above-mentioned parties and writing special computer programming, established additional telephone lines to handle thousands of calls related to the closing. The brokers were encouraged to provide their documentation on computer tapes, thus expediting the grouping process and providing timelier determinations for all depositors. Within nine business days of the resolution, approximately \$2.3 billion (82.1 percent) of the \$2.8 billion in total insured brokered funds at Columbia had been paid.

The Columbia transaction was successful as a result of the preclosure planning and the meeting, which provided the RTC with an opportunity to learn about the daily operations of the DTC that were related to ongoing trading of the certificates. That experience proved to be of further assistance to the RTC and the FDIC when they developed software and procedures for processing and tracking brokered accounts of that magnitude.

Guardian Bank, Los Angeles, California

In January 1995, the FDIC closed the Guardian Bank (Guardian), Los Angeles, California, whose closing is of special interest because of its unique deposit base. The failure of that institution could have created significant problems for the real estate industry in Southern California, even though the bank had only 5,419 deposit accounts totaling \$211 million. Approximately 67 percent of Guardian's deposits were from title and escrow companies for pending real estate transactions. The deposit base could there-

fore change dramatically each month, with swings of as much as \$300 million. The transitory nature of those funds made planning for the closing more difficult. Most of the title and escrow company deposit accounts had multiple owners, ranging from 20 to 1,000. If the escrow funds were not available to complete real estate sales, the impact on the local economy could have been serious. When Guardian was closed, 1,608, or 30 percent, of the deposit accounts held funds that were potentially uninsured, in comparison to the average bank, in which 5 percent or below of the deposit accounts could have been uninsured.

The main problem facing FDIC staff was the identification of the owners of the escrow account funds and the insurability of each owner. If the deposit accounts of the institution properly reflected the title company's or escrow company's interest in the deposits as a fiduciary or other custodial capacity, and the title or escrow company had adequate records to support the different escrow account principals, separate insurance coverage could be provided on the basis of the owners' rights and capacities. If the deposit account records did not reflect the fiduciary relationship of the title or escrow companies, the funds would be insured solely as the funds of the title or escrow company, and then aggregated with all other funds owned in the same capacity. Accordingly, the title or escrow company would only be provided with \$100,000 in deposit insurance coverage. However, even if separate insurance were to be provided to the individual principals of the deposit accounts, each escrow principal could be provided with only \$100,000 in deposit insurance coverage. It was therefore necessary to aggregate the actual names of the account owners with the other depositors of Guardian. That required running a new grouping or aggregation report every day after the information was received from the title or escrow companies.

Because of the size and complexity of the accounts involved in the projected Guardian failure, the FDIC had to do extensive preclosing work. The FDIC used post-closing procedures, developed specifically for that closing, to provide comprehensive information to the depositors and to clarify what was needed from the title or escrow companies to prove ownership for deposit insurance purposes. A town meeting was held on the Monday after the closing to explain the insurance rules and to provide each title and escrow company with a computer disk and instructions on how to report the ownership and deposit information needed to prove eligibility for insurance coverage. The State of California Department of Corporations, in cooperation with the FDIC, did extensive work to ensure that the title and escrow companies were given sufficient notification so that as many as possible could be at the meeting. The FDIC developed the program for title and escrow deposit accounts reporting specifically for Guardian on the basis of a similar type of program created for the Columbia closing handled by the RTC in 1991. The program was extremely successful, with accuracy and prompt turnaround time being just two of the many benefits.

Guardian also had a large number of employee benefit plan accounts (approximately 550) for labor unions in Southern California. The closing was the first major test of the pass-through insurance rules governed by the recently enacted Federal Deposit

Insurance Corporation Improvement Act of 1991.⁵ The FDIC, on the basis of the new rules for the acceptance of brokered deposits and notification to employee benefit plan depositors, was required to determine the dates on which those accounts were opened in order to determine whether the deposits were eligible for pass-through insurance.

Guardian's closing required major preplanning concerning handling of the unique depositor base, the coordination of nationwide staffing for specialized areas, the promotion of a greater commonality of procedures, and the ability to work together on a national level to serve a specific office and community. All of those challenges were accomplished with minimal economic disruption to the depositors and communities served by the failed institution.

Conclusion

The FDIC and the RTC have continually developed their ability to efficiently and effectively pay deposit insurance proceeds through innovations in automation, training, and procedures. The increased number and sizes of failing financial institutions, coupled with the failure of several state-sponsored deposit insurance funds, made the mid-1980s and early 1990s especially challenging. Nevertheless, the public maintained its confidence in the federal deposit insurance system and in the ability of the FDIC and the RTC to handle the failures.

After development of the insured deposit transfer in 1983, the FDIC had a 93 percent success rate in finding acquirers for the failed bank deposit accounts. The development of the automated grouping system and the ability to service multiple acquirers made it possible for the RTC to resolve many large thrift failures.

Innovations in the deposit payoff process were also made. The supplementation of the automated payoff system with the automated grouping system greatly speeded up the FDIC's capability to accurately produce deposit insurance settlement checks. The implementation of the U.S. mail payoff process got those checks delivered quickly to the depositors' homes, making the scene of depositors waiting in long lines to get their money a thing of the past.

5. Section 330.12 of the FDIC's regulations provides that "pass-through" coverage of \$100,000 applies to each participant's noncontingent interest in an employee benefit plan account. The availability of this coverage depends on the capital level of the institution and compliance with the applicable recordkeeping requirements. The capital level of the institution determines whether the institution is eligible to accept brokered deposits and the employee benefit plan deposits.

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Michelle Slusher of the FDIC's liquidation office in Knoxville, Tennessee, posts signs informing depositors about the closing of First American Bank for Savings, Boston, Massachusetts, on October 19, 1990.



Payments are made to creditors with valid claims through the dividend process. If no funds are available for immediate distribution, the claimant receives a receivership certificate showing entitlement to a share in the receivership estate.