GLOSSARY

**acquiring institution**: A healthy bank or thrift institution that purchases some or all of the assets and assumes some or all of the liabilities of a failed institution in a purchase and assumption transaction. The acquiring institution is also referred to as the assuming institution. (Also see *assuming institution*.)

**advance dividend**: A payment made to an uninsured depositor after a bank or thrift failure. The amount of the advance dividend represents the FDIC’s conservative estimate of the ultimate value of the receivership. Cash dividends equivalent to the board-approved advance dividend percentage (of total outstanding deposit claims) are paid to uninsured depositors, thereby giving them an immediate return of a portion of their uninsured deposit. Sometimes when it is projected that all depositor claims will be paid in full an advance dividend will be provided to unsecured creditors.

**agent institution**: The healthy bank or thrift that accepts the insured deposits and secured liabilities of a failed institution in an insured deposit transfer, in exchange for a transfer of cash from the FDIC.

**appraised equity capital**: A regulatory capital item established by the former Federal Home Loan Bank Board that allowed a savings association to count as part of its regulatory capital the difference between the book value and the fair market value (appraised value) of fixed assets, including owner-occupied real estate.

**asset valuation review**: A review of all of a failing institution’s assets to estimate the liquidation value of the assets. This estimate is used in the least cost analysis that is required by Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991.

**assistance agreement**: An agreement pertaining to a failing institution under which a deposit insurer, such as the FDIC, provides financial assistance to the failing institution or to an acquiring institution. The assistance agreement includes the terms of the purchase of assets and assumption of liabilities of the failing institution by the assuming institution; it may also include provisions regarding a reorganization of the failing institution under new management or a merger of the failing institution into a healthy institution.

**assisted merger**: A failing institution is absorbed into an acquiring institution that receives FDIC assistance. In 1950, the FDIC was authorized by section 13(e) of the Federal Deposit Insurance Act (FDI Act) of 1950 to implement assisted mergers. In 1982, when the FDI Act was amended, the merger authority, as amended, was written into section 13(c) of the FDI Act. Such transactions allow the FDIC to take direct action to reduce or avert a loss to the deposit insurance fund and to arrange the merger of a troubled institution with a healthy FDIC insured institution without closing the failing institution. Assisted mergers were the Federal Savings and Loan Insurance Corporation’s preferred resolution method.
assuming institution: A healthy bank or thrift that purchases some or all of the assets and assumes some or all of the deposits and other liabilities of a failed institution in a purchase and assumption transaction. The assuming institution is also referred to as the acquiring institution. (Also see acquiring institution.)

bank: A financial institution which in the normal course of its business operations accepts deposits; pays, processes, or transacts checks or other deposit accounts; and performs related financial services for the public. Also a bank generally makes loans or advances credit.

Bank Insurance Fund (BIF): One of the two federal deposit insurance funds created by the U.S. Congress in 1989 and placed under the FDIC’s administrative control. The BIF insures deposits in most commercial banks and many savings banks. The FDIC’s “permanent insurance fund,” which had been in existence since 1934, was dissolved when the BIF was established. The money for a deposit insurance fund comes from the assessments contributed by member banks and also from investment income earned by the fund. (Also see Savings Association Insurance Fund.)

book value: The dollar amount shown on the institution’s accounting records or related financial statements. The “gross book value” of an asset is the value without consideration for adjustments such as valuation allowances. The “net book value” is the book value net of such adjustments. The FDIC restates amounts on the books of a failed institution to conform to the FDIC’s liquidation accounting practices. Therefore, in the FDIC accounting environment, book value generally refers to the unpaid balance of loans or accounts receivable, or the recorded amount of other types of assets (for example, owned real estate or securities).

bridge bank: A temporary national bank established and operated by the FDIC on an interim basis to acquire the assets and assume the liabilities of a failed institution until final resolution can be accomplished. The use of bridge banks generally is limited to situations in which more time is needed to permit the least costly resolution of a large or complex institution.

branch breakup: A resolution strategy that provides bidders with the choice of bidding on the entire franchise or on individual or groups of branches of the failing institution. Marketing failing institutions on both a whole franchise and a branch breakup basis can expand the universe of potential buyers and may result in better bids in the aggregate. In branch breakup transactions, prospective acquirers are required to submit bids on both the “all deposits” and “insured deposits” options except for bids on the entire franchise. The branch breakup resolution strategy was developed by the RTC to allow smaller institutions to participate in the resolution process and to increase competition among the bidders.

capital forbearance: The temporary permission for a bank or thrift to operate with capital levels below regulatory standards if the bank or thrift has adequate plans to restore capital. For example, banks suffering because of the energy and agricultural crises in the mid-1980s were permitted to operate with capital levels below regulatory standards if they had adequate plans to restore capital.
A joint policy statement issued in March 1986 by the FDIC, the Office of the Comptroller of the Currency (OCC), and the Federal Reserve Board encouraged a capital forbearance program for agricultural banks.

**capital loss coverage:** A form of aid in assistance transactions that provided for a payment equal to the difference between an asset’s original value (book value) and the proceeds received when the asset was sold.

**cash equivalents:** Assets on the balance sheet of a financial institution that can be readily converted into cash. Examples include accounts due from correspondent banks and federal funds sold.

**charge-off:** A book value amount that was expensed as a loss before receivership and that continues to be a legal obligation of the borrower to the institution. A charge-off is technically an off-book memorandum accounting item that represents the book value of an asset that the bank or thrift previously wrote off.

**chartering authority:** A state or federal agency that grants charters to new depository institutions. For state chartered institutions, the chartering authority is usually the state banking department; for national banks, it is the OCC; and for federal savings institutions, it is the Office of Thrift Supervision (OTS).

**claim:** An assertion of the indebtedness of a failed institution to a depositor, general creditor, subordinated debtholder, or shareholder.

**conservator:** A person or entity, including a government agency, appointed by a regulatory authority to operate a troubled financial institution in an effort to conserve, manage, and protect the troubled institution’s assets until the institution has stabilized or has been closed by the chartering authority.

**conservatorship:** The legal procedure provided by statute for the interim management of financial institutions used by the FDIC and Resolution Trust Corporation (RTC). Under the pass-through receivership method, after the failure of a savings institution, a new institution is chartered and placed under agency conservatorship; the new institution assumes certain liabilities and purchases certain assets from the receiver of the failed institution. Under a straight conservatorship, the FDIC or RTC may be appointed conservator of an open, troubled institution. In each case, the conservator assumes responsibility for operating the institution on an interim basis in accordance with the applicable laws of the federal or state authority that chartered the new institution. Under a conservatorship, the institution’s asset base is conserved pending the resolution of the conservatorship.

**contingent liability:** potential claims on bank assets for which any actual or direct liability is contingent upon some future event or circumstance. Contingencies usually result from off-balance sheet lending activities such as loan commitments and letters of credit. Other examples are pending litigation in which the bank is defendant and contingent liabilities arising from trust operations.
cross guarantee: A provision of the FDI Act added by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) that allows the FDIC to recover part of its costs of liquidating or assisting a troubled insured institution by assessing those costs to the remaining solvent insured institutions which are commonly controlled as defined in the statute. When the FDIC acts to protect its interests under this provision, the assessment can result in a liquidity strain or, in some cases, the immediate insolvency of an affiliated bank.

Deposit Insurance National Bank (DINB): The Banking Act of 1933 authorized the FDIC to establish a “new” bank called a DINB to assume the insured deposits of a failed bank. Passage of the act permitted the FDIC to pay the depositors of a failed FDIC insured institution through a DINB, a national bank that was chartered with limited life and powers. Depositors of a DINB were given up to two years to move their insured accounts to other institutions. A DINB allowed a failed bank to be liquidated in an orderly fashion, minimizing disruption to local communities and financial markets.

deposit payoff: A resolution method for failed FDIC insured institutions that is used when liquidation of the institution is determined to be the least costly resolution or when no assuming institution can be found. Deposit payoffs generally have two forms: (1) a straight deposit payoff, in which the FDIC directly pays the insured amount of each depositor, and (2) an insured deposit transfer, in which a healthy institution is paid by the FDIC to act as its agent and pay the insured deposits to customers of the failed institution. A deposit payoff is sometimes called a payoff. (Also see insured deposit transfer, payoff, and straight deposit payoff.)

due diligence: A potential purchaser’s on-site inspection of the books and records of a failing institution. Before an institution’s failure, the FDIC invites potential purchasers to the institution to review pertinent files so they can make informed decisions about the value of the failing institution’s assets. All potential purchasers must sign a confidentiality agreement. In addition, contractors may be hired to perform due diligence work on assets that are earmarked for multi-asset sales initiatives. By hiring outside firms to provide and certify the due diligence, investors have the assurance that an independent source provides them with reliable investment information.

failure: The closing of a financial institution by its chartering authority, which rescinds the institution’s charter and revokes its ability to conduct business because the institution is insolvent, critically undercapitalized, or unable to meet deposit outflows.

Federal Deposit Insurance Corporation (FDIC): The federal corporation chartered by Congress in 1933 to promote confidence in the nation’s banking system by establishing a federal deposit insurance program and by acting as the primary federal bank regulator of state chartered banks that are not members of the Federal Reserve System. The FDIC has a five-member board of directors, all of whom are appointed by the president of the United States with the advice and consent of the Senate. The comptroller of the Currency and the director of the Office of Thrift Supervision are two of the five members. The FDIC manages the Bank Insurance Fund and the Savings Association Insurance Fund, insuring deposits in commercial and savings institutions. Additionally, the FDIC acts
as the receiver (and occasionally, as conservator) of failed financial institutions. In performing and discharging its role as deposit insurer or as a primary federal bank regulator, the FDIC is considered to be acting in its “corporate capacity,” namely, as an agency of the United States government. In contrast, the FDIC acts in a conservatorship or receivership capacity when it performs and discharges its obligations as the conservator or receiver of a failed institution. The FDIC performs its roles in accordance with the statutory conditions, duties, powers, and rights that Congress has imposed on it.

**Federal Reserve Bank (FRB):** One of the 12 regional banks in the Federal Reserve System. The 12 FRBs and their 25 branches, which are managed by the Board of Governors of the Federal Reserve System, perform a variety of functions, including operating a nationwide payments system, distributing the nation’s currency, supervising and regulating member banks and bank holding companies, and serving as banker for the U.S. Treasury. The FRBs supervise and examine state chartered banks that are members of the Federal Reserve System (state member banks).

**Federal Reserve System (Fed):** The central banking system of the United States, founded by the U.S. Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, the Fed’s role in banking and the economy has expanded. The Fed administers the nation’s monetary policy using three major tools: open market operations, the reserve requirement, and the discount rate. The Fed also plays a major role in the supervision and regulation of the U.S. banking system. The Board of Governors of the Federal Reserve System (the Federal Reserve Board) is made up of seven members appointed to 14-year terms by the president of the United States and confirmed by the Senate. The chairman and vice chairman of the board, however, serve four-year terms. The Federal Reserve Board’s policies are carried out by the 12 regional Federal Reserve Banks.

**Federal Savings and Loan Insurance Corporation (FSLIC):** The federal corporation chartered by Congress in 1934 to insure deposits in savings institutions. The FSLIC also served as a conservator or receiver for troubled or failed insured savings associations. Effective April 1, 1980, for insured savings and loan institutions, the FSLIC insured savings accounts up to $100,000. The FSLIC functioned under the direction of the FHLBB, which provided certain administrative services and conducted the examination and supervision of insured savings and loan associations. In 1989, Congress abolished the FSLIC, transferring its resolution, conservatorship, and receivership functions to the RTC and its responsibilities for the deposit insurance fund to the Savings Association Insurance Fund, which is administered by the FDIC.

**forbearance:** A bank resolution method that exempts certain distressed institutions that are operating in a safe and sound manner, from minimum capital requirements. The forbearance program used by the FDIC in the mid-1980s was designed for well-managed, economically sound institutions with concentrations of 25 percent or more of their loan portfolios in agricultural or energy loans. Forbearance is also a means of handling a delinquent loan. A “forbearance agreement” is a written agreement providing that a lender will delay exercising its rights (in the case of a mortgage, foreclosure) as long as the borrower performs in accordance with certain agreed-upon terms.
fund balance: The equity or net worth of each of the primary insurance funds—bank insurance fund or savings association insurance fund—administered by the FDIC. The fund balance for each fund is annually reflected in financial statements prepared by the FDIC, which are audited and reported to the U.S. Congress by the General Accounting Office.

general creditors: Entities, including uninsured depositors, suppliers, trades people, and contractors, with unsecured claims against a failed financial institution.

Generally Accepted Accounting Principles (GAAP): Accounting rules and conventions established by the Financial Accounting Standards Board that define acceptable practices in preparing financial statements.

income maintenance agreement: A resolution method used by the FDIC in the early 1980s to guarantee a market rate of return on the acquired assets of failed savings banks. The FDIC paid the acquirer the difference between the yield on assets acquired and the savings bank’s average cost of funds of savings banks.

indemnification: In general, a collateral contract or assurance under which one person agrees to secure another person against either anticipated financial losses or potential adverse legal consequences.

information package: A collection of detailed information about the amounts and types of assets and liabilities of a failed or failing institution. The information varies, depending on the composition of assets and liabilities of the troubled institution. An information package, which is subject to a confidentiality agreement, is provided to potential purchasers to facilitate their analyses of the failing institution.

insured deposit: Deposit in an FDIC insured commercial bank, savings bank, or savings association that is fully protected by FDIC deposit insurance. Savings, checking, and other deposit accounts, when combined, are generally insured up to $100,000 per depositor in each financial institution insured by the FDIC. Deposits held in different ownership categories, such as single or joint accounts, are separately insured. Also, separate $100,000 coverage is usually provided for retirement accounts, such as individual retirement accounts. (Also see Uninsured Deposit.)

insured deposit transfer (IDT): A type of deposit payoff in which the insured and secured deposits of a closed bank or thrift are transferred to a transferee or agent institution in the community, permitting a direct payoff of the failed institution’s depositors by the agent institution. The agent institution pays customers of the failed institution the amount of their insured deposits or, at the customer’s request, opens a new account in the agent institution for the customer. When no assuming bank can be found for the failed bank, an insured deposit transfer is an alternative to a straight deposit payoff. (Also see deposit payoff, payoff, and straight deposit payoff.)
**least cost test:** A procedure mandated by FDICIA that requires the FDIC to implement the resolution alternative that is determined to be least costly to the relevant deposit insurance fund of all possible resolution alternatives, including liquidation of the failed institution. Before enactment of FDICIA, the FDIC could pursue any resolution alternative, as long as it was less costly than a deposit payoff combined with liquidation of the failed bank’s assets. (Also see deposit payoff)

**liquidation:** The winding down of the business affairs and operations of a failed insured depository institution through the orderly disposition of its assets after it has been placed in receivership.

**loss sharing:** A method in a purchase and assumption transaction in which the FDIC as receiver agrees to share with the acquirer losses on certain types of loans. Loss sharing may be offered by the receiver in connection with the sale of classified or nonperforming loans that otherwise might not be sold to an acquirer at the time of resolution. The FDIC usually agrees to absorb a significant portion (for example, 80 percent) of future disposition losses on assets that have been designated as “shared loss assets” for a specific period of time (for example, three to five years). The economic rationale for such transactions is that retaining shared loss assets in the banking sector would produce a better net recovery than would the FDIC’s liquidation of the assets.

**market discipline:** The forces in a free market (without the influence of government regulation) which tend to control and limit the riskiness of a financial institution’s investment and lending activities. Such forces include the concern of depositors for the safety of their deposits and the concern of bank investors for the safety and soundness of their institutions.

**mutual:** A savings institution organized in a nonstock business form. Neither mutual savings banks nor mutual savings institutions have stockholders. All depositors in a mutual institution have a share in the ownership of the institution, according to the amounts of their deposits.

**national depositor preference amendment:** Provisions of the Omnibus Budget Reconciliation Act, that established the priority for paying claims filed against a failed depository institution. The Omnibus Budget Reconciliation Act was enacted on August 10, 1993, and amended section 11(d) of the FDI Act and standardized the assets distribution scheme for all receiverships regardless of the institution’s chartering agency. As a result of this act, deposit liabilities of the institution have priority over all claims except the administrative expenses of the receiver.

**net worth certificate (NWC):** A capital instrument purchased by the FDIC or the former FSLIC under a special program created by the U.S. Congress in 1982 to maintain or increase the capital of troubled institutions that qualified for the program. Under this program, the FDIC purchased a net worth certificate from a qualified institution in exchange for an FDIC insured promissory note, which was an asset on the bank’s books, with the offsetting liability of the net worth certificate counted as regulatory capital. Extended twice by Congress, this program expired in 1986.

**Office of the Comptroller of the Currency (OCC):** A bureau within the U.S. Department of the Treasury, established in 1863. The OCC charters, regulates, and supervises national banks, which can...
usually be identified because they have the word “national” or “national association” in their names. The OCC also supervises and regulates the federally licensed branches and agencies of foreign banks doing business in the United States. The comptroller of the currency, who is appointed by the president of the United States, with Senate confirmation, and who is one of the FDIC’s five directors, heads the OCC.

**Office of Thrift Supervision (OTS):** An organization within the U.S. Department of the Treasury, established on August 9, 1989, by FIRREA. The OTS, with five regional offices located in Jersey City, Atlanta, Chicago, Dallas, and San Francisco, is the primary regulator of all federal and many state chartered thrift institutions. A director, who is appointed by the president of the United States, with Senate confirmation, for a five-year term and who is one of the five FDIC directors, heads the OTS.

**open bank assistance (OBA):** A resolution method in which an insured bank in danger of failing receives assistance in the form of a direct loan, an assisted merger, or a purchase of assets. OBA usually entails a change in bank management and requires substantial dilution of shareholder interest in the troubled institution. Originally, as provided in the FDI Act, the FDIC could grant open bank assistance only if the institution’s continued operation was deemed “essential.” With the passage of the Garn-St Germain Depository Institutions Act of 1982, an institution could receive assistance if the cost of the assistance was less than the cost of liquidating the institution. When FDICIA was enacted in 1991, OBA had to be deemed least costly to the insurance fund of all possible resolution methods. A later amendment to FDICIA prohibited providing assistance to the shareholders of a troubled institution.

**pass-through receivership:** A resolution term used when all deposits, substantially all assets, and certain nondeposit liabilities of the original institution instantly “passed through the receiver” to a newly chartered federal mutual association, subsequently known as the “conservatorship.”

**payoff:** A resolution method for a failed bank or thrift in which the FDIC directly pays the insured amount of each insured depositor. Also known as a deposit payoff. (Also see deposit payoff, insured deposit payoff, and straight deposit payoff.)

**purchase and assumption (P&A):** A resolution method in which a healthy insured institution purchases some or all of the assets and assumes the deposit liabilities of a failed bank or thrift. On a case-by-case basis, the assuming institution’s bid may be sufficient to allow assumption of all the deposit liabilities of the failing institution, including the uninsured deposits.

**put option:** A provision in some purchase and assumption agreements under which an assuming institution has the option of requiring the FDIC, within a specified time frame, to repurchase certain loans that have been transferred to the acquiring institution under a P&A agreement.

**qualified financial contract (QFC):** A type of financial agreement that includes, but is not limited to, securities contracts, forward contracts, repurchase agreements, and swap agreements. When a
receiver repudiates a QFC, damages are measured as of the date of the repudiation and may include the cost of acquiring a replacement QFC. Special rules for the repudiation of QFCs exist to protect domestic financial markets.

**receiver**: A person or entity, including a government agency, appointed to handle the assets and liabilities of a failed insured depository institution. A receiver succeeds to all the interests and property owned by the failed institution. The U.S. Congress requires the FDIC to be the receiver for insured federal depository institutions. The FDIC may accept appointment as the receiver of a state chartered insured institution and has authority under certain circumstances to appoint itself as the receiver for a state chartered insured depository institution.

**receivership certificate**: A document issued by the receiver that represents the total amount of the proved claim that each depositor or unsecured creditor has against a failed bank or thrift in receivership.

**reimbursable expenses**: Out-of-pocket expenses paid to third parties during the shared loss period of a loss sharing agreement. The expenses are paid to effect recoveries and to manage, operate, and maintain owned real estate net of income received on that property. Examples of reimbursable expenses include the cost of appraisals, title policies, and environmental site assessments.

**repudiate**: A receiver’s (or conservator’s) right to disaffirm outstanding contractual obligations previously entered into by a failed insured depository institution. The receiver may take such action only if (1) the contracts are considered burdensome and (2) repudiation will promote the orderly administration of the receivership estate. The FDI Act provides that certain contracts cannot be repudiated.

**reserve price**: The minimum price for which one asset or a portfolio of assets can be sold. A reserve price is often expressed as a percentage of book value for which an asset or a pool of assets can be sold.

**resolution**: The disposition plan for a failed institution, designed to (1) protect insured depositors and (2) minimize the losses to the relevant insurance fund, which are expected from covering insured deposits and disposing of the institution’s assets. Resolution methods generally include purchase and assumption transactions, insured deposit transfers, and straight deposit payoffs. The term “resolution” can also refer to the assistance plan, through open bank assistance, for a failing institution.

**Resolution Trust Corporation (RTC)**: An entity established in 1989 by FIRREA to oversee the resolution of insolvent thrifts and to dispose of assets acquired from the failed thrifts in the wake of the thrift crisis of the 1980s. The RTC operated from August 9, 1989, to December 31, 1995.

**Savings Association Insurance Fund (SAIF)**: One of the two federal deposit insurance funds created by FIRREA in 1989 and placed under the FDIC’s administrative control. Created for the thrift
industry, SAIF succeeded the FSLIC as the insurer of deposits to specified limits at savings associations (also called S&Ls) and many savings banks. (Also see Bank Insurance Fund)

**sequential bidding:** The FDIC’s practice of reviewing bids for failing banks in the 1980s. On December 30, 1986, the FDIC Board of Directors established an order of priority for six alternative methods of passing assets to acquirers under authority delegated by the FDIC Board of Directors to staff prior to the receipt of the bids.

**straight deposit payoff:** A resolution method for failed FDIC insured institutions which can be used when the liquidation, closing or winding up of the affairs is determined to be the least costly resolution of the institution. A straight deposit payoff is one of the two methods of deposit payoffs. (The other is an insured deposit transfer.) In a straight deposit payoff, the FDIC determines the amount of insured deposits and pays that amount directly to each depositor. The FDIC as receiver retains all assets and liabilities, and the receivership bears the cost of liquidating all of the assets. (Also see deposit payoff, insured deposit transfer, and payoff.)

**subrogation:** The process where the FDIC is substituted as the claimant for the insured deposits paid by the FDIC. The claims against the receivership estate include the FDIC, in its corporate capacity, as payer of insured deposits.

**thrift:** A financial institution that ordinarily possesses the same depository, credit, financial intermediary, and account transactional functions as a bank, but that is chiefly organized and primarily operates to promote savings and home mortgage lending rather than commercial lending. Also known as a savings bank, a savings association, a savings and loan association, or an S&L.

**uninsured deposit:** The portion of any deposit of a customer at an insured depository institution that exceeds the applicable FDIC insurance coverage for that depositor at that institution. (Also see Insured Deposit.)

**yield maintenance:** Assistance from a financial institution’s insurer that provided a guarantee that certain assets purchased by an acquiring institution in a resolution would yield a prescribed rate of return. In many cases, the yield on these assets could be substantially higher than the institution’s cost of funding or cost of carrying the assets. Conceptually, yield maintenance and income maintenance agreements are similar in that they both essentially provide for income protection for nonperforming or low-yielding assets acquired in an assistance transaction.