The FDIC and RTC

experience

MANAGING THE CRISIS

Chronological Overview

The Federal Deposit Insurance Corporation

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Chronological Overview

The Chronological Overview describes U.S. economic and banking conditions, resolution activity, and significant FDIC/RTC milestones during the financial crisis.

Prologue

The years from 1980 through 2003 were significant ones for the Federal Deposit Insurance Corporation (FDIC). Banks failed in great numbers, failing banks were larger than they had been previously, the amount of insured deposits paid to bank customers grew to the largest levels in history, and the FDIC acquired and disposed of record numbers of failed bank assets. Then, failures dropped dramatically, with only one failure experienced in 1997. During that same period, widespread failures of savings and loan associations led to the insolvency of the Federal Savings and Loan Insurance Corporation, prompting the creation of the Resolution Trust Corporation (RTC).

This chronological overview of the events of that 23-year period has been prepared to provide a single reference source. Various divisions of the FDIC maintain information databases related to their own operations. That information, however, has never before been consolidated. This chronology has been prepared to provide a comprehensive historical overview of that important period.

The first two chapters outline the years before the FDIC was created and the early years of the FDIC. Succeeding chapters present events by year from 1980 through 2003. Beginning with 1989, data is included for the RTC as well. As failure activity decreased beginning 1995, the later chapters focus more on the challenges and changes of the FDIC, rather than failure activity. The appendix contains various tables and charts with data for the entire period of 1980 through 2003 and a guide to help the reader skim through the various sections. FDIC and RTC employees? anecdotal stories of memorable events are located in the last section of this book. Much of the information contained in this book was gleaned from the FDIC?s Annual Reports.

Every effort was made to ensure the accuracy of the information contained in this study and to provide an impartial assessment of what occurred. As is the case with any history, however, the interpretations made by those who have written it are important to its structure and conclusions and these interpretations are not necessarily those of the Federal Deposit Insurance Corporation.

Guide to Chapters

Beginning with 1980, each year is presented in a similar format. Unless otherwise noted, information was derived from the annual reports.

For a more detailed breakdown of each chapter element, please refer to the Guide to Chapters.

Anecdotal Stories

During the process of gathering information for the historical project, *Managing the Crisis: The FDIC and RTC Experience*, several anecdotal stories came to light that are too good not to share.

Guide to Chapters

Beginning with 1980, each year is presented in a similar format. Each of the chapter elements is discussed below. Unless otherwise noted, information was derived from the annual reports

Each chapter includes an "FDIC at a Glance" chart. It presents primary data elements of the year and the preceding year and shows the percentage changes between the years. A summary chart with information for all years 1980-2003 is shown below.

FDIC at a Glance ($ in Millions)			
	12/31/XX	12/31/XX	Percent Change
Number of Bank Failures	See A		
Assistance to Open Banks	See B		
Total Failed and Assisted Banks	See C		
Total Assets of Failed and Assisted Banks	See D		
Losses on Failed and Assisted Banks	See E		
Losses as a Percent of Total Assets	See F		
Assets in Liquidation	See G		
FDIC Staffing	See H		
Number of Problem Banks	See I		
Deposit Insurance Fund Balance	See J		
Deposit Insurance Fund Balance as a Percent of Insured Deposits	See K		
Savings Insurance Fund Balance	See L		
Savings Insurance Fund Balance as a Percent of Insured Deposits	See M		

Source: FDIC, 1980 Annual Report and Reports from FDIC Division of Finance and FDIC Division of Research and Statistics.

A. Number of Bank Failures

This number represents the total number of banks that actually failed.

B. Assistance to Open Banks

This number represents the number of banks that were provided financial assistance but were not actually closed and placed into receivership. Significant cases are discussed in the relevant years. Assistance to Open Banks includes assistance to commercial and mutual savings banks.

C. Total Failed and Assisted Banks

This is the total of A. and B.

D. Total Assets of Failed and Assisted Banks

Total assets is a universal measure of the size of financial institutions and indicates the relative size of the problems handled by the FDIC.

E. Estimated Losses on Failed and Assisted Banks during the Year

This number represents the estimated net loss to the FDIC on the banks that failed in that year. The figure is determined by calculating actual disbursements and subtracting actual and estimated recoveries. This figure is routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and the projected recoveries. All estimates are based upon the latest data available and are as of December 31, 2003. For terminated receiverships, the loss figure listed represents the actual loss. This applies to all receiverships prior to 1988.

F. Estimated Losses as a % of Total Assets

This number is roughly indicative of the FDIC's efficiency in disposing of failing institutions and their assets, although differences in failed bank profiles, asset types, and economic conditions also affect the recovery rate.

G. Assets in Liquidation

This number is the total of assets held by the FDIC for liquidation. It is a book value number only and does not indicate estimated asset values.

H. FDIC Staffing

This number is the total of FDIC staff, including both permanent and temporary employees. Each chapter includes a graph indicating staffing trends and divisional totals for that particular year.

I. Number of Problem Banks

This is the number of open commercial banks in each year which are given a composite CAMEL rating by bank examiners of "4" or "5." The CAMEL rates each element of Capital, Assets, Management, Earnings, and Liquidity from "1" to "5," with "1" being the best and "5" being the worst. A composite rating is then assigned, and banks in the two lowest categories are placed on the FDIC's problem bank list.

J. Bank Insurance Fund Balance

Through 1988, this is the amount of money in the deposit insurance fund. Beginning in 1989, it is the amount of money in the Bank Insurance Fund (BIF) only and does not include the Savings Association Insurance Fund (SAIF).

K. Bank Insurance Fund Balance as a % of Insured Deposits

This number is roughly representative of the FDIC's ability to pay insured deposits of failed banks. A coverage ratio of 1.25% is considered most appropriate.

L. Savings Association Insurance Fund Balance

This number is the amount of money in the Savings Association deposit insurance fund.

M. Savings Association Insurance Fund Balance as a % of Insured Deposits

This number is roughly representative of the FDIC's ability to pay insured deposits of failed savings associations. A coverage ratio of 1.25% is considered most appropriate.

Notable Events

Significant events that occurred during the year are reflected here.

Economic/Banking Conditions

Regional and national economic trends are detailed here. The state of the banking industry during the year is discussed here, including the number of failures, number of problem institutions, and number of newly chartered institutions. The following tables detail the number and total assets of all FDIC insured commercial and savings banks in the year. They also lists the average Return on Assets and Return on Equity per type of institution per year.

Open Financial Institutions Insured by FDIC 1980-1994

Commercial Banks - FDIC Regulated			
Item	19XX	19XX	Percent Change
Number			
Total Assets			
Return on Assets			
Return on Equity			

Savings Banks – FDIC Regulated			
Item	19XX	19XX	PercentChange
Number			
Total Assets			
Return on Assets			
Return on Equity			

Savings Associations – FHLBB Regulated			
Item	19XX	19XX	Percent Change
Number			
Total Assets			
Return on Assets			
Return on Equity			
Source: Reports from FDIC Division of Research and Statistics.			

Open Financial Institutions Insured by FDIC 1995-2003

BIF Members			
	XXXX	XXXX	Percent Change
Number			
Total Assets			
Return on Assets			
Return on Equity			

SAIF Members			
	XXXX	XXXX	Percent Change
Number			
Total Assets			
Return on Assets			
Return on Equity			
US Branches of Foreign Banks			
Source: FDIC Quarterly Banking Profile.			

Bank Failures and Assistance to Open Banks

This section provides information about the failed and assisted institutions in the year. Transaction types and significant resolutions are discussed where appropriate. The following table outlines the failures and assisted transactions by transaction type. It shows the number of transactions, the total assets, and the estimated loss by type. The expected loss on the failed institutions was last estimated on December 31, 2003.

Estimated Losses by Transaction Type

Transaction Type	Number of Transactions	Total Assets	Estimated Loss as of 12/31/03	Estimated Losses as a Percent of Assets
OBAs				
P&As				
IDTs				
Payoffs				
Totals				

Payments to Depositors and Other Creditors

This section contains information concerning the number of failing bank and assisted transactions by type of transaction since the FDIC began operations in 1934. Information detailing the amount of disbursements made by the FDIC and the recoveries effected by the FDIC since 1934 is also shown. The total amount of deposits and the number of deposit accounts are shown for the failures and assistances in the year.

> Interesting sidebars are often displayed as inset boxes throughout the text. These boxes provide additional information for clarification purposes and correspond to the topic immediately to the left or above the box.

Asset Disposition

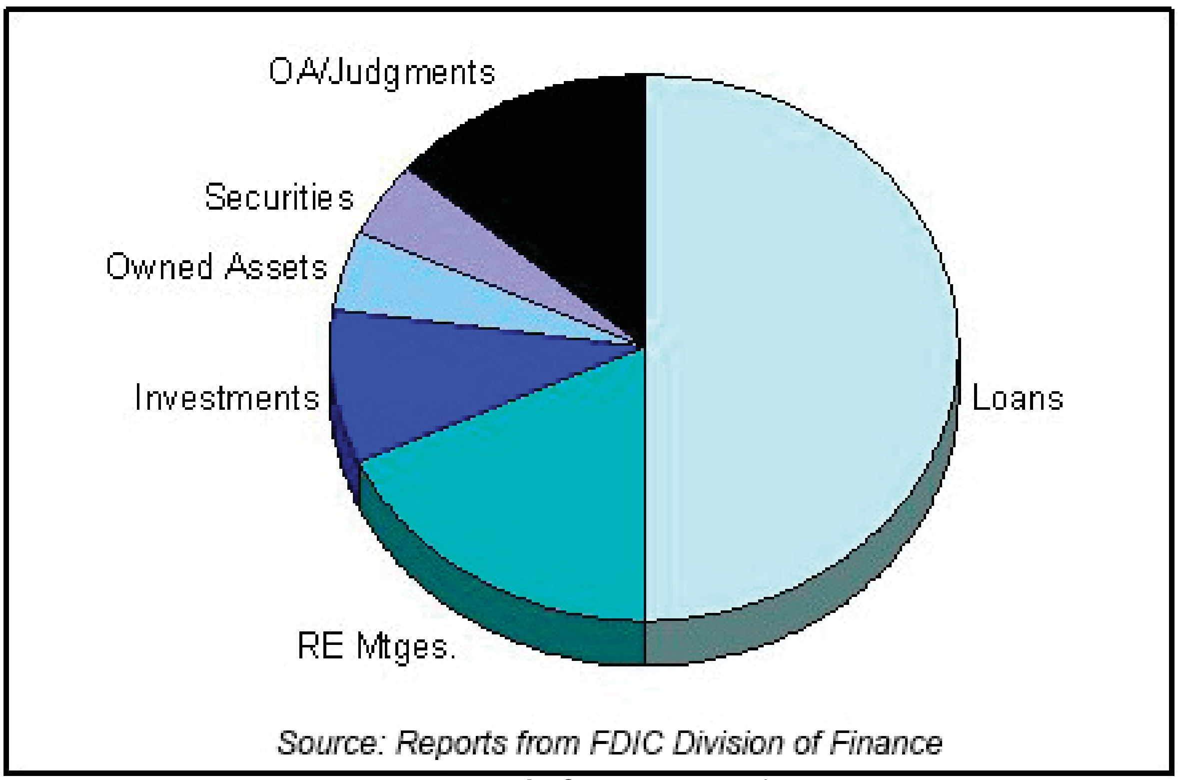
Information about the FDIC's assets in liquidation each year is located here. When applicable, information for the FSLIC Resolution Fund and the Savings Association Insurance Fund is detailed. Significant collection activity is noted in various years. The table below details the book value of assets in liquidation at the beginning of the year, assets acquired from failed institutions, principal collections, and the book value of assets in liquidation at the end of the year. The estimated value of the assets was obtained from the Division of Finance. The following chart is a graphical illustration of the asset mix.

FDIC End of the Year Assets in Liquidation

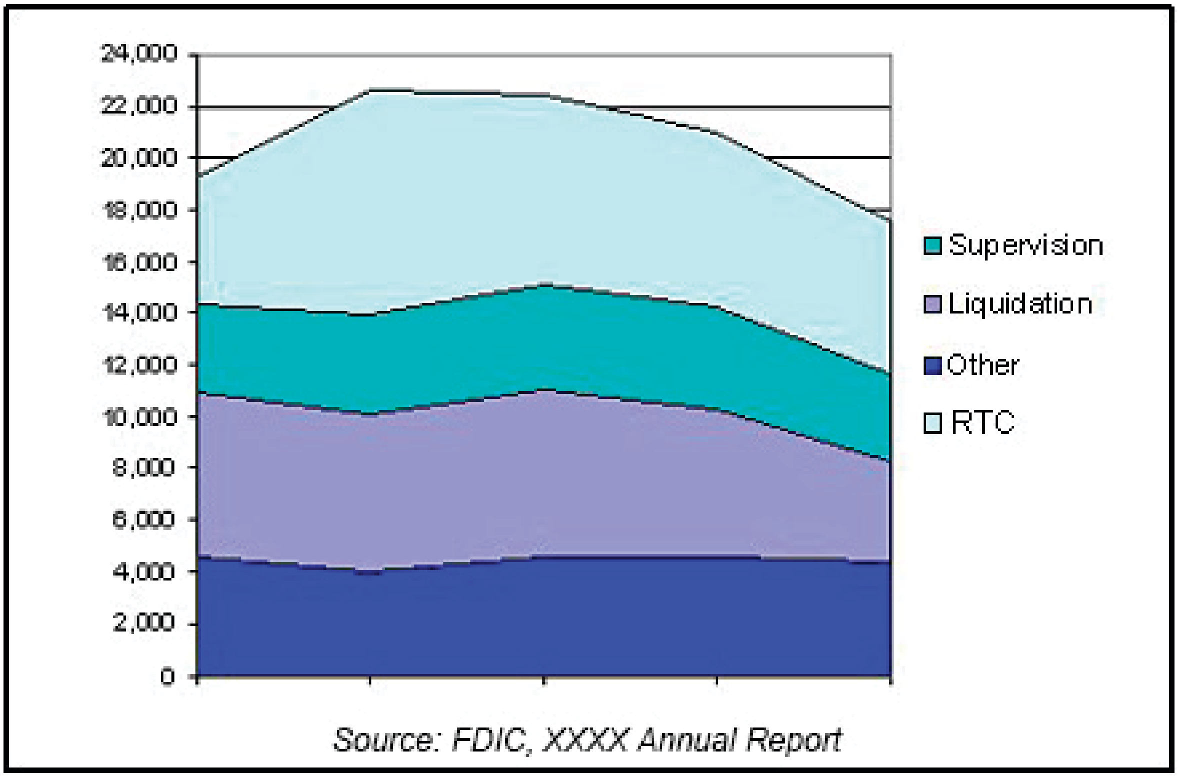
Asset Type	12/31/XX Book Value	19XX Assets Acquired	19XX Prin. Coll.	19XX Write Downs	12/31/XX Book Value	12/31/XX Est. Recovery Value
Loans						
Commercial Loans						
Mortgage Loans						
Other Loans						

FDIC End of the Year Assets in Liquidation						
Asset Type	**12/31/XX Book Value**	**19XX Assets Acquired**	**19XX Prin. Coll.**	**19XX Write Downs**	**12/31/XX Book Value**	**12/31/XX Est. Recovery Value**
Real Estate Owned						
Charge-Offs						
Investments						
Judgments						
Securities						
Other Assets						
Other Assets/ Judgments						
Totals						

Source: Reports from FDIC Division of Finance.



FDIC End of Year Asset Mix



FDIC Staffing

Insurance Fund and Staffing

This section details changes over the previous year in the deposit insurance fund and the staffing levels. Staffing levels are listed for the Division of Supervision, the Division of Liquidation, other FDIC divisions, and the Resolution Trust Corporation. As division names changed, the chart to the left of this paragraph was updated. The chart shows the five-year trend of the staffing levels for the Division of Supervision, the Division of Liquidation, other FDIC divisions, and the Resolution Trust Corporation.

Private Resolutions

When there were private resolutions involving individual state insurance funds, the information is provided here.

Thrifts

In the years prior to the Resolution Trust Corporation, information concerning the thrift industry is displayed under this heading.

Resolution Trust Corporation

Each chapter includes an “RTC at a Glance” chart. It presents primary data elements of the year and the preceding year, and shows the percentage changes between the years. A summary chart with information for all years 1989-1994 is shown below.

RTC at a Glance			
	12/31/XX	12/31/XX	Percent Change
Number of Conservatorships at the beginning of the year			

RTC at a Glance			
	12/31/XX	12/31/XX	Percent Change
Number of Conservatorships added during the year			
Thrifts in the ARP Program*			
Total of allthrift takeovers	See A		
Conservatorships resolved during the year			
Thrifts in the ARP Program*			
Total of thrift resolutions			
Conservatorships at the end of the year			

Total Assets at takeover			
	12/31/XX	12/31/XX	Percent Change
Conservatorships			
Thrifts in the ARP Program			
Total	See B		
Estimated Losses on thrift resolutions			
Estimated Losses as a Percent of Total Assets			

Assets in Liquidation			
	12/31/XX	12/31/XX	Percent Change
Conservatorships			
Receiverships	See C		
Total			
RTC Staffing			

*Thrifts placed into the ARP program are included for clarity, although they were never placed into the conservatorship program.
Source: RTC Annual Reports and Reports from FDIC Division of Research and Statistics.

A. Number of Conservatorships

This section recaps the number of thrift institutions at the beginning of the year; the number of thrifts added to the conservatorship program during the year; and the number of thrifts that were taken over but not placed into conservatorship. The result of the activity during the year yields the total number of thrifts taken over in the year.

B. Total Assets at Takeover

This section recaps the total assets of the failing thrifts at the time of takeover whether they were placed into conservatorship or resolved through the ARP program. This section also details the total estimated losses on the thrifts that failed in that particular year. The estimated loss is determined by calculating actual disbursements and subtracting actual and estimated recoveries. This figure is routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and the project recoveries. the estimate of loss for all thrifts is derived from data obtained as of December 31, 1995.

C. Assets in Liquidation

This section recaps the total dollar amount of assets in liquidation from both conservatorships and receiverships. The staffing number is also shown.

Notable Events

Significant events that occurred in the year are reflected here.

S&L Resolutions

This section provides information concerning the S&L resolutions in the year. The following table outlines the S&L resolutions by transaction type. It shows the number of transactions, the total assets, and the estimated loss by type. The estimated loss is based on estimates as of December 31, 1995.

Estimated Losses by Transaction Type				
Transaction Type	**Number of Transactions**	**Total Assets**	**Estimated Loss as of 12/31/95**	**Estimated Losses as a Percent of Assets**
P&As				
IDTs				
Payoffs				
Totals				
Source: Reports from FDIC Division of Research and Statistics.				

The following table shows the Conservatorships and Receiverships at the beginning of the year and the changes throughout the year.

Conservatorships	
Item	**Total**
In Conservatorship at 12/31/XX	
Conservatorships added in XXXX	
Subtotal	
Conservatorships resolved in XXXX (New Receiverships)	
Conservatorships remaining 12/31/XX	

Receiverships	
Item	**Total**
Receiverships as of 12/31/XX	
New Receiverships that were previously Conservatorships in XXXX	
New Receiverships that were resolved through ARP in XXXX	
Total New Receiverships during XXXX	
Total Receiverships as of 12/31/XX	
Source: RTC Annual Reports.	

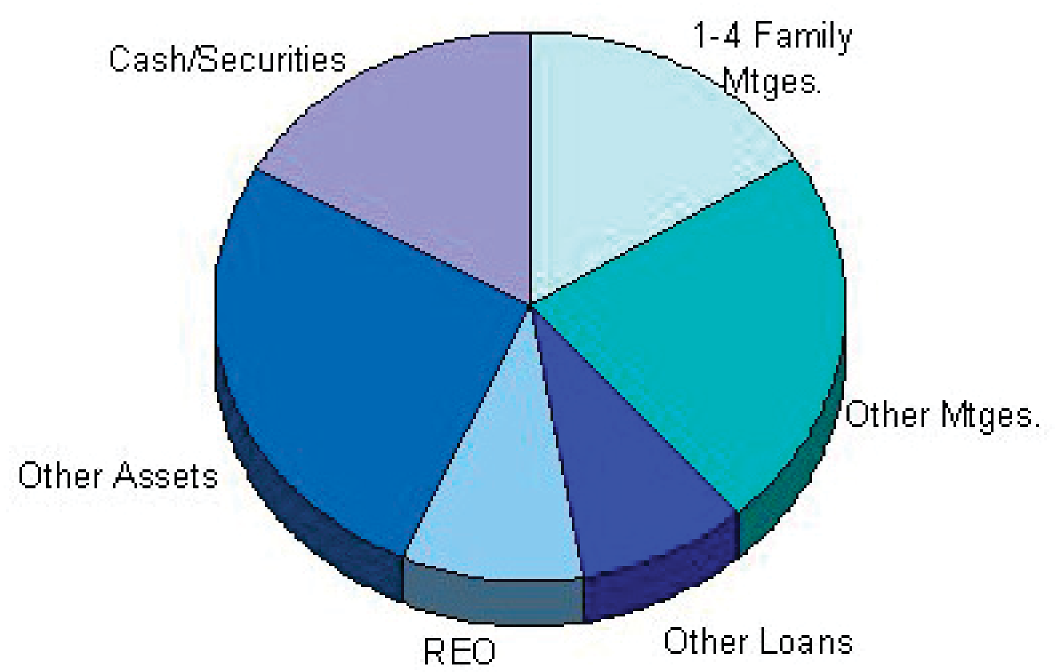
Payments to Depositors and Other Creditors

This section contains information concerning the number of thrift resolutions by type of transaction since the RTC began operations in 1989. The total amount of deposits and the number of deposit accounts are shown for the thrift resolutions in the year.

Asset Disposition

Information about the RTC's assets in liquidation each year is located here. Where applicable, information concerning outside contracting is detailed. The table below shows the RTC's assets in liquidation and the following chart shows the asset mix.

RTC End of the Year Assets in Liquidation						
Asset Type	12/31/XX Total Book Value	Assets Acq'd During the Year	19XX Collections	19XX Losses	12/31/XX Total Book Value	Memo Item
1-4 Family Mtges						
Other Mtges						
Other Loans						
R/Estate Owned						
Other Assets						
Cash/Securities						
Totals						



Source: RTC August 1989/September 1995 Statistical Abstract

RTC End of Year Asset Mix

Funding and Staffing

This section details Congressional funding for the Resolution Trust Corporation during the year, as well as changes in staffing levels for the Resolution Trust Corporation.

Chapter One: Pre-FDIC

On average, more than 600 banks failed each year between 1921 and 1929. Those failures led to the end of many state deposit insurance programs. The failed banks were primarily small, rural banks, and people in metropolitan areas were generally unconcerned. Investors and other businessmen thought that the failing institutions were weak and badly managed and that those failures served to strengthen the banking system. A major wave of bank failures during the last few months of 1930 triggered widespread attempts to convert deposits to cash. Confidence in the banking system began to erode, and bank runs became more common. In all, 1,350 banks suspended operations during 1930. Some simply closed their doors due to financial difficulties, while others were placed into receivership.

As liquidity pressures eased during the early months of 1931, the number of bank failures declined sharply. Unfortunately, that decrease was short-lived. Great Britain abandoned the gold standard in September 1931, and some depositors feared that other countries might follow suit. Foreigners with bank accounts in the United States rushed to convert deposits to gold, primarily in the New York money market. The effect was a liquidity crisis that caused the failure of 2,293 banks in 1931, or nearly four times the average annual number of failures during the 1920s. Losses incurred by depositors in 1931 ($390.5 million) exceeded losses incurred by depositors for the entire six-year period between 1921 and 1926 ($383.6 million).

Congress created the Reconstruction Finance Corporation (RFC) in January 1932, and on February 27, 1932, passed the Glass-Steagall Act. Those two pieces of legislation led to the beginning of an improvement in the banking situation. In the months that followed passage of the legislation, both the number of bank failures and the amount of depositor losses dropped significantly. Failures during 1932 declined to 1,453, and losses to depositors in that year were half those of 1931.

During the winter of 1932 and through 1933, banking conditions again deteriorated rapidly. Although it is probably not possible to point to a single factor that caused the calamitous events of that period, general uncertainty with respect to monetary and banking conditions undoubtedly played a major role. In states that had declared bank moratoriums, banks accelerated withdrawals from correspondents in an attempt to strengthen their positions. Currency holdings increased significantly, partially in anticipation of additional bank moratoriums.

Franklin D. Roosevelt was elected president in November 1932, and rumors circulated that his administration would devalue the dollar. Concerns about the future of the dollar created even greater liquidity pressures. Banks increased speculative holdings of foreign currencies, gold, and gold certificates. That period was unlike the one a year earlier of international monetary instability and conversion of foreign deposits to gold caused by Great Britain's abandonment of the gold standard. This time many of the conversions to gold from deposits and Federal Reserve Notes came from domestic sources. Those demands placed considerable strain on New York City banks and, ultimately, on the Federal Reserve Bank of New York.

Sudden withdrawal demands in certain parts of the country started a panic of massive proportions. State after state declared bank holidays.1- The panic reached a peak during the first three days of March 1933 following the failure of an estimated 4,000 banks so far that year. As one of his first official acts, President Roosevelt proclaimed a nationwide bank holiday beginning on March 6, 1933, which lasted four days. The financial system was on the verge of collapse, and both the manufacturing and agricultural sectors were operating at a fraction of capacity. Administration officials quickly began to draft legislation designed to resolve the banking crisis.

The Emergency Banking Act legalized the national bank holiday and set standards for the reopening of banks after the holiday. That act expanded the RFC's powers as a means to deal with the crisis then threatening the banking system. It authorized the RFC to invest in the preferred stock and capital notes of banks and to make secured loans to individual banks. The President subsequently issued a proclamation extending the holiday in order to allow time for officials to reopen the banks. Several hundred banks soon reopened for business. As the reopenings proceeded, public confidence increased significantly and widespread hoarding ceased.

President Roosevelt signed the Banking Act of 1933 on June 16 of that year. Section 8 of that legislation amended the Federal Reserve Act to create the Federal Deposit Insurance Corporation. A temporary plan for deposit insurance began for 13,201 banks on January 1, 1934, with coverage of deposits up to $2,500. Coverage was increased on July 1, 1934, to $5,000 for each depositor in an insured institution.

The Banking Act of 1935 terminated the temporary federal deposit insurance plan and inaugurated a permanent plan. It revised the entire deposit insurance law and made substantial changes in the plan for deposit insurance originally enacted on June 16, 1933. Table 1.1 shows all commercial bank suspensions from 1921 through 1933.

1921 - 1933: Commercial Bank Suspensions

Year	Number of Suspensions	Deposits ($)	Losses Borne by Depositors ($)	Losses to Depositors as % of Deposits in All Suspended Banks	Losses to Depositors as % of Deposits in All Comm. Banks
1921	506	172,806	59,967	34.70	0.21
1922	366	91,182	38,223	41.92	0.13
1923	646	149,601	62,142	41.54	0.19
1924	775	210,150	79,381	37.77	0.23
1925	617	166,937	60,799	36.42	0.16
1926	975	260,153	83,066	31.93	0.21
1927	669	199,332	60,681	30.44	0.15
1928	498	142,386	43,813	30.77	0.10
1929	659	230,643	76,659	33.24	0.18
1930	1,350	837,096	237,359	28.36	0.57
1931	2,293	1,690,232	390,476	23.10	1.01
1932	1,453	706,187	168,302	23.83	0.57
1933	4,000*	3,596,708	540,396	15.02	2.15
Total	14,807*	$8,453,413	$1,901,264	22.49	5.86

* Estimate.

Source: Federal Deposit Insurance Corporation: The First Fifty Years.

Chapter Two: 1933 - 1979

The next several years were marked by caution on the part of both banks and regulatory agencies. The supervisory agencies viewed the panic of 1933 as a banking, rather than a monetary, phenomenon. The prevailing philosophy was that unfettered competition in the past had resulted in excesses and abuses in banking. Consequently, the supervisory agencies followed a policy of what the FDIC later termed keeping banks and banking practices within the bounds of "rightful competition."

The attitude of bankers was similarly circumspect. Bankers who survived the Depression were chastened by that experience. Banks took few risks as the banking industry began a massive liquidity buildup. By 1937, for example, cash and holdings of U.S. government securities comprised about 52 percent of the banking industry's total assets, or more than twice the amount held in 1929. To the dismay of would be borrowers, banks continued to stress liquidity for many more years. In the eight-year period from 1934 through 1941, the FDIC handled 373 bank failures; most of them were small banks.

During World War II, government financial policies produced an expanding banking system. Total bank assets at the end of 1945 were nearly double the $91 billion at the end of 1941. Large-scale war financing by the federal government was the primary factor contributing to the increase in bank assets. Banks financed the bulk of the war-loan sales campaign, including the purchase of government obligations for their own portfolio. At the end of 1945, holdings of those obligations accounted for 57 percent of total bank assets.

Loan losses were practically nonexistent during the war years, and bank failures declined significantly. Only 29 insured banks failed from 1942 to 1946. The decline in the number of failed banks was due to the highly liquid state of bank assets, the absence of deposit outflows, and vigorous business activity. Conservative banking practices and favorable economic conditions also resulted in few bank failures during the late 1940s and 1950s. The low incidence of failures was regarded by some as a sign that the bank regulators were too strict. Years later, in a speech marking the dedication of the headquarters building of the FDIC in 1963, Wright Patman, then-Chairman of the House Banking and Currency Committee, declared:

…I think we should have more bank failures. The record of the last several years of almost no bank failures…is to me a danger signal that we have gone too far in the direction of bank safety.[2-1]

Banks continued to operate in a safe, insulated environment until the 1960s, when changes began to occur. The new generation of bankers was not affected by the experiences of the Great Depression. They abandoned the traditional conservatism that had characterized the industry for many years. They began to strive for more rapid growth in assets, deposits, and income.

Until the mid-1970s, the generally favorable economic conditions enabled many otherwise marginal borrowers to meet their obligations. With the exception of periods of relatively mild recession, the economy produced high levels of production, employment, and income.

The first of two major recessions during the 1970s occurred from 1973 to 1975. The severity of that recession contributed to a substantial increase in commercial bank loan losses and an increase in both the numbers of problem banks and bank failures. During that period, the FDIC encountered the first large bank failures. The recession led to substantial real estate loan problems. It is important to note that those problems often persisted well beyond the onset of economic recovery. As a result, the bank failure rate remained comparatively high, peaking in 1976 at 16, the highest number of failures since 1942. The six largest banks requiring FDIC disbursements are listed on table 2-1. Table 2.2 lists the number of bank closings per year from 1934 until 1979.

[2-1] Wright Patman, as quoted in Federal Deposit Insurance Corporation: The First Fifty Years, (Washington, D.C.: Federal Deposit Insurance Corporation, 1984), 7.

Table 2-1

Six Largest Banks Requiring FDIC Disbursements 1934 - 1979 ($ in Thousands)			
Date	Name of Institution	Total Assets	Transaction Type
10/74	Franklin National Bank, New York, New York	$3,656,000	Purchase and Assumption Agreement
10/73	United States National Bank San Diego, California,	$1,266,000	Purchase and Assumption Agreement
1/72	Bank of the Commonwealth, Detroit, Michigan	$1,257,000	Open Bank Assistance Agreement
3/78	Banco Credito y de Ahorro, Ponce, Puerto Rico	$713,000	Purchase and Assumption Agreement
2/76	Hamilton National Bank Chattanooga, Tennessee,	$412,000	Purchase and Assumption Agreement
6/76	Farmers Bank of the State of Delaware, Wilmington, Delaware	$370,000	Open Bank Assistance Agreement

Source: Federal Deposit Insurance Corporation: The First Fifty Years.

Table 2-2

Bank Closures* 1934 - 1979 ($ in Thousands)			
Year	# of Failures	Total Deposits ($)	Total Assets ($)
1934	9	1,968	2,661
1935	26	13,405	17,242
1936	69	27,508	31,941
1937	77	33,677	40,370
1938	74	59,684	69,513
1939	60	157,772	181,514
1940	43	142,430	161,898
1941	15	29,717	34,804
1942	20	19,185	22,254
1943	5	12,525	14,058
1944	2	1,915	2,098
1945	1	5,695	6,392
1946	1	347	351
1947	5	7,040	6,798
1948	3	10,674	10,360
1949	5	6,665	4,886
1950	4	5,513	4,005
1951	2	3,408	3,050
1952	3	3,170	2,388
1953	4	44,711	18,811

Bank Closures* 1934 - 1979 ($ in Thousands)			
Year	# of Failures	Total Deposits ($)	Total Assets ($)
1954	2	998	1,138
1955	5	11,953	11,985
1956	2	11,330	12,914
1957	2	11,247	1,253
1958	4	8,240	8,905
1959	3	2,593	2,858
1960	1	6,930	7,506
1961	5	8,936	9,820
1962	1	3,011	N/A
1963	2	23,444	26,179
1964	7	23,438	25,849
1965	5	43,861	58,750
1966	7	103,523	120,647
1967	4	10,878	11,993
1968	3	22,524	25,154
1969	9	40,134	43,572
1970	7	54,806	62,147

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Percent change is not provided if either the latest period or the year-ago period contains a negative number.

While the banking industry did not recover fully from the effects of the recession until 1977, the following year brought renewed pressures on the industry. The second major recession began in 1978 when interest rates on securities markedly surpassed the rates payable by depository institutions for savings and time accounts. Deposit growth slowed, particularly for thrift deposits, as alternative investment instruments and yields became relatively attractive. In 1979 and early 1980, inflation burst upward, along with interest rates. A change in Federal Reserve monetary policy in October 1979 also contributed to the rise in interest rates. The resulting high interest rates, in combination with an unduly heavy emphasis on fixed-rate, long-term lending, caused severe problems for the thrift industry.

Early Resolution Practices. To pay the insured deposits, FDIC was originally required to create a Deposit Insurance National Bank (DINB). A DINB is a national bank chartered without any capitalization and with limited life and powers. During the period of the temporary deposit insurance plan, which ran from January 1, 1934, through August 23, 1935, the FDIC placed 24 insured banks into receivership. Their depositors were paid by the FDIC through DINBs.

The Banking Act of 1935 gave the FDIC authority to pay off depositors directly or through an existing bank, and once that additional authority was granted, the FDIC ceased using DINBs for the next 29 years. In the 1960s through the early 1980s, the FDIC used DINBs only five times, the last time for the 1982 failure of Penn Square Bank, N.A., Oklahoma City, Oklahoma. The DINB essentially provided a vehicle for a slow and orderly payoff, and its use was confined to situations when the bank's failure would have severely limited banking services in the community or when a regular payoff was not practical.

In addition to broadening the ways in which a payoff could be effected, the Banking Act of 1935 gave the FDIC the authority to make loans, purchase assets, and provide guarantees to facilitate mergers and acquisitions. The FDIC sought this authority because of its concern that many of the insured banks might not survive, and paying off the depositors in those banks would be detrimental to the insurance fund.

Beginning in 1935, the FDIC had two options for handling bank failures: payoffs or assumptions. When banks were paid off, depositors received direct payments from the FDIC up to the insurance limit. Uninsured depositors had claims on the receivership for the uninsured portion of their deposits, along with the claims of other general creditors. The FDIC also held a claim on the receivership because it had provided the money to pay the insured depositors. In those transactions, uninsured depositors frequently did not receive the full amount of their receivership claims. Those that did receive portions of their claims usually received them several years later, at the termination of the receivership, resulting in loss of foregone interest on the deposits.

Assumption transactions involved the transfer of the deposits of the failed bank to a healthy institution. In assumption transactions all depositors, both uninsured and fully insured, received all of their funds in the form of deposits in the acquiring bank. Once the FDIC began using the assumption transaction, the decision about which procedure would be used depended primarily on whether a potential, interested acquirer existed. Most payoffs occurred in states that did not permit or severely restricted branching; acquisitions could not be easily effected in those states.

Improved economic conditions in the late 1930s and during World War II significantly reduced the number of bank failures. Beginning in the mid-1940s, the FDIC ceased paying off banks. The assumption method provided a more flexible method of liquidating the affairs of an insolvent bank than conducting a payoff. Depositors were fully protected, there was no break in banking services, and the community did not suffer economically.

Between 1935 and 1956, the FDIC's procedures for merging failing banks did not involve premerger closings or the establishment of receiverships. Acquiring banks assumed all of the deposits of the failing banks and an equivalent amount of sound assets. Any shortfall in sound assets was made up by cash. In early assumption transactions, the FDIC determined the volume of a failing bank's sound assets and made a demand loan to the failing bank for an amount equal to the difference between deposits and sound assets. The loan was collateralized by the remaining assets. The FDIC would demand payment on the loan and foreclose on those remaining assets. The proceeds from the foreclosed assets would be used by the FDIC to repay itself for the cash advance, plus interest. Any excess cash went to the stockholders of the merged-out bank.

After several years in which the FDIC used loans to carry out assumption transactions, it became apparent that legal complications related to bank borrowing limits and collateral foreclosure procedures could be averted. Instead of lending to failing banks, the FDIC could purchase assets from them. This technique became the usual procedure for facilitating mergers, eventually becoming known as a purchase (of assets) and assumption (of deposit liabilities) transaction, or P&A.

The FDIC shifted back to using payoffs in the 1950s. In 1951, during confirmation hearings on the appointments of members of the FDIC Board of Directors, the FDIC's resolution practices came to the attention of some U.S. senators. The senators argued that the FDIC's policy of providing 100 percent de facto insurance to depositors, as occurred in P&A transactions, went beyond the level of protection originally intended, and the FDIC's decisions did not reflect any substantial analyses or cost calculations. Thereafter, the FDIC began to use a cost test in resolving failing banks.[2-2] P&As were used only when the FDIC could determine that they were less costly than paying off depositors and liquidating the bank's assets. As a result, payoffs became more common. Between 1955 and 1958, there were nine payoffs and only three assumption transactions.[2-3] From 1959 through 1964, there were 19 payoffs and no assumptions.

By the mid-1960s, the FDIC modified its procedures recognizing the advantages of having a bank closed by the Comptroller of the Currency or the state,[2-4] creating a receivership, and effecting a P&A transaction out of the receivership. P&A transactions eliminated the need for the stockholder approvals required in deposit assumptions and, in certain instances, reduced the potential exposure for the acquiring bank and for the FDIC. By 1968, the FDIC had developed an explicit bidding process for handling closed bank P&As, and that was the way most bank failures, including practically all of the larger ones, were handled during the next 15 years.

Through the years, deposit insurance coverage increased as inflation rose. A notable exception was the 1980 increase which was more in recognition of the sizable amounts of large certificates of deposit that were being held due to a high interest rate climate. Table 2-3 shows the pertinent dates of the deposit insurance coverage increases.

Table 2-3

Increases in the Deposit Insurance Coverage Limit

Date	Name of Institution
Beginning	$2,500
1934	$5,000
1950	$10,000
1966	$15,000
1969	$20,000
1974[2-5]	$40,000
1980	$100,000

Source: Federal Deposit Insurance Corporation: The First Fifty Years

In 1950, the FDIC sought legislation to provide assistance to banks, through loans or the purchase of assets, to prevent their failure. Through passage of the Federal Deposit Insurance Act of 1950, Congress gave the FDIC this "open bank assistance" authority, but imposed restrictive language relating to the circumstances under which it could be given. The FDIC did not use the authority until 1971, when it provided assistance to

2-2 The FDIC began using a cost test 31 years before one was explicitly inserted in the Federal Deposit Insurance Act by the Garn-St Germain Depository Institutions Act of 1982. A "least cost" test, more stringent than the 1982 version, was introduced with the passage of the Federal Deposit Insurance Corporation Improvement Act of 1991.

2-3 In addition to the closings, Del Rio National Bank, Del Rio, Texas, was placed in receivership on June 20, 1957; it was restored to solvency with no funds distributed from the FDIC and reopened on July 3, 1957.

2-4 Throughout most of its history, the FDIC did not have the authority to close banks. That authority rested with the Office of the Comptroller of the Currency in the case of national banks and with the state banking departments in the case of state chartered banks. Generally, the FDIC has worked closely with the primary supervisor in resolving failing banks. The FDIC's attainment of closure authority is discussed later in this study.

2-5 In 1974, the insurance limit for time and savings accounts held by state and political subdivisions (that is, public funds) was increased to $100,000; in 1978, this same limit was extended to Individual Retirement Accounts (IRAs) and Keogh Accounts.

Unity Bank and Trust Company, Boston, Massachusetts. The FDIC used this authority three other times in the 1970s.

Early Asset Disposition. As the predecessor to the FDIC's Division of Resolutions and Receiverships, the New and Closed Bank Division supervised seven receiverships in 1935 with a staff of 25 employees. It also was involved with 26 other liquidations for which the FDIC had not been appointed receiver, but was a major creditor by virtue of having paid off insured deposits.

The failure of several banks within a short period of time—or even a single large bank failure—created a sudden demand for experienced liquidators. Some personnel were retained from the failed banks, and many other clerical personnel were hired locally on a temporary basis. The FDIC also relied heavily on locally hired liquidation specialists to assist its permanent staff.

The personnel requirements fluctuated widely from year-to-year and were dictated by the number, size, complexity, and duration of active receiverships. In the early 1940s, the division employed more than half of all the FDIC personnel, topping 1,600 in 1941. In the early 1950s, by comparison, as few as 32 liquidation personnel were required, as the number of failures had declined in the post-World War II period. The number of personnel remained relatively unchanged in 1960 at 38 people, but rose to 175 by 1970. By the end of the decade, the division's staffing had more than doubled to 432.

In its first seven years of operation, the FDIC handled an average of 50 failures annually. As a result, the failure-related assets acquired by the FDIC increased, peaking at $136 million in 1940. Over the next three decades, failures averaged fewer than five annually, but those banks generally were larger than banks that had failed in the early years. The volume of assets in liquidation, which was only $2 million in 1952, did not again reach the 1940 level of $136 million until 1971. FDIC liquidation activity escalated dramatically in the 1970s. The volume of assets in liquidation reached $2.6 billion in 1974. By the end of the decade, the volume had decreased somewhat to a total of $1.9 billion, still well above the pre-1970 totals.

During the 1950s and 1960s, the FDIC would "offset" the amount a borrower owed on all delinquent loans against that person's deposit balance. This practice reduced the overall payment to the depositor and ensured that the FDIC collected a higher, if not full, amount on the loan. For performing loans, the FDIC often withheld offsetting deposits pending individual negotiations. Usually, the result was that deposits and loans were "netted" against one another so that only the remaining balance was paid by or owed to the FDIC. This method worked to the FDIC's benefit because the FDIC was able to reduce its initial outlay of funds for payoff cases.

An Offset was used in a bank failure when a customer who had a delinquent loan also had a deposit account in the bank. The customer's deposit funds were applied to the delinquent loan reducing or "offsetting" the balance owed. Offsets worked to the advantage of a customer with deposits over the insurance limit. Loans and deposit accounts could be offset, making the deposit account fully insured. Deposit funds of a customer with a current loan would be Withheld until payment arrangements could be made. Both Offsets and Withholdings were used only where mutuality (loans and deposits in the same name) of the two accounts existed.

The offsets and withholding method of collection, however, had an adverse effect on local communities. Depositors could not use their funds until decisions could be made about offsets. In addition, once decisions were made, the failed bank's customers often had less liquidity than they had before. The issue received considerable attention in 1963 when the Chatham Bank of Chicago, Chicago, Illinois, failed, and the payoff had significant repercussions for the local community. As a result of that failure, the FDIC changed its policy so that it offset only delinquent loans or officers' and directors' funds against potential liability, and it stopped the practice of offsetting or withholding all mutual loans and deposits. Depositors with funds over the insurance limit retained the right to offset those amounts against loans to the failed bank. That strategy usually worked to the depositors' advantage because, although they owed the full amount of their loans, they would probably collect less than full value on uninsured funds in the absence of the offset or netting arrangement.

Beyond the offset issue, asset collection practices in the early years were fairly simple and straightforward. Borrowers were instructed to pay according to the original terms of the note. If payments could not be met, a reduced payment amount was negotiated. Compromises, write-offs, and loan sales were not part of standard procedures.

From time to time, the FDIC's liquidation portfolio has included some rather unusual assets. Throughout the years, the FDIC had interests in oil tankers, shrimp boats, and tuna boats, and consequently experienced many of the pitfalls facing the maritime industry. An oil tanker ran aground; a shrimp boat was blown onto the main street of Aransas Pass, Texas, by a hurricane; and the tuna boats were idled when Mexico prohibited fishing in its waters and confiscated the tuna nets. Other unusual liquidation assets have included taxicab fleets; a coal mine that was on fire the day the bank was closed; lame thoroughbred race horses; thousands of art objects, including an antique printing of the Koran; and a collection of stuffed wild animals. In one instance, a bank failed because its president was illegally diverting bank funds to finance production of a motion picture. When the bank failed, the FDIC acquired the completed but unedited film and the movie distribution rights.

Owned assets require active FDIC management when, for one reason or another, their sale cannot be arranged quickly. FDIC asset managers have been called upon to operate hotels, motels, apartment complexes, office buildings, golf courses, ski resorts, restaurants, and other assorted businesses. This can necessitate additional investment by the FDIC and the development or acquisition of specialized expertise. Asset managers have had to purchase machinery to protect citrus orchards from freezing weather, and acquire beehives for pollination of almond trees. The FDIC once found itself in possession of an abandoned gold mine in Idaho. A buyer could not be found until the FDIC had transformed the property into a successful tourist attraction.

Chapter Three: 1980

Significant events of 1980 affecting the FDIC and the banks it supervised included unprecedented interest rate levels and fundamental reform of the banking laws. An increase in federal deposit insurance to $100,000 from $40,000 per depositor was one significant feature of the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980, signed into law on March 31, 1980, by President Jimmy Carter.

Table 3-1[3-1]

1979 - 1980: FDIC at a Glance ($ in Millions)

	12/31/79	12/31/80	Percent Change
Number of Bank Failures	10	10	0.00%
Assistance to Open Banks	0	1	N/A
Total Failed and Assisted Banks	10	11	10.00%
Total Assets of Failed and Assisted Banks	$133.0	$8,192.4*	6,059.70%
Losses on Failed and Assisted Banks	N/A	$30.7	N/A
Losses as a Percent of Total Assets	N/A	0.37%	N/A
Assets in Liquidation	$1,900.0	$1,791.8	-5.69%
FDIC Staffing	3,598	3,644	1.28%
Number of Problem Banks	287	217	-24.39%
Deposit Insurance Fund Balance	$9,792.7	$11,019.5	12.53%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.21%	1.16%	-4.13%

* Includes open bank assistance for First Pennsylvania Bank, N.A., with assets of $8 billion. Excluding this transaction, the percent change would be 79.95 percent.
Source: FDIC, 1980 Annual Report and Reports from FDIC Division of Finance and FDIC Division of Research and Statistics.

Notable Events

In addition to the stresses produced by high interest rates, financial institutions had to cope with the changes created by the passage of banking deregulation legislation. DIDMCA was the most sweeping banking reform package enacted since 1933 and began the gradual process of removing the restrictions that had placed a ceiling on the interest rates banks could offer their depositors. It sought to deregulate banking and promote more competition to benefit consumers; it also liberalized lending powers of federal thrifts and preempted some state usury laws.

Economic/Banking Conditions

The U.S. economy showed broad-based weakness in 1980. The growth in Gross Domestic Product (GDP) declined, interest rates rose as did inflation, and job growth was meager. Growth in real GDP was sluggish for the second consecutive year, declining almost 0.3 percent after 1979's slow but moderate 2.9 percent growth.[3-2] The nation's unemployment rate jumped to 7.2 percent from 5.8 percent in 1979.[3-3] Real estate markets showed mixed signs. Home sales were down 22 percent and housing starts were also down 26

[3-1] The tables and charts throughout this book are shown for ease of comparison. They are formatted the same way in every chapter. Refer to the Appendix for a guide that includes definitions of terms used in the tables and charts.

[3-2] Bureau of Economic Analysis, Department of Commerce.

[3-3] CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

percent from the previous year.[3-4] On the other hand, office markets remained tight, with the national office vacancy rate at a stable and very low 4.9 percent.[3-5] The deterioration in the residential sector was due in part to steadily rising interest rates. The discount rate rose to 11.8 percent, and the 30-year mortgage rate was up to 13.8 percent.[3-6]

Some regions of the country were experiencing better economic times than the rest. California's economic expansion was above the national average at 1.7 percent Gross State Product growth,[3-7] in part due to the solid performance of the defense-related industry in southern California. The growth was also a result of the high number of primary government contracts in that part of the state. Low commercial vacancy rates sparked rapid growth in the real estate market.[3-8] Commercial and Industrial (C&I) loans rose slightly from 17.6 percent of bank assets in 1979 to 17.9 percent in 1980 and were well above the national median of 9.6 percent; southern California had the highest levels in the nation at 20.6 percent of bank assets. California was, in fact, the only state to surpass the country's median in all loan categories as a percent of bank assets. The state's gross loans and leases were 60.4 percent, total real estate loans were 17.2 percent, commercial real estate loans were about 8 percent, and C&I loans were 17.9 percent.

The Southwest region's C&I loans also increased, to 13.2 percent of bank assets, above the national median of 9.6 percent, while the region's total real estate loans at 12 percent of assets fell well below the national median of 18.1 percent. The region's farm sector growth continued from the 1970s. Farm production, farm prices, and agricultural exports were all increasing in the 1970s, and those factors were boosting the local economy.[3-9] As the 1980s began, U.S. farmland exports exceeded $40 billion, farm prices had nearly doubled since 1970, and farmland value per acre had increased by 220 percent since 1975. Agricultural lending had also increased by 359 percent since 1970, to a total farm debt level of $178.8 billion.[3-10]

Adding to the economic growth was the strong demand for oil around the world with OPEC restrictions causing oil prices to rise. That, in turn, sparked an increase in demand for oil rigs and drilling in the Southwest.[3-11] There was a great deal of lending in those two industries based on the belief that they would continue to be profitable and prices would continue to rise.

Nationally, there were 220 newly chartered banks. The Office of the Comptroller of the Currency (OCC) believed that new charters would increase bank competition. The industry saw a shift to commercial real estate loans, especially in the Southwest and California. That trend is noteworthy, as commercial real estate loans tend to be riskier than C&I loans, due to the boom and bust nature of real estate markets.

Geographic and product limitations on banks and thrifts kept the U.S. depository institution industry diffused and segmented. At the end of 1980, there were 14,434 commercial banks with total assets of $1,855.7 billion; 4,005 savings and loan associations with assets of $620.6 billion; 323 mutual savings banks

[3-4] Housing Market Statistics, National Association of Home Builders (June 1996).

[3-5] CB Commercial Torto/Wheaton Research.

[3-6] Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation

[3-7] CB Commercial Torto/Wheaton Research.

[3-8] Economic Report of the President, 1986.

[3-9] National Agricultural Statistics Service, U.S. Department of Agriculture. Economic Research Service, U.S. Department of Agriculture. Federal Reserve System, Board of Governors, Flow of Funds Accounts, Table L. 102. Gerald H. Anderson, "The Decline in U.S. Agricultural Exports," Federal Reserve Bank of Cleveland Economic Commentary (February 15, 1987), 1.

[3-10] Annual Energy Review, Department of Energy.

[3-11] John F. Bovenzi and Maureen E. Muldoon, "Failure-Resolution Methods and Policy Considerations," FDIC Banking Review 3, no. 1 (fall 1990), 1.

with assets of $153.6 billion; and 21,467 credit unions with assets of $69 billion. Thus, at the beginning of the turbulent 1980s, the U.S. had more than 40,000 state or federally chartered depository institutions that together controlled approximately 60 percent of total financial assets. The remaining 40 percent were controlled by insurance companies, pension funds, securities brokers and dealers, money market funds, finance companies, and other financial firms.

Deposit insurance continued to provide needed protection for consumers and small depositors. Large depositors and other bank creditors perceived that their funds were only minimally at risk, if at all, because most bank failures resulted in mergers in which all depositors were protected against loss. As rates were deregulated, depositors began to place their money in those banks and thrifts that were paying the highest rates, without regard to the management or financial stability of the institutions.

As part of its monitoring system, the FDIC maintained a list of problem banks. Banks were rated under the Uniform Financial Institutions Rating System, also known as the CAMEL system, which rated the Capital, Assets, Management, Earnings, and Liquidity of banks as they were examined. Each component was assigned a number from “1” to “5,” with “5” being the worst. The bank then received a composite rating from “1” to “5,” with “5” again being the worst. Banks with a composite rating of “4” or “5” were placed on the problem bank list. The number of banks on the list, which had reached 485 in November of 1976, declined steadily and was 217 at the end of 1980, representing about 1.5 percent of insured commercial banks.

Table 3-2 compares the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1979 and 1980.

Table 3-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1979	1980	Percent Change
Number	14,364	14,434	0.49%
Total Assets	$1,691.8	$1,855.7	9.69%
Return on Assets	0.80%	0.79%	-1.25%
Return on Equity	13.91%	13.68%	-1.65

Savings Banks – FDIC Regulated

Item	1990	1991	Percent Change
Number	324	323	-0.31%
Total Assets	$147.1	$152.6	3.74%
Return on Assets	0.45%	-0.17%	--
Return on Equity	6.69%	-2.59%	--

Savings Associations – FHLBB Regulated

Item	1990	1991	Percent Change
Number	4,039	4,005	-0.84%
Total Assets	$568.1	$620.6	9.24%
Return on Assets	0.67%	0.13%	-80.60%
Return on Equity	12.12%	2.45%	-79.79%

Savings Associations – FHLBB Regulated			
Item	1990	1991	Percent Change

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks

In the early 1980s, the FDIC relied on two basic methods to resolve failing banks: the purchase and assumption (P&A) transaction and the deposit payoff. When determining the appropriate method for resolving bank failures, the FDIC considered a variety of policy issues and objectives. Four primary issues were (1) to maintain public confidence and stability in the U.S. banking system, (2) to encourage market discipline to prevent excessive risk-taking, (3) to resolve failed banks in a cost-effective manner, and (4) to be equitable and consistent in employing resolution methods.[3-12]

Another resolution method that was beginning to be used more and more was open bank assistance (OBA). The Federal Deposit Insurance Act of 1950 included an OBA provision, granting the FDIC the authority to provide assistance, through loans or the purchase of assets, to prevent the failure of an insured bank. The FDIC's authority to provide OBA was expanded by the Garn-St Germain Depository Institutions Act of 1982, which eliminated certain prohibitive features of the former Act. Figure 3-1 provides specific information on each type of resolution method.

A Purchase and Assumption Agreement (P&A) was an agreement in which the acquirer purchased some or all of the assets of a failed bank and assumed some or all of the liabilities, including all insured deposits. As part of the P&A transaction, the acquiring institution usually paid a premium for the assumed deposits, decreasing the total resolution cost. Traditionally, the FDIC preferred a P&A transaction to a deposit payoff, as it was less disruptive to the community.

In a Deposit Payoff (also known as Payoff), as soon as the bank was closed by the chartering authority, FDIC was appointed the receiver and all insured depositors were paid the full amount of their claims. Uninsured depositors and other general creditors of the bank usually did not receive either immediate or full reimbursement on their claims; instead, they obtained receivership certificates which entitled their holders to a proportionate share of the net collections on the failed bank's assets.

With Open Bank Assistance (OBA), the FDIC was allowed to directly assist an operating insured bank if the bank was in danger of closing and its continued operation was essential to maintain adequate banking services in the community. The FDIC could make loans to, purchase the assets of, or place deposits in the troubled bank. Under normal circumstances, banks were expected to repay the assistance loans.

In 1980, ten commercial banks failed; three of those were in Kansas. One bank received open bank assistance. The ten insured banks that failed had deposits of $219.9 million. In seven cases involving banks holding deposits of $202.7 million, the FDIC arranged a P&A transaction where a healthy bank, either new or existing, purchased selected assets of the failed bank and assumed its deposits. In three bank failures with aggregate deposits of $17.2 million, the FDIC paid off depositors up to the statutory limit ($40,000 prior to March 31, 1980, and $100,000 after that date).

On April 28, 1980, the FDIC, the Federal Reserve, and the OCC jointly announced a $500 million open bank assistance package to assure the viability and continued operation of First Pennsylvania Bank, N.A., (First Penn), a subsidiary of First Pennsylvania Corporation, Philadelphia, Pennsylvania. First Penn, with assets of

[3-12] This figure does not include open bank assistance transactions. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, including First Penn, should be included in the overall totals.

$8 billion, was Philadelphia's largest bank and the twenty-third largest in the nation. The assistance to First Penn was in the form of $500 million in five-year subordinated notes supplemented by a $1 billion bank line of credit through access to the Federal Reserve discount window.

A recent estimate of losses per transaction type is shown in Table 3-3.

Table 3-3

1980 Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA 1	1	$7,953.0	$0	0.00%
P&As	7	221.9	28.4	12.80%
Payoffs	3	17.5	2.3	13.14%
Totals	11	$8,192.4	$30.7	0.37%
Source: Reports from FDIC Division of Research and Statistics.				

Payments to Depositors and Other Creditors

The ten banks that failed in 1980 had total deposits of $219.9 million in 78,398 deposit accounts. Of those ten banks, the three payoffs represented 5,510 deposit accounts and $17.2 million in deposits. The assisted bank, First Penn, had deposits of $5 billion.

Since the inception of the FDIC on January 1, 1934, until December 31, 1980, 568 insured banks[3-13] were closed, with 3.9 million deposit accounts and total deposits of $6.2 billion. In meeting its responsibilities, the FDIC as insurer disbursed $5.7 billion, and as liquidator recovered $5.4 billion. The result was a net loss to the FDIC of $300 million since it began operations.

Of the 568 insured bank failures, 310 were deposit payoffs. While recoveries of uninsured portions of deposits varied, in the aggregate, 97.3 percent of total deposits in payoffs had been paid or made available as of the end of 1980.

Asset Disposition

At the beginning of 1980, the FDIC had $1.9 billion in assets from failed banks. The FDIC liquidated a little more than it acquired, ending the year with total failed bank assets with a book value of $1.8 billion. Those assets had an estimated recovery value of about $710 million.

At the end of 1980, there were 70,968 assets to be liquidated. The FDIC had liquidation offices in 25 states, the U.S. Virgin Islands, and Puerto Rico and handled a total of 88 active bank receiverships. Of those, five receiverships were handled from the Washington office, and 83 were handled from the 50 field liquidation offices.

In disposing of assets retained from failed banks, the FDIC converted the assets to cash as quickly as practical and strived to realize maximum recovery. With the recoveries, the FDIC first repaid the insurance fund the cash that had been advanced for the administrative costs. Remaining recoveries were distributed to the claimants of the receivership based on the priorities contemplated under the National Bank Act of 1864. Although the National Bank Act did not explicitly state the claims priorities, the FDIC interpreted the payment order to be as follows: 1) administrative expenses of the receiver, 2) deposit liabilities and general

[3-13] Liquidation staff does not include support personnel from other FDIC divisions, such as the Legal Division and the Division of Accounting and Corporate Services (later the Division of Finance), who also were working on liquidation matters.

creditor claims, 3) subordinated debt claims, 4) federal income taxes, and 5) stockholder claims. Some states developed their own priorities which were different from the national law and the FDIC followed the state laws for state chartered institutions. In 1993, the National Depositor Preference Amendment was enacted which set the priorities for all state and federally chartered institutions. The National Depositor Preference Amendment is discussed later in Chapter 16—1993.

The FDIC adopted a workout strategy for dealing with acquired nonperforming loans. That strategy usually involved assigning delinquent loans to specific account officers, who would be responsible for negotiating repayment or settlement of the debts with borrowers. Frequently, litigation, foreclosure, and the sale of available collateral were necessary to achieve final debt resolution. That strategy was typical of the approach used by private and public entities in handling delinquent paper. Performing loans were warehoused and routinely serviced until final payoff by the borrower.

Table 3-4 shows the FDIC's assets in liquidation and Chart 3-1 shows the asset mix.

Table 3-4

Increases in the Deposit Insurance Coverage Limit		
Asset Type	**12/31/80 Book Value**	**12/31/80 Estimated Recovery Value**
Loans	$0.9	$0.3
Real Estate Mortgages	0.4	0.3
Investments	0.0	0.0
Owned Assets	0.1	0.1
Charge-Offs	0.2	0.0
Securities	0.0	0.0
Other Assets/Judgments	0.2	0.0
Total	$1.8	$0.7
Source: Reports from FDIC Division of Finance		

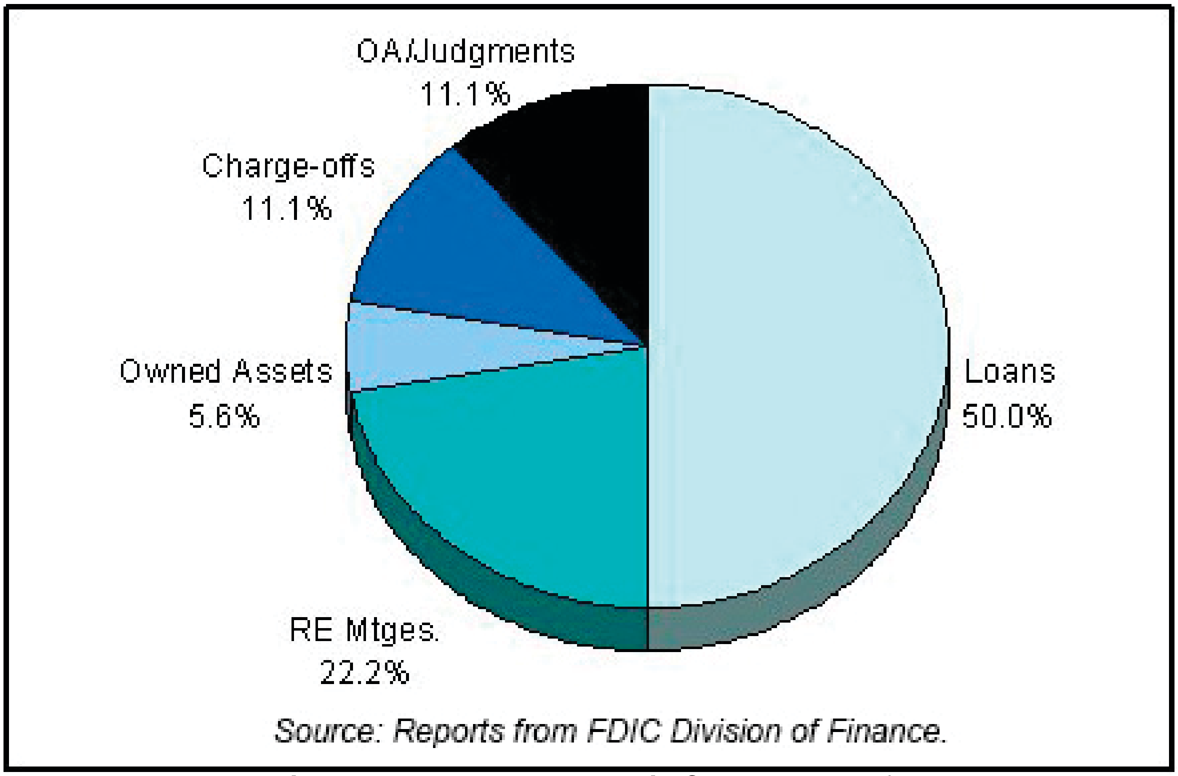


Chart 3-1 — 1980 FDIC End of Year Asset Mix

Loans	RE Mtges.	Owned Assets	Charge-offs	OA/Judgments
50.0%	22.2%	5.6%	11.1%	11.1%

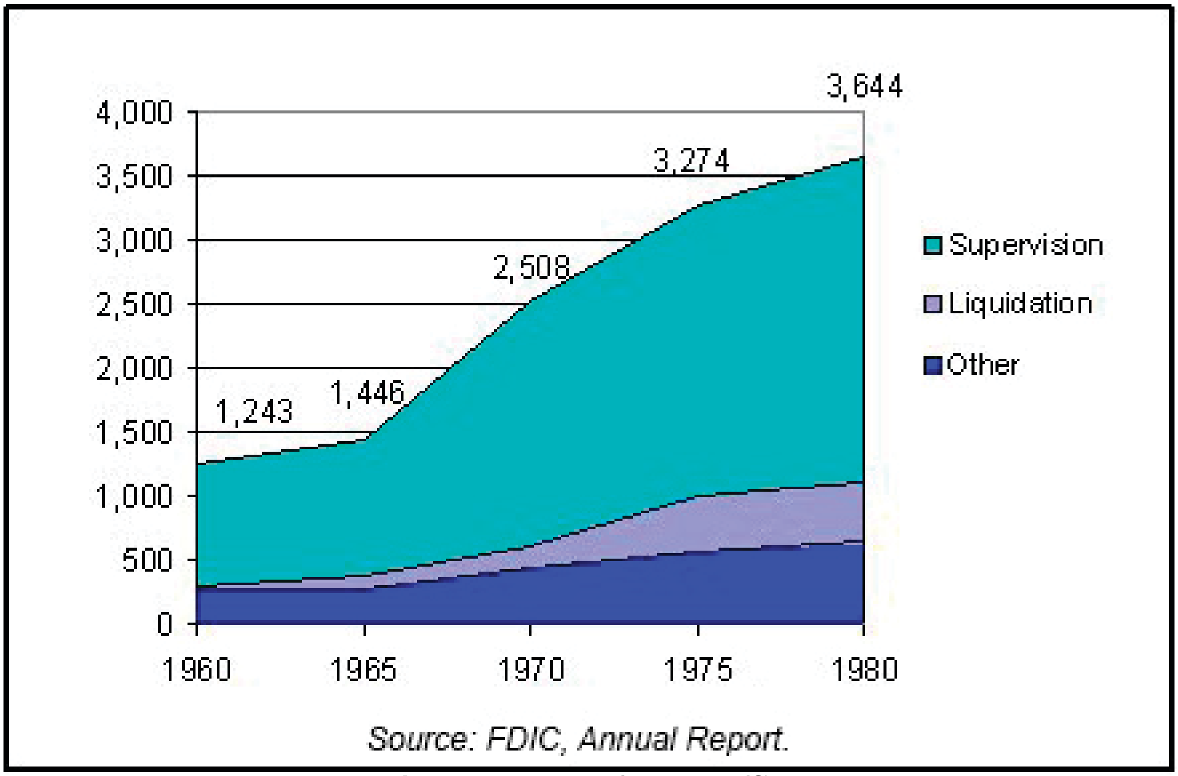


Chart 3-2—FDIC/RTC Staffing

	1960	1965	1970	1975	1980
Other	267	267	443	569	640
Liquidation	38	101	175	423	460
Supervision	938	1078	1890	2282	2544
Total	1243	1446	2508	3274	3644
Source: FDIC, 1980 Annual Report					

Insurance Fund and Staffing

The deposit insurance fund grew in 1980 by $1.2 billion to $11 billion, the largest in an uninterrupted series of annual increases since 1935. The fund's strength was derived from a high degree of liquidity in its assets, 92 percent of which were U.S. Treasury securities. At the end of 1980, the FDIC had 3,644 total staff, compared to 3,598 at the end of 1979, an increase of 46. The Division of Liquidation staff 3- increased from 432 at the end of 1979 to 460, and the Division of Bank Supervision staff increased slightly from 2,540 at the end of 1979 to 2,544. Chart 3-2 shows the staffing levels for the past twenty years.

Chapter Four: 1981

As reflected in the following quote from then-FDIC Chairman William M. Isaac in the FDIC's 1981 Annual Report, mutual savings banks were becoming a matter of concern: "During 1981, banks faced both intensified competitive pressures from unregulated financial intermediaries and unprecedented economic conditions. These combined to create major problems for a number of institutions, particularly our mutual savings banks."

Table 4-1

1980 - 1981: FDIC at a Glance ($ in Millions)	12/31/80	12/31/81	Percent Change
Number of Bank Failures	10	7	-30.00%
Assistance to Open Banks	1	3	200.00%
Total Failed and Assisted Banks	11	10	-9.09%
Total Assets of Failed and Assisted Banks	$8,192.4*	$4,947.4	-39.61%
Losses on Failed and Assisted Banks	$30.7	$781.8	2,446.58%
Losses as a Percent of Total Assets	0.37%	15.80%	4,170.27%
Assets in Liquidation	$1,791.8	$1,840.6	2.72%
FDIC Staffing	3,644	3,394	-6.86%
Number of Problem Banks	217	223	2.76%
Deposit Insurance Fund Balance	$11,019.5	$12,246.1	11.13%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.16%	1.24%	6.90%

*Includes open bank assistance for First Pennsylvania Bank, N.A., with assets of $8 billion.
Source: FDIC, 1981 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

The FDIC was involved in a number of activities during the year that were designed to reduce the regulatory burden on institutions. Those efforts included participation in the activities of the Depository Institutions Deregulation Committee, which was created by Congress in 1980 with a mandate to oversee the orderly phase out of deposit interest rate ceilings.

William M. Isaac became the thirteenth chairman of the FDIC on August 3, 1981. He was appointed to a six-year term on the FDIC's Board of Directors in March 1978. Prior to his appointment to the board, Mr. Isaac served as vice president, general counsel, and secretary of First Kentucky National Corporation and its subsidiaries, First National Bank of Louisville and First Kentucky Trust Company.

Economic/Banking Conditions

The economy did not bounce back from the weak economic year of 1980, and a recession set in. Gross Domestic Product (GDP) and employment growth were meager at 2.5 percent and 1 percent, respectively.[4-1] Unemployment continued to rise to 7.6 percent.[4-2] Interest rates and inflation also rose. Signs in real estate markets reflected the onset of the recession. Home sales (-18.9 percent) and housing starts (-16.1 percent)

[4-1] Bureau of Economic Analysis, Department of Commerce.

[4-2] CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

again declined from the previous year, and the commercial vacancy rate increased to 5.4 percent.[4-3] The high interest rates, a 13.4 percent discount rate and a 16.6 percent 30-year mortgage rate, continued to hurt lending.[4-4] Gross loans and leases relative to total bank assets for the U.S. were down (51.9 percent), as were total real estate loans at 17.1 percent of assets, including commercial real estate loans at 4.4 percent of assets. There was, however, an increase in Commercial and Industrial (C&I) loans to 10.1 percent of assets, reflecting the investment in industries around the country that were expanding despite the national recession.

The Southwest saw an increase in C&I loans, from 13.2 percent of assets in 1980 to 15.1 percent in 1981, as that region's two booming industries, oil and agriculture, continued to reap gains through the first half of the year. In April, oil prices peaked at $36.95 a barrel and began to fall. Recessions in oil-consuming nations, reduction in oil consumption through conservation efforts, and non-OPEC countries increasing their oil output resulted in pressure on OPEC's ability to maintain a fixed price on oil. In addition, the unity of the cartel deteriorated as members began to boost their own oil output, selling more than their OPEC quotas and reducing oil prices in world markets.[4-5] The Southwest experienced a peak in demand for oil rigs.[4-6]

Agricultural exports peaked at $44 billion and represented a 19 percent share of total exports.[4-7] Although agricultural banks remained profitable, with only 2 percent of institutions having negative net income, decreasing demand for American agricultural products caused farm income to fall short of optimistic projections for the year. That shortfall signaled an end to the agricultural expansion of the previous decade and the beginning of the struggle to pay off farm debt, which had risen to $196.2 billion.[4-8]

When a downturn in those two industries began in the Southwest, banks shifted lending to real estate markets. The value of commercial real estate permits increased by 43 percent in the region despite the drop in commercial real estate loans to 4.6 percent of assets.[4-9] Commercial vacancy rates in the region's major cities began to rise.[4-10] For the third year in a row, banks in the region experienced asset growth rates above the national average, 14.9 percent asset growth for Southwest banks in 1981 compared to 9.34 percent for the U.S. banking industry.

In 1981, the Economic Recovery Act was passed. That Act included generous tax treatment for income producing real estate that set the stage for future commercial real estate growth, both in construction and lending. The FDIC, the Office of the Comptroller of the Currency, and the Federal Reserve Board set capital requirements for the institutions that they supervised. At that point, the guidelines did not apply to multinational banks.

The recession that began in 1981 arrived at a time when bankers were willing (and may even have felt forced) to take additional risks to maintain interest margins in the face of rising liability costs. The lure of

4-3 Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

4-4 Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

4-5 Jack L. Hervey, "The 1973 Oil Crisis: One Generation and Counting," Chicago Fed Letter, no. 86 (October 1994), 1.

4-6 Annual Energy Review 1988, Energy Information Administration and Gerald H. Anderson, "The Decline in U.S. Agricultural Exports," Federal Reserve Bank of Cleveland Economic Commentary, (Feb. 15, 1987), 1

4-7 Gerald H. Anderson, "The Decline in U.S. Agricultural Exports," Federal Reserve Bank of Cleveland Economic Commentary, (Feb. 15, 1987), 1.

4-8 Federal Reserve System, Board of Governors, Flow of Funds Accounts, Table L. 102. Gerald H. Anderson, "The Decline in U.S. Agricultural Exports," Federal Reserve Bank of Cleveland Economic Commentary (February 15, 1987).

4-9 Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch.

4-10 CB Commercial Torto/Wheaton Research.

lending to growth industries had led some banks to excessive loan concentrations in fragile industries. An oil surplus and resulting decline in oil prices, for example, surprised many bankers who had invested heavily in independent oil and gas development companies that were suddenly no longer viable.

The number of banks on the problem bank list in 1981 remained fairly stable through the year and stood at 223 at the end of the year. However, in light of the unfavorable economic conditions at the time, that number was expected to increase.

Table 4-2 shows an illustration of the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1981.

Table 4-2

Open Financial Institutions Insured by FDIC ($ in Billions) Commercial Banks - FDIC Regulated			
Item	**1980**	**1981**	**Percent Change**
Number	14,434	14,414	-0.14%
Total Assets	$1,855.7	$2,029.0	9.34%
Return on Assets	0.79%	0.76%	-3.80%
Return on Equity	13.68%	13.04%	-4.68%
Savings Banks – FDIC Regulated			
Item	**1980**	**1981**	**Percent Change**
Number	323	331	2.48%
Total Assets	$152.6	$155.9	2.16%
Return on Assets	-0.17%	-0.94%	-452.94%
Return on Equity	-2.59%	-16.19%	-525.10%
Savings Associations – FHLBB Regulated			
Item	**1980**	**1981**	**Percent Change**
Number	4,005	3,785	-5.49%
Total Assets	$620.6	$658.5	6.11%
Return on Assets	0.13%	-0.72%	--
Return on Equity	2.45%	-15.59%	--
Percent change is not provided if either the latest period or the year-ago period contains a negative number.			

Bank Failures and Assistance to Open Banks

Seven banks failed in 1981. Two were in Illinois; two were in Oregon; and one each in Arizona, Colorado, and Georgia. The FDIC paid off deposits in two cases and arranged purchase and assumption (P&A) transactions in five cases. There also were three assisted mergers of mutual savings banks.

In November and December of 1981, FDIC assistance under (then) Section 13(e) was used to accomplish the mergers of three New York City savings banks with total assets of $4.8 billion. The FDIC's estimated loss resulting from the assisted mergers amounted to $772.8 million, or 16 percent of total assets. The three savings banks involved were Greenwich Savings Bank, Central Savings Bank, and Union Dime Savings Bank, all in New York City.

The FDIC was authorized to perform Assisted Mergers under (then) Section 13(e) of the FDI Act. The FDIC was allowed to take direct action to reduce or avert a threatened loss to the FDIC and arrange a merger of a failed or failing insured bank with another insured bank. The FDIC could make loans secured in whole or in part by assets of an open or closed bank, or it could purchase any assets or guarantee any other insured bank against loss by reason of the FDIC's assuming the liabilities and purchasing the assets of an open bank.

In 1980, ten commercial banks failed; three of those were in Kansas. One bank received open bank assistance. The ten insured banks that failed had deposits of $219.9 million. In seven cases involving banks holding deposits of $202.7 million, the FDIC arranged a P&A transaction where a healthy bank, either new or existing, purchased selected assets of the failed bank and assumed its deposits. In three bank failures with aggregate deposits of $17.2 million, the FDIC paid off depositors up to the statutory limit ($40,000 prior to March 31, 1980, and $100,000 after that date).

On April 28, 1980, the FDIC, the Federal Reserve, and the OCC jointly announced a $500 million open bank assistance package to assure the viability and continued operation of First Pennsylvania Bank, N.A., (First Penn), a subsidiary of First Pennsylvania Corporation, Philadelphia, Pennsylvania. First Penn, with assets of $8 billion, was Philadelphia's largest bank and the twenty-third largest in the nation. The assistance to First Penn was in the form of $500 million in five-year subordinated notes supplemented by a $1 billion bank line of credit through access to the Federal Reserve discount window.

A recent estimate of losses per transaction type is shown in Table 4-3.

Table 4-3

1980 Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA	3	$4,838.6	$772.8	15.97%
P&As	5	56.9	7.9	13.88%
Payoffs	2	51.9	1.1	2.12%
Totals	10	$4,947.4	$781.8	15.80%

Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

The seven banks that failed in 1981 had total deposits of $100.2 million in 32,930 deposit accounts. Two payoffs represented roughly half of the failed banks' aggregate deposits, with 16,883 deposit accounts and $47.9 million in deposits. The three New York City savings banks that received assistance held 660,231 deposit accounts and $3.9 billion in deposits.

Since the inception of the FDIC in January 1934, until December 31, 1981, there were 578 insured banks[4-11] that closed or were assisted with aggregate deposits of $10 billion. The FDIC disbursed $6.9 billion to protect depositors and experienced total losses, including losses expected on assets in the process of liquidation, of $1 billion through the end of 1981.

In the 312 deposit payoffs since the FDIC began operations, recoveries of uninsured portions of deposits varied from bank to bank. However, in the aggregate, nearly 97.2 percent of total deposits in payoffs was paid by the end of 1981.

4-11 This figure does not include open bank assistance transactions from 1934-1980. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, should be included in the overall totals.

Asset Disposition

At the beginning of 1981, the FDIC had $1.8 billion in failed bank assets. During the year, the FDIC handled seven bank failures with total assets of $108.8 million, and assets acquired closely matched assets liquidated. The FDIC collected a total of $99.7 million. Thus, at the end of 1981, the FDIC held roughly $1.8 billion in failed bank assets, the same amount with which it began the year.

At the end of 1981, the Division of Liquidation handled a total of 99 active bank receiverships located in 25 states, the U.S. Virgin Islands, and Puerto Rico. Of those, four receiverships were handled from the Washington office, and 95 were handled from the 48 field liquidation offices. Table 4-4 shows the FDIC's assets in liquidation and Chart 4-1 shows the asset mix.

Table 4-4

1981 FDIC End of the Year Assets in Liquidation ($ in Billions)

Asset Type	12/31/80 Book Value	12/31/81 Book Value	12/31/81 Estimated Recovery Value
Loans	$0.9	$0.8	$0.2
Real Estate Mortgages	0.4	0.3	0.2
Investments	0.0	0.1	0.1
Owned Assets	0.1	0.1	0.1
Charge-Offs	0.2	0.0	0.0
Securities	0.0	0.3	0.1
Other Assets/Judgments	0.2	0.2	0.0
Total	$1.8	$1.8	$0.7

Source: Reports from FDIC Division of Finance.

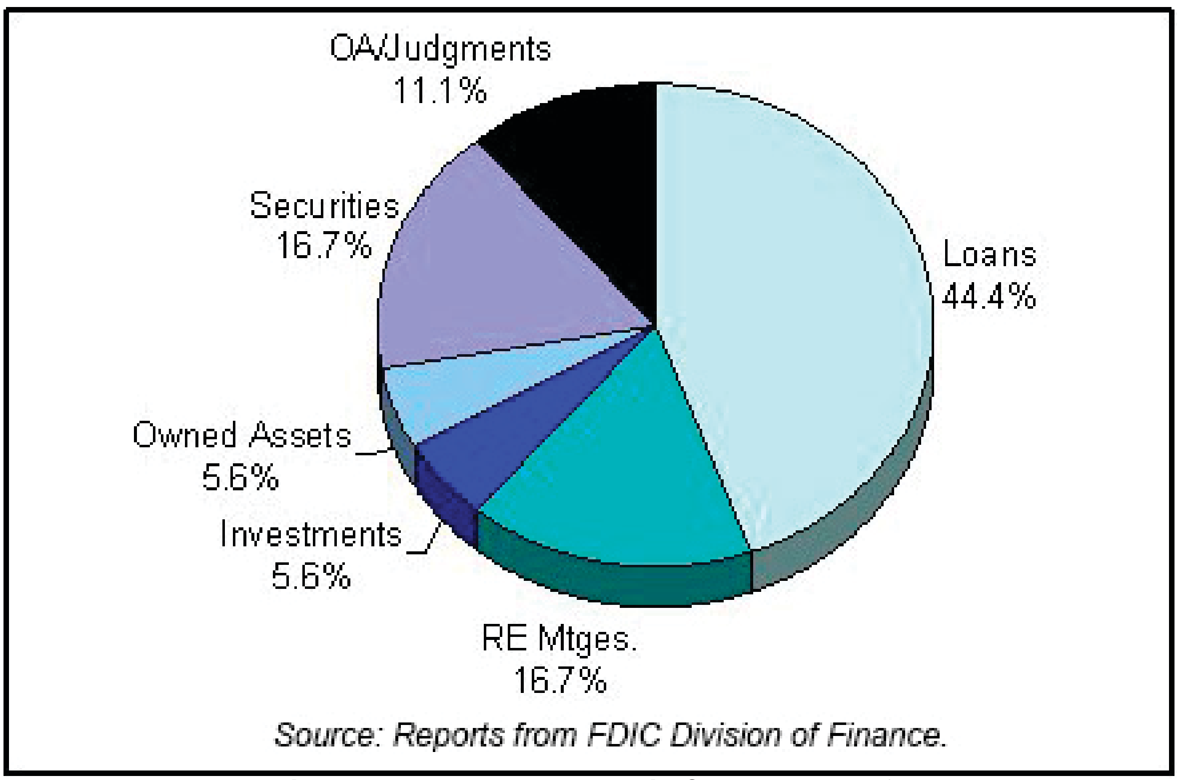
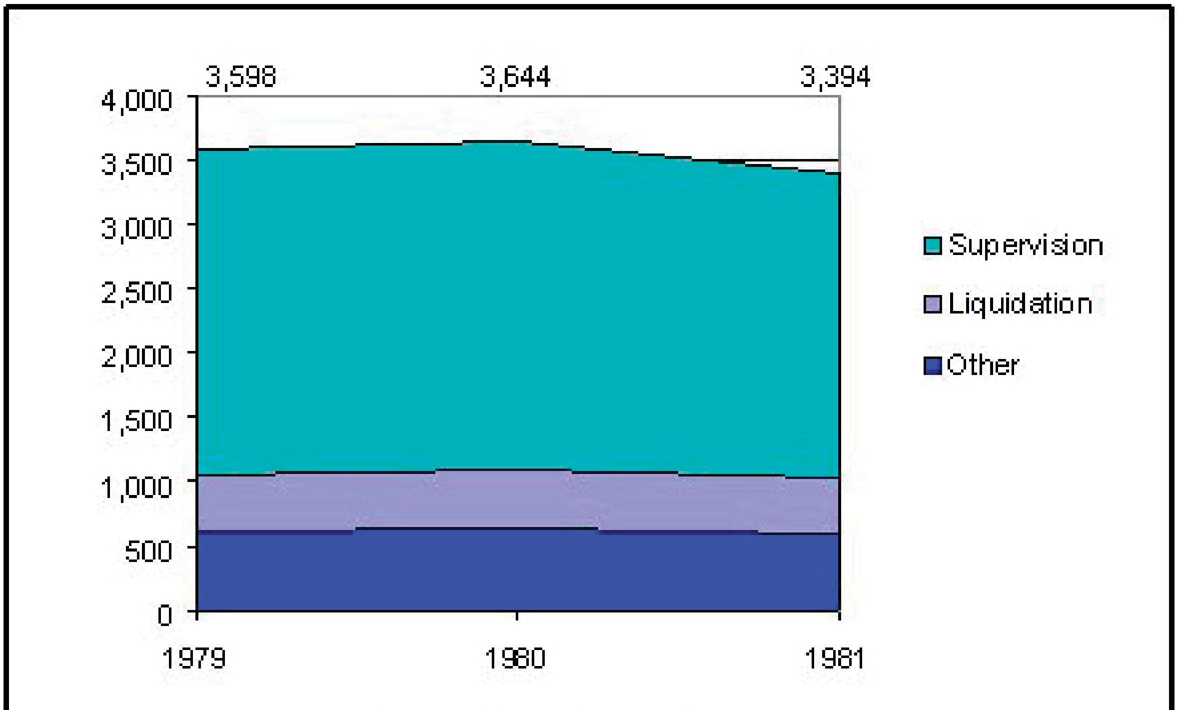


Chart 4-1 — 1981 FDIC End of Year Asset Mix

Loans	RE Mtges.	Investments	Owned Assets	Charge-offs	Securities	OA/ Judgments
44.4%	16.7%	5.6%	5.6%		16.7%	11.1%



Source: FDIC, Annual Report.

Chart 4-2 — FDIC/RTC Staffing

	1960	1965	1970
Other	626	640	606
Liquidation	432	460	429
Supervision	2,540	2,544	2,359
Total	3,598	3,644	3,394

Insurance Fund and Staffing

Despite the extraordinary expenses resulting from the merger assistance provided to three large New York City savings banks, the deposit insurance fund increased during 1981 to a new year-end high of $12.2 billion, an increase of $1.2 billion or 11.1 percent over 1980. FDIC employment at the end of 1981 totaled 3,394. The Division of Liquidation staff decreased from 460 at the end of 1980 to 429 at the end of 1981. The Division of Bank Supervision staff decreased from 2,544 at the end of 1980 to 2,359 at the end of 1981. Chart 4-2 shows the staffing levels for the past three years.

Chapter Five: 1982

Not since the Great Depression had the FDIC played such a discernible role in the business life of the nation as it did in 1982. In general, most Americans did not know or understand very much about the FDIC and its operations. However, after 34 insured bank failures and 8 assisted merger transactions of mutual savings banks during the year, the FDIC's involvement in major banking industry issues began to make the FDIC's influence on the nation's economic health more evident.

Table 5-1

1981 - 1982: FDIC at a Glance ($ in Millions)

	12/31/81	12/31/82	Percent Change
Number of Bank Failures	7	34	385.71%
Assistance to Open Banks	3	8	166.67%
Total Failed and Assisted Banks	10	42	320.00%
Total Assets of Failed and Assisted Banks	$4,947.4	$11,722.6	136.94%
Losses on Failed and Assisted Banks	$781.8	$1,168.6	49.48%
Losses as a Percent of Total Assets	15.80%	9.97%	-36.90%
Assets in Liquidation	$1,840.6	$2,155.1*	17.09%
FDIC Staffing	3,394	3,504	3.24%
Number of Problem Banks	223	369	65.47%
Deposit Insurance Fund Balance	$12,246.1	$13,770.9	12.45%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.24%	1.21%	-2.42%

*Figure as of 11/30/82. Year end figure was not available.
Source: FDIC, 1982 Annual Report and Reports from FDIC Division of Finance and FDIC Division of Research and Statistics.

Notable Events

Two years after the passage of the Depository Institutions Deregulation and Monetary Control Act of 1980, Congress passed the Garn-St Germain Depository Institutions Act (Garn-St Germain) of 1982. Garn-St Germain took deregulation even further and gave the regulators more flexibility in dealing with failing or failed institutions, including the authority to seek out-of-state bidders for emergency acquisitions.

Economic/Banking Conditions

The nation was still in a recession throughout 1982. Gross Domestic Product declined by 2.1 percent, and employment was down 1.2 percent.[5-1] The unemployment rate rose to 9.7 percent, up from 7.6 percent a year ago, a 28 percent increase.[5-2] Interest rates remained high. Although there was a slight decline, the discount rate was at 11 percent, and the 30-year mortgage rate was at 16.1 percent.[5-3] Inflation also was down from 9.4 percent in 1981, to 6.2 percent in 1982.[5-4] The real estate market was affected by the recession. Home sales and housing starts both were down for the third straight year, declining 15.8 percent

5-1 Bureau of Economic Analysis and CB Commercial Torto/Wheaton Research.

5-2 Bureau of Labor Statistics, Department of Labor.

5-3 Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

5-4 Bureau of Labor Statistics, Department of Labor.

and 2 percent, respectively. The office vacancy rate was beginning to increase, up to 9.3 percent, signaling overbuilding in the markets.[5-5]

California was not as badly affected by the recession as was most of the country. For the second year in a row, prices stalled in the state, but there was no deterioration in the state's economy. California's Gross State Product, however, was at a standstill during the year.[5-6] The high level of defense spending and the booming semiconductor industry, headquartered in Silicon Valley, helped California's economy through the recession.[5-7]

The story in the Southwest was different. Although farmland value for the 1980s peaked at an average of $715 per acre, the agricultural sector's 1970s expansion continued to wind down. Agricultural prices fell 12 percent from the previous year, and cash receipts declined. Despite expectations for record-setting levels, U.S. agricultural exports fell 11 percent.[5-8]

The Southwest real estate markets saw the end of their rapid growth. Between 1980 and 1982, there was an 88 percent increase in residential permits and a 46 percent increase in residential housing starts in the region.[5-9] Oil prices continued to decline, and profits for the oil industry in the Southwest slowed. Despite the ensuing hard times in the region and an increasing commercial vacancy rate[5-10], lending was expanding, especially with Commercial and Industrial (C&I) loans at 16.5 percent of assets, up from 15.1 percent in 1981 and commercial real estate loans at 5.1 percent of assets, up from 4.6 percent in 1981. There were 13 bank failures in the Southwest alone during the year.

The high interest rates made it a difficult environment for thrift institutions. Accordingly, Garn-St Germain increased the thrifts' authority to invest in commercial loans to strengthen long-term thrift institution viability. The bill also lifted statutory restrictions on real estate lending for national banks and limits on concentrations of credit were relaxed. Those provisions helped set the stage for rapid expansion of lending in commercial mortgage markets, which, in turn, helped lead to overbuilding. Subsequently, commercial real estate markets collapsed in many regions. The provisions of Garn-St Germain also increased competition between banks and thrifts. There were 346 new bank charters, a 59.5 percent increase from the previous year. Recession-related factors, in combination with high and volatile interest rates and deregulation, increased loan charge-offs by more than 50 percent in 1982. For the U.S., total loans and leases remained virtually unchanged at 51.3 percent of assets, while total real estate loans declined slightly and commercial real estate loans and C&I loans remained steady.

An enormous problem facing the banking industry was the accumulation by money center banks of large concentrations of loans to lesser developed countries (LDCs). Total LDC debt held by the eight largest money center banks had expanded rapidly from $36 billion at the end of 1978 to $55 billion at the end of 1981, which was more than double the aggregate capital and reserve amounts of those banks[5-11]. In August 1982, the Mexican government announced it could no longer meet interest payments on its loans, and by the end

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[5-5] Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

[5-6] Bureau of Economic Analysis, Department of Commerce.

[5-7] Economic Report of the Governor, 1983, 1.

[5-8] Economic Research Service, U.S. Department of Agriculture. National Agricultural Statistics Service, U.S. Department of Agriculture.

[5-9] Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch, and FW Dodge/McGraw-Hill.

[5-10] CB Commercial Torto/Wheaton Research.

[5-11] Federal Financial Institutions Examination Council, Country Exposure Report, year end.

of the year, 39 other nations were also in arrears[5-12]. Bank regulators feared that some large banks might be deemed insolvent and precipitate an economic and political crisis, thus they did not require that large reserves be set aside immediately for the LDC loans restructured following the Mexican default[5-13].

Insured banks and other financial institutions operated in a very unpredictable economy during 1982. Because of excessive growth in the money supply, the Federal Reserve Board maintained tight monetary policies, and interest rates remained high until late summer when it began to relax its grip. Over the course of the year, the prime interest rate dropped from 15.75 percent to 11 percent.

At the end of 1982, there were 369 banks on the problem bank list, compared with 223 at the end of 1981. That was an increase of 146 banks, approximately 65.5 percent in only one year.

Table 5-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1982.

Table 5-2

Open Financial Institutions Insured by FDIC ($ in Billions) Commercial Banks - FDIC Regulated			
Item	**1981**	**1982**	**Percent Change**
Number	14,414	14,451	0.26%
Total Assets	$2,029.0	$2,193.3	8.10%
Return on Assets	0.76%	0.70%	-7.89%
Return on Equity	13.04%	12.02%	-7.82%
Savings Banks – FDIC Regulated			
Item	**1981**	**1982**	**Percent Change**
Number	331	315	-4.83%
Total Assets	$155.9	$155.0	-0.58%
Return on Assets	-0.94%	-0.79%	15.96%
Return on Equity	-16.19%	-15.62%	3.52%
Savings Associations – FHLBB Regulated			
Item	**1981**	**1982**	**Percent Change**
Number	3,785	3,349	-11.52%
Total Assets	$658.5	$699.5	6.23%
Return on Assets	-0.72%	-0.63%	12.50%
Return on Equity	-15.59%	-17.52%	-12.38%

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks. In the midst of the economic volatility, 34 FDIC insured banks failed and there were 8 assisted mergers of mutual savings banks, topping all previous years since 1940 when 43 failures occurred. Of the 34 failures, 27 were resolved with purchase and assumption (P&A) transactions, and 7 were resolved with deposit payoffs. To place 1982's failure rate in perspective, the largest

5-12 Philip A. Wellons, Passing the Buck: Banks, Government and Third World Debt (1987), 225.

5-13 Seidman, Full Faith and Credit, 127 number of insured bank failures in any recent year was 16 in 1976, and the number of failed banks was 10 or fewer annually from 1977 through 1981.

The mutual savings banks and thrifts were severely affected by the deregulation of interest rates. Insolvent thrifts were allowed to use brokered deposits to stay in operation and to grow their assets or engage in new activities that could not have been funded through traditional sources. At the same time, regulatory accounting standards for thrifts were adopted allowing many to exist with little or no capital. Those institutions, with little or no capital on the line and access to fully-insured brokered deposits, in many cases took extraordinary risks that resulted in large losses.

Bank Failures and Assistance to Open Banks. In the midst of the economic volatility, 34 FDIC insured banks failed and there were 8 assisted mergers of mutual savings banks, topping all previous years since 1940 when 43 failures occurred. Of the 34 failures, 27 were resolved with purchase and assumption (P&A) transactions, and 7 were resolved with deposit payoffs. To place 1982's failure rate in perspective, the largest number of insured bank failures in any recent year was 16 in 1976, and the number of failed banks was 10 or fewer annually from 1977 through 1981.

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Net Worth Certificates (NWCs) were intended for depository institutions that had suffered earnings and capital losses primarily because of an interest rate spread problem. A NWC was purchased by the FDIC from a qualified institution in exchange for an FDIC issued promissory note. The note was an asset on the bank's books, with the offsetting liability of the NWC counted toward regulatory capital. The FDIC paid interest to the bank as cash, while the bank, if it had earnings and achieved a certain level of net worth, paid part of its net income to the FDIC.

- Farmers and Mechanics Savings Bank, Minneapolis, Minnesota, was merged into Marquette National Bank, Minneapolis, Minnesota. As a result of the merger, Marquette National Bank became the fourth largest commercial bank in Minnesota.
- Fidelity Mutual Savings Bank, Spokane, Washington, was merged into First Interstate Bank of Washington, N.A., Seattle, Washington. That merger involved both in-state and out-of-state bidders. That transaction resulted in an approximate cost of $44 million, including the $20 million savings resulting from inclusion of out-of-state bidders. The $44 million cost was $121 million less than the estimated $165 million cost of a payoff.

A recent estimate of losses per transaction type is shown in Table 5-3.

Table 5-3

1982 Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA	8	$9,940.4	$1,018.2	10.24%
P&As	27	1,279.1	79.4	6.21%
Payoffs	7	503.1	71.0	14.11%

1982 Losses by Transaction Type ($ in Millions)				
Transaction Type	**Number of Transactions**	**Total Assets**	**Losses**	**Losses as a Percent of Assets**
Totals	42	$11,722.6	$1,168.6	9.97%
Source: Reports from FDIC Division of Research and Statistics.				

Prior to 1982, common thinking among large depositors was that no big bank would ever fail, and no bank over $100 million would be paid off. Large troubled institutions were merged, were provided open bank assistance, or were resolved through a P&A transaction. All of those methods of resolution provided depositors with full protection even if a portion of their funds was uninsured. Large depositors placed money in the institutions that paid the highest interest, without regard to the institutions' stability or the insurance level, confident that they would receive their funds. On July 5, 1982, that thinking changed with the failure of Penn Square Bank, N. A., (Penn Square) Oklahoma City, Oklahoma.

Penn Square had been paying high interest rates in order to attract cash, which it invested in high-risk oil and gas exploration loans. The bank then sold portions of the loans to other financial institutions for cash, a process known as selling "participations." With the money it received from selling the participations, Penn Square made even more high-risk loans. By the time it failed, Penn Square, which had only $436.5 million in assets of its own, sold loan participations totaling more than four times that amount to other banks. More than $2 billion in oil and gas participations were held by five major U.S. banks: Continental Illinois National Bank and Trust Company, Chicago, Illinois held $1 billion in those participations. Most of the remaining participations were held by Chase Manhattan Bank, New York, New York; Michigan National Bank, Lansing, Michigan; Seattle First National Bank, Seattle, Washington; and Northern Trust Company, Chicago, Illinois.

Due to the heavy volume of participations and questions about the accuracy of information furnished to loan purchasers, a substantial volume of lawsuits was anticipated from the failure of Penn Square. If the suits were successful, the cost to the FDIC of a P&A transaction ultimately would have been substantial. The FDIC's only alternative was a payoff of insured deposits. The FDIC used the unusual approach of establishing a Deposit Insurance National Bank (DINB). Insured deposits totaling approximately $207.5 million were transferred to that newly established bank ran by the FDIC. All other claimants would share in the proceeds from the liquidation of the assets of the failed bank. To allow the insured depositors immediate access to their funds, FDIC Chairman William M. Isaac was quoted as saying: "We'll keep the bank open 24 hours a day if necessary to meet the demand. We'll be in the bank all night long if we have to."[5-14]

The Banking Act of 1933 authorized the FDIC to establish a Deposit Insurance National Bank (DINB) to assume the insured deposits of a failed bank. A DINB had a limited life of two years; it continued to insure deposits still in the bank, but could not make loans. Depositors were given up to two years to move their deposit accounts to other institutions.

The DINB existed for slightly more than 13 months until August 18, 1983, when the FDIC signed an agreement with Charter National Bank, N.A., (Charter National) to assume the remaining $458,400 in deposits from the DINB. All depositors who had not voluntarily withdrawn their funds from the DINB were transferred to Charter National.

During the first 18 months after Penn Square's closing, as of December 29, 1983, the FDIC had collected $500.4 million from the bank's assets, including the amount that was collected from borrowers on the more than $2 billion in participated loans. Of the total, $235.1 million was paid to holders of loan participations sold by Penn Square, $5.7 million was paid to the Federal Reserve Bank of Dallas for accrued advances to

[5-14] Phillip L. Zweig, Belly Up, (New York: Crown Publishers, Inc., 1985), 410

Penn Square, $16.9 million was paid to owners of pledged deposits, and $88.2 million was paid to uninsured depositors and other creditors, including the FDIC, which held receivership certificates for claims.

In closing Penn Square, the FDIC also paid advance dividends; however, the first dividend payment was not made until March 1983. Uninsured depositors and other claimants ultimately were paid 70 percent of their claims. Claims totaled $486.5 million, the largest of which was held by the FDIC's deposit insurance fund. The FDIC was owed $217 million for paying off the insured deposits. Among the uninsured depositors were 29 commercial banks, 44 savings and loan associations, and 221 credit unions.

Advance Dividends were paid on claims of uninsured depositors and general trade creditors based on the estimated recovery of the failed bank's assets. Uninsured depositors and other creditors holding receivership certificates were paid a portion of their claims soon after closing. Advance dividends provided uninsured depositors with an opportunity to realize an earlier return on the uninsured portion of their deposits without eliminating the incentive for large depositors to exercise market discipline.

Payments to Depositors and Other Creditors. In the 42 banks that failed or were assisted in 1982, there were 1,964,458 deposit accounts totaling $10.2 billion. Of those totals, the seven deposit payoffs represented 39,605 deposit accounts with $451.9 million in total deposits. The eight assistance agreements represented 1,723,740 deposit accounts with deposits totaling $8.6 billion.

Since the inception of the FDIC in January 1934, until December 31, 1982, there were 620 banks[5-15] that had failed or were assisted with an aggregate of 6.5 million deposit accounts and deposits totaled nearly $20 billion. In meeting its responsibilities, the FDIC as insurer disbursed $7.6 billion and as liquidator recovered $5.8 billion, for a net loss to the FDIC of $1.8 billion since it began operations.

Of the 319 payoffs since the FDIC began operations, recovery of uninsured portions of deposits varied from case-to-case; however, in the aggregate, 79.6 percent had been paid by December 31, 1982. In contrast, 97.2 percent of uninsured deposits had been paid by the end of 1981. The marked decrease in the recovery rate for uninsured deposits was due almost entirely to the failure of Penn Square. That bank had an unusually high volume of deposits exceeding the insurance limit. Because of the complexity of the receivership and the existence of numerous potential claims that needed to be analyzed, no payment from the proceeds of liquidated assets could be made to Penn Square creditors, including the uninsured depositors, in 1982.

Asset Disposition

At the beginning of 1982, the FDIC held $1.8 billion in assets for liquidation from failed institutions. There were 34 commercial bank failures with total assets of $1.8 billion. The FDIC collected a total of $118 million through the end of November. At the end of November 1982[5-16], total assets in liquidation were $2.2 billion, a 22.2 percent increase since the beginning of the year.

Until the mid-1980s, there were not many bank failures; therefore, Division of Liquidation operations were not extensive. As bank failure activity began to increase, the FDIC approved a reorganization of its Division of Liquidation and established area liquidation offices in five cities. The first office, located in New York City, opened in November. Other offices were scheduled to open in Atlanta, Chicago, Dallas, and San Francisco the following year. Table 5-4 shows FDIC's assets in liquidation and Chart 5-1 shows the asset mix.

5-15 This figure does not include open bank assistance transactions from 1934-1980. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, should be included in the overall totals.

5-16 Year end data was unavailable.

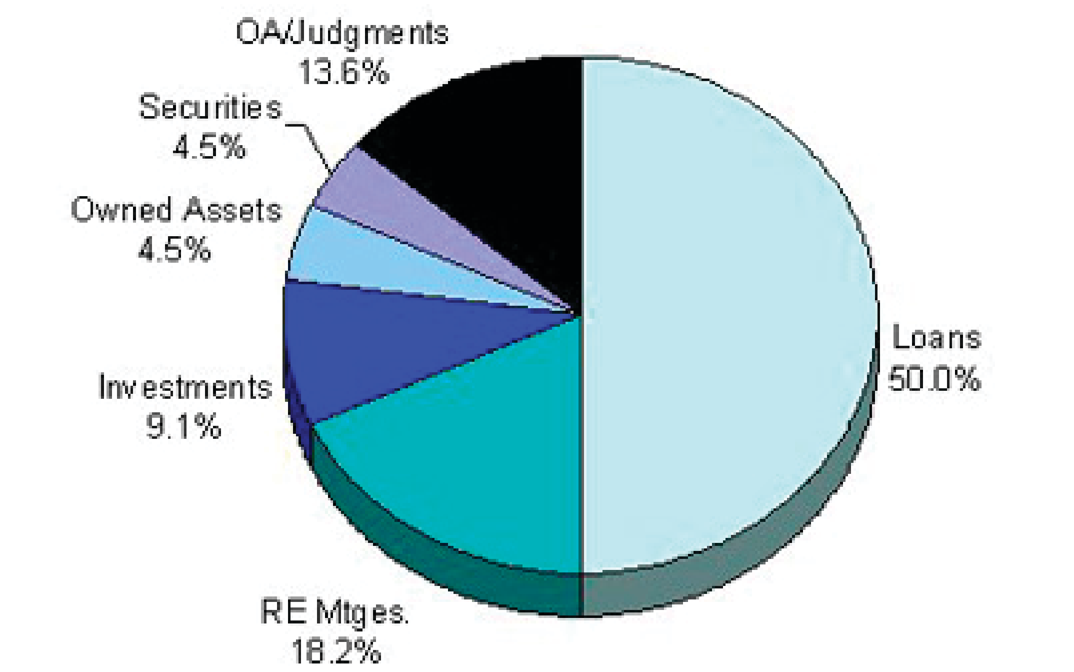
Table 5-4

1982 FDIC End of the Year Assets in Liquidation ($ in Billions)

Asset Type	12/31/81 Book Value Book Value	12/31/82*	12/31/82 Estimated Recovery Value
Loans	$0.8	$1.1	$0.5
Real Estate Mortgages	0.3	0.4	0.3
Investments	0.1	0.2	0.2
Owned Assets	0.1	0.1	0.1
Charge-Offs	0.0	0.0	0.0
Securities	0.3	0.1	0.0
Other Assets/Judgments	0.2	0.3	0.1
Total	$1.8	$2.2	$1.2

*Reports from FDIC Division of Finance.

Source: Reports from FDIC Division of Finance.



Source: Reports from FDIC Division of Finance.

Chart 5-1—1982 FDIC End of Year Asset Mix

Loans	RE Mtges.	Investments	Owned Assets	Securities	OA/Judgments
50.0%	18.2%	9.1%	4.5%	4.5%	13.6%

Source: Reports from FDIC Division of Finance

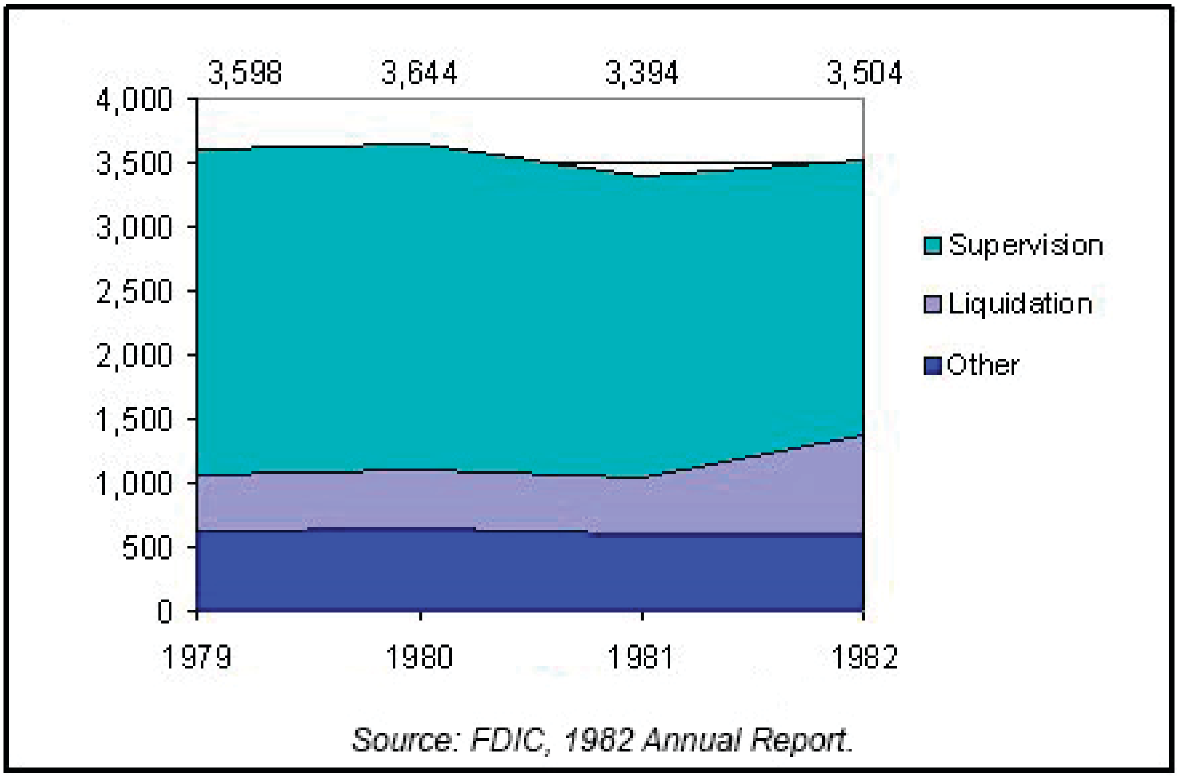


Chart 5-2—FDIC Staffing

	1979	1980	1981	1982
Other	626	640	606	597
Liquidation	423	460	429	778
Supervision	2,540	2,544	2,359	2,129
Total	3,598	3,644	3,394	3,504
Source: FDIC, 2001 Annual Report				

Insurance Fund and Staffing

The deposit insurance fund grew in 1982 despite the expense to the FDIC resulting from the high bank failure rate. The deposit insurance fund reached a new year-end high of $13.8 billion, an increase of $1.5 billion or 12.5 percent over 1981. Total staffing for the FDIC grew from 3,394 at the end of 1981 to 3,504 at the end of 1982. The Division of Liquidation staff almost doubled, rising from 429 at the end of 1981 to 778 at the end of 1982. The Division of Bank Supervision staff, on the other hand, fell from 2,359 at the end of 1981 to 2,129 at the end of 1982. Chart 5-2 shows the staffing levels for the past four years.

Chapter Six: 1983

Unveiling of the design for a commemorative U.S. postage stamp marked the fiftieth anniversary of the FDIC. Although the anniversary was observed in a festive atmosphere, 1983 was a year of serious and intense activity for the FDIC.

Table 6-1

1983 - 1983: FDIC at a Glance ($ in Millions)

	12/31/82	12/31/83	Percent Change
Number of Bank Failures *	34	45	32.35%
Assistance to Open Banks	8	3	-62.50%
Total Failed and Assisted Banks	42	48	14.29%
Total Assets of Failed and Assisted Banks	$11,722.6	$7,191.7	-38.65%
Losses on Failed and Assisted Banks	$1,168.6	$1,407.0	20.43%
Losses as a Percent of Total Assets	9.97%	19.56%	96.29%
Assets in Liquidation	$2,155.1 *	$4,259.6	97.65%
FDIC Staffing	3,504	3,846	9.76%
Number of Problem Banks	369	642	73.98%
Deposit Insurance Fund Balance	$13,770.9	$15,429.1	12.04%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.21%	1.22%	0.83%

*Figure as of 11/30/82. Year end figure was not available. Back to table

Source: FDIC, 1983 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

Two years after the passage of the Depository Institutions Deregulation and Monetary Control Act of 1980, Congress passed the Garn-St Germain Depository Institutions Act (Garn-St Germain) of 1982. Garn-St Germain took deregulation even further and gave the regulators more flexibility in dealing with failing or failed institutions, including the authority to seek out-of-state bidders for emergency acquisitions.

Legislation was introduced late in 1983 to strengthen and refine the provisions of the Federal Deposit Insurance Act of 1950. Among its provisions, The Federal Deposit Insurance Improvements Act of 1983 authorized the FDIC to vary deposit insurance premium rebates on the basis of the risk that any insured bank represented to the insurance fund. It also required that the FDIC be designated receiver of any closed bank, and it would set priorities for the payment of claims against the failed bank.

Economic/Banking Conditions

The country saw much better economic times in 1983, as the economy began to rebound from the recent recession. Gross Domestic Product (GDP) was up about 4 percent[6-1]. Inflation was less than half what it was just two years previously, standing at 4.3 percent[6-2]. The unemployment rate held steady at 9.6 percent[6-3]. Employment growth was meager at 0.2 percent[6-4]. Interest rates continued to fall; the discount rate was 8.5

[6-1] Bureau of Economic Analysis, Department of Commerce.

[6-2] Bureau of Labor Statistics, Department of Labor.

[6-3] Bureau of Labor Statistics, Department of Labor.

[6-4] CB Commercial Torto/Wheaton Research.

percent, and the 30-year mortgage rate was at 13.2 percent[6-5]. Following the rapid expansion of lending in commercial real estate markets, the office vacancy rate continued to rise and was at 13.4 percent[6-6]. Growth in the residential real estate markets was substantial with home sales up 38.2 percent and housing starts up 60.4 percent, after both had experienced a three-year skid[6-7].

In the Southwest, farmers were still experiencing hard times as farm loans peaked and farm debt continued to increase. Agriculture prices continued their decline[6-8]. The downturn in the agricultural sector in recent years was beginning to take its toll on agricultural banks. Real farm income was down to $8.2 billion (from $22.8 billion in 1980) while total farm business liabilities had nearly tripled from their 1970 values, reaching a peak for the 1980s of $207 billion[6-9]. The percentage of nonperforming loans at agricultural banks continued to rise.

Commercial vacancy rates were on the rise in the Southwest; for instance, the commercial vacancy rate in Houston, Texas, was up to 27 percent[6-10]. Despite the rising vacancy rates, total real estate loans rose to 15.1 percent of assets, up from 12.4 percent in 1982, including a large increase in commercial real estate loans, from 5.1 percent of assets in 1982 to 6.4 percent in 1983. Gross State Product growth for the Southwest region was minimal and well below the national GDP growth rate[6-11].

The Northeast enjoyed a quick recovery from the national recession, and expansion began in the real estate market. Institutions' real estate portfolios increased at a rate two times the national average. The region also saw above average growth in overall production and lower unemployment rates than the rest of the U.S.[6-12]

California also saw expansion in its economy, especially in the construction industry, as the number of housing permits increased[6-13]. There continued to be many newly chartered banks in the state. Total real estate loans increased to 17.9 percent of assets, up from 15.2 percent a year earlier, and commercial real estate loans, at 3.4 percent of assets, also rose throughout the state.

The downturn in the agricultural sector in recent years was beginning to take its toll on agricultural banks, and the percentage of nonperforming loans at those banks continued to rise. There were, however, 378 newly chartered banks. The Office of the Comptroller of the Currency and the Federal Reserve Board extended capital reserve requirements to include multi-national banks. Lesser developed countries (LDC) debt improved as twenty-seven countries were able to reach restructuring agreements regarding the payments of their obligations[6-14].

6-5 Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

6-6 CB Commercial Torto/Wheaton Research.

6-7 Housing Market Statistics, National Association of Home Builders (June 1996).

6-8 Economic Report of the President, 1986.

6-9 Federal Reserve System, Board of Governors, Flow of Funds Accounts, Table L. 102. Kevin L. Kliessen and R. Alton Gilbert, "Are Some Agricultural Banks Too Agricultural?" Federal Reserve Bank of St. Louis Review 78, No. 1 (January/February 1996): 26. Sada L. Clarke, "The Outlook for Agriculture in '82," Federal Reserve Bank of Richmond Economic Review (January/February 1982): 25-29.

6-10 CB Commercial Torto/Wheaton Research.

6-11 Bureau of Economic Analysis, Department of Commerce.

6-12 Bureau of Economic Analysis and Bureau of Labor Statistics, Department of Labor.

6-13 Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch.

6-14 Philip A. Wellons, Passing the Buck: Banks, Government and Third World Debt (1987), 225.

The need for major changes in the regulatory and deposit insurance structures became increasingly apparent in 1983. Mechanisms crafted half a century earlier to regulate and insure banks were no longer adequate. The most fundamental change flowing from deregulation had been the growth of competition in banking markets. That enhanced competition led to increased risk-taking and greater opportunities for banks to fail.

At the end of 1983, there were 642 banks on the problem bank list, compared with 369 on the list at the end of 1982. The increase in the number of banks on the list during 1983 reflected the continued affects of the 1981-1982 recession and increased competition among banks due to deregulation.

Table 6-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1983.

Table 6-2

Open Financial Institutions Insured by FDIC ($ in Billions) Commercial Banks – FDIC Regulated			
	1982	1983	Percent Change
Number	14,451	14,469	0.12%
Total Assets	$2,193.3	$2,342.1	6.78%
Return on Assets	0.70%	.66%	-5.71%
Return on Equity	12.02%	11.90%	-1.00%
Savings Banks – FDIC Regulated			
	1982	1983	Percent Change
Number	315	294	-6.67%
Total Assets	$155.0	$170.7	10.13%
Return on Assets	-0.79%	-0.10%	87.34%
Return on Equity	-15.62%	-2.18%	86.04%
Savings Associations – FHLBB Regulated			
	1982	1983	Percent Change
Number	3,349	3,183	-4.96%
Total Assets	$699.5	$819.1	17.10%
Return on Assets	-0.63%	0.26%	--
Return on Equity	-17.52%	8.51%	--

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.Bank Failures and Assistance to Open Banks

Despite the turnaround in the economy, there were 45 bank failures and 3 assisted mergers of mutual savings banks, a post-Depression record. That number included several large institutions, which resulted in a substantial increase in the volume of failed bank assets held by the FDIC, as receiver. In order to handle those assets more efficiently, the FDIC decentralized its liquidation operations. It opened and staffed five new area liquidation offices, with each office responsible for ten states. The offices were located in Atlanta, Chicago, Dallas, and San Francisco, (the New York office opened in November 1982.)

In 1983, the FDIC developed an alternative to a deposit payoff when no assuming bank could be found for the failed bank. In an Insured Deposit Transfer (IDT), the FDIC transferred all the insured deposits to a healthy institution. Former depositors of the failed bank could then leave their accounts in the transferee bank or move their deposits to another financial institution. An IDT minimized the disruption to the closed bank's customers and to the affected community. The procedure also reduced the FDIC's cost in handling a failure because the FDIC did not have the burden of directly paying each customer.

Of the 48 banks that failed or were assisted, the FDIC resolved 36 institutions through purchase and assumption (P&A) transactions. There were seven deposit payoffs, and two institutions were resolved using a new procedure called "insured deposit transfer (IDT)." The three assisted mergers of mutual savings banks are discussed below.

- The FDIC assisted the merger in New York City of Dry Dock Savings Bank into The Dollar Savings Bank under the Voluntary Merger Plan. The resulting institution had combined assets exceeding $5 billion.
- In Oregon, a change in state law made possible the conversion of Oregon Mutual Savings Bank into a stock-form state chartered bank and its subsequent acquisition by Moore Financial Group, Inc., Boise, Idaho. The FDIC assistance consisted of a cash payment of $11.8 million.
- Auburn Savings Bank, Auburn, New York, was absorbed by Syracuse Savings Bank. The cost of the FDIC assistance was $2.9 million.

At the end of the year 1983, 23 depository institutions had net worth certificates outstanding which totaled $376.8 million.

A recent estimate of losses per transaction type is shown in Table 6-3.

Table 6-3

1983 Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA	3	$2,851.1	$71.3	2.50%
P&As	36	4,143.2	1,309.8	31.61%
IDTs	2	47.3	13.9	29.39%
Payoffs	7	150.1	12.0	7.99%
Totals	48	$7,191.7	$1,407.0	19.56%

Source: Reports from FDIC Division of Research and Statistics.

The failure of the United American Bank (UAB), Knoxville, Tennessee on February 15, initially made headlines because its owner, Jake Butcher, was the principal organizer and promoter of the 1982 World?s Fair and twice was a candidate for governor of the State of Tennessee. The deposit liabilities and assets of UAB were transferred to First Tennessee Bank of Knoxville, a subsidiary of First Tennessee Corporation, Tennessee?s largest bank holding company. The transaction was noteworthy because it marked the first use of the extraordinary acquisition provisions of the Garn-St Germain Depository Institutions Act of 1982. Before the year was out, seven more Tennessee banks controlled by Jake Butcher or his brother, C.H. Butcher, Jr., failed. There were almost daily reports of an excessive volume of classified loans, loans to insiders, loans far from the bank?s trade area, and evidence of inaccurate or deliberately misleading accounting.

The insolvency of United American Bank and, subsequently, of other Butcher-related institutions, was discovered only because the FDIC undertook a simultaneous examination of the major Butcher-affiliated banks, committing to the task nearly 10 percent of its field workforce for almost three months. At the end of

1983, the FDIC estimated that its losses in connection with the eight failed Butcher banks would amount to approximately $382.6 million.

Payments to Depositors and Other Creditors

In the 48 banks that failed or were assisted in 1983, there were 934,023 deposit accounts with $5.8 billion in deposits. Of those totals, the seven deposit payoffs represented 16,813 deposit accounts and $139.2 million in deposits. The three assistance agreements represented 388,290 deposit accounts with $2.4 billion in deposits. Of the 668 banks[6-15] that failed or were assisted since the FDIC?s inception in 1934, there were 340 P&A transactions and assistance agreements and 328 deposit payoffs including IDTs. All the accounts in the P&A transactions and the assistance agreements, with deposits aggregating $24.2 billion, were fully protected. In the deposit payoffs, 85.5 percent of the $1.1 billion in deposits had been paid by year-end 1983.

Total disbursements by the FDIC since January 1, 1934, amounted to $10.9 billion. Of that amount, the FDIC recovered $8.3 billion for a net loss of $2.6 billion.

Asset Disposition

At the beginning of 1983, the FDIC had $2.2 billion in failed bank assets. The 45 bank failures in 1983 had an aggregate of $4.3 billion in assets, some of which were sold at resolution. The FDIC?s inventory of assets in liquidation almost doubled. Gross collections for the year were $269 million. At the end of 1983, the FDIC?s total workload had increased to 65,000 assets with a book value of $4.3 billion. Table 6-4 shows the FDIC?s assets in liquidation and Chart 6-1 shows the asset mix.

Table 6-4

1983 FDIC End of the Year Assets in Liquidation ($ in Billions)

Asset Type	12/31/82 Book Value	12/31/83 Book Value	12/31/83 Est. Recovery Value
Loans	$1.1	$2.5	$1.6
Real Estate Mortgages	0.4	0.4	0.4
Investments	0.2	0.3	0.3
Owned Assets	0.1	0.2	0.1
Charge-Offs	0.0	0.3	0.3
Securities	0.1	0.1	0.0
Other Assets/Judgments	0.3	0.5	0.2
Totals	$2.2	$4.3	$2.9

Source: Reports from FDIC Division of Finance.

[6-15] This figure does not include open bank assistance transactions from 1934-1980. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, should be included in the overall totals.

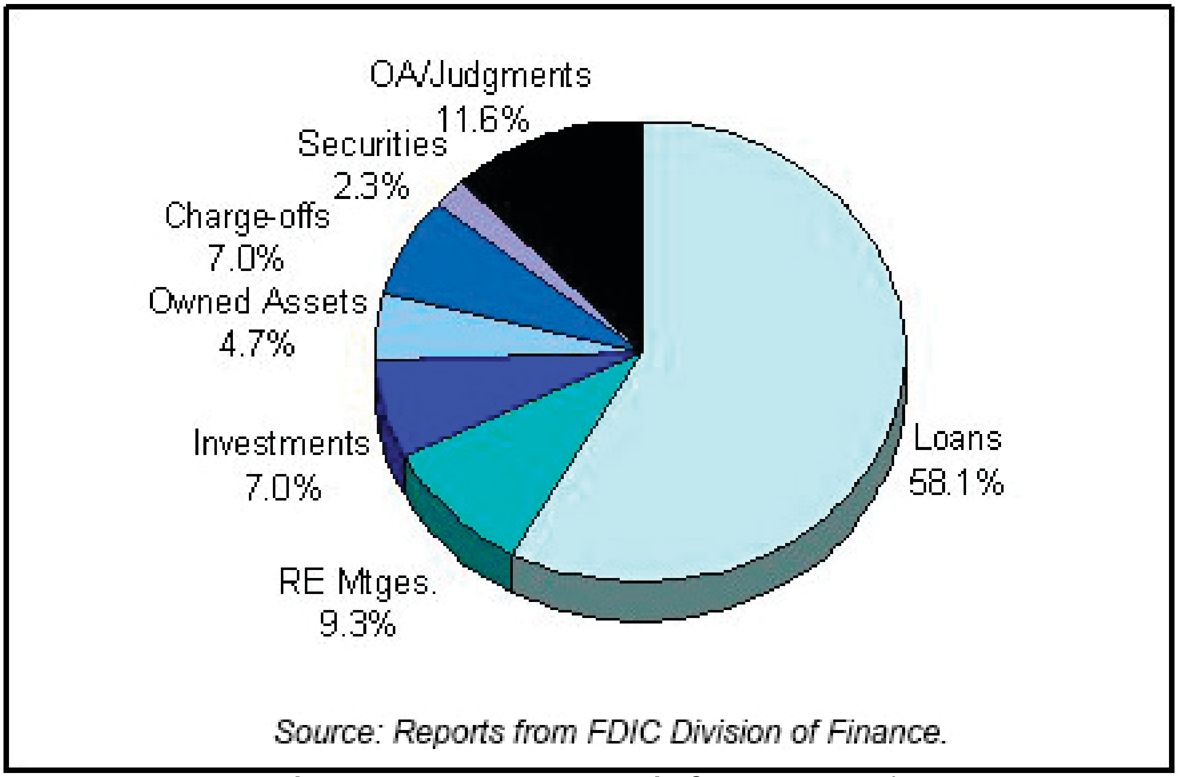


Chart 6-1 — 1983 FDIC End of Year Asset Mix

Loans	RE Mtges.	Investments	Owned Assets	Charge-offs	Securities	OA/ Judgments
58.1%	9.3%	7.0%	4.7%	7.0%	2.3%	11.6%
Source: Reports from FDIC Division of Finance						

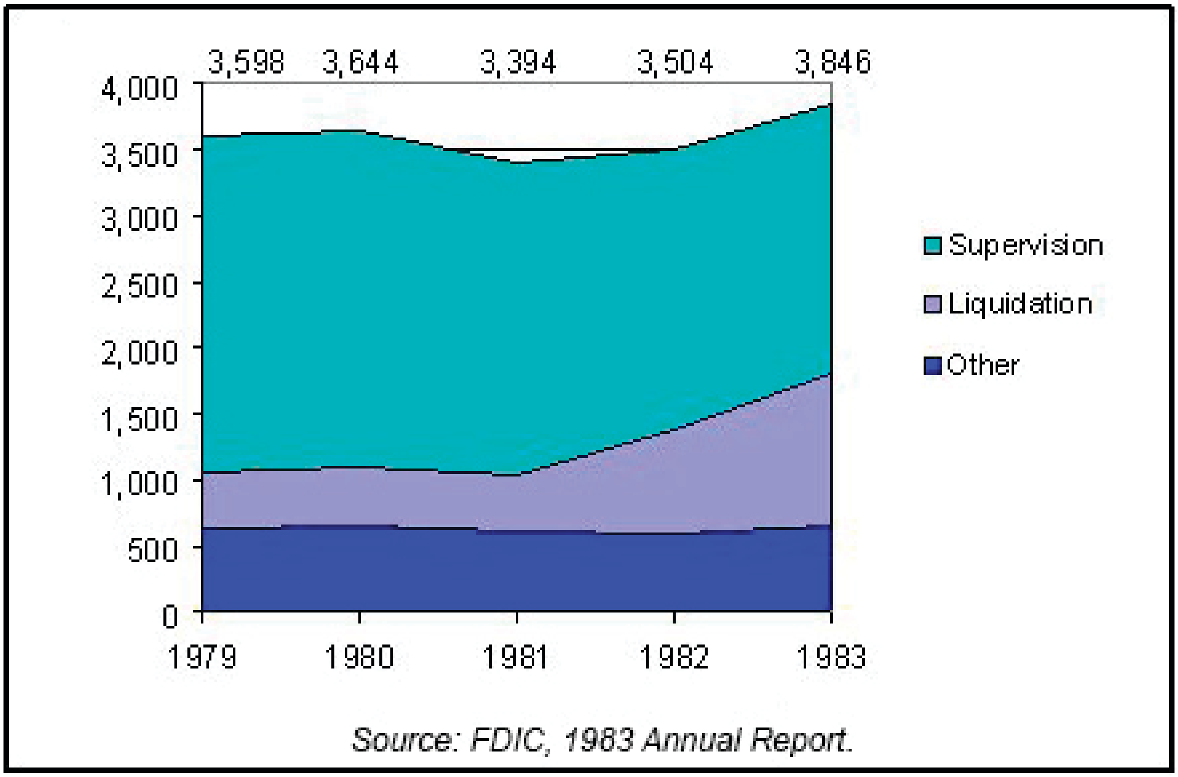


Chart 6-2 — FDIC Staffing

	1979	1980	1981	1982	1983
Other	626	640	606	597	640
Liquidation	423	460	429	778	1,153
Supervision	2,540	2,544	2,359	2,129	2,053
Total	3,598	3,644	3,394	3,504	3,846

Source: FDIC, 2001 Annual Report

Insurance Fund and Staffing

The deposit insurance fund continued to grow in 1983, although numerous bank failures created large expenses for the FDIC. The fund reached a new high of $15.4 billion, an increase of $1.7 billion. The FDIC ended 1983 with 3,846 employees, an increase of 342 over 1982. The Division of Liquidation staff increased from 778 at the end of 1982 to 1,153; most of that increase involved temporary employees hired to cope with the increased number of bank closings. The Division of Bank Supervision staff, however, fell from 2,129 at the end of 1982 to 2,053. Chart 6-2 shows the staffing levels for the past five years.

Private Resolutions

The failure of the Nebraska Depository Institution Guaranty Corporation (NDIGC) was caused by the failure of its largest member, Commonwealth Savings Company (Commonwealth), Lincoln, Nebraska, which held approximately 20 percent of the deposits insured by NDIGC. The state closed Commonwealth on November 1, 1983, freezing deposits of $67 million. That failure was due to a combination of factors, including mismanagement, insider fraud and abuse, and hesitancy on the part of state regulators. To conserve liquidity, state regulators ordered NDIGC members not to make early payments on investment certificates, which were similar to certificates of deposits.

The closure sparked runs on other NDIGC insured institutions. Losses to depositors from the Commonwealth failure were initially about $56 million; the NDIGC's reserves were only $1.5 million. In July 1984, State Security Company, NDIGC's second largest member, went into bankruptcy, followed by American Savings Company, the third largest member, in January 1985. By March 1992, liquidation of the three failed industrial savings companies had reduced aggregate losses to depositors to about $33 million. Part of the gain for depositors included a payment of $8.5 million made by the state of Nebraska in 1986 to settle a negligence suit against the Department of Banking and Finance[6-16].

State insurance funds were more vulnerable to depositor runs than the FDIC?s insurance fund. Runs on deposits, usually a regional occurrence, strained liquidity, leading to insolvency of the state insurance fund. Whereas, the FDIC?s insurance fund withstood regional disturbances.

6-16 William B. English, "The decline of private deposit insurance in the United States" (Carnegie-Rochester Conference Series on Public Policy, 1993), 67-68, 114-115.

Chapter Seven: 1984

Bank failures in 1984 climbed to a new post-Depression record of 78. For the first time in the history of deposit insurance, provisions for insurance losses exceeded annual deposit insurance assessments.

Table 7-1

1983 - 1984: FDIC at a Glance ($ in Millions)			
	12/31/83	12/31/84	Percent Change
Number of Bank Failures	45	78	73.33%
Assistance to Open Banks	3	2	-33.33%
Total Failed and Assisted Banks	48	80	66.67%
Total Assets of Failed and Assisted Banks	$7,191.7	$43,432.5*	503.93%
Losses on Failed and Assisted Banks	$1,407.4	$1,640.2	16.54%
Losses as a Percent of Total Assets	19.57%	3.78%	-80.68%
Assets in Liquidation	$4,259.6	$10,299.8	141.80%
FDIC Staffing	3,846	5,076	31.98%
Number of Problem Banks	642	848	32.09%
Deposit Insurance Fund Balance	$15,429.1	$16,529.4	7.13%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.22%	1.19%	-2.46%

*This number includes $40 billion from Continental. If Continental's assets were excluded, the dollar amount would be $3.4 billion and the percentage change would be -51.67 percent. Back to table

Source: FDIC, 1984 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

The single biggest event of the year was the rescue of Continental Illinois National Bank and Trust Company (Continental), Chicago, Illinois. Having suffered large losses resulting from loans purchased from the failed Penn Square Bank, N.A., Oklahoma City, Oklahoma, Continental experienced severe financial difficulties throughout 1983. A permanent assistance plan put together by the FDIC required certain top management changes with multi-tier corporate restructuring, included the sale to the FDIC of problem loans with a face value of $5.1 billion for a price of $4.5 billion and a capital infusion from the FDIC of $1 billion in return for two permanent, nonvoting preferred stock issues.

Economic/Banking Conditions

In 1984, Gross Domestic Product (GDP) growth continued to increase as did employment growth. GDP was up 6.8 percent over the year, and employment increased by 5 percent[7-1]. The unemployment rate dropped to 7.5 percent[7-2]. Inflation also was down[7-3], but interest rates increased slightly. The discount rate was 8.8 percent, and the 30-year mortgage rate was 13.9 percent[7-4]. Over the year, home sales and housing starts

[7-1] Bureau of Economic Analysis, Department of Commerce and CB Commercial Torto/Wheaton Research.

[7-2] Bureau of Labor Statistics, Department of Labor.

[7-3] Bureau of Labor Statistics, Department of Labor.

[7-4] Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

increased, but not as rapidly as in 1983. Sales were up 4.5 percent, and housing starts increased 2.7 percent. Continued commercial lending was pushing up the office vacancy rate to 14.6 percent for the year.[7-5]

Nationally, farm debt (total liabilities for agricultural businesses) peaked at $207 billion in 1983[7-6], and agricultural economic and financial problems led to an increase in agricultural bank failures in 1984. Twenty-five agricultural banks failed in the year, 31 percent of the country's total number of failed banks. Bank failures in the midwest also increased due to the downturn of the agricultural industry. Eleven banks failed in the midwest in 1983 compared with 31 in 1984; the majority of which were designated agricultural banks.

The number of newly chartered banks reached a peak, with 402 institutions chartered in 1984. Despite the problems with the agricultural banks, 180 new banks were chartered in the Southwest alone in 1984. Many of those charters had a high concentration of Commercial and Industrial loans. The Southwest continued to experience problems in the agricultural and oil sectors, and regional banks were beginning to experience problems stemming from those faltering industries. The real estate market in the Southwest, however, was still healthy, and the value of commercial real estate permits rose 8 percent over the year[7-7]. Much of the money from the profitable oil industry of the late 1970s and early 1980s was being invested in real estate development by those who believed that oil prices would rise again in the near future. Across the region there was a large increase in commercial real estate loans, totaling almost 8 percent of total assets, well above the national median of just under 5 percent.

The Northeast was still seeing high employment and high Gross State Product growth rates[7-8]. A regional four-year boom in housing prices began with Boston residential real estate prices up 21 percent over the year[7-9]. The housing price boom was coupled with a substantial increase in personal income during the same period[7-10]. The conversion rate of mutual savings banks to the stock form of ownership started increasing dramatically. Those banks had strong incentives to expand loan portfolios rapidly in order to leverage high initial capital positions, increase earnings per share, and meet stockholders' expectations.

In the banking industry as a whole, bank failures and the number of problem banks were up. During the last quarter of 1984, defaulted agricultural loans became a significant factor in the number of failures. Agricultural banks (commercial banks in which agricultural loans comprise 25 percent or more of total loans) had been experiencing escalating difficulties. By the end of the year, 37 percent or 314 of the FDIC's list of 848 problem banks were agricultural banks. In fact, during the last four months of 1984, agricultural banks accounted for 71 percent of the banks that failed in that period. The 848 banks on the FDIC's problem bank list represented an increase of 206 over 1983's end of the year total of 642.

Table 7-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1984.

[7-5] Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

[7-6] Economic Report of the President, 1986.

[7-7] Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch.

[7-8] Bureau of Labor Statistics, Department of Labor and Bureau of Economic Analysis, Department of Commerce.

[7-9] National Association of Realtors.

[7-10] Karl E. Case, "The Real Estate Cycle and the Economy: Consequences of the Massachusetts Boom of 1984-87," New England Economic Review (September/October 1991), 37-39.

Table 7-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1983	1984	Percent Change
Number	14,469	14,483	0.10%
Total Assets	$2,342.1	$2,508.9	7.12%
Return on Assets	0.66%	0.64%	-3.03%
Return on Equity	11.90%	10.40%	-12.61%

Savings Banks – FDIC Regulated

Item	1983	1984	Percent Change
Number	294	268	-8.84%
Total Assets	$170.7	$136.5	-20.04%
Return on Assets	-0.10%	-0.07%	--
Return on Equity	-2.18%	-1.37%	--

Savings Associations – FHLBB Regulated

Item	1983	1984	Percent Change
Number	3,183	3,150	-1.04%
Total Assets	$819.1	$1,008.7	23.15%
Return on Assets	-0.26%	-0.11%	-57.69%
Return on Equity	8.51%	3.81%	-55.23%

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks

There were 78 commercial bank failures in 1984 ? the largest number of insured bank failures in any year since the FDIC was founded. There also was one assisted merger of a mutual savings bank and one assisted merger of a commercial bank. Tennessee alone experienced 11 bank failures. Three of those banks were part of the chain controlled by Jake and C.H. Butcher, Jr. A total of eleven banks controlled by the Butchers failed during 1983 and 1984.

The FDIC resolved 62 failed banks in 1984 through purchase and assumption (P&A) transactions. Twelve failed banks during 1984 were handled through insured deposit transfers (IDT). In eight of those, the FDIC paid advance dividends to uninsured depositors and other claimants amounts ranging from 40 percent to 75 percent of uninsured claims. The FDIC used the deposit payoff method in four bank failures in 1984, because neither P&A nor IDT transactions with assuming banks were possible. In three of the four payoffs, the FDIC paid advance dividends to uninsured depositors and other creditors of the failed banks.

In addition to the assistance provided to Continental in 1984, the FDIC assisted the merger of Orange Savings Bank, Livingston, New Jersey, into Hudson City Savings Bank, Paramus, New Jersey. Pursuant to its Voluntary Merger Plan, the FDIC advanced $26 million to Hudson City Savings, and under the assistance agreement, repayment of $16 million of the assistance was contingent upon the resulting bank?s future income.

At the end of 1984, 23 depository institutions had net worth certificates outstanding totaling $578.8 million. At the end of 1983, the depository institutions with such certificates held $376.8 million in certificates.

A recent estimate of losses per transaction type is shown in Table 7-3.

Table 7-3

1983 Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA	2	$40,470.3	$1,116.3	2.76%
P&As	62	2,037.6	431.5	21.18%
IDTs	12	531.3	72.7	13.68%
Payoffs	4	393.3	19.7	5.01%
Totals	80	$43,432.5	$1,640.2	3.78%

Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

Exclusive of Continental, 79 banks that failed or were assisted had total deposits of $2.7 billion in 532,448 accounts. Insured accounts at Continental totaled slightly more than $3 billion; uninsured depositors and other private creditors held over $30 billion in claims. All deposits at Continental, however, were protected as it was assisted and did not fail. In the four payoffs, there were 25,196 deposit accounts with $378.7 million in total deposits.

Of the 748 banks[7-11] that failed since the FDIC's inception in 1934, P&A transactions and assistance agreements were used for 404 failures, and deposit payoffs were used to resolve another 344 banks, including 14 IDTs. Since January 1, 1934, 800,000 depositors with total deposits of $2 billion were involved in payoff cases.

Total disbursements by the FDIC through 1984 amounted to $13.3 billion. Of that amount, the FDIC recovered $9.8 billion, for a net loss of $3.5 billion.

Asset Disposition

At the beginning of 1984, the FDIC held $4.3 billion in assets from failed banks. There were 78 bank failures in 1984, with total assets of $2.9 billion. The FDIC?s inventory of assets in liquidation in 1984, exclusive of assets of Continental, climbed to 121,000 assets with a book value of $5.2 billion. The FDIC acquired approximately 800 assets from Continental with a book value of $5.1 billion. Combined total assets for liquidation at the end of 1984 were $10.3 billion, which represented an increase of more than double the amount of assets held at the beginning of the year.

During the mid-1980s, the FDIC?s asset marketing efforts were focused on performing loans of all types and sizes; particularly those collateralized by real estate. As the workload increased, the FDIC?s efforts began to focus on the sale of nonperforming loans, particularly those with small balances. That occurred for several reasons. In many cases, smaller loans were as time-consuming to work as loans with much higher book values and greater sources of recovery to the FDIC. Although small loans made up the vast majority of the loans held by the FDIC, their total value represented a small fraction of the value of receivership portfolios.

[7-11] This figure does not include five open bank assistance transactions from 1934-1980. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, should be included in the overall totals.

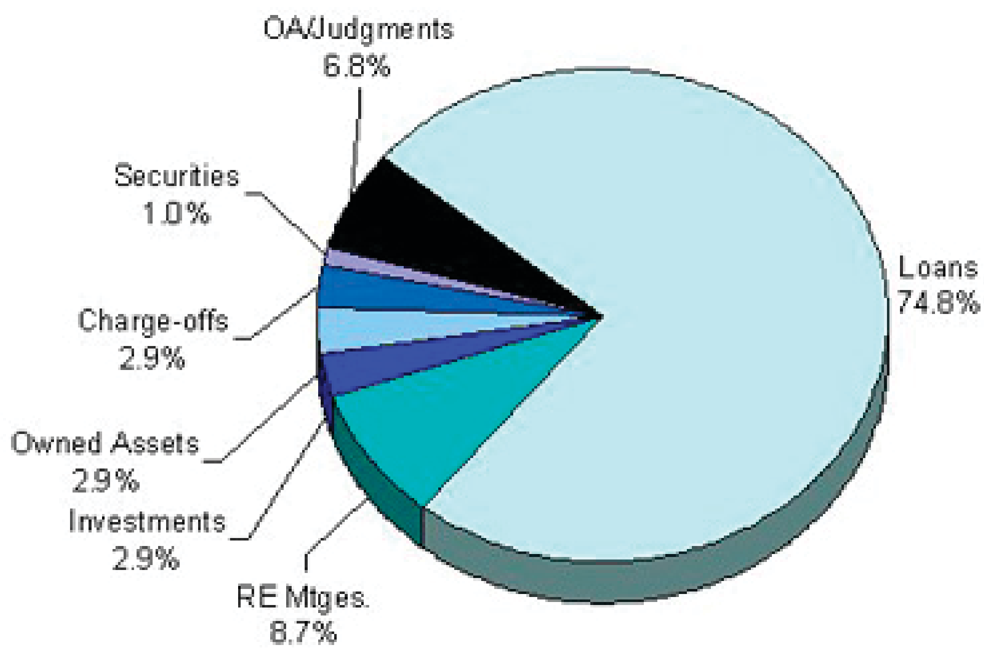
By accelerating the disposition of those small loans, FDIC account officers were able to focus on larger credits that offered higher recovery levels. Table 7-4 shows the FDIC?s assets in liquidation and Chart 7-1 shows the asset mix.

Table 7-4

1984 FDIC End of the Year Assets in Liquidation ($ in Billions)

Asset Type	12/31/83 Book Value	12/31/84 Book Value	12/31/82 Estimated Recovery Value
Loans	$2.5	$7.7	$6.1
Real Estate Mortgages	0.4	0.9	0.8
Investments	0.3	0.3	0.3
Owned Assets	0.2	0.3	0.2
Charge-Offs	0.3	0.3	0.2
Securities	0.1	0.1	0.1
Other Assets/Judgments	0.5	0.7	0.2
Total	$4.3	$10.3	$7.9

Source: Reports from FDIC Division of Finance.



Source: Reports from FDIC Division of Finance.

Chart 7-1 — 1984 FDIC End of Year Asset Mix

Loans	RE Mtges.	Investments	Owned Assets	Charge-offs	Securities	OA/ Judgments
74.8%	8.7%	2.9%	2.9%	2.9%	1.0%	6.8%

Source: Reports from FDIC Division of Finance

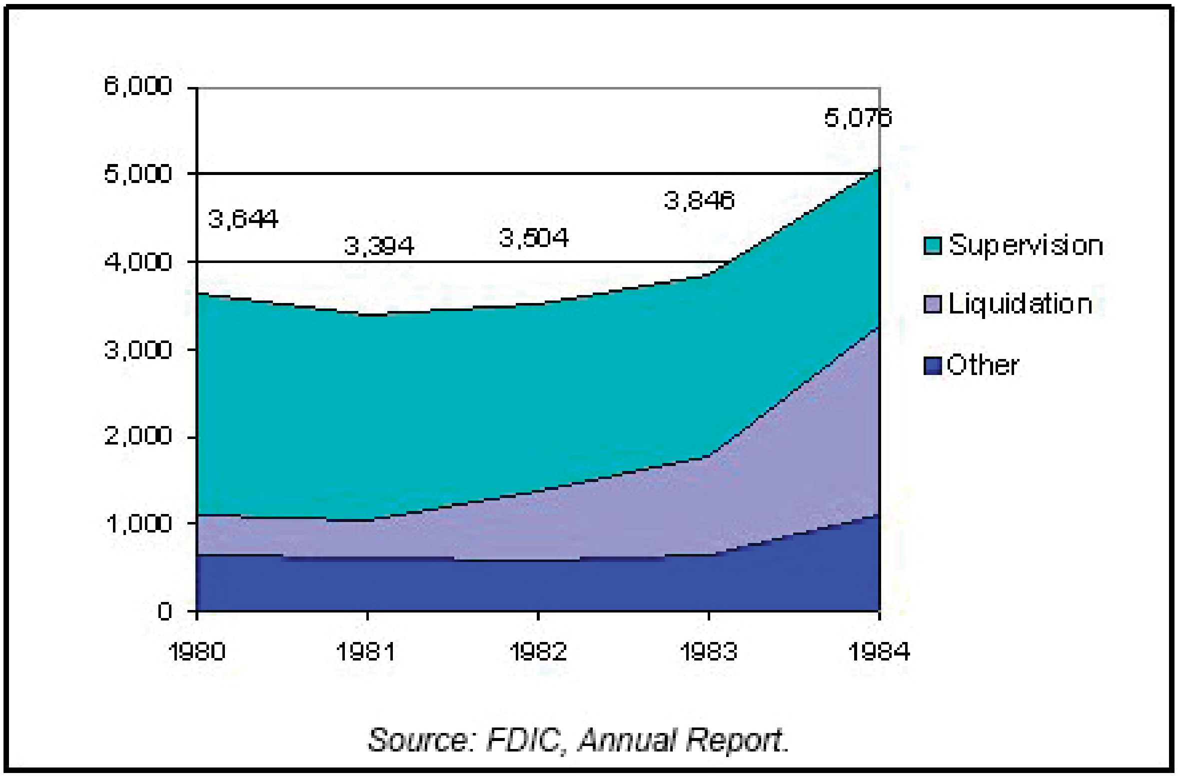


Chart 7-2 — FDIC Staffing

	1980	1981	1982	1983	1984
Other	594	606	597	640	1118
Liquidation	460	429	778	1153	2158
Supervision	2544	2359	2129	2053	1800
Total	3598	3394	3504	3846	5076
Source: FDIC, 1984 Annual Report					

Insurance Fund and Staffing

Revenues and the insurance fund increased during 1984 despite a record number of bank failures. Revenues included $1.5 billion on investments and U.S. Treasury obligations and $1.3 billion in assessments from insured banks. The fund reached a new high of $16.5 billion, an increase of $1.1 billion over 1983. That was an increase of 7.1 percent. Total gross expenses and losses for 1984 were $1.3 billion.

Total FDIC staffing was 5,076 by the end of the year, an increase of 1,230 or 31.98 percent over 1983. Of the 5,076 total, 2,158 were in the Division of Liquidation and 1,800 were in the Division of Bank Supervision (DBS). That was the fourth straight year that DBS staffing decreased. Chart 7-2 shows the staffing levels for the past five years.

Thrifts

In 1984, thrift industry growth reached a peak as the number of insured thrifts grew 20 percent, compared with 4 percent growth for commercial banks. Arizona, Texas, and California led the industry with growth rates of 47 percent, 38 percent, and 30 percent, respectively. Generally, individual thrifts that experienced rapid growth were expanding with greater risk assets (commercial real estate loans, land loans, and direct equity investments), while simultaneously relying on more costly and volatile funding sources (large time deposits, repurchase agreements, and other liabilities). The peak number of thrifts converting from mutual to stock ownership also occurred in 1984. Overall, the Federal Home Loan Bank Board encouraged such conversions, which were considered one way of bringing in new capital to the industry.

The Federal Savings and Loan Insurance Corporation (FSLIC) also was busy in 1984 handling troubled thrift institutions. Two methods of resolution used were the Assisted Merger and the Supervisory Merger. By the end of 1984, 9 liquidations and 13 Assisted Mergers had occurred, costing FSLIC a total of $743 million. There were also 14 Supervisory Mergers, and the FSLIC fund balance stood at $5.6 billion.

> The Assisted Merger was the most popular form of FSLIC resolution, since it deferred FSLIC cash payments. An acquirer would assume all (or nearly all) the assets and liabilities of a failed thrift and would receive assistance from FSLIC. Major components of assistance included capital loss coverage and yield maintenance on troubled assets. In a Supervisory Merger, supervisory authorities would encourage a weak thrift to merge with a healthier thrift, with no direct financial assistance from FSLIC.

Chapter Eight: 1985

Newly appointed FDIC Chairman, L. William Seidman, reflected on his position in the 1985 annual report as follows: "When I became Chairman in October, the FDIC was in the midst of another year of record levels of problem and failed banks…These problem and failed banks substantially increased the workload in all areas of the FDIC."

Table 8-1

1984 - 1985: FDIC at a Glance ($ in Millions)	12/31/84	12/31/85	Percent Change
Number of Bank Failures *	78	116	48.72%
Assistance to Open Banks	2	4	100.00%
Total Failed and Assisted Banks	80	120	50.00%
Total Assets of Failed and Assisted Banks	$43,432.5*	$8,977.3	-79.33%
Losses on Failed and Assisted Banks	$1,640.2	$1,007.2	-38.59%
Losses as a Percent of Total Assets	3.78%	11.22%	196.83%
Assets in Liquidation	$10,299.8	$9,731.3	-5.52%
FDIC Staffing	5,076	7,125	40.37%
Number of Problem Banks	848	1,140	34.43%
Deposit Insurance Fund Balance	$16,529.4	$17,956.9	8.64%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.19%	1.19%	0.00%

*This number includes $40 billion from Continental National Bank and Trust Company.
Source: FDIC, 1985 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

Seven banks failed on May 31, 1985, the largest number of insured banks ever to close in one day (up to that date). L. William Seidman was appointed chairman of the FDIC on October 21, 1985. Prior to his appointment to the FDIC, Mr. Seidman had an extensive career in the financial arena in both the private and public sectors.

Economic/Banking Conditions

In 1985, the Gross Domestic Product growth of 3.7 percent was not as strong as the previous year's 6.8 percent growth[8-1]. Employment growth also slowed a bit, with a 3.9 percent increase[8-2]. The unemployment rate and inflation held steady at 7.2 percent and 3.6 percent, respectively[8-3]. Interest rates fell after the slight increases in 1984, to a discount rate of 7.7 percent and a 30-year mortgage rate of 12.4 percent[8-4]. Home sales were up 10.2 percent while the number of housing starts held steady. The office vacancy rate continued to increase to 16.5 percent with the expansion of commercial real estate markets around the country[8-5].

8-1 Bureau of Economic Analysis, Department of Commerce.

8-2 CB Commercial Torto/Wheaton Research.

8-3 Bureau of Labor Statistics, Department of Labor.

8-4 Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

8-5 Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

Economic conditions continued to get worse for the Southwest and its banking industry. A recession began in the agricultural industry. Southwest bank failures more than doubled to 29 for the year. Agricultural bank failures peaked at 62 for the year. Those failures were primarily concentrated in Midwestern states with agriculturally dependent economies that had experienced farmland price declines of as much as 49 percent in some areas. Midwest bank failures hit a peak, nearly doubling the 1984 total, to 56 for the year.

Despite the number of agricultural bank failures, losses to the deposit insurance fund were relatively low since those institutions were relatively small. Deposit insurance fund losses in 1985 were the lowest for the period 1982-1990, totaling approximately $1 billion, an average of just $8.4 million per bank.

Late in the year, oil prices dropped sharply, to $25 a barrel[8-6]. As a result, the oil industry in the Southwest continued to experience hardships. Conversely, construction in the real estate market was still booming. In Austin, Texas, the value of new permits for 1985 to 1987 was nearly double the value only a few years earlier. However, demand for real estate was not keeping up with the supply, as office vacancy rates in the region's major cities continued to increase steadily[8-7]. There was an increase in total real estate loans for the region, reaching the national median. There continued to be drastic increases in commercial real estate loans to 8.3 percent of assets, well above the national median of 5.2 percent of assets. The year 1985 marked the beginning of a steady decline in Commercial and Industrial (C&I) loans for the region after the upsurge during the early 1980s.

In the Northeast, housing prices continued to rise, including home prices in Boston, Massachusetts, which rose 34 percent over the preceding year[8-8]. Lending also increased, with a concentration in real estate loans, both commercial and residential. C&I loans fell to 7.8 percent of assets after holding steady for four years at around 9.3 percent. The national median was 10.4 percent of assets during that period.

California also experienced an upward trend in real estate lending, with commercial real estate loans increasing to around 13 percent of assets and C&I loans increasing to 21.9 percent of assets, both well above the national medians of 5.2 percent and 10.4 percent of assets, respectively. The banking market was also experiencing an upward trend; over the preceding five years there were 272 newly chartered banks in California alone.

The number of new bank charters dropped to 344 from 402 in 1984. The FDIC, the Office of the Comptroller of the Currency, and the Federal Reserve set a common capital requirement that covered all banks. Agricultural banks continued a downward slide that had become quite marked during the latter part of 1984. Although comprising only 27 percent of all FDIC insured institutions, agricultural banks accounted for 53.5 percent (62 of 116) of commercial bank failures, and by the end of 1985, accounted for approximately 37 percent of the banks on the FDIC's problem bank list. The number of problem banks rose to 1,140 from 848 in 1984.

Table 8-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1985.

8-6 As Oil Prices Continue to Slide, Texas Banks Confront a Grim '86: Further Deterioration Expected in Energy and Real Estate Lending," American Banker, February 11, 1986, 2.

8-7 CB Commercial Torto/Wheaton Research.

8-8 National Association of Realtors.

Table 8-2

Open Financial Institutions Insured by FDIC ($ in Billions) Commercial Banks - FDIC Regulated			
Item	**1984**	**1985**	**Percent Change**
Number	14,483	14,407	-0.52%
Total Assets	$2,508.9	$2,730.7	8.84%
Return on Assets	0.64%	0.69%	7.81%
Return on Equity	10.40%	11.07%	6.44%
Savings Banks – FDIC Regulated			
Item	**1984**	**1985**	**Percent Change**
Number	268	364	35.82%
Total Assets	$136.5	$157.4	15.31%
Return on Assets	0.07%	0.74%	957.14%
Return on Equity	1.37%	13.08%	854.74%
Savings Associations – FHLBB Regulated			
Item	**1984**	**1985**	**Percent Change**
Number	3,150	3,262	3.56%
Total Assets	$1,008.7	$1,105.3	9.58%
Return on Assets	0.11%	0.42%	281.82%
Return on Equity	3.81%	14.14%	271.13%
Source: Reports from FDIC Division of Research and Statistics.			

Bank Failures and Assistance to Open Banks

By the end of the year, 116 banks had failed. There were also two open bank assistance agreements and two assisted mergers of mutual savings banks. Total deposits from all failed banks (including assisted mergers) amounted to $8.5 billion in 1985, compared with only $2.7 billion in 1984, exclusive of Continental Illinois National Bank and Trust Company (Continental). The states with the most failures were Kansas, Oklahoma, and Nebraska, each with 13; Texas and Iowa followed with 12 and 11, respectively.

Purchase and assumption (P&A) transactions were used in 87 of the bank failures of 1985. The FDIC performed insured deposit transfers (IDTs) in seven of the failed banks; in one of those, the FDIC made an advance dividend payment of 50 percent to uninsured depositors and other creditors. The FDIC conducted payoffs for 22 bank failures. In four of the payoffs, the FDIC made advance dividend payments ranging from 45 percent to 50 percent of claims to uninsured depositors and other creditors.

Two mutual savings banks, Bowery Savings Bank (Bowery), New York City, New York with $5 billion in deposits and Home Savings Bank, White Plains, New York, with $405 million in deposits, were assisted under the Voluntary Merger Plan. In the most noteworthy case, Bowery, the FDIC formed a financial assistance package to recapitalize the bank and to facilitate its acquisition by a private investor group. The Bowery assistance package began in 1984 with a competitive, nationwide bidding process, in which FDIC insured institutions and other parties were invited to submit proposals to acquire Bowery. An investor group submitted the winning proposal, which included a $100 million equity contribution by the investors and the installation of a new management team. Bowery was merged into a newly chartered stock savings bank that retained the Bowery name. A payoff of the bank's insured deposits would have cost the FDIC an estimated $620 million, based on the Bowery's negative book capital and the market depreciation in its asset portfolio.

The FDIC also provided open bank assistance (OBA) to two commercial banks during 1985 to prevent their failures and facilitate their mergers with sound institutions. The two failing banks were Bank of Oregon, Woodburn, Oregon, and The Commercial Bank, Andalusia, Alabama.

The Net Worth Certificate Program was due to expire on October 15, 1985, but Congress extended the program to July 15, 1986. By the end of 1985, the FDIC's Net Worth Certificate Program included 21 institutions with aggregate certificates outstanding totaling $705.4 million.

A recent estimate of losses per transaction type is shown in Table 8-3.

Table 8-3

1985 Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA	4	$5,886.4	$359.0	6.10%
P&As	87	2,465.7	535.6	21.72%
IDTs	7	315.1	33.9	10.76%
Payoffs	22	310.1	78.7	25.38%
Totals	120	$8,977.3	$1,007.2	11.22%

Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

In the 120 banks that failed or were assisted in 1985, deposits totaled $8.5 billion in 1,254,567 deposit accounts. Bowery alone held $5 billion in 637,676 deposit accounts. Institutions for the remaining three assistance agreements held $578.4 million in deposits in 94,478 deposit accounts. The 22 payoff transactions accounted for 45,977 deposit accounts and $287.7 million in total deposits.

Of the 868 insured bank failures[8-9] since the FDIC began operations in 1934, P&A transactions totaled 475 cases, and there were 373 deposit payoffs, including 21 IDTs. The FDIC has also provided assistance to 20 troubled financial institutions to prevent their failures since 1981.

Total disbursements by the FDIC since January 1, 1934, amounted to $15.7 billion. Of that amount, the FDIC recovered $11 billion for a net loss of $4.7 billion.

Asset Disposition

At the beginning of 1985, the FDIC had $10.3 billion in assets from failed institutions. Despite handling the failures of 116 commercial banks with total assets of $3.1 billion during the year, the FDIC managed to end the year with total failed bank assets in liquidation of $9.7 billion.

Approximately one-half of the bank failures in 1985 were agricultural banks, which meant that many of the assets acquired for liquidation were farm loans and agriculture-related collateral. At first, the FDIC's disposition manual did not cover those types of credits. Therefore, the FDIC developed an agricultural credit manual describing the planting and harvesting process that addressed the cyclical nature of farm

8-9 This figure does not include five open bank assistance transactions from 1934-1980. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, should be included in the overall totals.

borrowings. The depressed agricultural economy in 1985 made it necessary for FDIC employees to quickly learn the very specialized area of agricultural loans and credits.

In 1985, the FDIC developed a nationwide automated asset marketing system with a database containing information on all marketable assets acquired by the FDIC as receiver. The FDIC also developed an automated investor profile list, which included local, regional, and national investors known to the FDIC, along with the types of assets each wanted to purchase and the corresponding cost range.

In the previous year, 1984, the FDIC had entered into a contract with a national mortgage servicer to handle quality mortgage loans acquired from failed banks. That contract provided centralized servicing and enhancement of loan marketability and pricing. Under the arrangement, the FDIC sold approximately $100 million in mortgage-backed securities through its servicer. That was the FDIC's first major bulk sales effort.

In the fourth quarter of 1985, the Atlanta Regional Office conducted the first sale of nonperforming loans. It was a small sale conducted under regional authority, with an approximate value of $1 to $2 million. Previously, the FDIC would only negotiate with borrowers for settlement of nonperforming loans rather than offering the loans for sale on the open market.

Table 8-4 shows the FDIC's assets in liquidation and Chart 8-1 shows the asset mix.

Table 8-4

1985 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/84 Book Value	12/31/85 Book Value	12/31/85 Estimated Recovery Value
Loans	$7.7		
Commercial Loans		$7.0	$5.5
Mortgage Loans	0.9	1.0	0.4
Other Loans		0.4	**
Real Estate Owned	0.3	0.3	0.8
Charge-Offs	0.3		
Investments	0.3		
Judgments		0.5	**
Securities	0.1	0.1	0.1
Other Assets		0.4	0.2
Other Assets/Judgments	0.7		
Totals	$10.3	$9.7	$7.0

*Due to a change in the FDIC's accounting systems, information in the asset categories changed between 1984 and 1985. Asset categories not valid for the year shown appear as shaded cells.Back to Table

**For estimated value only, Commercial Loans includes Other Loans, and Other Assets includes Judgments. Back to Table

Source: Reports from FDIC Division of Finance.

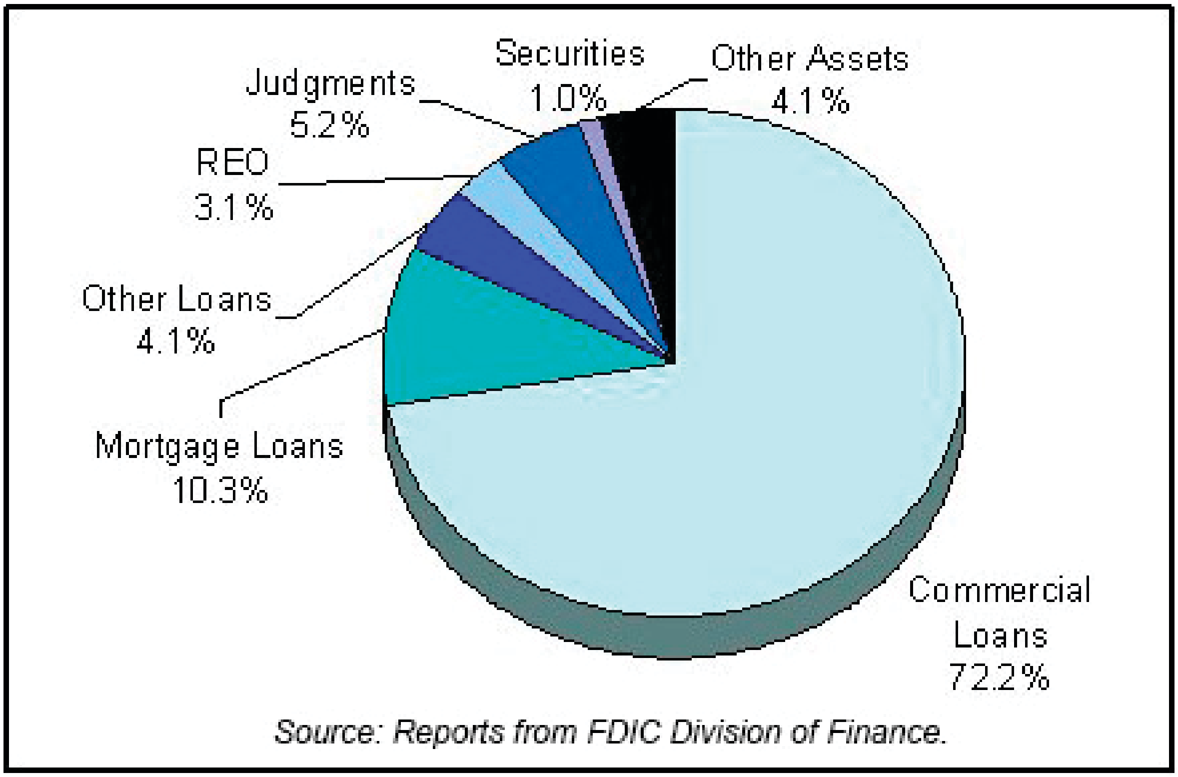


Chart 8-1 — 1985 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets
72.2%	10.3%	4.1%	3.1%	5.2%	1.0%	4.1%
Source: Reports from FDIC Division of Finance						

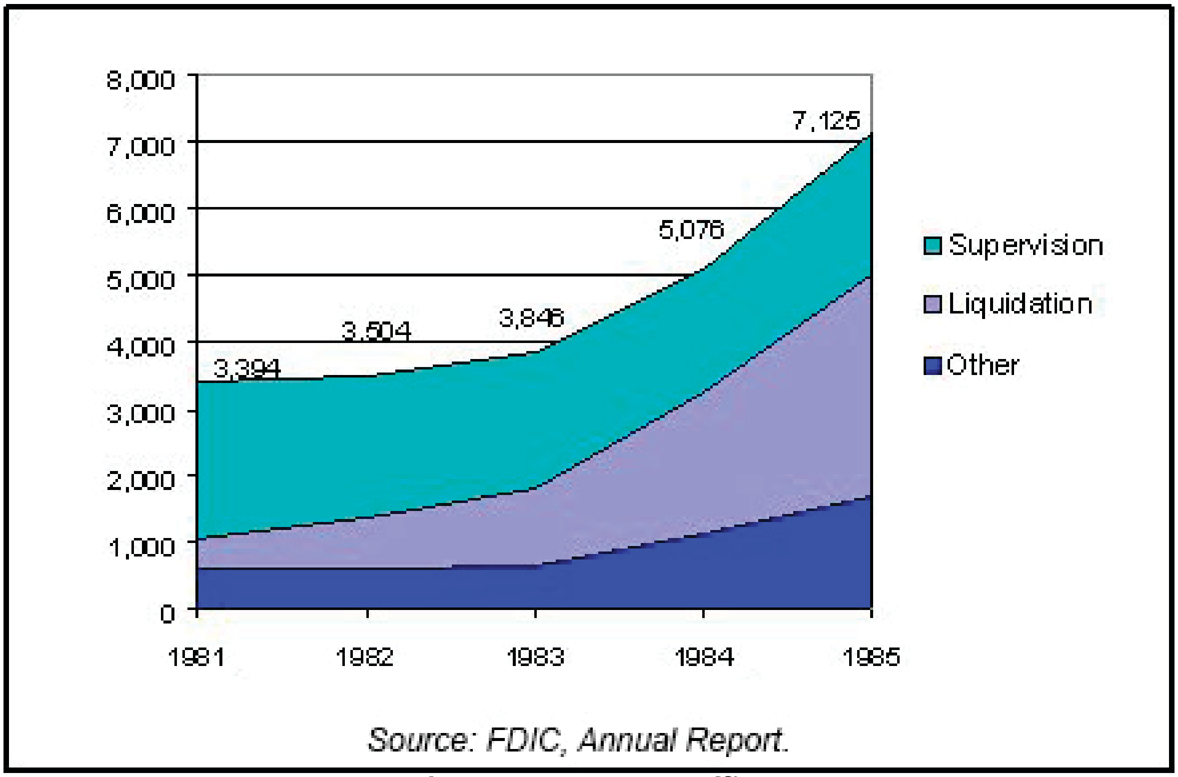


Chart 8-2 — FDIC Staffing

	1981	1982	1983	1984	1985
Other	606	597	640	1,118	1,684
Liquidation	429	778	1,153	2,158	3,318
Supervision	2,359	2,129	2,053	1,800	2,123
Total	3,394	3,504	3,846	5,076	7,125
Source: FDIC, 2001 Annual Report					

Insurance Fund and Staffing

At the end of 1985, the fund was $18 billion. The fund's reserve for losses was increased to $2.3 billion, raising total reserves to $4.5 billion, including a loss allowance of $1.3 billion for the 1984 assistance agreement with Continental. By the end of 1985, the FDIC had 7,125 employees, up 2,049 from 1984, due primarily to the hiring of temporary employees, who represented nearly 46 percent of the FDIC's staff. Division of Liquidation had 3,318 employees, an increase of 1,160 over 1984, while Division of Bank Supervision staff totaled 2,123, up from 1,800. Chart 8-2 shows the staffing levels for the past five years.

Private Resolutions

The year 1985 proved to be disastrous for privately insured savings institutions in Ohio and Maryland. Seventy-one state chartered savings and loan institutions, about one fourth of Ohio thrifts, were insured by the Ohio Deposit Guarantee Fund (ODGF), a private insurance cooperative. In March of 1985, the ODGF became insolvent after the following series of events:

- ESM Government Securities, Ft. Lauderdale, Florida, was closed amidst fraud allegations on March 4, 1985.

- Home State Savings Bank (Home State), Cincinnati, Ohio?the largest ODGF member with 19 percent of ODGF insured deposits—lost about $545 million on ESM repurchase agreements.
- Publicity surrounding Home State's loss, in turn, caused a depositor run that exceeded $150 million by March 8, 1985.
- On March 9, 1985, Home State was declared insolvent, setting off a panic among depositors of other ODGF member thrifts.
- On March 13, 1985, the state legislature established a new deposit insurance fund for ODGF institutions other than Home State. The state provided $50 million for the fund, but continuing heavy deposit outflows caused the Governor of Ohio to declare a bank holiday two days later, closing all ODGF insured thrifts.
- On March 20, 1985, legislation was enacted by the state to require the closed thrifts to obtain federal deposit insurance; only those institutions deemed likely to get insurance from the FDIC or the Federal Savings and Loan Insurance Corporation (FSLIC) were allowed to reopen. Other ODGF institutions were allowed to partially reopen, permitting limited withdrawals of only $750 per month.
- On May 21, 1985, the Ohio state legislature passed a bill providing $135 million to cover ODGF losses.

Ultimately, all ODGF insured depositors did get back their deposits. The 70 ODGF institutions were resolved as follows:

- Thirty-five obtained FSLIC insurance
- Ten obtained FDIC insurance,
- Thirteen (including Home State) were acquired by healthy banks with federal insurance,
- Eight were merged into other savings and loan institutions with federal insurance,
- Three were merged into banks with FDIC insurance, and
- One was liquidated[8-10].

According to officials of the Maryland Deposit Insurance Fund Corporation, successor to the Maryland Savings Share Insurance Corporation (MSSIC), the March 1985 events in Ohio, coupled with the telecast of a story on "60 Minutes" concerning the failure of an uninsured private bank in Nebraska, caused a "silent run" on deposits at thrifts insured by MSSIC[8-11]. In April, federal officials warned the Governor of Maryland that MSSIC institutions had lost $375 million in deposits over the previous two months. In May 1985, the public announcement of a criminal investigation at Merritt Commercial Savings and Loan (Merritt), Baltimore, Maryland, and newspaper publicity generated by problems at Old Court Savings and Loan (Old Court), Baltimore, Maryland, caused depositor runs. Merritt lost $3 million in deposits on a Saturday morning, and four days later a conservator was appointed for Old Court.

On May 14, a withdrawal limit of $1,000 per month for all MSSIC insured institutions was imposed by the Governor of Maryland, although exemptions were later allowed for hardship cases, such as mortgage payments and payroll payments. The state ultimately assumed responsibility for all MSSIC insured deposits, and all insured depositors were paid. The final payment was made to insured depositors in November

8-10 William B. English, "The decline of private deposit insurance in the United States," (Carnegie-Rochester Conference Series on Public Policy, 1993), 68-69, 115-116.

8-11 Private interview held August 2, 1995, with representatives of the Maryland Deposit Insurance Fund Corporation, successor to the Maryland Savings Share Insurance Corporation conducted by FDIC personnel.

1989[8-12]. The Maryland state legislature authorized the issuance of $100 million in state bonds by the Maryland Deposit Insurance Fund Corporation to pay for the state's backing.

Both the Ohio Deposit Guarantee Fund and the Maryland Savings Share Insurance Fund were declared insolvent in 1985. Both states' governments passed regulations providing that no member institution could reopen (or remain open as the case may be) without obtaining federal insurance. Several depositors were harmed by the limitations on withdrawals of depositor funds. That practice was in sharp contrast to the way the FDIC handled depositor funds. The FDIC had more resources to pay all depositors up to the insured limits and then recoup the funds through asset liquidation afterwards. The state funds proved to lack the liquidity to withstand a large concentration of failures.

Thrifts

The FSLIC generally tried to dispose of an entire thrift through a sale or merger, without retaining any assets to manage. As resolutions became more difficult due to deteriorating asset quality, FSLIC became the owner of a huge volume of complex problem assets that acquirers did not want. Unable to increase the size of its staff or to hire personnel with the desired expertise, FSLIC began contracting with private sector firms in 1984 and 1985 to provide the needed expertise and services to manage and dispose of those assets. Also, FSLIC established its own "thrift" to manage and liquidate assets of failed institutions; the thrift was named the Federal Asset Disposition Association (FADA).

> The Federal Asset Disposition Association (FADA) was created by the Federal Home Loan Bank Board on November 1, 1985. FADA operated as a special purpose, privately held stock corporation, with FSLIC as its only client. FADA's private status enabled it to compete with the private sector in hiring highly skilled professionals. FADA's quasi-government status also exempted it from the disclosure rules of the Freedom of Information Act and other regulatory provisions that would have made FADA more accountable to Congress and the public

The FSLIC's Management Consignment Program was initiated in April 1985 as an interim resolution method to gain control of insolvent thrifts with questionable managements. The assets and liabilities of insolvent thrifts were transferred to institutions with de novo mutual charters using a "pass-through receivership." The insolvent thrift's board of directors and senior management were removed. FSLIC appointed a new board of directors and hired a new management team, usually by contracting with a healthy institution to provide management services. The new management team was paid based on a flat fee or fixed salary plus expenses with no equity incentives. The program functioned much like a regulatory conservatorship, except that FSLIC contracted management from private industry.

By the end of 1985, 8 liquidations and 23 Assisted Mergers had occurred, which cost FSLIC a total of slightly more than $1 billion. There were also 10 Supervisory Mergers. The FSLIC fund balance had decreased from $5.6 billion to $4.6 billion. The Federal Home Loan Bank Board estimated $1.6 billion as a contingent liability for problem thrifts that would likely require financial assistance in the near term. That estimate did not project the cost of resolving all future problem thrifts.

8-12 English, "The decline of private deposit insurance in the United States," 70, 116-119.

Chapter Nine: 1986

Post-Depression records were again set in 1986 as the number of FDIC insured bank failures totaled 138. Records were also set for the number of assets in liquidation and the size of FDIC staffing.

Table 9-1

1985 - 1986: FDIC at a Glance ($ in Millions)

	12/31/85	12/31/86	Percent Change
Number of Bank Failures	116	138	17.97%
Assistance to Open Banks	4	7	75.00%
Total Failed and Assisted Banks	120	145	20.83%
Total Assets of Failed and Assisted Banks	$8,977.3*	$8,069.1	-10.12%
Losses on Failed and Assisted Banks	$1,007.2	$1,775.7	76.30%
Losses as a Percent of Total Assets	11.22%	22.01%	96.17%
Assets in Liquidation	$9,731.3	$10,856.0	11.56%
FDIC Staffing	7,125	8,817	23.75%
Number of Problem Banks	1,140	1,484	30.18%
Deposit Insurance Fund Balance	$17,956.9	$18,253.3	1.65%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.19%	1.12%	-5.88%

*This number includes $40 billion from Continental National Bank and Trust Company.
Source: FDIC, 1986 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

For the first time in 25 years, overall bank profitability declined, as net income dropped 1.4 percent from 1985's level. About 20 percent of all FDIC insured banks lost money in 1986 compared to less than 17 percent in 1985.

Economic/Banking Conditions

In 1986, the Gross Domestic Product growth rate continued at 3 percent[9-1]. Employment growth slowed to 2.3 percent, and the unemployment rate fell to 7 percent[9-2]. Interest rates and inflation continued to drop over the year. The discount rate was down to 6.3 percent, and the 30-year mortgage rate fell to 10.2 percent[9-3]. Inflation was at 2.5 percent[9-4]. The real estate sector continued to expand, with home sales up 10.5 percent and housing starts also up 3.7 percent. The office vacancy rate continued to climb to 17.9 percent[9-5].

The situation in the Southwest continued to worsen as the overbuilt real estate market was beginning to collapse, adding to the already weakened agriculture and oil industries in the region. In August, oil prices

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[9-1] Bureau of Economic Analysis, Department of Commerce.

[9-2] CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

[9-3] Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

[9-4] Bureau of Labor Statistics, Department of Labor.

[9-5] Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

bottomed out at $10 a barrel, which was down from $25 in 1985. Energy conservation, along with an increase in production around the world and a flood of OPEC oil, led to the drop in the price of oil[9-6].

U.S. agricultural exports dropped to $26 billion, from their peak of $44 billion in 1981, and farm prices continued to drop[9-7]. Nonperforming loans at agricultural banks peaked at 6.7 percent of assets, almost double the level at other comparable small banks. The proportion of agricultural banks with negative net incomes also reached a peak. Sixty agricultural banks failed during the year. A large portion of those banks were in the Midwest region which had a total of 51 failures.

The Southwest banking industry had negative asset growth, and net charge-offs peaked at more than 0.7 percent of assets. In the real estate market, residential home prices started to decline and fell below the national median.9-8[9-8]Commercial real estate loans peaked at almost 9 percent of assets, while the national median for the same year was under 6 percent. Commercial and Industrial loans continued to decline and were at 13.3 percent of assets, down from 15 percent a year before, and total real estate loans kept pace with the rest of the nation at 20.2 percent of assets. Construction started to decline; 40 percent of the decline in employment was in construction[9-9]. In the first nine months of the year, the unemployment rate in Houston, Texas, jumped from 7.4 percent to 10.5 percent[9-10].

The situation in the Northeast was different. Total real estate loans continued to rise and were at 39 percent of assets, compared to 20.2 percent nationally. Residential permits were up 172 percent from 1982[9-11]. Banks in the region experienced 12 percent asset growth over the year, compared to 8.2 percent for the nation. In 1986, mutual savings banks converted to stock owned savings banks in record numbers.

With the first cuts in defense spending, California's defense-related employment peaked[9-12]. Multi-family and commercial housing starts began to decline, and the number of commercial permits peaked[9-13]. Office vacancy rates also peaked, but building continued[9-14]. The California commercial real estate loan ratio continued to increase to approximately 15 percent of assets and was well above the national median of 5.7 percent.

The Tax Reform Act was passed in 1986 and removed the generous tax treatment on commercial real estate, which may have contributed to overbuilding in commercial real estate markets around the country.

In March of 1986, the FDIC, the Office of the Comptroller of the Currency, and the Federal Reserve Board released a Joint Policy Statement outlining a Capital Forbearance Program for agricultural banks. Later, energy banks also were included under that program. The intent of that program was to employ supervisory policies that would support sound, well-managed banks in weathering the economic difficulties associated with the agricultural and energy sector downturns.

[9-6] Jack L. Hervey, "The 1973 Oil Crisis: One Generation and Counting," Chicago Fed Letter, no. 86 (October 1994), 1-3.

[9-7] Economic Report of the President, 1996.

[9-8] National Association of Realtors.

[9-9] D'Ann M. Petersen, Mine K. Yucel, and Keith R. Phillips, "The Texas Construction Sector: The Tail that Wagged the Dog," Federal Reserve Bank of Dallas, Economic Review-Second Quarter 1994, 26.

[9-10] Bureau of Labor Statistics, Department of Labor.

[9-11] Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch.

[9-12] California Statistical Abstract Table H-8, 120.

[9-13] Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch.

[9-14] CB Commercial Torto/Wheaton Research.

Under the **Capital Forbearance Program**, the banking agencies would not issue a capital directive to enforce normal capital standards, nor would the FDIC take formal administrative action under Section 8(b) of the Federal Deposit Insurance Act to enforce capital standards or obtain other corrective actions relating to capital adequacy. In other words, a well-managed bank suffering because of the energy and agricultural crises would be permitted to operate with capital levels below regulatory standards if the bank had adequate plans to restore capital. The banking agencies also encouraged the use of Financial Accounting Standards Board Rule 15, which allowed restructured debt to be carried on the bank's books without loss recognition, provided it was probable that the borrower could repay the loan under the new terms and that the future cash payments were at least equal to the amount on the bank's books.

The FDIC concluded that insider abuse and fraud had occurred in about 32 percent of the bank failures in 1986. In response, the FDIC stepped up its efforts to uncover fraud and insider abuse by making review of those areas a primary objective of bank examinations. The FDIC began a system of "red flags" to be used by examiners, covering internal and management controls, the loan portfolio, reserve for loan losses, and other areas. Money laundering became a federal crime with the enactment of the Anti-Drug Abuse Act of 1986, and the Bank Secrecy Act was amended to prohibit structuring transactions to avoid currency reporting requirements. Regulations promulgated following the passage of the Bank Secrecy Act required banks to maintain procedures to assure compliance with Treasury Department currency reporting regulations.

In response to the substantial numbers of bank failures in the agricultural sector, the FDIC entered into an agreement with Farmers Home Administration (FmHA) to initiate two new programs for farmers affected by bank closings. Under the first program, FmHA provided teams of personnel to evaluate loans in failed banks shortly after the closing and to provide letters of intent to guarantee loans for the 1986 crops. That program enabled some farmers to obtain financing more readily for their new crops than otherwise would have been possible.

The second program was introduced as a pilot program in Nebraska. Under that program, FmHA reviewed each agricultural loan and indicated the dollar amount of the guarantee it would provide. The loan was then offered for sale. The highest qualified bidder purchased the loan and then took over the creditor relationship with the farmer. This program also was used with some success in Missouri and Kansas.

At the end of 1986, the FDIC's list of problem banks included 1,484 of the nation's commercial and savings banks. That was a 30.2 percent increase over the 1,140 on the list at the end of 1985.

Table 9-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1986.

Table 9-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1985	1986	Percent Change
Number	14,407	14,199	-1.44%
Total Assets	$2,730.7	$2,940.7	7.69%
Return on Assets	0.69%	0.63%	-8.70%
Return on Equity	11.07%	9.94%	-10.21%

Savings Banks – FDIC Regulated			
Item	1985	1986	Percent Change
Number	364	445	22.25%
Total Assets	$157.4	$184.6	17.28%
Return on Assets	0.74%	1.04%	40.54%
Return on Equity	13.08%	14.88%	13.76%

Savings Associations – FHLBB Regulated			
Item	1985	1986	Percent Change
Number	3,262	3,232	-0.92%
Total Assets	$1,105.3	$1,202.3	8.78%
Return on Assets	0.42%	0.09%	-78.57%
Return on Equity	14.14%	2.70%	-80.91%

Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks

In 1986, Texas had the largest number of failures with 26; followed by Oklahoma, 16; Kansas, 14; and Iowa, 10. Of the nation's 138 commercial bank failures, 60 were agricultural banks.

Purchase and assumption (P&A) transactions were used in 98 of the bank failures, and in 97 of the cases, assuming banks paid premiums for a total of more than $113 million. The remaining P&A transaction involved the First National Bank and Trust Company of Oklahoma City, Oklahoma City, Oklahoma where the FDIC incurred a "negative premium" of $72 million after it determined that the bank's continued operation was essential to the local economy. Three of the P&A transactions involved acquisitions by out-of-state bidders through the FDIC's use of its emergency assistance and extraordinary acquisition powers. The FDIC arranged for insured deposit transfers (IDTs) in 19 cases; a total of over $4 million in premiums was received from the acquiring banks in those transactions. In 21 of the failures, the FDIC paid off deposits.

As of December 31, 1986, the FDIC's Net Worth Certificate Program included 12 savings banks with aggregate certificates outstanding of $526 million, down from 21 institutions with $705.4 million outstanding at the end of 1985. The Net Worth Certificate Program was extended twice by Congress but expired on October 13, 1986. The program was later reinstated through October 13, 1991, by the Competitive Equality Banking Act of 1987. Banks were required to repay outstanding certificates according to the original terms.

In December 1986, the FDIC adopted a revised statement of policy to provide guidelines to bankers considering open bank assistance (OBA) under Section 13(c) of the FDI Act. In 1986, the FDIC provided OBA to commercial banks in seven instances.

A recent estimate of losses per transaction type is shown in Table 9-3.

Table 9-3

1986 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA	7	$712.5	$93.2	13.08%
P&As	98	5,974.1	1,266.2	21.19%

1986 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
IDTs	19	793.3	212.7	26.81%
Payoffs	21	589.2	203.6	34.56%
Totals	145	$8,069.1	$1,775.7	22.01%

Source: Reports from FDIC Division of Research and Statistics.

In 1986, the FDIC encountered an increasing number of cases in which few bids or no bids were being submitted to acquire failed banks. To reduce its costs, the FDIC requested an extension and expansion of the emergency acquisition authority provided under the Garn-St Germain Depository Institutions Act of 1982. The FDIC requested authority to seek buyers under other than extraordinary circumstances from outside the home state in which the failed bank was chartered. The FDIC further sought authority to operate failed banks for a period of time to bridge the gap between insolvency and an orderly acquisition by a healthy institution. The Competitive Equality Banking Act of 1987 (discussed more fully in the next chapter) expanded the FDIC's authority to seek out-of-state purchasers and provided the FDIC with bridge bank authority.

Payments to Depositors and Other Creditors

In the 145 banks that failed or were assisted in 1986, deposits totaled $7.2 billion in 904,000 deposit accounts. The seven assistance transactions represented $585.2 million in total deposits in 70,400 deposit accounts. Payoffs accounted for 21 transactions with 85,800 accounts totaling $566 million. Dividends paid on all active receiverships totaled $1.2 billion in 1986.

Of the 1,013 insured bank failures[9-15] since the FDIC began operations in 1934, there were 573 P&A transactions and 413 deposit payoff transactions, of which 40 were IDTs. The FDIC has also provided assistance to 27 troubled financial institutions to prevent them from failing since 1981.

Total disbursements by the FDIC since January 1, 1934, amounted to $25.7 billion. Of that amount, the FDIC recovered $16.9 billion for a net loss of $8.8 billion.

Asset Disposition

At the beginning of 1986, the FDIC held $9.7 billion in assets from failed banks. During the year, 138 commercial banks failed, and the FDIC acquired $4.3 billion in assets and collected $1.8 billion in principal. The FDIC ended the year with a total of $10.9 billion assets in liquidation.

Asset disposition efforts were becoming increasingly important. By the end of 1986, the FDIC's asset marketing staff had closed 196 sales involving approximately 129,000 loans, with an aggregate book value of $342 million. The sales ranged in size from very small agricultural loan portfolios of fewer than ten loans, to a package of 90,000 accounts from a failed bank's insurance premium funding department. Loan packages included performing and/or nonperforming loans.

On July 14, 1986, approximately $1.5 billion in assets of the failed First National Bank and Trust Company of Oklahoma City were placed in an asset pool under a P&A transaction. First Interstate Bank of Oklahoma City, the acquiring bank, set up a subsidiary corporation, Consolidated Asset Management Company (CAMCO),

[9-15] This figure does not include five open bank assistance transactions from 1934-1980. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, should be included in the overall totals.

to administer and liquidate the assets. The FDIC maintained an oversight function throughout the five-year term of the agreement.

Table 9-4 shows the FDIC's assets in liquidation and Chart 9-1 shows the asset mix.

Table 9-4

1986 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/85 Book Value	1986 Assets Acquired	1986 Prin. Coll.	1986 Write Downs	12/31/86 Book Value	12/31/86 Est. Rec. Value
Commercial Loans	$7.0	$2.2	$1.0	$0.8	$7.4	$5.2
Mortgage Loans	1.0	0.8	0.3	0.1	1.4	1.0
Other Loans	0.4	0.3	0.1	0.1	0.5	**
Real Estate Owned	0.3	0.4	0.1	0.1	0.5	0.5
Judgments	0.5	0.2	0.0	0.2	0.5	**
Securities	0.1	0.2	0.2	0.0	0.1	0.1
Other Assets	0.4	0.2	0.1	0.0	0.5	0.2
Totals	$9.7	$4.3	$1.8	$1.3	$10.9	$7.0

*Totals may not foot due to rounding differences.
**For estimated value only, Commercial Loans includes Other Loans, and Other Assets includes Judgments.
Source: Reports from FDIC Division of Finance.

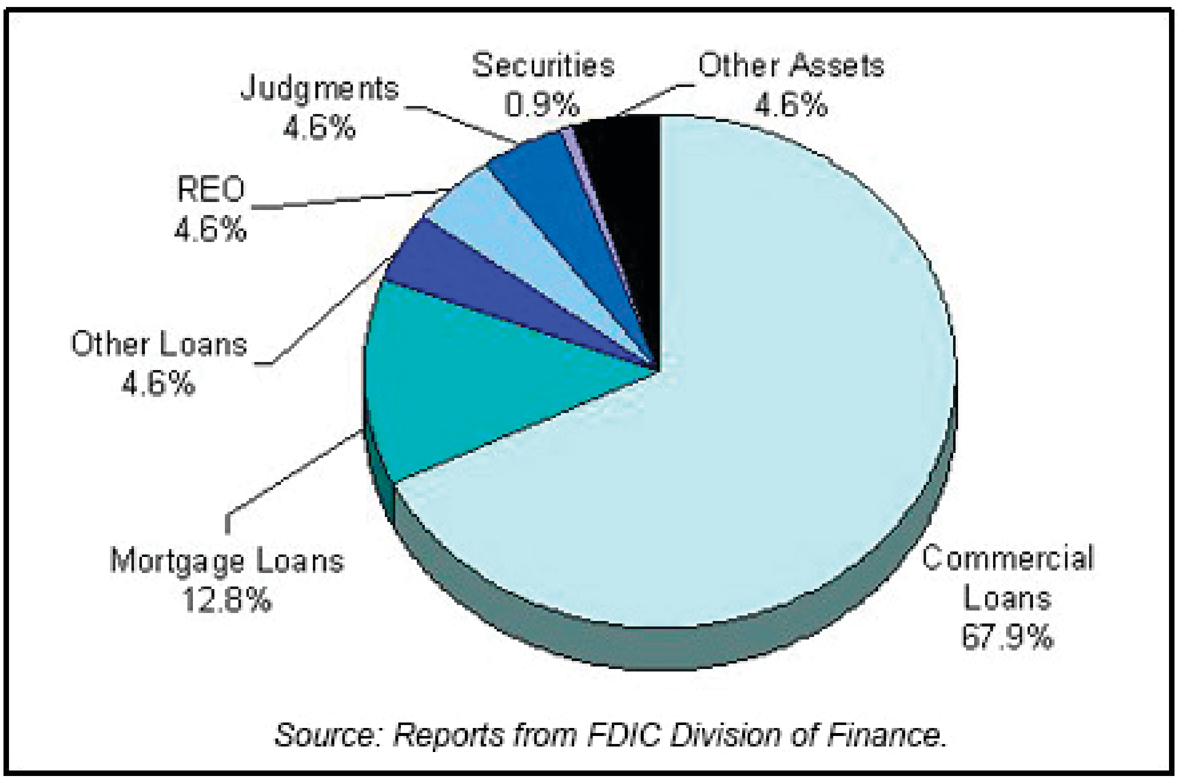

Chart 9-1 — 1986 FDIC End of Year Asset Mix

Commercial Loans	RE Mtges.	Other Loans	Owned Assets	Judgments	Securities	Other Assets
67.9%	12.8%	4.6%	4.6%	4.6%	0.9%	4.6%
Source: Reports from FDIC Division of Finance						

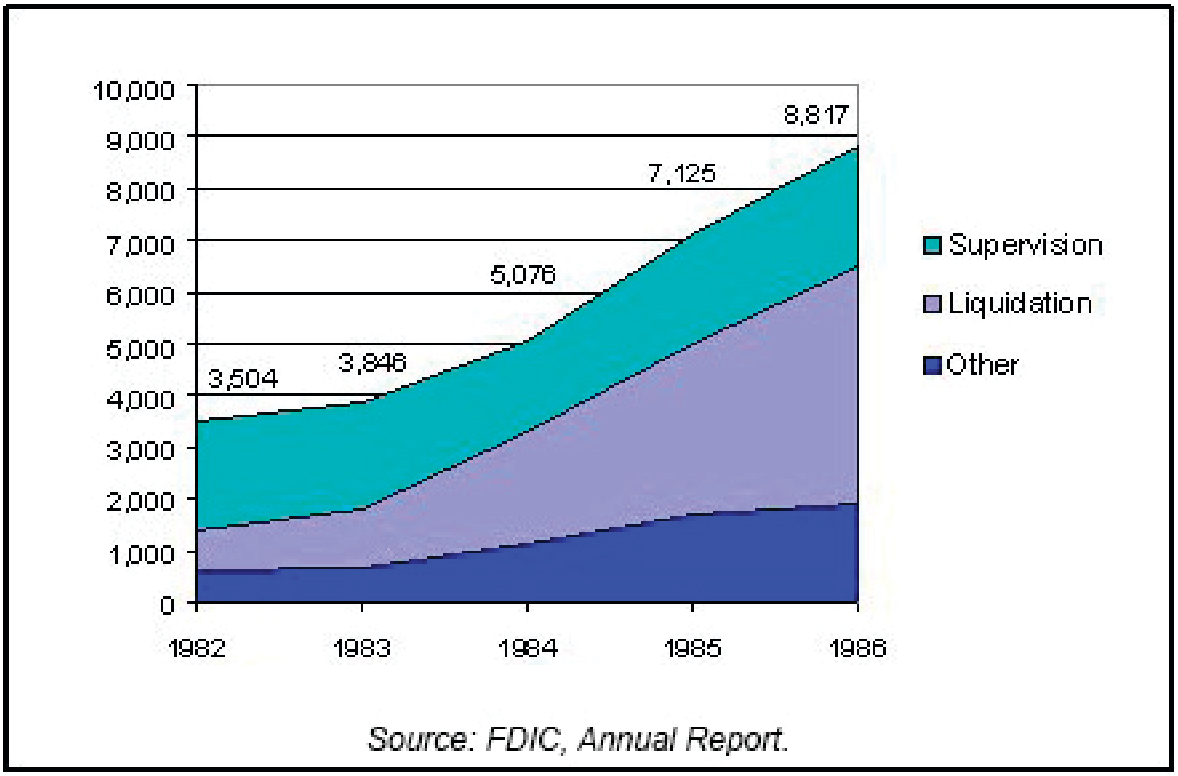

Chart 9-2 — FDIC Staffing

	1982	1983	1984	1985	1986
Other	597	640	1118	1684	1932
Liquidation	778	1153	2158	3318	4586
Supervision	2129	2053	1800	2123	2299
Total	3504	3846	5076	7125	8817
Source: FDIC, 1986 Annual Report					

Insurance Fund and Staffing

The deposit insurance fund grew to $18.3 billion, up 1.7 percent over 1985. However, the fund declined as a percentage of insured deposits to 1.12 percent of such deposits, because the total of expenses and losses was $3 billion, or more than $1 billion in excess of 1985 expenses and losses. The total payroll increased to 8,817 employees, up from 7,125 at the end of 1985. Division of Liquidation staff was 4,586, an increase of 1,268 over 1984. Division of Bank Supervision staff increased to 2,299, up from 2,123 in 1985. Chart 9-2 shows the staffing levels for the past five years.

Private Resolutions

The Colorado state legislature had created a private, nonprofit corporation providing deposit insurance for state chartered industrial banks. That corporation was known as the Industrial Bank Savings Guaranty

Corporation (IBSGC). Each industrial bank in the state was required to be either a member of the IBSGC or insured by the FDIC. The IBSGC was funded by an initial membership fee and by annual assessments; no state funds were provided nor was protection backed by the state of Colorado. As of June 30, 1983, the IBSGC guaranteed deposits totaling some $436 million in 144 industrial banks with a reserve fund of $6.2 million.

> **Industrial Banks** were very similar to commercial banks except that industrial banks could not carry demand deposit accounts. Most industrial banks were connected to an industry or parent that needed some kind of financing vehicle. In that regard, industrial banks operated more like finance companies, with savings and time deposits and some funding from the parent in the form of borrowings. Another difference was that an industrial bank could be owned by a corporation, not necessarily a bank holding company. However, to acquire FDIC insurance, the industrial bank was limited in powers to those normally associated with depository institutions.

Beginning in 1986, weakening economic conditions combined with poor lending practices and inexperienced management resulted in the failure of three IBSGC insured institutions, which seriously depleted the IBSGC fund. As a result, the Colorado legislature required that all industrial banks apply for FDIC insurance by September 1, 1987; institutions that were not FDIC insured by July 1, 1989, were to cease accepting public deposits. Membership in the IBSGC went from 111 members at the end of 1984 to only 13 in September 1987. Those that left the fund had taken one of the following actions: (1) obtained federal deposit insurance, (2) voluntarily ceased accepting deposits and started liquidating themselves, or (3) made other arrangements for deposit protection that were satisfactory to the state banking commissioner. Of the 13 remaining banks with deposits totaling $42 million, 9 were placed in the possession of the state and 4 had sought protection under Chapter 11 of the U.S. Bankruptcy Code[9-16]. Pursuant to legislation, the Financial Management Task Force (FMTF) was appointed the receiver of the state controlled institutions. Subsequently, the bankruptcy proceedings of all of the institutions were dismissed and FMTF served as receiver of all of the failed institutions.

In December 1988, FMTF made its first distribution to depositors of 12 of the institutions. Amounts represented from 7 percent to 23 percent of claims, depending on the institution. It was six more years before FMTF made its final distribution to depositors in June of 1995. Although asset liquidation and IBSGC funds disbursed to depositors totaled only 58 percent of total deposits, ultimately, 100 percent of depositors' funds, including uninsured amounts, were paid by the state of Colorado.

State insurance funds proved to be susceptible to changes in a state's economy and generally were not sufficiently capitalized to cover losses from the failures of several institutions at the same time.

Thrifts

A report from the General Accounting Office (GAO) in September 1987 reviewed the performance of 45 thrift institutions in the Federal Savings and Loan Insurance Corporation's (FSLIC's) Management Consignment Program (MCP) through the end of 1986. At the beginning of the period, 38 institutions were already insolvent. Of the 45 thrifts in the sample, 26 were in California or Texas. During the period, the 45 thrifts had losses of $2 billion: $1.3 billion in operating losses and $0.7 billion in nonoperating losses. Without considering asset write-downs, those institutions experienced significant losses, and both types of losses (operating and nonoperating) increased over time. The decline would have been worse had the GAO report considered that additional forbearance and Income Capital Certificates (ICC) were used by the institutions

[9-16] William B. English, "The decline of private deposit insurance in the United States" (Carnegie-Rochester Conference Series on Public Policy, 1993), 73.

in the sample. Borrowings from Federal Home Loan Banks increased for the group from $2.9 billion to $3.7 billion.

> **Income Capital Certificates (ICCs)** were first used in September 1981 by the FSLIC as a form of noncash assistance to mutual institutions. A troubled thrift would issue an ICC to FSLIC in exchange for a FSLIC note. The FSLIC note was an asset on the thrift's books with the offsetting liability (the ICC) counting as regulatory capital. If the thrift had earnings and had achieved a certain level of net worth, it paid a portion of its net income to FSLIC in the form of interest (dividends) based on a variable rate. The FSLIC generally paid interest on the note to the institution in cash. The ICC program was in effect from 1981 through 1986. The first ICC was issued as part of the assistance portion in a Supervisory Merger.

Income Capital Certificates (ICC) were used by the institutions in the sample. Borrowings from Federal Home Loan Banks increased for the group from $2.9 billion to $3.7 billion.

From 1981 through 1986, approximately 50 thrifts issued ICCs for a total assistance amount of $2.3 billion. The total outstanding as of March 31, 1986, was $2.5 billion at 38 institutions. Although participation in the program was not widespread, the amount of assistance was significant in terms of claims on the FSLIC insurance fund. For example, ICCs at the end of 1985 (net of those issued for cash) represented 58 percent of FSLIC's $3.78 billion primary reserves.

During 1986, FSLIC handled 10 liquidations and 36 Assisted Mergers, for a total cost to the FSLIC Insurance Fund of slightly more than $3 billion. In addition, there had been five Supervisory Mergers and 29 MCP cases. It is important to note that at the end of the year, the FSLIC fund balance was a negative $6.3 billion. The Federal Home Loan Bank Board estimated a total $10.5 billion as the present value cost to resolve problem thrifts on FSLIC's case list at that time.

The passage of the Tax Reform Act of 1986 provided special rules that would help the resolution of insolvent thrifts. Some of the key provisions were:

- Allowing a 3-year carryback of net operating losses of troubled thrifts to their acquirers and a 15-year carryforward to offset operating income, providing an effective tax shelter,
- Exempting FSLIC assistance from federal taxation through 1988, and
- Allowing the deduction of losses on sales of nonperforming assets.

In March 1986, the Federal Asset Disposition Association (FADA) received $25 million from FSLIC to be used to cover capital expenditures and start-up costs. In July 1986, FADA received its first assignment, the management of 64 assets with a book value of $131 million. Within a year of that start, FADA had established operations in six major cities, with a staff of approximately 250 personnel.

Chapter Ten: 1987

Another post-Depression record was set as insured bank failures in 1987 totaled 184, almost a one-third increase over the previous year?s record of 138. More than half of the 1987 bank failures and most of the assistance transactions took place in three states: Texas, Oklahoma, and Louisiana.

Table 10-1

1986 - 1987: FDIC at a Glance ($ in Millions)			
	12/31/86	**12/31/87**	**Percent Change**
Number of Bank Failures	138	184	33.33%
Assistance to Open Banks	7	19	171.43%
Total Failed and Assisted Banks	145	203	40.00%
Total Assets of Failed and Assisted Banks	$8,069.1	$9,407.0	16.58%
Losses on Failed and Assisted Banks	$1,775.7	$2,022.8	13.92%
Losses as a Percent of Total Assets	22.01%	21.50%	-2.32%
Assets in Liquidation	$10,856.0	$11,339.9	4.46%
FDIC Staffing	8,817	9,098	3.19%
Number of Problem Banks	1,484	1,575	6.13%
Deposit Insurance Fund Balance	$18,253.3	$18,301.8	0.27%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.12%	1.10%	-1.79%

Source: FDIC, 1987 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

On October 19, 1987, the Dow Jones Industrial average plummeted 508 points, or 22.6 percent?the largest one-day point and percentage loss in market history. On December 3, 1987, nine banks failed, the largest number of commercial banks that had ever closed in one day. In addition, one assistance transaction occurred on that same date.

In early 1987, the Federal Savings and Loan Insurance Corporation (FSLIC) was declared insolvent as of December 31, 1986, by the General Accounting Office (GAO). In a letter to the Chairman of the Federal Home Loan Bank Board (FHLBB), Edwin J. Gray, GAO reported the following regarding the financial condition of FSLIC: “The accompanying financial statements reflect a net loss of almost $11 billion for 1986 and a deficit of more than $6 billion at the end of 1986. Troubled sectors of the savings and loan industry have placed a severe strain on the Corporation. The average size of savings and loan institutions that have failed and the number of institutions receiving financial assistance or special supervisory attention from the Corporation have steadily increased during the last several years. From December 31, 1985, to December 31, 1986, the Corporation’s caseload of institutions in serious financial trouble virtually doubled—from 93 to 183.”[10-1]

Economic/Banking Conditions

In 1987, Gross Domestic Product (GDP) growth and employment growth remained virtually unchanged at 2.9 percent and 2.4 percent, respectively[10-2]. The unemployment rate continued to fall and was at 6.2

[10-1] Charles A. Bowsher, Comptroller General of the United States, in a letter dated May 1, 1987, as presented in a Federal Home Loan Bank Board 1986 Annual Report.

[10-2] Bureau of Economic Analysis and CB Commercial Torto/Wheaton Research.

percent[10-3]. Inflation rose slightly to 3.1 percent[10-4]. Growth in the real estate market began to decline, with home sales falling 2.8 percent and housing starts falling 10.2 percent. The office vacancy rate remained just under 18 percent[10-5]. The discount rate fell to 5.7 percent while the 30-year mortgage rate remained at 10.2 percent[10-6].

While overall bank failures continued to rise rapidly, the number of agricultural bank failures remained steady at 58. The proportion of agricultural banks with negative net incomes also began to decrease, despite a continued decrease in farmland value per acre[10-7]. Total failures in the midwest declined to 46 from 51 in 1986.

In the Southwest, the number of bank failures continued to rise. During the year, 110 banks failed in the region, and 39 percent of surviving banks had negative asset growth rates. That caused the regional average asset growth rate to be negative for the second consecutive year. Nonperforming assets peaked at 4.2 percent of assets, as did nonperforming loans at more than 10 percent of total loans and leases. Commercial vacancy rates soared in major Texas cities: Austin's was at 40 percent; Houston's, 31 percent; and Dallas' was at 28 percent[10-8]. Commercial real estate loans, at 8.6 percent of assets, and Commercial and Industrial (C&I) loans, at 11.6 percent of assets, continued to fall but were still above the national medians of 6.2 percent and 9 percent of assets, respectively.

The Northeast's real estate market, however, was very healthy, especially compared to the rest of the U.S. Commercial real estate activity was booming, with the number of new permits up 100 percent from 1983 in Massachusetts, up 137 percent in Connecticut and up 87 percent in New Jersey over the same time period[10-9]. The percentage of commercial real estate loans was at 12.1 percent of total assets in the region, and total real estate loans were 45.8 percent of assets. In the Northeast, average Gross State Product growth continued to increase to 5.2 percent and was well above the GDP growth rate of 2.9 percent[10-10].

The California economy also was outperforming the rest of the country. In the banking sector, the "Big Four" banks (Bank of America, First Interstate, Security Pacific, and Wells Fargo) were dominating the industry. Those four banks held 72 percent of statewide assets and earned 70 percent of total income of all California banks. Commercial real estate loans continued to rise to 16 percent of assets, while C&I loans fell to 19 percent. Nevertheless, both state medians were well above the national medians of 6.2 percent of assets for commercial real estate loans and 9 percent for C&I loans.

In 1987, money center banks started to recognize the massive losses on their lesser developed countries (LDC) loans. For those banks, LDC loans were 211 percent of capital, and net income to capital was -22.2 percent. The return on assets average for large banks (banks with assets greater than $1 billion) dropped almost 40 basis points for the year. Chartering activity slowed a bit as 228 banks were chartered in the year.

On August 10, 1987, the Competitive Equality Banking Act (CEBA) was enacted. Under CEBA, qualifying agricultural banks were permitted to amortize losses over a seven-year period for agricultural loans and for

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10-3 Bureau of Labor Statistics, Department of Labor.

10-4 Bureau of Labor Statistics, Department of Labor.

10-5 *Housing Market Statistics*, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

10-6 *Housing Market Statistics*, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

10-7 Economic Research Service, U.S. Department of Agriculture.

10-8 CB Commercial Torto/Wheaton Research.

10-9 Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch.

10-10 Bureau of Economic Analysis, Department of Commerce.

losses resulting from reappraisal of other related assets, rather than having to deduct the amount of loss from capital as soon as the losses were recognized.

In November, the FDIC had adopted an interim rule establishing eligibility requirements and application procedures for banks interested in amortizing farm loan losses in distressed agricultural regions of the country. By the end of the year, 20 state nonmember banks had applied for the program: 1 had been accepted, 2 were denied, and 17 were in process.

The total number of insured commercial banks declined to 13,703 by year-end 1987, compared with 14,199 in 1986 and 14,407 in 1985. The number of problem banks peaked at 1,575, or 11.5 percent of all insured banks. In 1986, there were 1,484 or 10.5 percent problem banks, and only 1,140 or 7.9 percent problem banks in 1985.

Table 10-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1987.

Table 10-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1986	1987	Percent Change
Number	14,199	13,703	-3.49%
Total Assets	$2,940.7	$2,999.9	2.01%
Return on Assets	0.63%	0.10%	-84.13%
Return on Equity	9.94%	1.15%	-88.43%

Savings Banks – FDIC Regulated

Item	1986	1987	Percent Change
Number	445	463	4.04%
Total Assets	$184.6	$217.1	17.61%
Return on Assets	1.04%	0.80%	-23.08%
Return on Equity	14.88%	10.17%	-31.65%

Savings Associations – FHLBB Regulated

Item	1986	1987	Percent Change
Number	3,232	3,159	-2.26%
Total Assets	$1,202.3	$1,285.0	6.88%
Return on Assets	0.09%	-0.58%	--
Return on Equity	2.70%	-17.24%	--

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks

Of the 184 bank failures in 1987, 56 (30 percent) involved agricultural banks, and of the 19 banks assisted in 1987, two were agricultural banks. Texas, Oklahoma, and Louisiana had the most failures with 50, 31, and 14, respectively. The average asset size of all failed banks was $34.1 million, and the average amount of insured deposits was $35.6 million. The total dollar amount of deposits for all failed and assisted banks in 1987 was $8.9 billion, compared to $7.2 billion in 1986 and only $8.5 billion in 1985.

Of the 184 banks that failed in 1987, 133 were resolved with purchase and assumption (P&A) transactions. Assuming banks in those transactions paid premiums of more than $52 million. The FDIC saved approximately $241 million from those transactions, compared to the cost of deposit payoffs. Insured deposit transfers (IDTs) accounted for 40 of the failed bank resolutions. The FDIC received purchase premiums totaling $33 million from the transferee banks. In 11 bank failures, the FDIC handled payoffs.

The FDIC provided open bank assistance (OBA) to prevent failures in nine cases involving 19 banks in 1987. Of the 19 banks assisted, 11 were subsidiaries of BancTexas Group, Inc., a Dallas, Texas bank holding company that collapsed. The FDIC made a one-time cash contribution of $150 million. The FDIC did not assume any of the subsidiary banks? problem assets; instead, the new investors and managers of the new holding company were to carry out their own strategies for dealing with such assets and for maintaining the subsidiary banks in sound condition. The assistance transactions resulted in an estimated savings to the FDIC of $170.4 million. The savings were estimated by calculating the cost of the assistance transactions and comparing that cost with the estimated cost had the banks failed.

During 1987, preliminary approval was given to provide financial assistance to Alaska Mutual Bank and United Bank of Alaska, both in Anchorage, Alaska, and for First City Bancorporation of Texas, Houston, Texas. The FDIC established loss reserves of $295 million for the Alaska banks and $942 million for First City Bancorporation. The assistance transactions were not consummated until early 1988 and are not included in the 19 assisted banks discussed above.

In 1987, outstanding net worth certificates were reduced by $211 million, and at the end of the year, only three banks had net worth certificates still outstanding for a total of $315 million.

In 1987, the FDIC broadened its 1986 capital forbearance guidelines, which had formerly applied only to agricultural and so called energy banks, to include any bank with difficulties primarily attributable to economic problems not within the bank?s control. Under the Capital Forbearance Program, a bank was permitted to operate temporarily with capital below normal supervisory standards, provided the bank was viable and had a reasonable plan for restoring capital. By the end of 1987, the FDIC had received 232 applications for the Capital Forbearance Program. Of the 135 banks admitted to the program, 16 were terminated for various reasons, leaving 119 banks in the program at the end of the year. Applications of 56 banks were denied, and 31 were still in process. In ten cases, the bank was closed before a decision was made on the application.

A recent estimate of losses per transaction type is shown in Table 10-3.

Table 10-3

1987 Estimated Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Losses	Losses as a Percent of Assets
OBA	19	$2,478.1	$160.2	6.46%
P&As	133	4,431.5	1,160.3	26.18%
IDTs	40	2,144.5	586.0	27.33%
Payoffs	11	352.9	116.3	32.96%
Totals	203	$9,407.0	$2,022.8	21.50%

Source: Reports from FDIC Division of Research and Statistics.

In a **Whole Bank Transaction**, prospective bidders were invited to analyze a failing bank?s assets and submit bids to purchase essentially all of the assets ?as is? on a discounted basis. The bid provided the amount the purchaser required from the FDIC to take over the failed bank; the lowest bidder would win. The whole bank approach was regarded as advantageous by the FDIC because the impact on the local community was softened as the failing bank?s loan customers would continue to be served locally by a viable financial institution rather than by FDIC liquidators. That approach also decreased the number of assets held by the FDIC for liquidation.

In 1987, the FDIC developed a new way to handle bank failures: the ?whole bank transaction,? a new approach to the P&A transaction. A whole bank transaction was structured so that an acquiring institution purchased the maximum possible number of a failed bank?s assets, thereby relieving the FDIC of the responsibility and expense of liquidating the assets. In 1987, there were 133 P&A transactions. In 52 of those situations, the FDIC attempted whole bank transactions, of which 19 proved successful.

The 1987 CEBA also extended and expanded the FDIC?s emergency interstate acquisition authority by permitting, among other things, out-of-state holding companies to acquire qualified failing or failed stock institutions and mutual savings banks prior to failure provided the institutions had assets of $500 million or more.

CEBA gave the FDIC an important tool that would be used in the resolution of some of the largest bank failures: the authority to establish a bridge bank to assume certain deposit[10-11] liabilities and to purchase certain assets of a failed bank at the discretion of the FDIC, if the following conditions were met:

A bridge bank provided a temporary solution for a failed bank. By establishing a bridge bank under FDIC control and effecting a P&A with the bridge bank and the FDIC as receiver of the failed bank, the FDIC had sufficient time to evaluate the bank’s situation and to determine an appropriate resolution. Creating a bridge bank also allowed prospective acquirers more time to assess the bank’s condition and to make a reasonable offer on the institution.

- The cost of establishing a bridge bank did not exceed the cost of liquidation;
- The continued operation of the failed bank was essential to provide adequate banking services in the local community; or
- The continued operation of the failed bank was in the best interest of the depositors and the public.

Just two months after the passage of CEBA, the FDIC used its new bridge bank authority for the first time with the closing of Capital Bank & Trust Company, Baton Rouge, Louisiana, on October 30, 1987. Capital Bank & Trust Company had total assets of $384.4 million at the time of its failure. The FDIC determined that a bridge bank was the most cost-effective way to preserve existing banking services while giving the FDIC sufficient time to put together a permanent transaction. Pursuant to CEBA, the bridge bank was chartered as a national bank, Capital Bank & Trust Co., N.A., and a five-member board of directors was appointed by the FDIC. By the end of 1987, the FDIC was actively seeking an acquirer for the bridge bank.

Payments to Depositors and Other Creditors

In the 203 banks that failed or were assisted in 1987, deposits totaled $8.9 billion in 1,317,000 deposit accounts. Nineteen assistance agreements contained $2.3 billion in total deposits in over 348,700 deposit accounts. Eleven payoffs accounted for $348.7 million in 42,000 deposit accounts. Dividends paid on all active receiverships totaled $755.8 million in 1987.

[10-11] In 1989, this statute was amended to allow FDIC to assume all deposits or insured deposits only.

Of the 1,216 insured bank failures[10-12] since the FDIC began operations in 1934, 687 were P&A transactions, with 19 additional resolutions involving whole bank transactions. Deposit payoff transactions accounted for 464 cases, of which 80 were IDTs. There have been 46 open bank assistance transactions since 1981.

Total disbursements by the FDIC since January 1, 1934, amounted to $31.2 billion. Of that amount, the FDIC recovered $20.4 billion, for a net loss of $10.8 billion.

Asset Disposition

At the beginning of 1987, the FDIC had $10.9 billion in assets from failed banks. The FDIC handled 184 bank closings and acquired $5.1 billion in liquidation assets. Principal collections amounted to $2.6 billion. At the end of 1987, assets in liquidation totaled $11.3 billion.

In 1987, the FDIC produced a national publication for investors that contained a list of large ($500,000 or greater) commercial real estate properties owned by the FDIC; the publication included detailed information on each parcel. The FDIC asset marketing staff closed an unprecedented 574 sales of approximately 91,000 loans with an aggregate book value of $860 million. That was nearly triple the 196 sales with an aggregate book value of $342 million completed in 1986. While most of the loan sales were completed through a sealed bid process, the FDIC also began experimenting with selling loans at public auction.

In 1987, the FDIC developed an automated program to assist asset marketing efforts that automatically selected loans from the FDIC?s mainframe and put the loans into sale packages with specific, predetermined parameters. Performing loans were priced by the system; nonperforming loans were priced individually by FDIC account officers working the loans.

Table 10-4 shows the FDIC?s assets in liquidation and Chart 10-1 shows the asset mix.

Table 10-4

1987 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/86 Book Value	1986 Assets Acquired	1986 Prin. Coll.	1986 Write Downs	12/31/86 Book Value	12/31/86 Est. Rec. Value
Commercial Loans	$7.4	$2.1	$1.4	$1.3	$6.8	$2.6
Mortgage Loans	1.4	1.1	0.4	0.2	1.9	1.0
Other Loans	0.5	0.3	0.2	0.1	0.5	**
Real Estate Owned	0.5	0.5	0.2	0.2	0.6	0.4
Judgments	0.5	0.2	0.0	0.2	0.5	**
Securities	0.1	0.3	0.2	0.0	0.2	0.1
Other Assets	0.5	0.6	0.2	0.1	0.8	0.3
Totals	$10.9	$5.1	$2.6	$2.1	$11.3	$4.4

*Totals may not foot due to rounding differences. Back to Table
**For estimated value only, Commercial Loans includes Other Loans, and Other Assets includes Judgments.
Source: Reports from FDIC Division of Finance.

10-12 This figure does not include five open bank assistance transactions from 1934-1980.

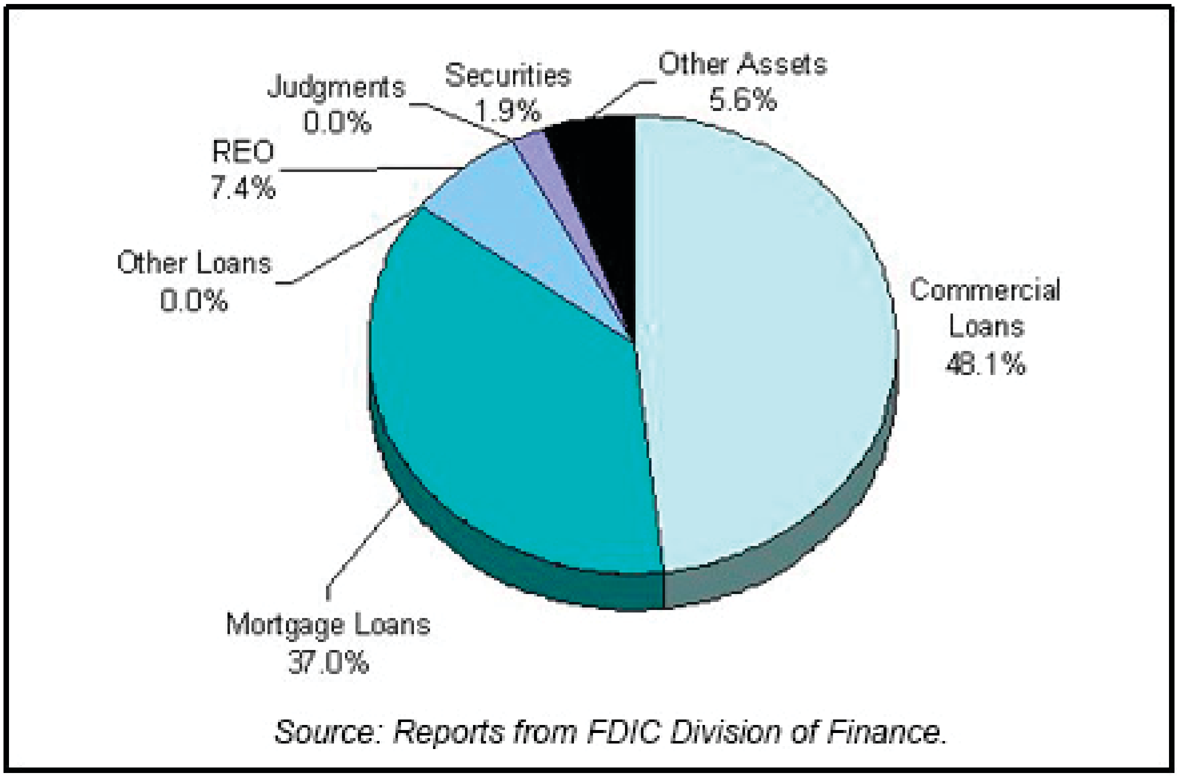

Chart 10-1 — 1987 FDIC End of Year Asset Mix

Commercial Loans	RE Mtges.	Other Loans	Owned Assets	Judgments	Securities	Other Assets
48.1%	37.0%	0.0%	7.4%	0.0%	1.9%	5.6%
Source: Reports from FDIC Division of Finance						

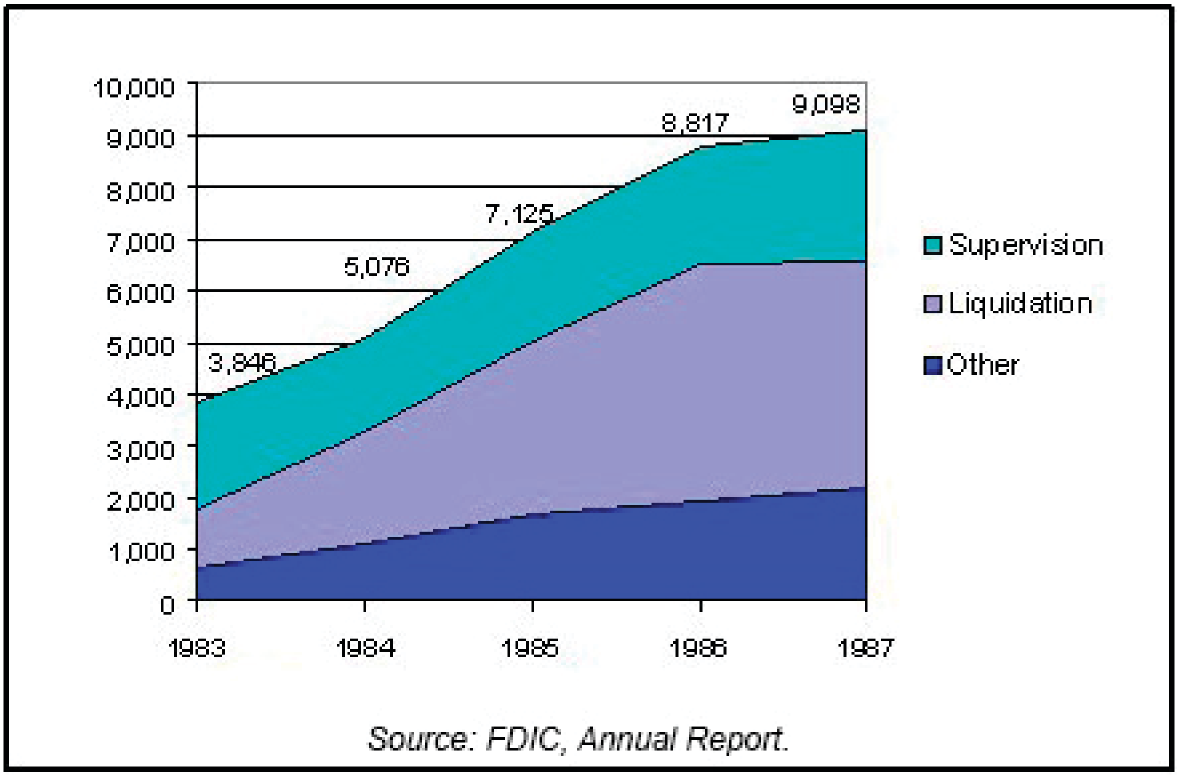

Chart 10-2 — FDIC Staffing

	1983	1984	1985	1986	1987
Other	640	1118	1684	1932	2177
Liquidation	1153	2158	3318	4586	4400
Supervision	2053	1800	2123	2299	2521
Total	3846	5076	7125	8817	9098
Source: FDIC, 1987 Annual Report					

Insurance Fund and Staffing

The insurance fund peaked in 1987 at $18.3 billion. FDIC staffing efforts were focused mainly on bringing the Division of Bank Supervision (DBS) up to full strength. By the end of the year, the FDIC employed 1,909 field examiners, with 421 new examiners hired in 1987. Total DBS staff was 2,521, an increase of 222 over 1986. The Division of Liquidation staff numbered 4,400, compared to 4,586 in 1986. The FDIC had more than 400 attorneys. Total staff for the FDIC in 1987 was 9,098, up 281 from 8,817 in 1986. Chart 10-2 shows the staffing levels for the past five years.

Thrifts

In 1987, FSLIC conducted 17 liquidations and 30 Assisted Mergers for an estimated total cost of $3.7 billion. By the end of the year, there also had been five Supervisory Mergers. There were 25 thrifts in the Management Consignment Program, and the FSLIC fund balance was at a negative $13.7 billion. In August 1987, CEBA established a capital ratio floor of 0.5 percent for troubled but well-managed institutions whose problems resulted from economic conditions beyond their control. In February 1987, FHLBB announced it was unlikely that the Board would take administrative action to enforce minimum capital requirements. At the end of the year, FHLBB estimated a present value cost of $22.7 billion to resolve thrifts in the FSLIC caseload at that time, in addition to some thrifts in the Southwest and an allowance for 300 insolvent thrifts not in the caseload. In early 1987, the GAO declared the FSLIC insurance fund insolvent as of December 31, 1986.

The Federal Asset Disposition Association?s (FADA) costs outpaced revenues; in 1986 FADA lost nearly $3.5 million. In the first three quarters of 1987, it lost almost $6 million. In late 1987, FADA?s Chief Operating Officer resigned.

Chapter Eleven: 1988

The year 1988 marked a turning point for the FDIC. For the first time since the agency's creation, the FDIC suffered an operating loss?$4.2 billion. That loss was due primarily to the $7.3 billion cost associated with bank failures and assistance transactions in 1988, including $4 billion in estimated costs due to the failure of the insured bank subsidiaries of First RepublicBank Corporation, Dallas, Texas.

Table 11-1

1987 - 1988: FDIC at a Glance ($ in Millions)

	12/31/87	12/31/88	Percent Change
Number of Bank Failures	184	200	8.70%
Assistance to Open Banks	19	79	315.79%
Total Failed and Assisted Banks	203	279	37.44%
Total Assets of Failed and Assisted Banks	$9,407.0	$9,407.0	472.97%
Estimated Losses on Failed and Assisted Banks*	$2,022.8	$6,920.5	242.12%
Estimated Losses as a Percent of Total Assets	21.50%	12.84%	-40.28%
Assets in Liquidation	$11,339.9	$9,335.9	-17.67%
FDIC Staffing	9,098	8,060	-11.41%
Number of Problem Banks	1,575	1,406	-10.73%
Deposit Insurance Fund Balance	$18,301.8	$14,061.1	-23.17%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	1.10%	0.80%	-27.27%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1988 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

Again, a new record was established for the highest number of banks to fail in one day when 40 bank subsidiaries of First RepublicBank Corporation (First RepublicBank) were closed and sold to NCNB Corporation, Charlotte, North Carolina.[11-1]

Economic/Banking Conditions

Over the year, Gross Domestic Product (GDP) increased by 3.8 percent and the unemployment rate continued to fall[11-2]. Employment growth was steady at 2.9 percent, lowering the unemployment rate to 5.5 percent[11-3]. Inflation increased slightly to 3.6 percent, up from 3.1 percent in 1987[11-4]. The discount rate rose to 6.2 percent, and the 30-year mortgage rate increased slightly to 10.3 percent[11-5]. Home sales increased 2

[11-1] The remaining subsidiary (located in Delaware) of First RepublicBank Corporation was closed 4 days later on August 2, 1988.

[11-2] Bureau of Economic Analysis, Department of Commerce.

[11-3] CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

[11-4] Bureau of Labor Statistics, Department of Labor.

[11-5] Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

percent while housing starts continued to decrease at a rate of 8.2 percent for the year. The office vacancy rate finally began to stabilize at 17.3 percent[11-6].

Bank failures in the Southwest peaked at 214, an overwhelming 76.7 percent of all resolutions. Asset growth rates for the region's banks were negative for the third consecutive year. The collapse in the oil industry had weakened many banks, and when the real estate market collapsed, banks with large commercial real estate loan portfolios failed in large numbers. There were 174 failed banks in Texas, with assets totaling $46.9 billion. The First RepublicBank chain with assets totaling $33.4 billion was the largest bank failure to date; its estimated loss of $3.9 billion made it the costliest resolution to date (and it remained the costliest through 1997)[11-7]. The insured subsidiary banks of First City Bancorporation of Texas, Inc. (First City) also were assisted, with $11.2 billion in assets and an estimated loss of $1.1 billion, making First City the third costliest resolution up to that time[11-8].

Median home resale prices for the Southwest bottomed out at $61,800, compared to $89,300 for the U.S. in that same year[11-9]. Total loans and leases fell for the third straight year to 50.5 percent of assets, but commercial real estate loans at 8.1 percent of assets and Commercial and Industrial loans at 10.1 percent of assets still were above the national medians of 6.6 percent and 8.8 percent of assets, respectively. The regional economy was starting to recover as regional Gross State Product (GSP) outperformed GDP with about 4 percent growth[11-10].

Agricultural bank failures began to decline rapidly, both in numbers of failed banks and in percentage of all bank failures. Farm debt also continued to fall to $145.5 billion, down 30 percent from its 1983 peak of $207 billion[11-11]. Total failures in the midwest continued their gradual decline to 36 in 1988 after reaching a peak of 56 in 1985.

In 1988, total loans and leases in the Northeast peaked at 73 percent of assets, almost 20 percent higher than the national median. Most banks began to tighten their lending as some industries in the region were seeing cutbacks. With the reduction in defense spending, New England's defense-related industry shrank, the computer industry in Boston was faltering, and Wall Street employment was decreasing following the stock market crash at the end of 1987[11-12]. The repercussions of those cutbacks were not yet being felt, as per capita income in the Northeast was 123 percent of the national average, unemployment for the region stood at 3 percent, and GSP continued to grow at 5 percent[11-13].

In California, the "Big Four" banks began to have outstanding results, posting an average return on assets of 1.13 percent, which was 60 basis points above the national average for all banks. The reduction in defense spending led to a decrease in defense-related employment in California[11-14]. Japanese investment in California peaked at $16.5 billion, with Japanese ownership of California real estate continuing to

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11-6 *Housing Market Statistics*, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

11-7 Not including Continental Illinois National Bank and Trust Company, which technically did not fail.

11-8 Again, not including Continental Illinois National Bank and Trust Company.

11-9 National Association of Realtors.

11-10 Bureau of Economic Analysis, Department of Commerce.

11-11 Federal Reserve System, Board of Governors, Flow of Funds Accounts, Table L. 102.

11-12 Michael Quint, "Northeast Banks Face Heavy Losses on Problem Loans," New York Times, Dec. 15, 1989, sec. A, 1.

11-13 Lynn E. Browne, "Why New England Went the Way of Texas Rather than California," *New England Economic Review*, Federal Reserve Bank of Boston (January/February 1992), 24, 33; Bureau of Labor Statistics; Department of Labor and Bureau of Economic Analysis, Department of Commerce.

11-14 California Statistical Abstract, table H-8, 120.

increase[11-15]. The number of new residential housing permits peaked, and home sales in the state peaked at 562,240[11-16]. GSP growth fell to 4.5 percent but was still above national GDP growth[11-17].

As stated previously, the Competitive Equality Banking Act (CEBA) of 1987 allowed qualifying agricultural banks to enter a program to amortize losses on agricultural loans and related assets over a seven-year period. A total of 31 banks were in the program by the end of 1988.

The number of banks on the FDIC's problem bank list declined to 1,406 at the end of 1988 from 1,575 at the end of 1987.

Table 11-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1988.

Table 11-2

Open Financial Institutions Insured by FDIC ($ in Billions) Commercial Banks - FDIC Regulated			
Item	**1987**	**1988**	**Percent Change**
Number	13,703	13,123	-4.23%
Total Assets	$2,999.9	$3,130.8	4.36%
Return on Assets	0.10%	0.82%	720.00%
Return on Equity	1.15%	13.19%	1,046.96%
Savings Banks – FDIC Regulated			
Item	**1987**	**1988**	**Percent Change**
Number	463	471	1.73%
Total Assets	$217.1	$238.1	9.67%
Return on Assets	0.80%	0.46%	-42.50%
Return on Equity	10.17%	5.93%	-41.69%
Savings Associations – FHLBB Regulated			
Item	**1987**	**1988**	**Percent Change**
Number	3,139	2,967	-6.08%
Total Assets	$1,285.0	$1,368.40	6.49%
Return on Assets	-0.58%	-0.44%	24.14%
Return on Equity	-17.24%	-11.75%	31.84%
Source: Reports from FDIC Division of Research and Statistics.			

Bank Failures and Assistance to Open Banks

There were 200 commercial bank failures in 1988. Texas had more than half of the total with 113, which included the First RepublicBank chain of 40 failed banks. Oklahoma had the second highest number with 23 failures. In all, 28 states had bank failures and/or assistance transactions in 1988.

11-15 Kenneth Leventhal & Company, "1994 Japanese Investment In U.S. Real Estate" (1995).

11-16 Bureau of the Census, Building Permits Section, Manpower and Construction Statistics Branch.

11-17 Bureau of Economic Analysis, Department of Commerce.

Purchase and assumption (P&A) transactions accounted for 164 of the bank failures in 1988, and assuming banks paid more than $171 million in premiums. Of the 164 P&As, 69 were whole bank deals. There were 30 insured deposit transfers (IDTs). In two of those cases, transferee institutions purchased all or nearly all of the failed banks' assets. The FDIC received purchase premiums of $4.7 million on those two transactions in 1988. In a year when there were 200 bank failures, the FDIC paid off deposits in only six bank failures.

In 1988, the FDIC entered into 21 assistance transactions that resolved 79 banks, including 59 bank subsidiaries of First City. In addition, there were two banks from the First RepublicBank Corporation chain that received open bank assistance (OBA) early in 1988, but failed later that same year. Those two banks are not counted in the total for assistance transactions.

On April 20, 1988, the FDIC's Board of Directors granted final approval to an assistance plan to recapitalize and to restore to financial health the subsidiary banks of First City, an organization with $13 billion in assets and 59 bank subsidiaries. The FDIC's assistance to First City's subsidiary banks was in the form of $970 million in capital notes. The assistance was short-lived, as all First City banks were closed in 1992. At the time of the assistance, First City held $9.5 billion or 6.43 percent of all Texas deposits.

The largest banking organization to fail in 1988 was First RepublicBank Corporation, Dallas, Texas, which had 40 banks in Texas and one bank in Delaware and had gross assets of $32.4 billion. First RepublicBank Corporation was the largest banking organization in the state of Texas, with $20.6 billion in Texas deposits or 13.64 percent of all Texas deposits and was the 14th largest bank holding company in the country.

In March 1988, the FDIC provided an interim financial assistance package consisting of a $1 billion loan to First RepublicBank's two largest banks, located in Dallas and in Houston. In July 1988, the FDIC notified the other regulators involved that the $1 billion loan would not be renewed, which led to the determination that the lead bank (the Dallas bank) was not viable.

The banks were declared insolvent by their chartering authorities and closed on July 29, 1988. After extensive negotiations with several interested parties, the FDIC entered into an agreement with NCNB, Charlotte, North Carolina. Utilizing the bridge bank legislation enacted in 1987, NCNB Texas National Bank, a bridge bank, was established by the FDIC. The bridge bank was assumed by NCNB Corporation, Charlotte, North Carolina, the same day. In connection with the failure of the First RepublicBank chain, its credit card subsidiary, the First RepublicBank, Delaware, Newark, Delaware, was declared insolvent and closed on August 2, 1988. The Delaware Bridge Bank, N. A., was established to take certain assets and liabilities of the failed credit card subsidiary bank. The Delaware Bridge Bank was assumed by Citibank, New Castle, Delaware, on September 9, 1988.

In 1988, outstanding net worth certificates were reduced by $18.1 million through contractually required payments. New issues, however, caused the total dollar amount outstanding to increase. By the end of the year, three banks had net worth certificates outstanding in the aggregate amount of $322 million.

Since the Capital Forbearance Program began, the FDIC had received 312 applications for forbearance by the end of 1988. Of the 181 banks admitted to the program, 56 were terminated for various reasons, leaving 125 banks in the program at the end of 1988. Applications of 84 banks had been denied, and 21 were being processed. In 26 cases, the applications were withdrawn or not processed for other reasons.

A recent estimate of losses per transaction type is shown in Table 11-3.

Table 11-3

1988 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss*	Estimated Losses as a Percent of Assets
OBA	79	$15,494.0	$1,540.6	9.94%
P&As	164	37,028.3	4,950.4	13.37%
IDTs	30	1,244.5	391.1	31.43%
Payoffs	6	132.6	38.4	28.96%
Totals	279	$53,899.4	$6,920.5	12.84%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Back to table

Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

In the 279 banks that failed or were assisted in 1988, deposits totaled $38.3 billion in over 783,278 deposit accounts[11-18]. Of the total, the79 assistance agreements involved $11.8 billion in total deposits. Payoffs accounted for six transactions with 9,200 deposit accounts with total deposits of $135.9 million. Dividends paid on all active receiverships totaled $1.2 billion in 1988.

Of the 1,437 insured bank resolutions[11-19] since the FDIC began operations in 1934, 782 were P&A transactions, with 88 additional resolutions involving whole bank transactions. Deposit payoff transactions accounted for 500 cases, of which there were 110 IDTs. Additionally, there have been 67 OBA transactions since 1981.

Total disbursements by the FDIC since January 1, 1934, amounted to $39.9 billion. Of that amount, the FDIC recovered $24.9 billion, for a net loss of $15 billion.

Asset Disposition

At the beginning of 1988, the FDIC had $11.3 billion in failed bank assets. The FDIC handled 200 bank failures during the year and acquired failed bank assets of $2.4 billion for liquidation. Principal collections totaled $2.1 billion, and at the end of 1988, total assets in liquidation totaled $9.3 billion.

The FDIC continued its bulk sale activities in 1988 with 546 transactions involving the sale of 71,865 assets with a book value of $875 million. Asset marketing activities included major sales of nearly all assets at four of the FDIC offices that were scheduled to be closed. The FDIC began planning for a public auction of some of its largest holdings of real estate.

Table 11-4 shows the FDIC's assets in liquidation and Chart 11-1 shows the asset mix.

[11-18] The number of deposit accounts for the First City and the First RepublicBank transactions were unavailable.

[11-19] This figure does not include five open bank assistance transactions from 1934-1980. Also, in 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per

Table 11-4

1988 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/87 Book Value	1988 Assets Acquired	1988 Prin. Coll.	1988 Write Downs	12/31/88 Book Value	12/31/88 Est. Rec. Value
Commercial Loans	$6.89	$0.9	$1.0	$1.3	$5.4	$1.9
Mortgage Loans	1.9	0.5	0.3	0.2	1.9	1.0
Other Loans	0.5	0.3	0.2	0.2	0.4	0.1
Real Estate Owned	0.6	0.4	0.3	0.2	0.5	0.3
Judgments	0.5	0.3	0.0	0.3	0.5	0.0
Securities	0.2	0.0	0.1	0.0	0.1	0.0
Other Assets	0.8	0.0	0.2	0.1	0.5	0.2
Totals	$11.3	$2.4	$2.1	$2.3	$9.3	$3.5

*Totals may not foot due to rounding differences. Back to table
Source: Reports from FDIC Division of Finance.

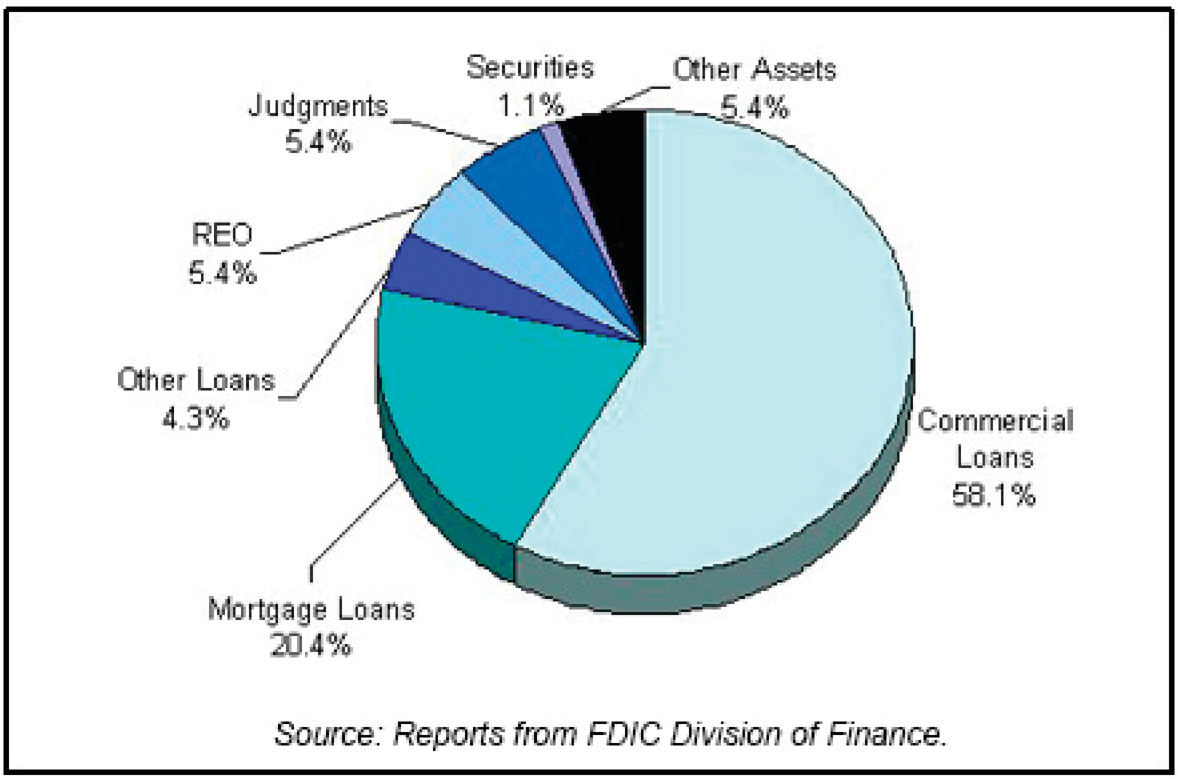


Chart 11-1 — 1988 FDIC End of Year Asset Mix

Commercial Loans	RE Mtges.	Other Loans	Owned Assets	Judgments	Securities	Other Assets
58.1%	20.4%	4.3%	5.4%	5.4%	1.1%	5.4%

Source: Reports from FDIC Division of Finance

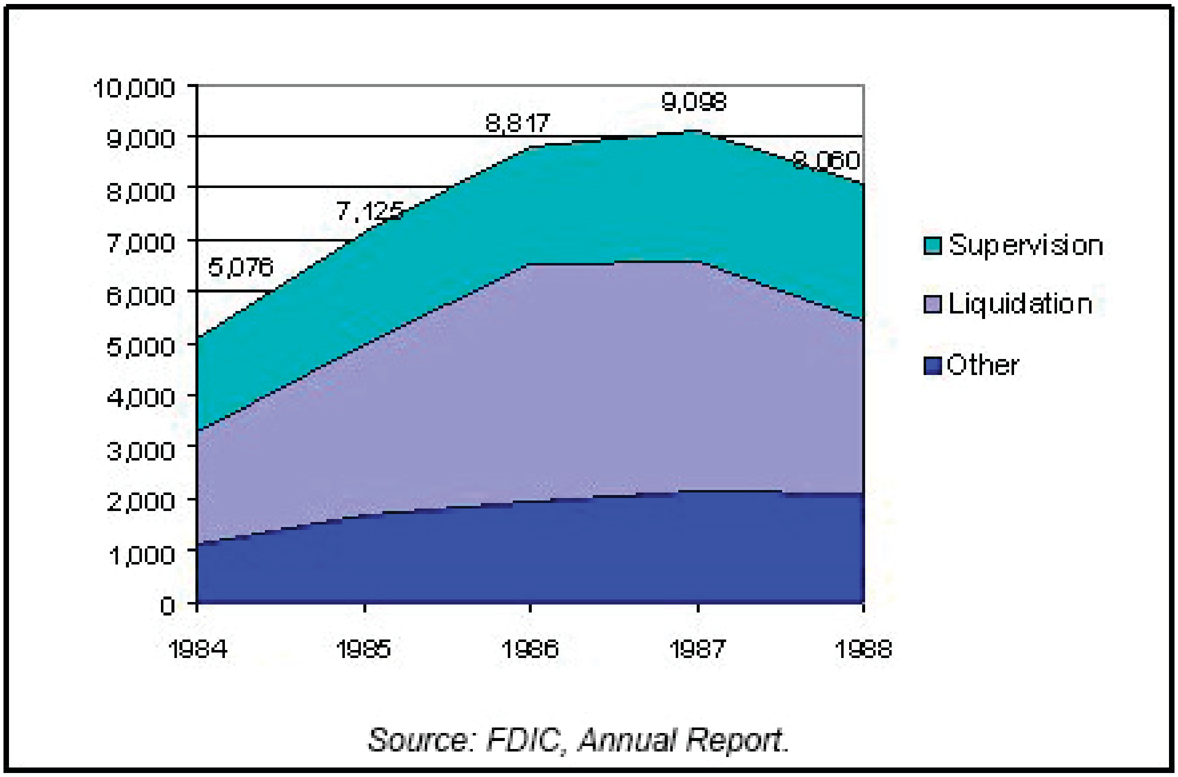


Chart 11-2 — 1988 FDIC Staffing

	1984	1985	1986	1987	1988
Other	1118	1684	1932	2177	2095
Liquidation	2158	3318	4586	4400	3371
Supervision	1800	2123	2299	2521	2594
Total	5076	7125	8817	9098	8060
Source: FDIC, 1988 Annual Report					

Insurance Fund and Staffing

The The FDIC's $4.2 billion net loss in 1988 reduced the insurance fund balance from $18.3 billion at the end of 1987 to $14.1 billion at the end of 1988. As a result, the ratio of the insurance fund balance to insured deposits declined to one of its lowest levels ever—0.80 percent of insured deposits.

In 1988, the FDIC continued to make progress in achieving its two main supervision objectives, more frequent examination of banks and more prospective supervision. That was accomplished by increasing the number of safety and soundness examinations and increasing the number of examiners. The number of examiners increased in 1988 to 1,983 field examiners, 74 more than in 1987. The total number of FDIC employees at the end of 1988 was 8,060, down from 9,098 at the end of 1987. Total Division of Liquidation staff was 3,371 compared to 4,400 at the end of the previous year, and Division of Bank Supervision staff numbered 2,594, up from 2,521 in 1987. Chart 11-2 shows the staffing levels for the past five years.

Thrifts

The Federal Savings and Loan Insurance Corporation's (FSLIC's) resolution activities in 1988 dwarfed all previous years in terms of numbers of thrifts resolved, total assets, and resolution costs. In 1988, there were 26 liquidations and 179 Assisted Mergers, with a total cost of more than $31 billion. By the end of the year, the FSLIC fund balance was a negative $75 billion. One of the major causes of the increase in savings and loan activity was a rush by FSLIC to take advantage of two factors that would expire at the end of the year. Those two factors are described as follows in the Federal Home Loan Bank Board's (FHLBB's) 1987 Annual Report.

The Internal Revenue Code provided that assistance paid by FSLIC in connection with an assisted acquisition would not be considered taxable income. The benefit of that provision was available to the troubled institution or the acquirer. Additionally, it worked to FSLIC's advantage reducing the amount of assistance otherwise needed.

Special provisions of the Internal Revenue Code's corporate reorganization rules clarified that a FSLIC supervised merger or acquisition could qualify as a tax-free reorganization. The net operating and built in tax losses of the troubled institution could be fully utilized by the acquiring institution.

At the beginning of 1988, the condition of Texas thrift institutions was precarious. According to Generally Accepted Accounting Principles, 125 Texas thrifts with $47 billion in total assets were insolvent. Those institutions represented 25 percent of all U.S. insolvent thrifts and 34 percent of total assets.

Insolvent Texas thrifts were paying higher interest rates on deposits in order to attract cash to increase their liquidity positions, in response to public concerns regarding the volume of problems in the thrift industry and the solvency of FSLIC. Texas thrifts paid an average of 75 basis points more than the national average during 1987. The higher-than-national-average rates being paid, known as the Texas Premium, were driving up costs for solvent Texas institutions and other thrifts throughout the country.

To deal with the increasing thrift problems in Texas and other parts of the Southwest, FHLBB introduced the Southwest Plan in February of 1988. The Southwest Plan combined consolidation of an overbuilt thrift industry with attracting acquirers who would bring in strong management, new capital, and a business plan aimed at cutting operating costs and ultimately reducing the high interest rates being paid on deposits. Nationwide, FHLBB had disposed of 205 insolvent thrifts and had stabilized 18 others.

Legislation to revoke the charter of the Federal Asset Disposition Association (FADA) was passed by the House Committee on Banking, Finance, and Urban Affairs during the early days of October 1988. However, when the bill was voted on by the full House of Representatives on October 12, 1988, it was not approved. In late 1988, a General Accounting Office report stated that FADA was not needed.

Chapter Twelve: 1989

The savings and loan industry's worst year was 1989, with losses totaling more than $19 billion. The FDIC's insurance fund was under severe pressure as well. In the FDIC's 1989 Annual Report, Chairman L. William Seidman described 1989 as ?the most demanding year in the 56-year history of the FDIC and a likely harbinger of more tough times ahead.?

Table 12-1

1988 - 1989: FDIC at a Glance ($ in Millions)

	12/31/88	**12/31/89**	**Percent Change**
Number of Bank Failures	200	206	3.00%
Assistance to Open Banks	79	1	-98.73
Total Failed and Assisted Banks	279	207	-25.81%
Total Assets of Failed and Assisted Banks	$53,889.4	$28,935.0	-46.32%
Estimated Losses on Failed and Assisted Banks*	$6,920.5	$6,198.8	-10.43%
Estimated Losses as a Percent of Total Assets	12.84%	21.42%	66.82%
Assets in Liquidation	$9,335.9	$25,930.6	177.75%
FDIC Staffing	8,060	10,187	26.39%
Number of Problem Banks	1,406	1,109	-21.12%
Deposit Insurance Fund Balance	$14,061.1	$13,209.5	-6.06%
Deposit Insurance Fund Balance as a Percent of Insured Deposits	0.80%	0.70%	-12.50%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Back to table

Source: FDIC, 1989 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

On February 6, 1989, President George H. W. Bush announced proposed legislation to address the thrift crisis, including a program to place troubled institutions into conservatorship under an interagency effort led by the FDIC. The resulting landmark Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 was passed on August 9, 1989. That legislation abolished the Federal Home Loan Bank Board (FHLBB) as regulator of savings and loan institutions, and dissolved the insurer, the Federal Savings and Loan Insurance Corporation (FSLIC). The Act also created the Resolution Trust Corporation (RTC) to clean up the savings and loan crisis and to take over the management of conservatorships on August 9, 1989. The RTC's mission was to merge or to liquidate savings associations declared insolvent during the period from January 1, 1989, through (initially) August 8, 1992 (later extended through September 30, 1993 and then to June 30, 1995.) In the beginning, the FDIC was to be the manager of the RTC, handling day-to-day operations.

FIRREA also created the following:

- The Savings Association Insurance Fund (SAIF)?established to insure deposits in savings associations and was to be directed and administered by the FDIC separately from the Bank Insurance Fund (formerly the Deposit Insurance Fund). SAIF replaced the former FSLIC insurance fund.
- The FSLIC Resolution Fund (FRF)?established under the FDIC's management to handle most of the assets and liabilities of the former FSLIC.
- The Resolution Funding Corporation?established to fund the activities of the RTC, primarily through bond sales.
- The Office of Thrift Supervision?established to take over the duties of examining and supervising thrifts and their holding companies. That function was formerly performed by the FHLBB, which was abolished by FIRREA.

Upon the signing of FIRREA, the FDIC also assumed liabilities of FRF and the administrative responsibilities for 219 thrift assistance agreements entered into by the former FHLBB. In addition, the FDIC also assumed responsibility for overseeing other contracts and financial operations of the former FSLIC, including management of the 98 thrift receiverships with about $13 billion in assets that were closed before August 9, 1989.

Economic/Banking Conditions

Gross Domestic Product growth continued steadily at 3.4 percent, and the unemployment rate continued to fall[12-1]. Employment growth was at 2.2 percent, and the unemployment rate was 5.3 percent[12-2]. The discount rate increased to 6.9 percent while the 30-year mortgage rate held constant at 10.3 percent[12-3]. Inflation rose for the third year in a row to 4.2 percent[12-4]. As the office vacancy rate rose slightly to 17.6 percent, commercial real estate loans continued to steadily increase. Residential real estate activity was slowing, however, with home sales down 4.6 percent and housing starts down 7.5 percent[12-5].

The Southwest continued to experience a high percentage of the country's bank resolutions, 167 failures (80.7 percent), with resolution costs totaling $5 billion. A year after having the first and third costliest bank resolutions, Texas had the second and fourth costliest bank resolutions to date with the failures of the bank subsidiaries of MCorp ($2.8 billion estimated loss) and Texas American Bancshares ($1.1 billion estimated loss)[12-6]. There were large increases in problem real estate loans among the region's banks. Smaller banks were getting healthier as their earnings increased and their numbers of problem assets decreased.

Northeastern banks were beginning to be negatively affected. During the year, nonperforming real estate loans in the region increased from $3.6 billion to $9.1 billion, and mortgage foreclosures also increased[12-7]. Total real estate loans peaked at 51 percent of total assets as did commercial real estate loans, at 14 percent

12-1 The tables and charts throughout this book are shown for ease of comparison. They are formatted the same way in every chapter. Refer to the Appendix for a guide that includes definitions of terms used in the tables and charts.

12-2 Bureau of Economic Analysis, Department of Commerce.

12-3 CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

12-4 Housing Market Statistics, National Association of Home Builders (June 1996).

12-5 CB Commercial Torto/Wheaton Research.

12-6 Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

12-7 CB Commercial Torto/Wheaton Research.

of assets. Both were well above the national medians of 23 percent and 7 percent, respectively. Home prices in New York City fell 5 percent during the year[12-8].

California's unemployment rate was at 5 percent, its lowest rate in 20 years[12-9]. The economy started to slow as the Gross State Product growth rate fell back to the national level[12-10]. Median home prices peaked for the state as a whole. Los Angeles and San Francisco in particular were cities where housing was believed to be overvalued[12-11]. The banking industry in California had a record income of $3.7 billion, and the number of identified problem banks in the state fell to 36. The "Big Four" continued to outperform the national average with a return on assets of 1.3 percent compared to the national level of 0.7 percent.

Money center banks' total reserves were almost 50 percent of outstanding lesser developed country's loans and had increased $13 billion since the previous year. Return on equity bounced back for all banks to 4.8 percent from 1.6 percent in 1988 and -1.9 percent in 1987, but net charge-offs continued to increase for large banks, to 1.02 percent of total loans.

Commercial bank performance looked bleak in 1989. Some of the unfavorable trends were as follows:

- The industry ended 1989 in worse condition than it started;
- Provisions for loan losses were more than $13 billion higher than in 1988, as banks prepared for future charge-offs on both domestic and foreign loans;
- Net loan charge-offs were the highest in the 42 years that the industry had reported them and were still insufficient to reduce the industry's inventory of troubled assets; and
- Problem assets increased and equity capital declined as a proportion of total assets.

There were, however, encouraging signs in other bank performance indicators for 1989:

- Smaller banks in the Southwest were doing better; they reported increased earnings, fewer full year losses, and a decline in problem assets;
- Banks in the midwest and west enjoyed improved profitability;
- The number of commercial banks on the FDIC's problem bank list declined for the second straight year, to the lowest level since 1985;
- The total of banks that failed or required assistance to avert failure was 15 fewer than 1988's combined total; and
- The average asset size of failed or assisted banks in 1989 was roughly half that of 1988

Many large institutions in the Southwest continued to struggle with weak local real estate markets and nonperforming assets from earlier economic troubles. Of the 207 banks that failed or required assistance during 1989, 167 were in the Southwest. Agricultural bank failures as a percentage of all bank failures fell for the first time to below 1980 levels, to 8.2 percent.

[12-8] Economic Report of the President, 1986.

[12-9] National Agricultural Statistics Service, U.S. Department of Agriculture. Economic Research Service, U.S. Department of Agriculture. Federal Reserve System, Board of Governors, Flow of Funds Accounts, Table L. 102. Gerald H. Anderson, "The Decline in U.S. Agricultural Exports," Federal Reserve Bank of Cleveland Economic Commentary (February 15, 1987), 1.

[12-10] Annual Energy Review, Department of Energy.

[12-11] John F. Bovenzi and Maureen E. Muldoon, "Failure-Resolution Methods and Policy Considerations," FDIC Banking Review 3, no. 1 (fall 1990), 1.

The number of insured commercial banks fell for the fifth straight year from 13,123 at the end of 1988 to 12,709 at the end of 1989. New bank charters declined to the lowest level since 1978. The number of banks on the FDIC's problem bank list declined from 1,406 in 1988 to 1,109 at the end of 1989.

Table 12-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1989.

Table 12-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
Commercial Banks - FDIC Regulated			
Item	**1988**	**1989**	**Percent Change**
Number	13,123	12,709	-3.15%
Total Assets	$3,130.8	$3,299.4	5.39%
Return on Assets	0.82%	0.49%	-40.24%
Return on Equity	13.19%	7.71%	-41.55
Savings Banks - FDIC Regulated			
Item	**1988**	**1989**	**Percent Change**
Number	471	469	-0.42%
Total Assets	$238.1	$240.5	1.01%
Return on Assets	0.46%	-0.11%	--
Return on Equity	5.93%	-1.42%	--
Savings Associations - FHLBB/OTS Regulated			
Item	**1988**	**1989**	**Percent Change**
Number	2,967	2,618	-11.76%
Total Assets	$1,368.4	$1,187.0	-13.26%
Return on Assets	-0.44%	-0.44%	0.00%
Return on Equity	-11.75%	-9.41%	19.91%

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks

In 1989, the FDIC resolved 207 FDIC insured commercial banks (including one assistance agreement), surpassing the record of 200 bank closings in 1988. The failed banks had total assets of almost $29 billion. Approximately 75 percent of the total assets brought under the FDIC's control in 1989 were from three failures: (1) the 20 subsidiary banks of MCorp, Dallas, Texas, with assets totaling $15.6 billion; (2) the 24 subsidiary banks of Texas American Bancshares, Inc., Fort Worth, Texas, with assets totaling $4.7 billion; and (3) First American Bank and Trust, North Palm Beach, Florida, with nearly $1.4 billion in assets.

Under the authority provided by the Competitive Equality Banking Act in 1987, the FDIC established bridge banks in connection with the three largest failures of 1989: MCorp, Texas American Bancshares, and First American Bank and Trust. That bridge bank authority had been used only three times previously, twice with the failure of the bank subsidiaries of First RepublicBank Corporation, Dallas, Texas and once for Capital Bank & Trust, Baton Rouge, Louisiana.

In 1989, the largest bank in the state of Alaska failed. The 1988 FDIC assisted merger of the two banks that created Alliance Bank, Anchorage, Alaska, crumbled in April 1989. At the time of the closing, Alliance Bank had $779 million in assets. From 1986 to 1989, eight banks, or 40 percent of all banks in Alaska, failed.

Purchase and assumption (P&A) transactions resolved 174 of the bank failures in 1989. Premiums totaling more than $40 million were paid by acquiring institutions, resulting in an estimated savings compared to the cost of payoffs of about $100 million. Of the 174 P&A transactions, 42 were whole bank transactions. Insured deposit transfers (IDTs) accounted for 23 failed bank resolutions, and payoffs occurred in 9 cases. Only one open bank assistance (OBA) transaction took place in 1989, Metropolitan National Bank, San Antonio, Texas. Metropolitan was a very small bank with assets totaling $4.4 million. The transaction resulted in an estimated savings of $410,000 over the estimated cost of a deposit payoff.

By the end of 1989, outstanding net worth certificates were reduced by $63.4 million through contractually required payments and $25.1 million in other payments, and only three savings banks had certificates outstanding for a total of $233.5 million.

The Capital Forbearance Program expired December 31, 1989. During its existence, the FDIC received 352 applications for forbearance and admitted 204 banks into the program. Of the 204 banks, 112 were still in the program at the end of 1989. The other 92 banks left the program for reasons that included merging or increasing capital to satisfactory levels. Applications of 96 banks were denied. In 34 cases, the application was withdrawn or not processed. At the end of 1989, 18 applications were still being processed.

A recent estimate of losses per transaction type is shown in Table 12-3.

Table 12-3

1989 Estimated Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Estimated Loss*	Estimated Losses as a Percent of Assets
OBA	1	$4.4	$2.3	52.27%
P&As	174	26,533.6	5,342.1	20.13%
Payoffs	9	533.3	233.4	43.77%
Totals	207	$28,935.0	$6,198.8	21.42%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Back to table
Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

Of the 207 banks that failed or were assisted in 1989, deposits totaled $24.2 billion in over 822,800 deposit accounts[12-12]. There was one assistance agreement with a bank that had total deposits of $6.4 million. Payoffs accounted for nine transactions with 32,700 deposit accounts with total deposits of $502.1 million. Dividends paid on all active receiverships totaled $3.1 billion in 1989.

12-12 This figure does not include open bank assistance transactions. The FDIC did not begin including assistance agreements with the failures for reporting purposes until 1981. Five assistance agreements, with total deposits of $6.8 billion, including First Penn, should be included in the overall totals.

Of the 1,644 insured bank resolutions[12-13] since the FDIC began operations in 1934, P&A transactions totaled 914 cases, with 130 additional transactions involving whole bank deals. There were 532 deposit payoffs (including 133 IDTs). Additionally, there have been 68 OBA transactions since 1981.

Total disbursements by the FDIC since January 1, 1934, amounted to $51.5 billion. Of that amount, the FDIC recovered $29.1 billion, for a net loss of $22.4 billion.

Asset Disposition

At the beginning of 1989, the FDIC held $9.3 billion in failed bank assets. By the end of 1989, the FDIC was managing the disposition of $25.9 billion in assets from failed institutions, a substantial increase over 1988. That increase was primarily due to the FDIC's assumption of responsibility for the administration and oversight of the FRF in addition to its responsibility for the Bank Insurance Fund (BIF). That resulted in an immediate addition of $11 billion in FRF assets plus $3.5 billion during the remainder of the year. Additionally, the FDIC acquired $5.6 billion in assets from failing institutions. Total assets acquired in 1989 for both BIF and FRF were $20.1 billion. Principal collections for BIF assets were $1.7 billion, and principal collections for FRF were $139 million, for a total of $1.8 billion. At the end of the year, assets from BIF insured failed banks represented $11.5 billion of the total. The remaining $14.4 billion of assets were in liquidation for FRF.

The FDIC's account officers collected nearly $1.8 billion in assets from banks and thrifts. Through bulk sales efforts, the Division of Liquidation sold more than 28,000 loans with a book value of $493 million. While 1989's bulk sales efforts represented a small percentage of the total asset portfolio in terms of dollars, the numbers of loans sold was significant because it reduced the volume of small loans requiring servicing.

In 1989, the FDIC developed a specialized program to negotiate contracts with third-party loan servicers for the disposition of asset pools arising from major transactions nationwide and to monitor and oversee those servicing agreements. Establishing contracts was a major effort for the FDIC to use more private-sector resources. That program was largely patterned after the contracts arising from the 1986 resolution of First National Bank and Trust Company of Oklahoma City, and the 1988 resolution of First RepublicBank Corporation.

The FDIC held its first public nationwide auction of large real estate holdings in March 1989. The auction was conducted by Cushman & Wakefield at Christie's in New York City. Fourteen properties were sold for $40.7 million, a significant 99.4 percent of their appraised value.

Table 12-4 shows the FDIC's assets in liquidation and Chart 12-1 shows the asset mix.

Table 12-4

1989 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/88 Book Value	1989 Assets Acquired	1989 Prin. Coll.	1989 Write Downs	12/31/89 Book Value	12/31/89 Est. Rec. Value
Commercial Loans	$5.4	$3.3	$0.7	$0.9	$7.1	$2.6
Mortgage Loans	1.9	7.2	0.3	0.2	8.6	5.2
Other Loans	0.4	0.5	0.1	0.1	0.7	**

12-13 Liquidation staff does not include support personnel from other FDIC divisions, such as the Legal Division and the Division of Accounting and Corporate Services (later the Division of Finance), who also were working on liquidation matters.

1989 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/88 Book Value	1989 Assets Acquired	1989 Prin. Coll.	1989 Write Downs	12/31/89 Book Value	12/31/89 Est. Rec. Value
Real Estate Owned	0.5	4.8	0.2	0.1	5.0	3.5
Judgments	0.5	0.5	0.0	0.2	0.8	**
Securities	0.1	0.7	0.3	0.0	0.5	0.5
Other Assets	0.5	3.1	0.2	0.2	3.2	1.9
Totals	$9.3	$20.1	$1.8	$1.7	$25.9	$13.7

*Totals may not foot due to rounding differences. Back to table
**For estimated value only, Commercial Loans includes Other Loans and Other Assets includes Judgments. Back to table
Source: Reports from FDIC Division of Finance.

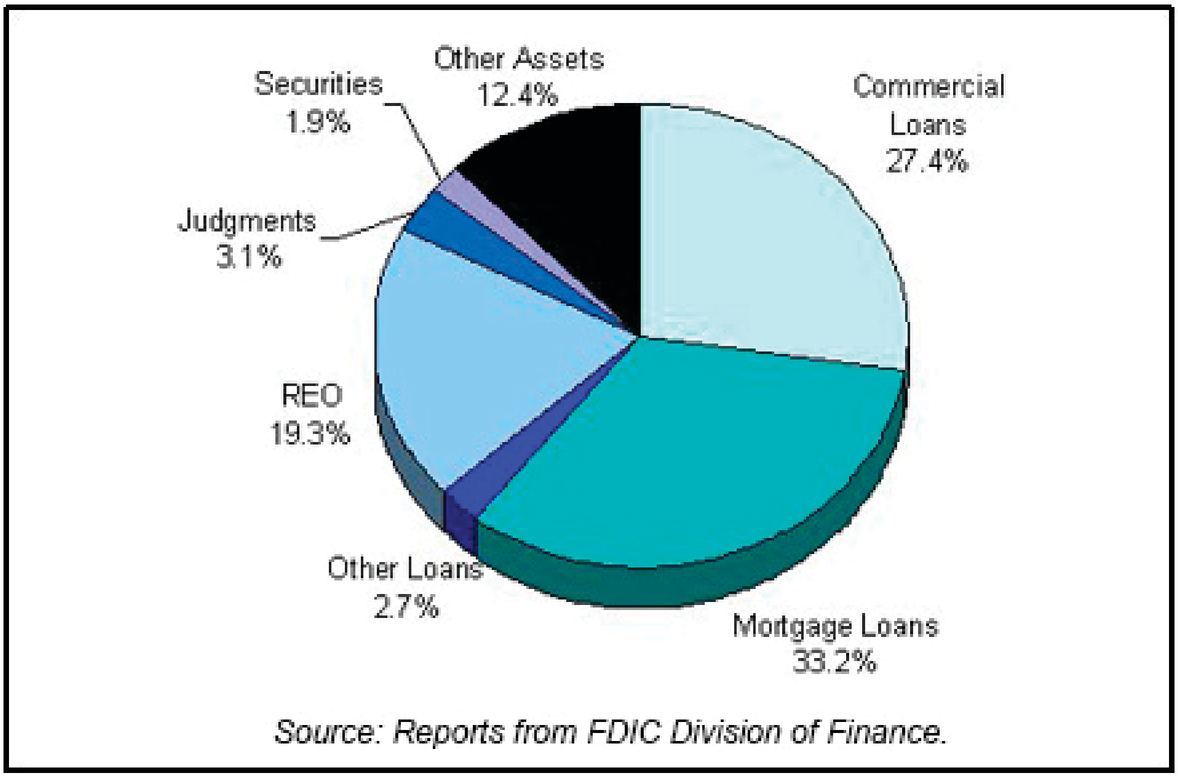


Chart 12-1 — 1989 FDIC End of Year Asset Mix

Commercial Loans	RE Mtges.	Other Loans	Owned Assets	Judgments	Securities	Other Assets
27.4%	33.2%	2.7%	19.3%	3.1%	1.9%	12.4%

Source: Reports from FDIC Division of Finance

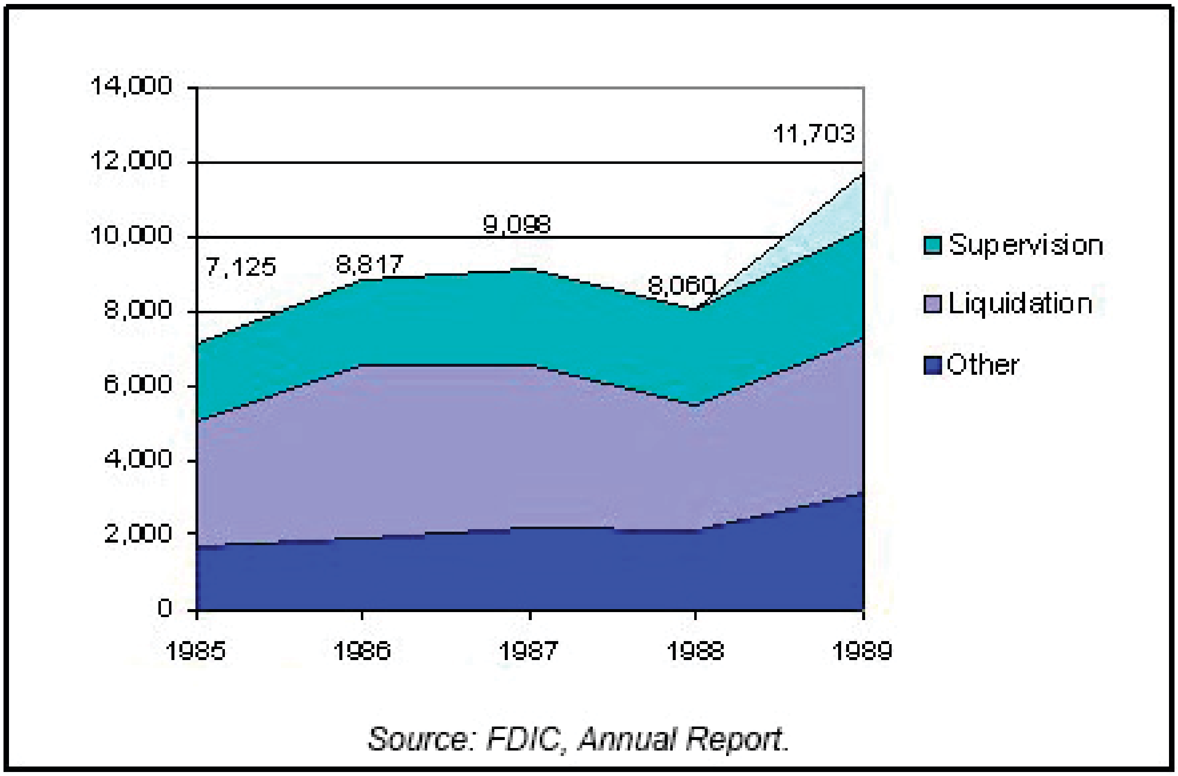


Chart 12-2 — 1989 FDIC Staffing

	1985	1986	1987	1988	1989
Other	1684	1932	2177	2095	3143
Liquidation	3318	4586	4400	3371	4141
Supervision	2123	2299	2521	2594	2903
RTC					1516
Total	7125	8817	9098	8060	11703
Source: FDIC, 1989 Annual Report					

Insurance Fund and Staffing

In 1989, the FDIC's insurance fund lost money for the second straight year. The level of the fund was $13.2 billion. As a percentage of insured deposits, that was an all time low to that date, ending the year with the equivalent of 70 cents for every $100 of deposits insured by the FDIC. At the end of 1988, when the deposit insurance fund hit its previous low of $14.1 billion, the FDIC had 80 cents in reserve for every $100 of insured deposits.

At the end of 1989, the FDIC had 10,187 total staff (not including 1,516 RTC employees), compared to 8,060 at the end of 1988, an increase of 2,127 employees or 26.4 percent. Division of Liquidation staff increased from 3,371 at the end of 1988 to 4141 at the end of 1989, and Division of Supervision, formerly Division of Bank Supervision, staff grew from 2,594 at the end of 1988 to 2,903 at the end of 1989. Total staffing, including 1,516 RTC employees, equaled 11,703. Chart 12-2 shows the staffing levels for the past five years.

Table 12-5

Resolution Trust Corporation

1989: RTC at a Glance ($ in Millions)	
	12/31/89
Number of Conservatorships at the beginning of the year	0
Number of Conservatorships added during the year	318
Conservatorships resolved during the year	37
Conservatorships at the end of the year	281
Total Assets at Takeover	
	12/31/89
Conservatorships	$141,749
Estimated Losses on Thrift Resolutions*	$51,076
Estimated Losses as a Percent of Total Assets	36.03%
Assets in Liquidation	
	12/31/89
Conservatorships	$104,899
Receiverships	$7,945
Total	$112,844
RTC Staffing	1,516

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Back to table

Source: RTC, *1989 Annual Report* and Reports from FDIC Division of Research and Statistics.

Notable Events

The RTC was created by the passage of FIRREA on August 9, 1989. That new government corporation became responsible for all management and sale of savings and loans' assets in receivership and all savings and loans in conservatorships since January 1, 1989. In addition, it assumed responsibility for completing all future resolution activity of the former FSLIC through August 8, 1992 (later extended to September 30, 1993 and then to June 30, 1995.)

The FDIC, using moneys from FRF, was to remain responsible for completing the resolution of all thrifts that failed before January 1, 1989, or which were assisted before August 9, 1989. The FDIC, using SAIF funds, was to replace the RTC in resolving thrifts beginning on August 9, 1992.

The FDIC was authorized under FIRREA to act as the RTC's exclusive manager, subject to approval by the RTC Oversight Board. The FDIC carried out all the duties and responsibilities of the RTC and was reimbursed for its services by the RTC. The FDIC Board of Directors served as the RTC Board of Directors, with the FDIC's Chairman serving as RTC Chairman. RTC activities were subject to the general oversight of a newly established Oversight Board, consisting of five members: the secretary of the Treasury; the chairman of the Federal Reserve Board of Governors; the secretary of Housing and Urban Development; and two independent members appointed by the president with the advice and consent of the Senate.

FIRREA also established the Resolution Funding Corporation (REFCORP) to provide funds to the RTC to carry out its mandate. Subject to the Oversight Board's review, REFCORP was granted authority to issue up to $30 billion in long term debt securities, the net proceeds of which were to purchase capital certificates issued by the RTC or to refund previously obligations. The RTC had an initial sunset date of December 31, 1996 (later shortened to December 31, 1995.)

As of the end of 1989, the Treasury had contributed capital of $18.8 billion, and the RTC had issued capital certificates of $5.7 billion to REFCORP. The RTC assumed $55.2 billion of liability for estimated losses on unresolved cases from FSLIC on August 9, 1989, resulting in an accumulated deficit being reported as of the RTC's inception.

As directed by FIRREA, with the exception of a final distribution of funds, the FDIC liquidated the Federal Asset Disposition Association (FADA). Only the resolution of outstanding litigation claims remained before final distribution could be made to FRF as the sole shareholder of FADA. In addition, although the RTC was not created until August 9, 1989, FIRREA directed the RTC to review all insolvent institution cases resolved by FSLIC between January 1, 1988, and August 9, 1989.

S&L Resolutions

On August 9, 1989, the RTC assumed control of 262 insolvent thrift associations with total assets of $115.3 billion and which had been in conservatorship. During the months that remained in 1989, 56 additional thrifts with total assets of $26.4 billion were placed into the RTC's conservatorship program for a total of 318 thrifts. The RTC resolved 37 institutions with total assets at the time of resolution of $10.8 billion during that period. A total of 281 thrifts remained in conservatorship at the end of the year. Those 281 thrifts had a total asset book value of $104.9 billion as of December 31, 1989.

> RTC Executive Director David C. Cooke stated in RTC's 1989 Annual Report: "The objectives of a **Conservatorship** were to establish control and oversight while promoting customer confidence; to evaluate the condition of the institution and determine the most cost-effective method of resolution; and to operate the institution in a safe and sound manner pending resolution. Shrinking an institution by curtailing new lending activity and selling assets was a high priority. A Managing Agent and one or more Credit Specialists oversaw each conservatorship's operations."

Of the 37 resolutions, 7 were P&A transactions, with total assets of $8.6 billion. IDTs accounted for 26 resolutions, with total assets in those institutions of $2 billion. Four institutions with total assets of $196 million were resolved through payoffs.

The RTC's initial duty was to determine the fair market value of the thrifts' assets and estimate the preliminary loss. The estimated preliminary total loss from the 318 thrifts for which the RTC assumed control during 1989 was approximately $31.3 billion as of November 30, 1989. At the end of the year, the RTC had advanced $9.2 billion to 156 thrifts in conservatorship.

Table 12-6

1989 Losses by RTC Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Loss*as of 12/31/95	Estimated Losses as a Percent of Assets
OBA	7	$8,604.7	$4,337.4	50.41%
P&As	26	2,006.0	1,397.1	69.65%
Payoffs	4	195.8	154.4	78.85%

1989 Losses by RTC Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Loss* as of 12/31/95	Estimated Losses as a Percent of Assets
Totals	37	$10,806.5	$5,888.9	54.49%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. Back to table
Source: Reports from FDIC Division of Research and Statistics.

Table 12-7

Conservatorships	
Item	Total
In Conservatorship at 8/9/89	262
Conservatorships added in 1989	56
Subtotal	318
Conservatorships resolved in 1989 (New Receiverships)	37
Conservatorships remaining 12/31/89	281

Receiverships	
Item	Total
Receiverships as of 8/9/89	0
New Receiverships that were previously Conservatorships in 1989	37
Total Receiverships as of 12/31/89	37

Source: RTC, *1994 Annual Report*.

Payments to Depositors and Other Creditors

Of the 37 thrifts that failed in 1989, deposits totaled $10.5 billion in 1,126,043 deposit accounts. Of the four payoffs, total deposits equaled $264.5 million in 25,270 deposit accounts.

Asset Disposition

The RTC initially acquired assets of $115.3 billion in 262 conservatorships. At the end of 1989, the RTC held $8 billion in assets of savings and loans in receivership and in $104.9 billion in assets of conservatorships, for a total of $112.9 billion in assets.

On December 31, 1989, the RTC compiled and published an inventory of real estate assets. The inventory contained approximately 30,000 real property assets, including commercial, residential properties and land. Table 12-8 shows the RTC's assets in liquidation and Chart 12-3 shows the asset mix.

Table 12-8

1989 RTC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	8/9/89 Total Book Value	Assets Acq'd During the Year	1989 Collections	1989 Losses	12/31/89 Total Book Value	Memo Item
1-4 Family Mtges		$39.2	$4.8	$0.3	$34.2	$1.9
Other Mtges		33.7	3.1	1.4	29.2	4.7

1989 RTC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	8/9/89 Total Book Value	Assets Acq'd During the Year	1989 Collections	1989 Losses	12/31/89 Total Book Value	Memo Item
Other Loans		9.3	1.7	0.4	7.2	0.8
Real Estate Owned		15.4	1.5	-0.7	14.6	1.7
Other Assets		12.9	0.7	4.3	7.9	0.7
Cash/Securities		33.4	13.8	-0.2	19.8	1.0
Totals		$143.9	$25.6	$5.5	$112.9	$10.8

Memo Item: Assets transferred from conservatorship to receivership. Does not affect total of assets in liquidation.
*Totals may not foot due to rounding differences. Back to table
Source: RTC August 1989/September 1995 Statistical Abstract.

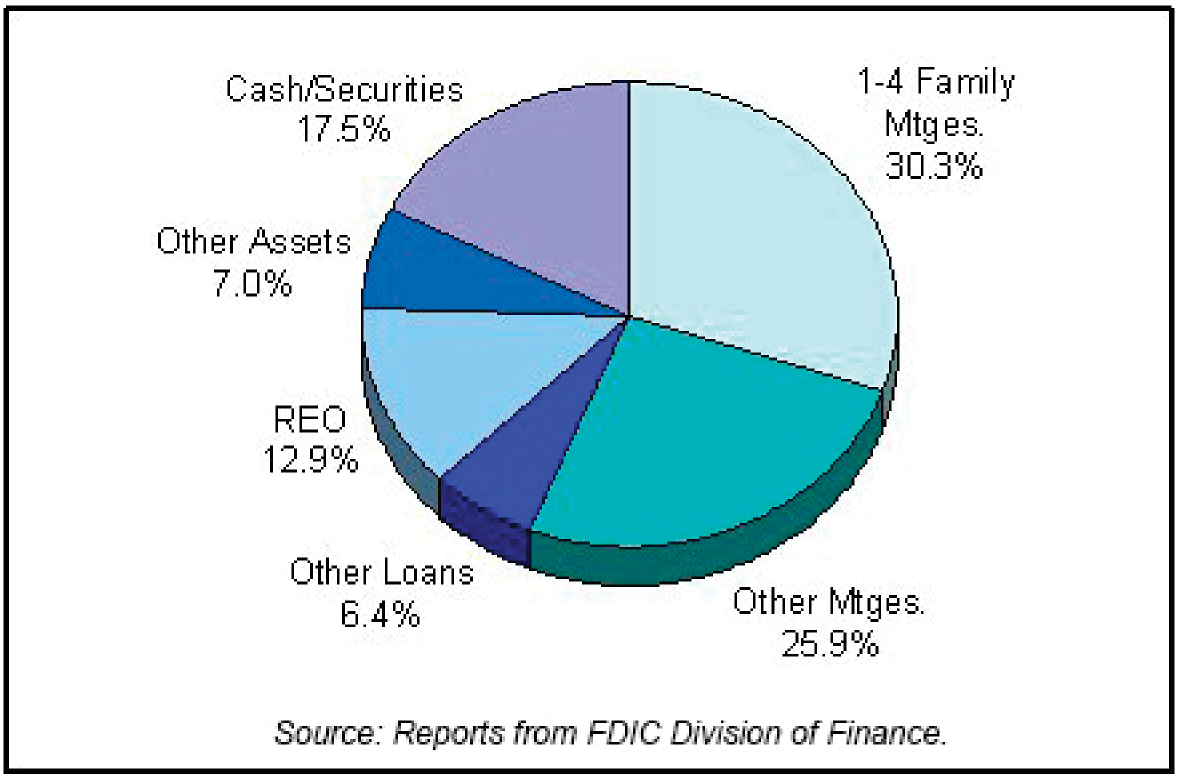


Chart 12-3 — 1989 RTC End of Year Asset Mix

1-4 Family Mtges.	Other Mtges.	Other Loans	Owned Assets	Cash/Securities	Other Assets
30.3%	25.9%	6.4%	12.9%	17.5%	7.0%

Source: RTC August 1989/September 1995 Statistical abstract

Staffing

Upon the enactment of FIRREA, the RTC began building what Executive Director David C. Cooke, described as a decentralized organization. Four regional offices and 14 consolidated field offices were established as operations centers. The regional offices were in charge of all resolutions and asset and contracting operations. The consolidated field offices functioned as service centers for the RTC's asset and real estate management activities. At the end of 1989, the RTC had a total staff of 1,516 employees, most of whom were in the consolidated field offices.

Chapter Thirteen: 1990

In step with his predictions a year earlier after "the most demanding year" in the FDIC's history, Chairman L. William Seidman characterized the year 1990 in that year's Annual Report as having "presented difficulties and challenges far beyond anyone's expectations."

Table 13-1

1989 - 1990: FDIC at a Glance ($ in Millions)			
	12/31/89	12/31/90	Percent Change
Number of Bank Failures	206	168	-18.45%
Assistance to Open Banks	1	1	0.00%
Total Failed and Assisted Banks	207	169	-18.36%
Total Assets of Failed and Assisted Banks	$28,935.0	$16,937.7	-41.46%
Estimated Losses on Failed and Assisted Banks*	$6,198.8	$2,786.3	-55.05%
Estimated Losses as a Percent of Total Assets	21.42%	16.45%	-23.20%
Assets in Liquidation	$25,930.6	$30,906.5	19.19%
FDIC Staffing	10,187	14,348	40.85%
Number of Problem Banks	1,109	1,046	-5.68%
Bank Insurance Fund Balance	$13,209.5	$4,044.5	-69.38%
Bank Insurance Fund Balance as a Percent of Insured Deposits	0.70%	0.21%	-70.00%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1990 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

The most important problem was the increased stress on the Bank Insurance Fund (BIF), which suffered a third consecutive year of decline, ending the year with a balance of only $4 billion, or about 21 cents per every $100 of insured deposits. According to its 1991 audit of the BIF's financial statement for 1990, the General Accounting Office concluded as follows: "Given the minimum level of identifiable exposure facing the Fund from bank failures likely to occur in 1991, we believe that the Fund in all likelihood will be insolvent by December 31, 1991[13-1].

Economic/Banking Conditions

In 1990, the Gross Domestic Product (GDP) growth rate slipped as the Persian Gulf War started. Over the year there was only minimal growth in GDP, 1.3 percent[13-2]. Employment growth slipped to 1.2 percent while the unemployment rate rose to 5.6 percent[13-3]. Inflation also increased slightly to 4.4 percent[13-4]. Interest rates

[13-1] Charles A. Bowsher, Comptroller General of the United States, in a November 1, 1991 letter to the Board of Directors of the Federal Deposit Insurance Corporation.

[13-2] Bureau of Economic Analysis, Department of Commerce. Bureau of Economic Analysis, Department of Commerce.

[13-3] CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

[13-4] Bureau of Labor Statistics, Department of Labor.

remained constant with the discount rate at 7 percent and the 30-year mortgage rate at 10.1 percent[13-5]. The office vacancy rate continued to increase and was at 18.5 percent. Decreases in home sales and housing starts also indicated a weakening real estate market. Sales were down 6.3 percent, and starts were down 13.3 percent for the year[13-6].

Bank failures in the Southwest dropped to 120, though still accounting for more than 70 percent of all failures for the year. The regional economy outperformed GDP as the economy was beginning to become healthy again[13-7]. Lending was still tightening in all areas, and commercial real estate loans, at 6.8 percent of assets, and Commercial and Industrial loans, at 7.8 percent of assets, fell below the national medians of 7 percent and 8 percent of assets, respectively. Total loans and leases in the region were only 45 percent of assets, while the national median was at 55 percent.

Agricultural banking continued to recover, with bank failures falling to 7.1 percent of all bank failures. Nonperforming agricultural bank loans also dropped to 2.6 percent of all loans, down from the 6.7 percent peak in 1986. The share of CAMEL 4 and 5 rated agricultural banks also improved to 15.5 percent of all troubled banks, the lowest in the period between 1980 and 1990.

Banking problems were beginning to shift to the Northeast and to California. In the Northeast, real estate values were falling as the market was collapsing and residential and commercial vacancy rates were rising[13-8]. New York City's office market was overbuilt, and its housing market was weakening[13-9]. The condominium market, notably Connecticut's, was overflowing with some areas having more than a two-year supply[13-10]. That collapse of the real estate market was felt by the banking industry in the region. Forty percent of all banks in the Northeast reported negative income for 1990, and median return on assets for Northeastern banks was at a low 0.2 percent and was falling as the national median was rising to 0.7 percent. Nonperforming assets peaked at 5 percent of assets, and nonperforming loans were more than 8 percent of all loans. There were 16 failures in the region, including Seamen's Bank for Savings, New York City, New York with assets totaling $2.4 billion and an estimated loss of $189 million to the BIF.

California was experiencing its worst downturn since the Great Depression, slipping into a 38-month recession. Real estate values in the "hot" coastal markets had fallen 10 percent to 20 percent in the past 12 months[13-11]. Rent rates in Los Angeles also were declining. Despite the overbuilt real estate markets in the state, especially in southern California, total real estate loans continued to rise to about 39 percent of assets, and commercial real estate loans, as a percentage of total assets, were almost 20 percent higher than the U.S. median. California's employment figures peaked and the state had an unemployment level of 5 percent, which was still below the national rate[13-12].The "Big Four" continued to fare well, due in part to their diversified activity throughout the state. The average return on assets for those four banks was at 1.1 percent, more than 50 basis points above the national average for all banks.

13-5 Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

13-6 CB Commercial Torto/Wheaton Research and Housing Market Statistics, National Association of Home Builders (June 1996).

13-7 Bureau of Economic Analysis, Department of Commerce.

13-8 National Association of Realtors and CB Commercial Torto/Wheaton Research.

13-9 David Brauer and Mark Flaherty, "The New York City Recession," Federal Reserve Bank of New York Quarterly Review (Spring 1992), 70.

13-10 Katherine Morrall, "Weakening Northeast Real Estate Market Raises Concerns," Savings Institutions Vol. 111, No. 4.

13-11 George Salem and Donald Wang, "California Banking: Industry Outlook," Prudential-Bache Securities (October 15, 1990).

13-12 CB Commercial Torto/Wheaton Research and Bureau of Labor Statistic, Department of Labor.

The number of banks chartered in the year declined to 168 institutions. During 1990, the number of problem commercial banks and saving banks insured by the FDIC declined, but the volume of assets in those institutions increased dramatically. Thus, while there were 1,046 problem banks at the end of 1990, compared to 1,109 at the end of 1989, the banks on the problem list had $408.8 billion in assets, up from $235.5 billion the previous year. Key indicators of asset quality showed that 1990 was more troublesome than 1989 for commercial banks, especially banks with large commercial real estate and construction and development loan portfolios. By the end of 1990, 2.9 percent of all commercial banking assets were classified as troubled (loans 90 days or more past due, nonaccrual loans, and other real estate owned); that was the highest level since banks began reporting detailed information on troubled assets in 1982. The banking industry's inventory of troubled assets increased by $23.5 billion in 1990, significantly higher than the previous year's $8.2 billion increase. Net charge-offs rose to a record $29 billion, compared with the previous high of $23 billion in 1989.

Savings banks in particular were hit hard in 1990. An aggregate net loss of $2.5 billion was reported by the 456 FDIC insured state and federally chartered savings banks, more than three times the $773 million lost by savings banks in 1989. Most of those institutions were in the Northeast, and losses were attributed to continuing difficulties in commercial and residential real estate markets in New England and other Northeastern states.

During 1989 and 1990, troubled assets at BIF insured savings banks increased from 1.51 percent of total assets to 5.04 percent of total assets. Savings banks in New England lost nearly 19 percent of equity capital in 1990 due to large provisions for loan loss reserves. Those reserves more than quadrupled from $790 million in 1988 to $3.5 billion in 1990. By the end of 1990, 34 savings banks were on the problem bank list compared to only 17 at the end of 1989. In addition, there were 446 Savings Association Insurance Fund (SAIF) insured savings banks with combined assets of $231 billion on the FDIC's problem list by the end of 1990.

Table 13-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1990.

Table 13-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1989	1990	Percent Change
Number	12,709	12,343	-2.88%
Total Assets	$3,299.4	$3,389.5	2.73%
Return on Assets	0.49%	0.48%	-2.04%
Return on Equity	7.71%	7.45%	-3.37%

Savings Banks - FDIC Regulated

Item	1989	1990	Percent Change
Number	469	456	-2.77%
Total Assets	$240.5	$229.3	-4.66%
Return on Assets	-0.11%	-0.76%	-590.91%
Return on Equity	-1.42%	-10.34%	-628.17%

Savings Associations - OTS Regulated			
Item	1989	1990	Percent Change
Number	2,618	2,359	-9.89%
Total Assets	$1,187.0	$1,029.8	-13.24%
Return on Assets	-0.44%	-0.28%	36.36%
Return on Equity	-9.41%	-5.50%	41.55%
Source: Reports from FDIC Division of Research and Statistics.			

Bank Failures and Assistance to Open Banks

The FDIC resolved a total of 168 failed banks in 1990, a decrease from the 206 failures in 1989. Total assets of failed banks also declined to about $16.9 billion in 1990, down from $28.9 billion in 1989. A total of ten FDIC insured savings banks failed in 1990, more than in the previous seven years combined.

Of the 168 bank failures in 1990, 148 were purchase and assumption (P&A) transactions, including 43 whole bank deals. Of the remaining 20 bank failures, 8 were resolved by payoffs and 12 through insured deposit transfers (IDTs) to other institutions.

Two of the more significant closings in 1990 were in New York City.

On April 18, 1990, the Office of Thrift Supervision (OTS) closed one of the largest savings banks in New York City, The Seamen's Bank for Savings, founded in 1829. Chase Manhattan Bank assumed the deposits. The Seamen's Bank had assets of $3.3 billion, and insured deposits totaled about $2.1 billion.

On November 9, 1990, the Office of the Comptroller of the Currency closed Freedom National Bank of New York, New York City, New York, one of the largest minority-owned banks in the country. The FDIC paid off deposits in Freedom National Bank of New York, which had about $101 million in total deposits and $110 million in assets.

The sole open bank assistance (OBA) transaction in 1990 occurred with Pawnee National Bank, Pawnee, Oklahoma. Pawnee National Bank had assets of approximately $14.2 million, and the assistance transaction produced savings of $500,000 to the FDIC, based on the estimated cost of a deposit payoff.

The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 made savings associations eligible for FDIC assistance under a revision to a 1986 FDIC policy statement regarding open bank financial assistance. In its revised policy dated March of 1990, the FDIC added new criteria to ensure acceptance of most cost-effective proposals for assistance to open banks and savings associations. By the end of 1990, proposals for assistance were received from 50 savings associations, but none were approved, primarily due to insufficient capitalization from non-FDIC sources and the probability that the cost of the requested assistance would be higher than other alternative methods of resolution.

At the end of 1990, three savings banks remained in the Net Worth Certificate Program. The three institutions made required payments to the FDIC of approximately $80 million during the year, reducing the total for certificates outstanding to about $154 million.

On the regulatory front in 1990, the FDIC amended the FDIC Rules and Regulations as follows:

Part 327 was amended to increase the deposit insurance assessment paid by BIF insured banks from 12 cents per $100 of insured deposits to 19.5 cents per $100, effective January 1, 1991;

Part 303 was amended to require state chartered savings associations to (1) follow the same investment limitations applicable to federally chartered associations; (2) divest equity investments not specifically permitted under FIRREA; and (3) prohibit the acquisition of, and require divestiture of, junk bonds;

Part 323 was added pursuant to FIRREA as follows: to (1) require an appraisal on real estate transactions valued at greater than $50,000; and (2) set minimum standards for performing appraisals.

Significant litigation matters initiated in 1990 included the filing of a $200 million action against the former officers, directors, and attorneys of the failed Silverado Banking, Savings and Loan Association, Denver, Colorado. On November 14, 1990, the FDIC and the RTC filed a $6.8 billion bankruptcy claim against the investment firm of Drexel Burnham Lambert, Inc. to recover on losses in junk bonds and other securities transactions sustained by 45 failed financial institutions.

A recent estimate of losses per transaction type is shown in Table 13-3.

Table 13-3

1990 Estimated Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Estimated Loss*	Estimated Losses as a Percent of Assets
OBA	1	$14.2	$2.3	16.20%
P&As	148	14,388.9	2,034.1	14.14%
IDTs	12	1,660.3	482.6	29.07%
Payoffs	8	874.3	267.3	30.57%
Totals	169	$16,937.7	$2,786.3	16.45%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

In the 169 banks that failed or were assisted in 1990, deposits totaled $15.1 billion in 2,168,156 deposit accounts. There was one assistance agreement with an institution with total deposits of $14.6 million. Payoffs accounted for eight transactions with total deposits of $819.3 million in 75,069 deposit accounts. Dividends paid on all active receiverships totaled $5.9 billion in 1990.

Of the 1,813 insured bank resolutions[13-13] since the FDIC began operations in 1934, 1,019 were P&A transactions and 173 additional transactions were whole bank deals. There were 552 deposit payoff transactions (including 145 IDTs). There have been 69 OBA transactions since 1981.

Total disbursements by the FDIC since January 1, 1934, amounted to $66.7 billion. Of that amount, the FDIC recovered $39.2 billion, for a net loss of $27.5 billion.

Asset Disposition

At the beginning of 1990, the FDIC had $25.9 billion in assets in liquidation from failed banks. The FDIC handled 168 bank failures and acquired $11.7 billion in BIF assets for liquidation. Principal collections equaled $2.8 billion for BIF and $1.5 billion for the FSLIC Resolution Fund (FRF), for a total of $4.3 billion.

[13-13] This figure does not include five open bank assistance transactions from 1934-1980. Also, in 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per transaction; this report calculates failures per failed institution.

By the end of 1990, the FDIC was managing the disposition of $30.9 billion in assets from failed financial institutions. At the end of the year, assets from BIF insured failed banks represented about $18 billion of the total. That was a $6.5 billion increase of failed bank assets over the $11.5 billion held at the close of 1989. The $14.4 billion in assets acquired from FSLIC by the end of 1989 had been decreased through collections by $1.5 billion to reach the 1990 ending balance of $12.9 billion.

In 1990, the FDIC was completing its first year of managing the assistance agreements FSLIC had entered into with acquirers of failed thrifts. Beginning in late 1989, the FDIC had 219 assistance agreements; by the end of the year, the number of agreements had dwindled to 156, as contracts with acquirers expired or were terminated. Booked as a liability of FRF, financial assistance to acquirers under the various agreements in 1990 was approximately $19 billion.

During 1990, the FDIC was also managing a $1.1 billion portfolio of capital instruments, including net worth certificates and stock that had been acquired by FSLIC in assistance transactions in which FSLIC had taken an equity interest in the acquirer. By the end of the year, the FDIC had negotiated the liquidation or restructuring of more than half of those equity interests (about $560 million). Pursuant to FIRREA, most of those capital instruments could no longer qualify as core capital for the acquiring institutions. The FDIC's disposal of the capital instrument portfolio was important to assist the acquirers in their efforts to comply with current capital requirements.

Table 13-4 shows the FDIC's assets in liquidation and Chart 13-1 shows the asset mix.

Table 13-4

1990 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/89 Book Value	1990 Assets Acquired	1990 Prin. Coll.	1990 Write Downs	12/31/90 Book Value	12/31/90 Est. Rec. Value
Commercial Loans	$7.1	$2.9	$1.1	$1.0	$7.9	$3.2
Mortgage Loans	8.6	5.5	1.0	0.4	12.7	7.0
Other Loans	0.7	0.6	0.4	0.1	0.8	**
Real Estate Owned	5.0	0.5	0.5	0.5	4.5	2.3
Judgments	0.8	0.7	0.0	0.2	1.3	**
Securities	0.5	1.2	0.8	0.0	0.9	0.8
Other Assets	3.2	0.3	0.5	0.2	2.8	1.5
Totals	$25.9	$11.7	$4.3	$2.4	$30.9	$14.8

*Totals may not foot due to rounding differences. Back to table
**For estimated value only, Commercial Loans includes Other Loans and Other Assets includes Judgments.
Source: Reports from FDIC Division of Finance.

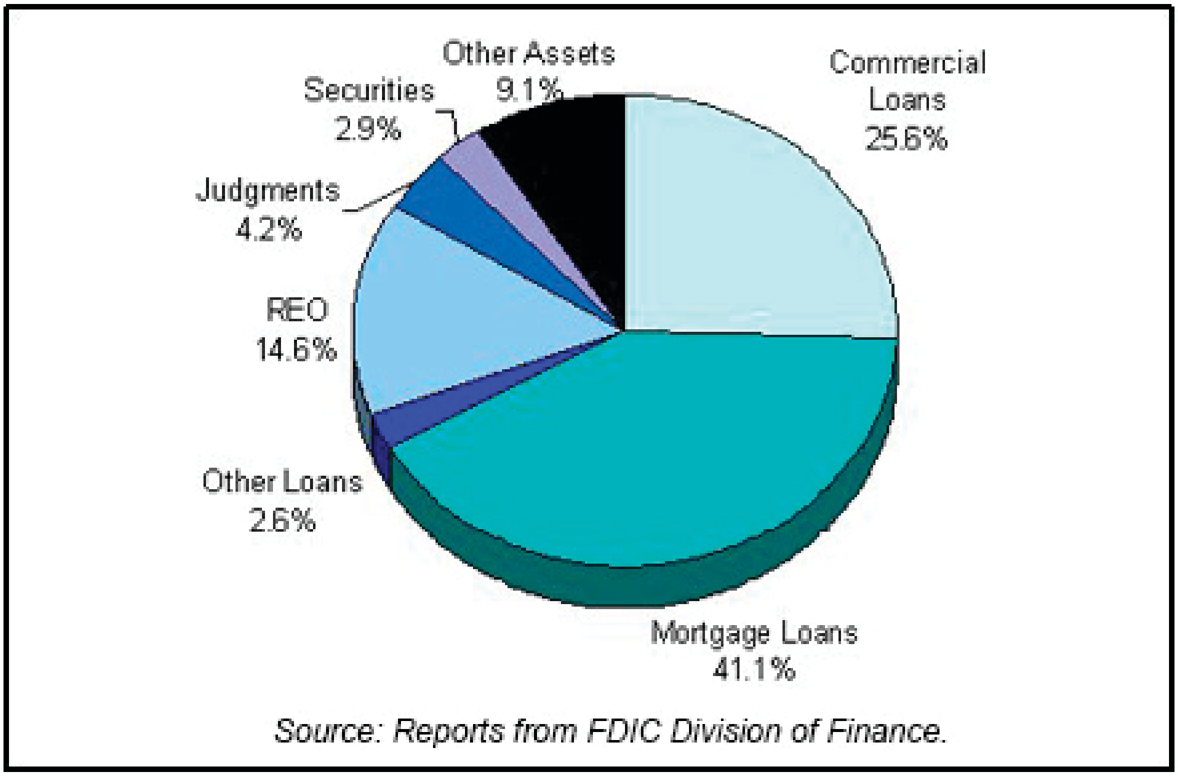


Chart 13-1 — 1990 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets
25.6%	41.1%	2.6%	14.6%	4.2%	2.8%	9.1%
Source: Reports from FDIC Division of Finance						

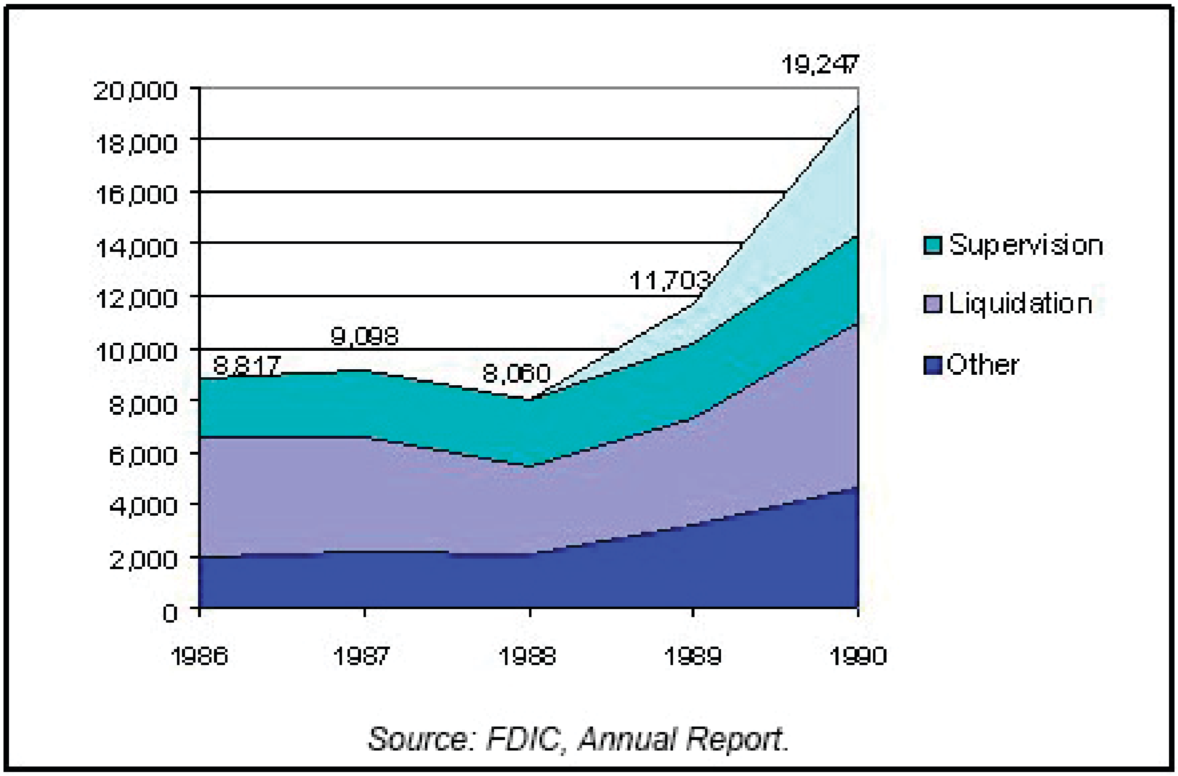


Chart 13-2 — 1990 FDIC Staffing

	1986	1987	1988	1989	1990
Other	1,932	2,177	2,095	3,143	4,637
Liquidation	4,586	4,400	3,371	4,141	6,311
Supervision	2,299	2,521	2,594	2,903	3,400
RTC				1,516	4,899
Total	8,817	9,098	8,060	11,703	19,247
Source: FDIC, 1990 Annual Report					

Insurance Fund and Staffing

In 1990, BIF dropped dramatically to $4 billion, down from $13.2 billion a year earlier. FDIC staff grew significantly in 1990, particularly in the Division of Liquidation, Legal Division, and Division of Supervision. Total staff, not including 4,899 at the RTC, had increased to 14,348 by the end of 1990, a 40.8 percent increase over the 10,187 employees at the end of 1989. Division of Supervision staff grew to 3,400, up from 2,903 in 1989. Division of Liquidation staff at the end of 1990 was 6,311, up from 4,141 at the end of 1989. Total staffing including 4,899 RTC employees equaled 19,247. Chart 13-2 shows the staffing levels for the past five years.

The FDIC restructured its regional liquidation operations in 1990, establishing new consolidated field offices in San Antonio, Texas; South Brunswick, New Jersey; and Franklin, Massachusetts.The FDIC also established six real estate sales centers around the country to market major properties acquired from failed institutions. Those centers were located at existing consolidated office sites.

Private Resolutions

The Rhode Island Share and Deposit Indemnity Corporation (RISDIC), created in 1969 to insure deposits at state chartered credit unions, collapsed in December of 1990. Problems at the following member institutions led to the failure of RISDIC:

Jefferson Loan and Investment Company suffered losses on lease investments purchased from two firms that had since failed;

Heritage Loan and Investment Company's loan portfolio suffered substantial losses and its president was charged with embezzling $13 million;

Marquette Credit Union had a negative net worth of $30 million;

Davisville Credit Union had a negative net worth of $18 million; and

Rhode Island Central Credit Union had a negative net worth of $19 million and suffered a major run in December of 1990.

When Rhode Island Central Credit Union was denied additional loans from the Rhode Island Credit Union League's Corporate Credit Union, the RISDIC board met on December 31, 1990, to assess the situation and asked that a conservator be appointed.

On January 1, 1991, within a few hours of taking office, the governor of Rhode Island issued an Executive Order closing all 45 RISDIC insured institutions. There were 35 credit unions, seven loan and investment companies, and three banks or trust companies. All closed institutions were ordered to apply for federal insurance. Depositors at nine closed institutions were only allowed to withdraw up to $12,500. By February of 1991, only 27 institutions had reopened. Two had gone out of business (with no losses to depositors) and two were not depository institutions at the time of closing. Fourteen institutions remained closed.

Legislation was enacted to create the Rhode Island Depositors' Economic Protection Corporation (DEPCO). The state issued $150 million to assist in providing 100 percent coverage for all deposits up to $100,000 and partial insurance for deposits over that amount in the 14 closed institutions. The bonds were to be repaid from liquidating the failed institutions' assets and from a 0.5 percent increase in the state sales tax. On February 9, 1991, the governor of Rhode Island promised that payments to depositors would be made within 60 days, but by January of 1992, depositors had received only about 10 percent of their deposits. Nine institutions remained closed despite state efforts to sell them.

By June 1992, 18 months after the closings, all but 38,000 depositors had received their deposits and those depositors had received 90 percent of their money. Costs to the state of Rhode Island reached $471 million as of June 1992[13-14].

Table 13-5

Resolution Trust Corporation ($ in Billions) 1989 - 1990: RTC at a Glance ($ in Millions)			
	12/31/89	**12/31/90**	**Percent Change**
Number of Conservatorships at the beginning of the year	0	281	N/A
Number of Conservatorships added during the year	318	207	-34.91%
Thrifts in the ARP Program*	0	6**	N/A
Total of all thrift takeovers	318	213	-33.02%

13-14 William B. English, "The decline of private deposit insurance in the United States" (Carnegie-Rochester Conference Series on Public Policy, 1993), 71-72, 119-123.

Resolution Trust Corporation ($ in Billions) 1989 - 1990: RTC at a Glance ($ in Millions)			
	12/31/89	**12/31/90**	**Percent Change**
Total of thrift resolutions	37	315	751.35%
Conservatorships resolved during the year	37	309	735.14%
Conservatorships at the end of the year	281	179	-36.30%

Total Assets at Takeover			
	12/31/89	**12/31/90**	**Percent Change**
Conservatorships	$141,749	$126,616	-10.68%
Thrifts in the ARP Program	$0	$3,631	N/A
Total	$141,749	$130,247	-8.11%
Estimated losses on thrift resolutions***	$51,076	$20,837	-59.20%
Estimated losses as a percent of total assets		$20,837	-59.20%

Assets in Liquidation			
	12/31/89	**12/31/90**	**Percent Change**
Conservatorships	$104,899	$87,467	-16.62%
Receiverships	$7,945	$59,270	646.00%
Total	$112,844	$146,737	30.04%
RTC Staffing	1,516	4,899	223.15%

*Thrifts placed into the ARP program are included for clarity, although they were never placed into the conservatorship program.
**Includes two institutions which were P&A transactions, but were neither in conservatorship nor in ARP.
***Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: RTC, 1990 Annual Report and Reports from FDIC Division of Research and Statistics.

Notable Events

The RTC's first full year of operation was 1990. Having started operations on August 9, 1989, the RTC faced numerous challenges. In his book, Full Faith and Credit, FDIC Chairman Seidman recalled: "We thought that the size of the problem involved somewhere around 350 to 400 insolvent institutions, with $200 billion in assets. Most would simply have to be taken over and liquidated."[13-15] By the end of 1995, the RTC had closed 747 institutions with a total book value in assets of $402.6 billion; in 1990 alone 315 institutions with $136.2 billion in assets were closed.

Significant events for the RTC in 1990 included the following:

- Peoples Heritage Savings & Loan Association, Salina, Kansas, became the first thrift resolved using a branch breakup method;
- The RTC signed an agreement with the Federal Financing Bank to provide for future quarterly borrowings for working capital;
- Gibraltar Savings, F.A., in Simi Valley, California, with $6.8 billion in assets, was resolved;

[13-15] L. William Seidman, Full Faith and Credit (New York: Times Books, a division of Random House, Inc., 1993) 195.

- CenTrust Federal Savings Bank, a $6.7 billion thrift in Miami, Florida, was resolved;
- The Accelerated Resolution Program (explained later in this chapter) was announced, and the first four transactions were completed;
- The RTC published an initial $3.7 billion "junk bond" inventory list;
- A program was announced to market hard-to-sell commercial assets in large packages of up to $500 million; and
- The RTC National Sales Center opened in Washington D.C.

S&L Resolutions

At the beginning of 1990, the RTC had 281 thrifts to manage in its conservatorship program. During the year, 207 additional thrifts were placed into conservatorship, and 315 thrifts were resolved (including 6 institutions which had never been placed into conservatorship), leaving 179 thrifts in conservatorship at the end of the year. The 315 resolved thrifts contained 2,362 banking offices located in 42 states.

The RTC conducted 172 P&A transactions involving $77.8 billion in deposits. Premiums paid by acquirers in the P&A transactions totaled $1.25 billion. Premiums paid for deposit portfolios ranged from 1 percent to more than 8 percent of the failed institution's core deposits; the average premium was 2 percent.

There were 96 IDTs in 1990, or about 30 percent of all resolution transactions, involving $13.5 billion in deposits. The IDT method generally was used for smaller institutions, but five thrifts with deposits over $500 million each were resolved in that manner. For the 268 total transactions in which a deposit payoff was avoided, the total estimated savings when compared with the cost of a deposit payoff was $1.4 billion.

Payoffs were conducted for 47 thrifts, or 14.9 percent of all resolutions, in 1990. Total assets at the time of resolution were $4.7 billion. Sixty percent of the payoffs occurred in just three states: Texas, Louisiana, and New Mexico.

Losses per transaction type are shown in Table 13-6 and Table 13-7 shows conservatorships and receiverships at year-end 1990.

Table 13-6

1990 Losses by RTC Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Loss*as of 12/31/95	Estimated Losses as a Percent of Assets
P&As	172	$77,768.1	$23,783.6	30.58%
IDTs	96	13,452.7	8,017.6	59.60%
Payoffs	47	4,746.8	3,830.7	80.70%
Totals	315	$95,967.6	$35,631.9	37.13%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. Back to table
Source: Reports from FDIC Division of Research and Statistics.

Table 13-7

Conservatorships	
Item	Total
In Conservatorship at 12/31/89	281
Conservatorships added in 1990	207

Conservatorships	
Item	**Total**
Subtotal	488
Conservatorships resolved in 1990 (New Receiverships)	309
Conservatorships remaining 12/31/90	179

Receiverships	
Item	**Total**
Receiverships as of 12/31/89	37
New Receiverships that were previously Conservatorships in 1990	309
New Receiverships that were resolved through ARP in 1990	6
Total Receiverships during 1990	315
Total Receiverships as of 12/31/90	352

As noted above, the RTC and OTS initiated the Accelerated Resolution Program (ARP), based on the premise that early intervention in troubled institutions could significantly increase savings. In the 1990 pilot program, nine thrifts were targeted, with a total of $3.9 billion in insured deposits. Four of those thrifts were resolved through P&A transactions, with an aggregate total cost of less than half the cost of the 168 non-ARP P&A transactions. In the four ARP resolutions, acquirers purchased 81 percent of all assets compared to 52 percent of all assets purchased in the non-ARP P&A transactions.

The **Accelerated Resolution Program (ARP)** was designed for open thrifts that failed to meet FIRREA mandated capital levels but that were otherwise perceived as having substantial franchise value. Under the program, troubled institutions were marketed by the RTC, the OTS, and the thrift's management team. When a buyer was found, the thrift was closed and placed with the RTC and reopened immediately under the buyer's new management. The ARP program's results were significant and extremely cost-effective.

The RTC allowed purchasers to bid on all of the branches of a failed thrift (whole franchise basis) or to bid on individual thrift branches or branch clusters (branch breakup basis). The goal of offering options was to expand the universe of potential bidders by allowing institutions interested only in certain branches or markets to participate. The result was more bidders, more competition, and higher premiums. In 1990, 233 thrifts were resolved on a whole franchise basis, while 35 thrifts, or 11 percent of all resolutions, were sold to two or more acquirers. A total of 145 financial institutions acquired one or more branches in the 35 branch breakup transactions.

Early in 1990, RTC Chairman L. William Seidman started "Operation Clean Sweep" to expedite the resolution of a large number of thrifts. On March 21, 1990, Chairman Seidman announced that the RTC would sell or liquidate 141 conservatorship institutions by June 30, 1990, including at least 50 institutions that would be liquidated without any prior sales attempts. The institutions were advertised in The Wall Street Journal.

Payments to Depositors and Other Creditors

In 1990, there were 315 resolutions with total deposits of $87.2 billion in 10,213,526 deposit accounts. Of that total, there were 47 payoff transactions with $5 billion in total deposits in 298,538 deposit accounts.

Of the 352 insured thrift failures since the RTC began operations in August of 1989, 179 were P&A transactions, 51 were payoff transactions, and 122 were IDTs

Asset Disposition

At the beginning of 1990, the RTC had $112.9 billion in assets in liquidation. Assets acquired during the year through conservatorships, other resolved institutions, and putbacks or repurchases totaled $162.1 billion. Losses and collections totaled $128.3 billion for the year. By the end of 1990, the RTC's total for assets in all receiverships and conservatorships was $146.7 billion. Of that total, $59.3 billion were receivership assets.

FIRREA required the RTC to utilize the services of private-sector companies in managing and disposing of assets whenever possible. That was accomplished through the use of interim service agreements, Standard Asset Management and Disposition Agreements (SAMDAs), and other contracting activities. Primarily through those programs, private sector firms were managing $36 billion or 62 percent of the total assets in receivership at the end of the year. Series I SAMDA contractors had $28 billion of that amount.

The SAMDA program was developed to enable the RTC to use private sector contractors whenever possible and appropriate. SAMDAs were contractual agreements for asset management and liquidation services. SAMDAs provided the RTC with a means to dispose of unsold distressed loans and real estate owned. The first SAMDA contract, the Series I contract, began in August 1990. By the end of the year, the RTC had awarded 65 Series I contracts for assets totaling $28 billion in book value.

SAMDA contractors initially focused on working out nonperforming loans or selling properties on an asset-by-asset basis. The Series I SAMDA contracts provided for monthly management fees with incentive disposition fees based on the sale of the individual assets. Management fees were determined as part of the bidding process and could be decreased with each sale or withdrawal of an asset from the pool or increased with each addition of an asset to the pool. Disposition fees were based upon the net proceeds of the sale of each asset and calculated pursuant to certain formulas. Contractors were entitled to earn incentive fees in addition to disposition fees.

Table 13-8

1990 RTC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/89 Total Book Value	Assets Acq'd During the Year	1990 Collections	1990 Losses	12/31/90 Total Book Value	Memo Item
1-4 Family Mtges	$34.2	$45.5	$34.2	$5.5	$40.0	$30.1
Other Mtges	29.2	22.2	14.8	0.0	36.6	23.0
Other Loans	7.2	15.9	12.0	-0.1	11.2	9.2
Real Estate Owned	14.6	9.7	2.6	3.6	18.1	8.1
Other Assets	7.9	11.1	3.4	3.6	12.0	7.1
Cash/Securities	19.8	57.7	45.4	3.3	28.8	14.8
Totals	$112.9	$162.1	$112.4	$15.9	$146.7	$92.3

Memo Item: Assets transferred from conservatorship to receivership. Does not affect total of assets in liquidation.
*Totals may not foot due to rounding differences. Back to table
Source: RTC August 1989/September 1995 Statistical Abstract.

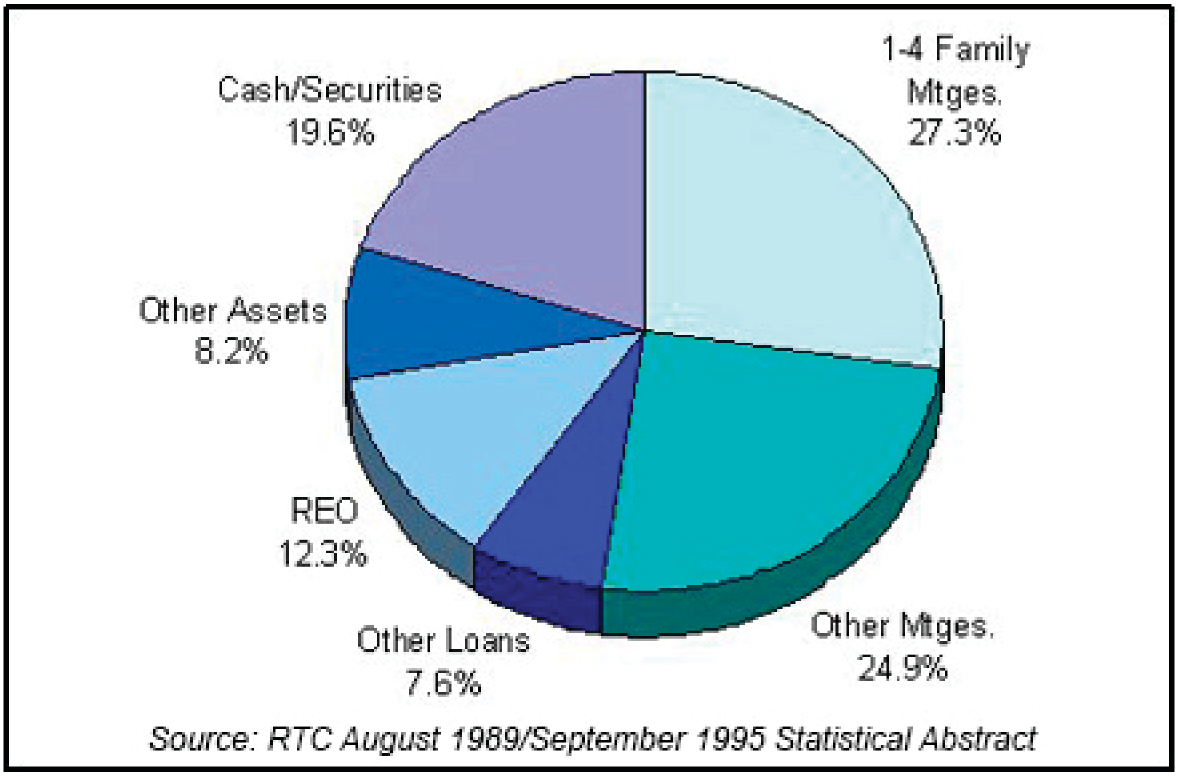


Figure 13-3 — 1990 RTC End of Year Asset Mix

1-4 Family Mtges.	Other Mtges.	Other Loans	REO	Other Assets	Cash/Securities
27.3%	24.9%	7.6%	12.3%	8.2%	19.6%
Source: RTC August 1989/September 1995 Statistical Abstract					

Staffing

By necessity, the RTC operated at a record-setting pace in establishing an organization that quickly had more assets than any financial institution in the country. From its initial staff of a few hundred FDIC employees, the RTC grew to nearly 5,000 by the end of 1990. During that time, the RTC established a network of four regional offices: Atlanta, Georgia; Dallas, Texas; Denver, Colorado; and Kansas City, Missouri. It also established 14 consolidated offices and 14 sales centers.

Chapter Fourteen: 1991

For the first time in the history of the FDIC, the Bank Insurance Fund (BIF) dropped below zero to a negative $7 billion. On April 30, 1991, the FDIC issued a regulation raising the deposit insurance assessment rate from 19.5 cents to 23 cents per $100 in assessable deposits. That increase in assessment revenue was designed to help offset BIF losses, which had been outpacing revenue since 1984.

Table 14-1

1990 - 1991: FDIC at a Glance ($ in Millions)			
	12/31/90	12/31/91	Percent Change
Number of Bank Failures	168	124	-26.19%
Assistance to Open Banks	1	3	200.00%
Total Failed and Assisted Banks	169	127	-24.85%
Total Assets of Failed and Assisted Banks	$16,937.7	$64,635.0	281.60%
Estimated Losses on Failed and Assisted Banks*	$2,786.3	$6,136.1	120.22%
Estimated Losses as a Percent of Total Assets	16.45%	9.49%	-42.31%
Assets in Liquidation	$30,906.5	$43,258.3	39.97%
FDIC Staffing	14,348	13,972	-2.62%
Number of Problem Banks	1,046	1,090	4.21%
Bank Insurance Fund Balance	$4,044.5	-$7,027.9	--
Bank Insurance Fund Balance as a Percent of Insured Deposits	0.21%	-0.36%	--

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: FDIC, 1990 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

On October 25, 1991, William Taylor became the 15th chairman of the FDIC. Chairman Taylor had spent most of his professional career with the Federal Reserve System. Prior to his appointment to the FDIC, Chairman Taylor was staff director at the Federal Reserve Board's Division of Banking Supervision and Regulation. Chairman Taylor replaced L. William Seidman, whose six-year term as chairman expired on October 16, 1991.

Economic/Banking Conditions

While the U.S. was still involved in the Persian Gulf War, the U.S. economy had negative growth in 1991 with Gross Domestic Product down 0.97 percent[14-1]. Employment growth also was negative at -2.1 percent. The unemployment rate continued to rise with a substantial increase to 6.8 percent, up from 5.6 percent a year earlier[14-2]. The discount rate decreased by more than one and a half points to 5.5 percent, and the 30-year

[14-1] Bureau of Economic Analysis, Department of Commerce.

[14-2] CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

mortgage rate fell to 9.3 percent[14-3]. Inflation also was down slightly at 4 percent[14-4]. Home sales and housing starts remained steady while the office vacancy rate continued to rise and was at 18.9 percent[14-5]. Total real estate loans in the U.S. continued to increase to 26 percent of assets, as did commercial real estate loans, rising to 7.3 percent.

Bank failures in the Southwest continued to drop, with 41 for the year, approximately 32.3 percent of all resolutions. Gross State Product (GSP) in the Southwest increased despite the national recession[14-6]. Lending in all areas continued to decline and stayed below the national medians.

Problems continued to mount in the Northeast. There were 52 Northeast bank failures in the year, which accounted for more than 90 percent ($5.7 billion) of total U.S. resolution costs and 40 percent of all failures. The Bank of New England, Boston, Massachusetts, and its sister banks, Connecticut Bank & Trust Company, N.A., Hartford, Connecticut, and Maine National Bank, Portland, Maine, failed in January 1991, with an aggregate $21.7 billion in assets and an estimated loss of $889 million. It was the second largest bank failure to that time[14-7] and the seventh costliest. Goldome, Buffalo, New York, also failed in 1991, with $8.7 billion in assets and an estimated loss of $848 million. It was the seventh largest and the fifth costliest failure up to that time. In the previous years, those banks, like many in the region, had grown through the use of acquisitions and aggressive real estate lending. They were now being adversely affected by the collapsing real estate market.

The Northeast banking industry continued to struggle with the depressed real estate markets. Return on assets remained steady at just under 30 basis points. Nonperforming assets also remained unchanged at 5 percent of assets, and net charge-offs on loans and leases peaked at 0.4 percent of assets. More than 23 percent (208) of the institutions were considered problem banks. Total lending continued to tighten as total loans and leases in the region were only 65.7 percent of assets. That was due to a drop in Commercial and Industrial (C&I) loans, from 6.3 percent of assets in 1990 to 4.7 percent in 1991. Total real estate loans and commercial real estate loans fell slightly relative to assets but remained well above the national medians.

California was hit hard by the national recession, as well as by reductions in defense spending. In 1991, California had negative GSP growth at -1.8 percent[14-8]. Southern California was hit the worst by the defense cutbacks. The state lost 6 percent of its employment base in the recession, and 65 percent of the loss was in the Los Angeles area alone. The most substantial employment losses occurred in manufacturing, with a reduction in 290,300 jobs accounting for 14 percent of manufacturing employment. Particularly hard hit was the high-tech aerospace industry, which lost 25 percent of its jobs[14-9]. Many of the defense-related manufacturers worked solely for the Department of Defense and had no fallback market[14-10]. Median home prices in California peaked in 1991 at $200,660, approximately six times the nation's average household income. Home sales were declining, since many residents could not afford to purchase median price homes.

[14-3] Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

[14-4] Bureau of Labor Statistics, Department of Labor.

[14-5] Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

[14-6] Bureau of Economic Analysis, Department of Commerce.

[14-7] Not including Continental Illinois National Bank and Trust Company, which technically did not fail.

[14-8] Bureau of Economic Analysis, Department of Commerce.

[14-9] California Employment Development Department.

[14-10] Stephen S. Cohen, et. al., From Boom to Bust in the Golden State, (1993) 3.

Furthermore, uncertainty of future real estate values reduced sale activity to 425,420 sales[14-11]. Real estate lending was finally leveling off, but was still much higher than national levels. Total real estate loans were 41 percent of assets, almost 15 percent higher than the national median, and commercial real estate loans were at 25 percent of assets compared with 7.3 percent for the U.S. C&I loans in southern California fell from 17.2 percent of assets in 1990 to 15.7 percent in 1991.

Though the "Big Four" fared comparatively well in the recession, the Los Angeles based banks, Security Pacific and First Interstate, found the recession considerably more damaging. In 1991, Security Pacific recorded a loss of $555 million, and its weakened condition led to its purchase by Bank of America the next year. First Interstate incurred a loss on its California operations with -0.25 ROA, but was able to make a full recovery in the next few years. Wells Fargo's income dipped to $23 million for the year, while Bank of America reported a return on assets higher than the U.S. banking industry at 0.98.

The number of newly chartered banks fell slightly to 110. Despite the enormous volume of problem bank assets removed from the system through FDIC resolutions and supervision activity in 1991, and some signs that the condition of the banking industry was improving, underlying difficulties continued to trouble the industry. At the end of 1991, about $600 billion in assets were held by problem banks, compared with about $400 billion one year earlier. Moreover, bank exposure to weakened real estate markets in several regions of the country remained substantial. The number of banks on the FDIC's problem bank list increased slightly to 1,090 at the end of 1991 from 1,046 at the end of 1990. In addition, there were 337 Savings Association Insurance Fund insured savings banks with combined assets of $209 billion on the FDIC's problem list by the end of 1991.

Table 14-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1991.

Table 14-2

Open Financial Institutions Insured by FDIC ($ in Billions) Commercial Banks - FDIC Regulated			
Item	**1990**	**1991**	**Percent Change**
Number	12,343	11,921	-3.42%
Total Assets	$3,389.5	$3,430.7	1.22%
Return on Assets	0.48%	0.53%	10.42%
Return on Equity	7.45%	7.94%	6.58%
Savings Banks - FDIC Regulated			
Item	**1990**	**1991**	**Percent Change**
Number	456	449	-1.54%
Total Assets	$229.3	$217.8	-5.02%
Return on Assets	-0.76%	-0.27%	64.47%
Return on Equity	-10.34%	-3.57%	65.47%

[14-11] California Association of Realtors, Research and Economics Department, California Existing Single-Family Housing Market Historical Data Summaries, (March 1995).

Savings Associations - OTS Regulated			
Item	**1990**	**1991**	**Percent Change**
Number	2,359	2,112	-10.47%
Total Assets	$1,029.8	$895.2	-13.07%
Return on Assets	-0.28%	-0.16%	--
Return on Equity	-5.50%	-2.73%	--

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks

In 1991, a new Division of Resolutions (DOR) was created to coordinate the FDIC's response to failed and failing banks. The number of failed banks in 1991 was 124, a decline from 168 in 1990. Reflecting the depressed real estate market and the overall slump in the economy, assets in failed and assisted institutions grew to a record $64.6 billion in 1991, up from $16.9 billion in 1990. That dramatic increase was due to the failure of several large institutions. Estimated losses to BIF for 1991 closures reached a record high of $6.1 billion in 1991.

Of the 124 banks that failed, 103 were resolved with purchase and assumption (P&A) transactions, 24 of which were whole bank deals. Of the remaining 21 failed banks, 17 were resolved through a transfer of insured deposits to another institution, and 4 were payoffs.

In 1991, the FDIC provided open bank assistance (OBA) to three institutions.

On September 16, First Bank and Trust, Harrisburg, Illinois, a $26.7 million institution, received OBA and was then acquired by a newly formed holding company, Shawnee Bancorp, Inc., of Harrisburg, Illinois.

On October 2, a $20 million bank, Gunnison Bank and Trust Company, Gunnison, Colorado, was approved for an assistance plan through which Lindoe, Inc., Ordway, Colorado, acquired the bank.

On December 4, the FDIC assisted a $31.9 million bank, Douglass Bank, Kansas City, Kansas, a minority-owned bank. Part of the assistance plan involved a $2.3 million injection of capital from the bank's parent company, and most of the funds came from nonprofit community organizations.

On May 14, the FDIC announced a public sale of its remaining 26 percent equity holding in Continental Bank Corporation of Chicago. Shortly after the stock was acquired by the FDIC as part of the government's 1984 assistance package for Continental Illinois National Bank and Trust Company (Continental), the FDIC began to return the stock to private ownership. That sale completed the return and produced a net gain of $200 million over the $1 billion of capital originally provided to Continental. Dividend income on the stock amounted to an additional $202 million. The final net resolution cost to the FDIC was approximately $1.1 billion, or 3 percent of Continental's assets[14-12].

At the end of 1991, there were three institutions remaining in the Net Worth Certificate Program with outstanding certificates of $132 million. The Net Worth Certificate Program, which began in 1982, expired on October 13, 1991. During the program's ten-year duration, 29 savings banks obtained $718.1 million in certificates.

Figures 14-1 and 14-2 show the total number of banks participating in the program and the dollar amounts per year.

[14-12] The $1.1 billion resolution cost is from the FDIC Division of Finance "Analysis of Large Assistance Transactions" (Black Book), which is included in the Bank Insurance Fund audited financial statements for the period ended December 31, 1995.

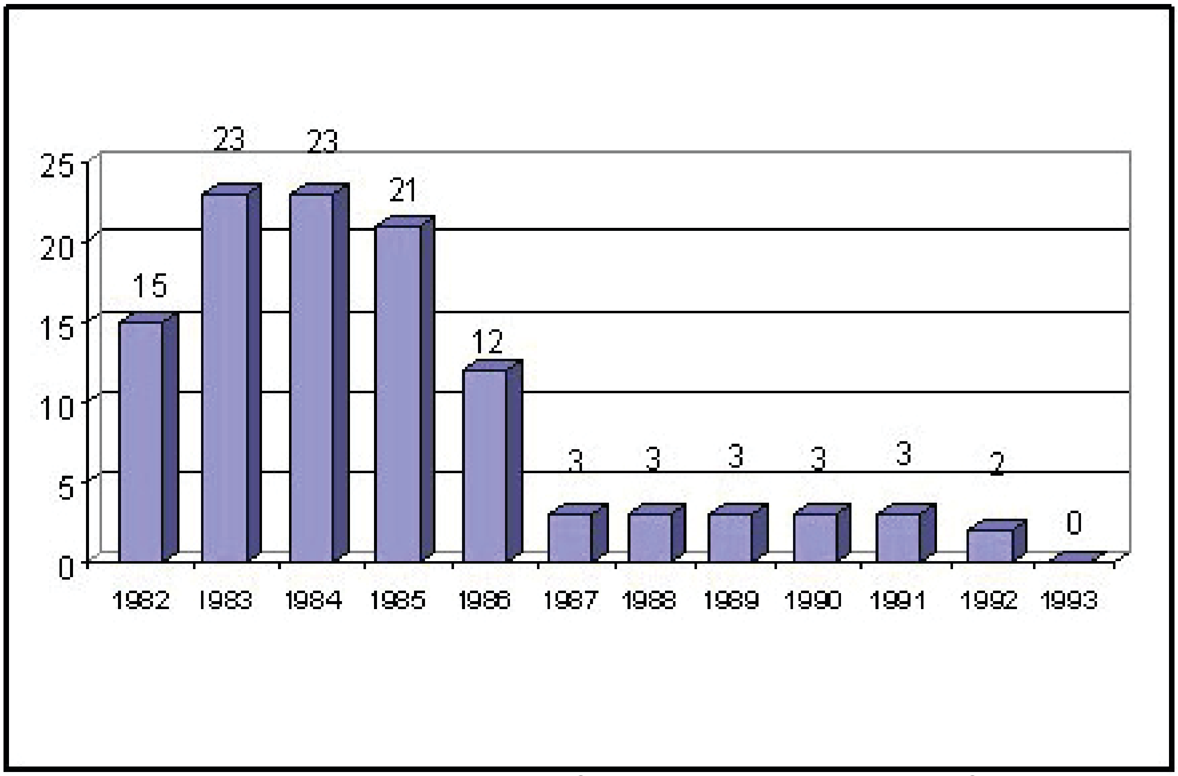


Figure 14-1 — FDIC Net Worth Certificate Program - Number of Banks in Program 1982 - 1993

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
15	23	23	21	12	3	3	3	3	3	2	0

Source: FDIC, Annual Reports 1982 - 1993

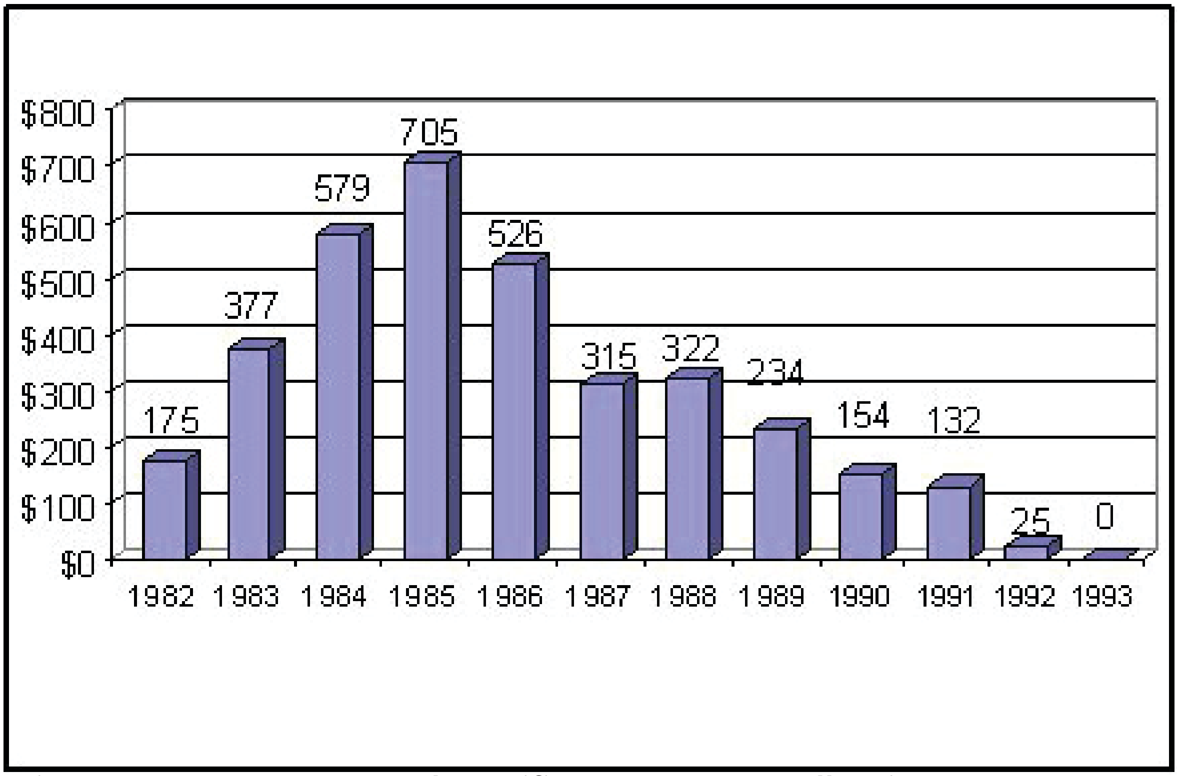


Figure 14-2 — FDIC Net Worth Certificate Program - Dollars in Program - 1982 - 1993 ($ in Millions)

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
175	377	579	705	526	315	322	234	154	132	25	0
Source: FDIC, Annual Reports 1982 - 1993											

Significant legislative reform that would have a direct impact on the FDIC's activities occurred in 1991. In December, Congress enacted the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991. The legislation had an immediate impact on the resolution process. Specifically, FDICIA established:

- The ?least cost? standard, which was effective upon enactment. Under that standard, the resolution method selected by the FDIC must be the least costly to the deposit insurance fund of all possible methods. Previously, the resolution method needed only to be less costly than a payoff, with an emphasis on selling all assets and causing the least disruption to the community;
- An increase from $5 billion to $30 billion in the FDIC's authority to borrow from the Treasury Department to cover losses in the BIF;
- Authority for the FDIC to borrow money on a short-term basis for working capital, within certain guidelines;
- A requirement that ?prompt corrective action? be taken for insured institutions with capital below prescribed levels;
- A requirement that the FDIC's Board of Directors revise deposit insurance premium rates to recapitalize both the Bank Insurance Fund and the Savings Association Insurance Fund according to statutory limits;

- An increased frequency of required on-site safety and soundness examinations and generally enhanced enforcement standards;
- A requirement that the FDIC begin assessing deposit insurance premiums based on the risks posed to the insurance fund by an institution, in 1994; and;
- Authorization for the FDIC to deny insurance to any applicant, including any national bank or state chartered bank supervised by the Federal Reserve Board.

A recent estimate of losses per transaction type is shown in Table 14-3.

Table 14-3

1991 Estimated Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
OBA	3	$78.5	$3.0	8.99%
P&As	103	63,039.0	5,665.5	14.14%
IDTs	17	1,445.7	447.6	30.96%
Payoffs	4	71.8	20.0	27.86%
Totals	127	$64,635.0	$6,136.1	9.49%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

The Office of the Comptroller of the Currency (OCC) closed the three commercial banking subsidiaries of the Bank of New England Corporation, Boston, Massachusetts, on January 6, 1991: Bank of New England, N.A., Boston, Massachusetts; Connecticut Bank & Trust Company, N.A., Hartford, Connecticut; and Maine National Bank, Portland, Maine. Total assets of the banking subsidiaries at the time of the closings were $21.7 billion. The decline of the regional economy and rapid growth in commercial real estate contributed to those failures. The FDIC established three bridge banks and transferred all deposits and most assets of the three institutions to the bridge banks. The FDIC marketed the bridge banks to potential acquirers both as a package and individually. On July 14, 1991, the FDIC Board of Directors closed a P&A transaction for the purchase of the three bridge banks with Fleet/Norstar Financial Group (Fleet), Providence, Rhode Island. The FDIC retained certain assets that were serviced by a subsidiary of Fleet named RECOLL Management Corporation under a servicing agreement with the FDIC.

On May 31, 1991, state regulators closed Goldome, Buffalo, New York, naming the FDIC as receiver. Goldome had assets totaling $9.9 billion. The FDIC arranged the assumption of the deposits by Key Bank of Western New York, National Association, a subsidiary of KeyCorp, Albany, New York. In turn, KeyCorp sold certain branches, assets, and deposits to First Empire State Corporation of Buffalo, the parent company of Manufacturers and Traders Bank, Buffalo, New York. In a situation similar to that of the Bank of New England, the FDIC retained a pool of assets serviced by a subsidiary of Key Bank named Niagara Asset Corporation under a contract that was overseen by the FDIC.

The **Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)** of 1989 gave the FDIC the authority to assess Cross Guarantees. The cross guarantee authority was used to recover all or part of the losses incurred by the FDIC in liquidating or aiding a troubled institution from other institutions with the same ownership as the failing institution. Institutions with that type of ownership arrangement also were called ?commonly controlled? institutions. Assessment of cross guarantees sometimes created a liquidity strain, which resulted in failure of the affiliate or, in some cases, immediate insolvency of the affiliate.

On September 19, 1991, the OCC closed Southeast Bank, N.A., Miami, Florida, with $11 billion in assets after the bank was unable to repay a loan from the Federal Reserve Bank of Atlanta. That failure was caused by a liquidity strain rather than a depletion of book capital. In addition, state regulators closed Southeast Bank of West Florida, Pensacola, Florida, which had $97.3 million in assets. Southeast Bank of West Florida was a member of the same bank holding company as Southeast Bank, N.A., and was closed because it was unable to cover its share of the FDIC's anticipated loss from the resolution of the national bank under the cross guarantee provisions.

To accomplish the Southeast resolution, the FDIC arranged two P&A transactions with First Union National Bank of Florida, Jacksonville, Florida. The FDIC used a new resolution method for the first time, a loss share arrangement designed to keep bank assets in the private sector and to maximize their value. Under the loss share arrangement, First Union purchased $10 billion of the assets, including problem loans. The FDIC agreed to reimburse First Union for 85 percent of the net charge-offs from the failed banks' portfolios over the next five years, with First Union absorbing 15 percent of the loss during that time period. First Union agreed to reimburse the FDIC for its portion of recoveries received for an additional two years. The loss sharing was slightly different for credit card debt and home equity loans. The loss share percentage declined by 5 percent per year from 85 percent in the first year to 65 percent in the fifth year.

The **Loss Share Transaction** was designed to address problems associated with marketing large banks that typically had sizeable commercial loan and commercial real estate portfolios. Acquiring institutions had been reluctant to acquire commercial assets in FDIC transactions for three main reasons: limited due diligence periods; questionable underwriting criteria of the failed bank; and questionable commercial real estate markets in the late 1980s and early 1990s. In a Loss Share Agreement, the FDIC agreed to absorb a significant portion, typically 80 percent, of any credit losses on certain loans.

The 1991 recession was particularly severe in New Hampshire, where 12 banks failed. Seven New Hampshire banks, with assets totaling $4.8 billion, were resolved on October 10, 1991. To accomplish the resolution, the FDIC developed the ?New Hampshire Plan,? grouping the failed banks together and marketing them to potential acquirers as two separate franchises. The seven banks were resolved as follows: the four commercial banks became branches of First NH Bank, Concord, New Hampshire, a U.S. subsidiary of The Bank of Ireland, Dublin, Ireland. Three savings banks were assumed by New Dartmouth Bank, Manchester, New Hampshire. Both of those transactions were unusual because the FDIC packaged unaffiliated banks in two franchises for sale instead of marketing the banks individually. The transactions also included loss sharing provisions applying to consumer and residential mortgage loans totaling $1.5 billion original balance, or $1.7 billion with permitted advances and additions, and a servicing contract applying to $1.6 billion in assets.

Table 14-4

New Hampshire Plan ($ in Millions) Shared Loss Assets - Consumer Loans and Residential Mortgages	
Acquiring Bank	**Amount**
New Dartmouth Bank	$912.3
First NH Bank	$623.9
Total	$1,536.2
Servicing Contract	
Contract Servicer	**Amount**
BONHAM - New Hampshire I	$745.0
BONHAM - New Hampshire II	$831.0
Total	$1,576.0

Source: Reports from FDIC Division of Resolutions and Receiverships.

The resolutions of the seven New Hampshire banks involved 28 percent of the state's deposits. The cost to BIF for the resolution of the seven New Hampshire banks was close to $891 million--$319 million for the Concord Franchise and $572 million for the Manchester Franchise. The FDIC also agreed to purchase preferred stock of the acquiring institutions so the institutions could obtain the necessary capital for the transactions.

In the New Hampshire Plan, a third party, Bank One New Hampshire Asset Management (BONHAM) was appointed under a servicing contract monitored by the FDIC to be manager of the failed banks' classified assets, repossessed real estate, all subsidiaries, and unwanted bank premises.

The New Hampshire Plan was significant because it was the first time the FDIC solicited bidders for the servicing contract who were not also bidding to be an assuming bank. The FDIC presented different plans for which bidders could submit a proposal. The winning bid was the most beneficial to the FDIC from a cost standpoint. That type of bidding arrangement also was used at a subsequent resolution in Connecticut.

Payments to Depositors and Other Creditors

In the 127 banks that failed or were assisted in 1991, deposits totaled $50 billion in 6,277,960 deposit accounts. There were three assistance agreements with total deposits of $75.7 million. Payoffs accounted for four transactions with 6,050 deposit accounts with total deposits of $66.9 million. Dividends paid on all active receiverships totaled $34.6 billion in 1991.

Of the 1,940 insured bank resolutions[14-13] since the FDIC began operations in 1934, 1,098 were P&A transactions and 197 additional transactions were whole bank deals. There were 573 deposit payoff transactions, including 162 IDTs. Also, there have been 72 OBA transactions since 1981.

Disbursements by the FDIC since January 1, 1934, amounted to $86.5 billion. Of that amount, the FDIC recovered $51 billion, for a net loss of $35.5 billion.

[14-13] This figure does not include five open bank assistance transactions from 1934-1980. Also, in 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per transaction; this report calculates failures per failed institution.

Asset Disposition

At the beginning of 1991, the FDIC had $30.9 billion in failed bank assets for both BIF and the FSLIC Resolution Fund (FRF). During the year, the FDIC handled 124 bank closings with $64.6 billion in total assets; the FDIC acquired $28.6 billion in assets for liquidation from those failed banks. At the end of 1991, total assets in liquidation totaled $43.3 billion, which included $34.4 billion in BIF assets and $8.9 billion in FRF assets.

On December 12, 1991, the largest real estate auction in the FDIC's history to date was held in Dallas, Texas, to liquidate properties with an aggregate appraised value of $500 million. The properties sold at the auction were located in 23 states. Arrangements had been made for potential bidders to review the properties before the sale. On auction day, satellite hookups were established in five cities, attracting 1,000 bidders. The FDIC offered financing to bidders, increasing the ability of buyers to purchase property during a period in which financing real estate was becoming more difficult. The FDIC used that method in subsequent real estate auctions, but also provided a 5 percent discount from the sales price to bidders who arranged their own financing. Seller financing was targeted only for assets with appraised values exceeding $500,000.

The FDIC continued to contract with servicers to manage its portfolio of performing mortgages with a total book value of $2.7 billion. During 1991, the national sales center in Irvine, California, sold 7,600 of those loans for $401 million. The book value was $429 million and the appraised value was $404 million. The sales price equaled 93.5 percent of the book value and 99.3 percent of the appraised value.

In addition to the performing loan servicing contractors, the FDIC oversaw other third-party contractors who administered, managed, and collected pools of nonperforming assets totaling $13.3 billion in assets. Total assets managed by all outside servicers totaled $16 billion at the end of 1991, or about 37 percent of total assets in liquidation.

The various FDIC offices sold 143,460 loans in 1991 with a total book value of $2.1 billion for a price of $1.5 billion, or 71.4 percent of book value. In addition to the Dallas national real estate auction, the FDIC sold 6,885 owned real estate properties for $1 billion, or 98 percent of appraised value.

In 1991, the FDIC collected $300 million through professional liability claims and by pursuing criminal matters arising from the alleged actions of directors, accountants, and others responsible for losses at failed insured institutions.

Table 14-5 shows the FDIC's assets in liquidation and Chart 14-1 shows the asset mix.

Table 14-5

1991 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/90 Book Value	1991 Assets Acquired	1991 Prin. Coll.	1991 Write Downs	12/31/91 Book Value	12/31/91 Est. Rec. Value
Commercial Loans	$7.9	$11.4	$1.8	$2.2	$15.3	$9.4
Mortgage Loans	12.7	3.5	2.1	1.3	12.8	5.6
Other Loans	0.8	1.7	1.0	0.1	1.4	**
Real Estate Owned	4.5	3.7	0.9	1.3	6.0	4.4
Judgments	1.3	1.2	0.0	0.6	1.9	**
Securities	0.9	0.4	1.0	0.0	0.3	0.1
Other Assets	2.8	6.7	0.7	3.2	5.6	5.6
Totals	$30.9	$28.6	$7.5	$8.7	$43.3	$25.1

1991 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/90 Book Value	1991 Assets Acquired	1991 Prin. Coll.	1991 Write Downs	12/31/91 Book Value	12/31/91 Est. Rec. Value
*Totals may not foot due to rounding differences. **For estimated value only, Commercial Loans includes Other Loans and Other Assets includes Judgments. Source: Reports from FDIC Division of Finance.						

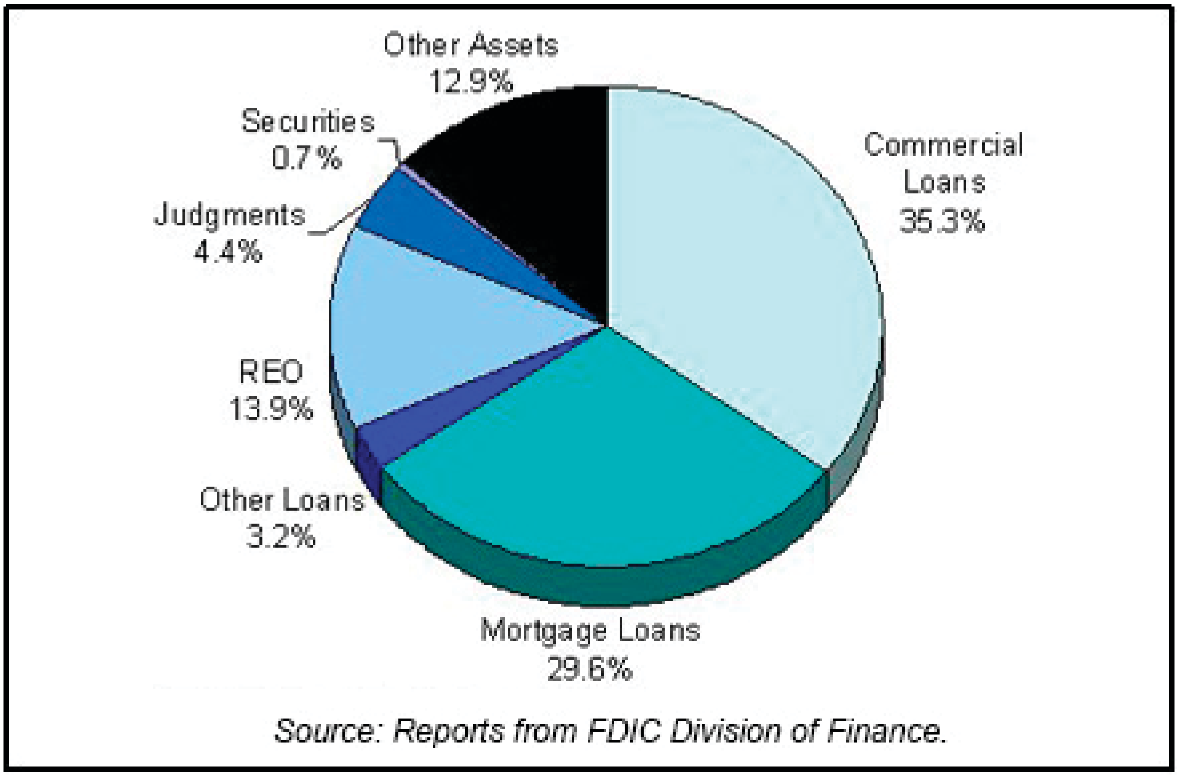


Chart 14-1 — 1991 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets
35.3%	29.6%	3.2%	13.9%	4.4%	0.7%	12.9%
Source: Reports from FDIC Division of Finance						

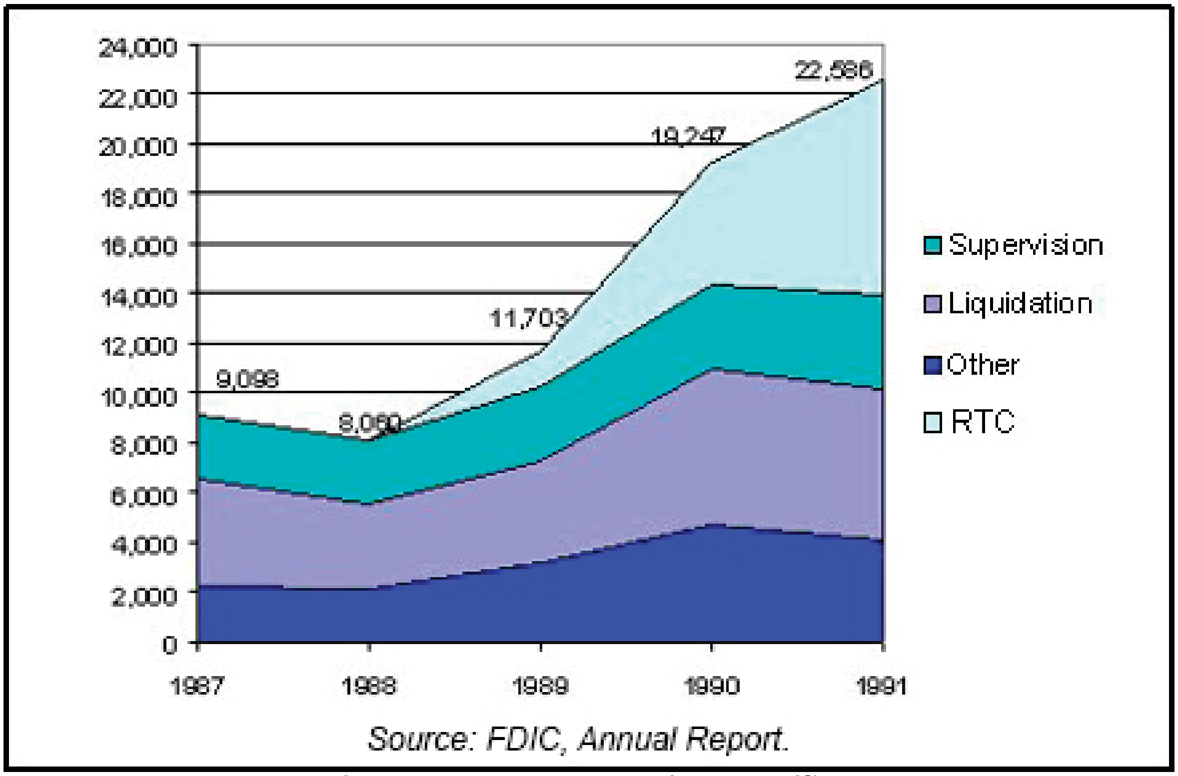


Chart 14-2 — 1991 FDIC/RTC Staffing

	1987	1988	1989	1990	1991
Other	2,177	2,095	3,143	4,637	4,062
Liquidation	4,400	3,371	4,141	6,311	6,097
Supervision	2,521	2,594	2,903	3,400	3,813
RTC			1,516	4,899	8,614
Total	9,098	8,060	11,703	19,247	22,586
Source: FDIC, 1990 Annual Report					

Insurance Fund and Staffing

By the end of 1991, problem banks were holding $600 billion in assets, compared with $400 billion in 1990. Consequently, the FDIC decided to reserve for high levels of risk to BIF and began to set aside reserves not only for banks certain to fail in the near future, but also for those banks that were weak but not yet failing. As a result, BIF decreased to a negative $7 billion, the first negative balance since the FDIC's inception in 1934.

The FDIC's liquidity problem, which stemmed from a record number of bank failures from 1984 through 1990, was eased on January 8, 1991, when the FDIC entered into a Note Purchase Agreement with the Federal Financing Bank. The Note Purchase Agreement permitted the FDIC to borrow to meet its financing requirements. That provided the FDIC with the ability to fund the acquisition of assets from failed institutions and to cover the cost of carrying those assets on the records of the FDIC. That obligation was fully satisfied on August 6, 1993.

By the end of 1991, the FDIC's Division of Liquidation had four regional offices and 16 consolidated offices. During 1991, the consolidated offices in Knoxville, Tennessee, and Midland, Texas, were closed. However, consolidated office was opened in Hartford, Connecticut.

The Legal Division of the FDIC, which had been handling the legal affairs of both the FDIC and the RTC, was separated into two legal divisions, one for each entity, during 1991. A total of 1,572 positions were transferred to the new RTC Legal Division. After those shifts of personnel, there was a 19 percent net increase in Legal Division staff devoted to FDIC matters during the year. The Legal Division added 143 staff members devoted to professional liability cases. They were placed in FDIC offices around the country to improve supervision of those cases.

> The Legal Division's **Professional Liability Section** worked to identify claims against directors and officers, appraisers, attorneys, accountants, and other professionals who may have contributed to the failure of insured financial institutions. The unit investigated the circumstances surrounding the failure of every institution and, where appropriate, sent criminal referrals to the Department of Justice. The Professional Liability Section also pursued administrative enforcement actions and professional liability proceedings.

Total FDIC staffing, excluding the RTC, at the end of 1991 was 13,972, compared with 14,348 at the end of 1990. The number of Division of Supervision employees increased to 3,813 from 3,400 the previous year. The number of Division of Liquidation employees dropped to 6,097 from 6,311. Total staffing including 8,614 RTC employees equaled 22,586. Chart 14-2 shows the staffing levels for the past five years.

Table 14-6

Resolution Trust Corporation 1990 - 1991: RTC at a Glance ($ in Millions)			
	12/31/90	12/31/91	Percent Change
Number of Conservatorships at the beginning of the year	281	179	-36.30%
Number of Conservatorships added during the year	207	123	-40.58%
Thrifts in the ARP Program*	6**	21	250.00%
Total of all thrift takeovers	213	144	-32.39%
Total of thrift resolutions	315	232	-26.35%
Conservatorships resolved during the year	309	211	-31.72%
Conservatorships at the end of the year	179	91	-49.16%
Total Assets at Takeover			
	12/31/90	12/31/91	Percent Change
Conservatorships	$126,616	$70,929	-43.98%
Thrifts in the ARP Program	$3,631	$8,105	123.22%
Total	$130,247	$79,034	-39.32%
Estimated losses on thrift resolutions***	$20,837	$10,773	-48.30%
Estimated losses as a percent of total assets	16.00%	13.63%	-14.81%
Assets in Liquidation			
	12/31/90	12/31/91	Percent Change
Conservatorships	$87,467	$47,318	-45.90%
Receiverships	$59,270	$83,066	40.15%
Total	$146,737	$130,384	-11.14%

Assets in Liquidation			
	12/31/90	12/31/91	Percent Change
RTC Staffing	4,899	8,614	75.83%

*Thrifts placed into the ARP program are included for clarity, although they were never placed into the conservatorship program.
**Includes two institutions which were P&A transactions, but were neither in conservatorship nor in ARP.
***Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: RTC, 1990 Annual Report and Reports from FDIC Division of Research and Statistics.

Notable Events

The RTC's organizational structure changed in 1991. In October, Chairman Seidman ended his term as chairman of both the FDIC and the RTC, and Albert V. Casey became the first President of the RTC. Mr. Casey subsequently became the RTC's chief executive officer on February 1, 1992, pursuant to the passage of the RTC Refinancing, Restructuring, and Improvement Act (RTCRRIA) of 1991.

Significant provisions of RTCRRIA included the following:

- Funding of $25 billion through April 1, 1992;
- Ability to accept appointment as conservator or receiver from August 9, 1992, to September 30, 1993;
- Redesignation of the RTC Oversight Board as Thrift Depositor Protection Oversight Board, and redefinition of its membership;
- Abolishment of the RTC Board of Directors and removal of the FDIC as exclusive manager of the RTC, creating more independence for the RTC; and
- Creation of the office of chief executive officer of the RTC.

S&L Resolutions

At the beginning of 1991, the RTC managed 179 thrifts in the conservatorship program and an additional 123 thrifts with total assets of $70.9 billion were placed into conservatorship during the year. Of the conservatorships, 211 were resolved by year end. In addition, 21 thrifts were resolved through the Accelerated Resolution Program (ARP) during the year without ever being in conservatorship. During 1991, the RTC resolved a total of 232 thrifts (compared to 315 in 1990) with total deposits of $71.3 billion.

The 165 P&A transactions involved thrifts with total assets of $61 billion. IDTs accounted for 34 failed thrift transactions with total assets of $14.6 billion. The 33 institutions which were paid off in 1991 had assets of $2.5 billion. The number of payoffs for 1991 had declined from 47 in 1990.

More than $700 million in premiums was collected from the acquiring institutions, representing about 1.39 percent of the assumed core deposits. Overall, the resolution transactions generated an estimated $809 million in savings in 1991 over the estimated cost of deposit payoffs for the 232 resolved thrifts.

Nearly 25 percent of the total number of assuming bank transactions (48 resolutions) were resolved on a branch breakup basis (compared to 35 branch breakups in 1990). In the most complex transaction, 22 institutions acquired the nearly $1 billion in deposits at the 32 offices of First Savings of Arkansas, Little Rock, Arkansas.

The largest resolution of 1991 was City Savings Bank, F.S.B. (formerly City Savings), Somerset, New Jersey, with $4.4 billion in deposits and 109 offices. The next largest resolution in 1991 was Columbia Savings & Loan Association, Beverly Hills, California, with $4.2 billion in deposits.

Losses per transaction type are shown in Table 14-7 and Table 14-8 shows conservatorships and receiverships at year-end 1991.

Table 14-7

1991 Losses by RTC Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Loss* as of 12/31/95	Estimated Losses as a Percent of Assets
P&As	165	$60,954.0	$22,704.2	37.25%
IDTs	34	14,648.6	6,541.1	44.65%
Payoffs	33	2,507.7	2,283.7	91.11%
Totals	232	$78,110.3	$31,529.0	40.36%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/95.
Source: Reports from FDIC Division of Research and Statistics.

Table 14-8

Conservatorships

Item	Total
In Conservatorship at 12/31/90	179
Conservatorships added in 1991	123
Subtotal	302
Conservatorships resolved in 1991 (New Receiverships)	211
Conservatorships remaining 12/31/91	91

Receiverships

Item	Total
Receiverships as of 12/31/90	352
New Receiverships that were previously Conservatorships in 1991	211
New Receiverships that were resolved through ARP in 1991	21
Total Receiverships during 1991	232
Total Receiverships as of 12/31/91	584

Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

In 1991, there were 232 resolutions with total deposits of $17.3 billion in 7,515,869 deposit accounts. Of that total, there were 33 payoff transactions with $2.9 billion in total deposits in 280,729 deposit accounts. Of the 584 insured thrift failures since the RTC began operations in August of 1989, a total of 344 were P&A transactions, 84 were payoff transactions, and 156 were IDTs.

Asset Disposition

At the beginning of 1991, the RTC had $146.7 billion in assets in liquidation. Assets acquired during the year through conservatorships, other resolved institutions, and putbacks or repurchases totaled $105.9 billion. Losses and collections totaled $122.2 billion for the year. By the end of 1991, the RTC's total for assets in all receiverships and conservatorships was $130.4 billion.

By the end of 1991, the RTC had awarded 166 contracts under the basic Standard Asset Management Disposition Agreement (SAMDA) program, covering assets of $33.4 billion book value from receiverships and conservatorships. The estimated recovery by those contractors was $19 billion. An additional 30 contracts to manage $4.6 billion in assets were in the solicitation process at the end of the year.

In January 1991, the RTC's Board of Directors approved several revisions of the SAMDA program. In particular, the RTC changed contractor incentive compensation so that the estimated recovery value would be based on the contractor's entire asset pool instead of on individual assets. As a result of those changes, the goal of contractors changed to settling all assets instead of merely focusing their efforts on only the high value assets. The other major change was the inclusion of a holding cost that decreased the disposition fee over time.

During 1991, the RTC's seller financing program became fully operational. The RTC sold and financed 1,432 real estate assets between January 1, 1990, and December 31, 1991. Those assets generated an aggregate recovery of $617 million, of which about 20 percent, or $121 million, was down payments, and about 80 percent, or $496 million, was seller financing.

In February 1991, the RTC Oversight Board authorized the RTC to sell residential mortgage assets through private securitizations. In June, the first shelf registration statement to issue private label mortgage-backed securities was filed with the Securities and Exchange Commission, and the RTC's securitization program began.

In June 1991, the RTC initiated its residential securitization program, issuing securities backed by single-family and multi-family mortgages. On June 27, the first single-family securitization, RTC 1991-1, was originated. That mortgage-backed security was AA rated, received prices above par, and was backed by $440 million in mortgages from one RTC conservatorship, Columbia Savings & Loan Association, Beverly Hills, California. On July 30, RTC 1991-2 was originated for $580 million. Foreign investors became interested in RTC 1991-2 because for the first time all interest payments were based upon a standard index, the London Interbank Offered Rate (LIBOR). The mortgage loans collateralizing that issue were from three receiverships. On August 29, the RTC completed a multi-family mortgage loan securitization, RTC 1991-M1.

Securitization involved the pooling of similar receivership and conservatorship mortgage loans into trusts for sale. The trustee then issued securities backed by those mortgages. Usually, one-to-four family mortgages, multi-family housing, commercial properties, and consumer loans were pooled separately.

In 1991 alone, the RTC issued $7.6 billion of single-family certificates at a weighted average price of 100.4 percent of outstanding principal balances. In addition, $2.6 billion of multi-family certificates were issued at a weighted average price of 100.6 percent. By the end of the year, the RTC had sold more than $10 billion in mortgage-backed securities.

At the end of the year, the RTC had a total of $130.4 billion in receivership and conservatorship assets under its control. Table 14-9 shows the RTC's assets in liquidation and Chart 14-3 shows the asset mix.

Table 14-9

1991 RTC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/90 Total Book Value	Assets Acq'd During the Year	1991 Collections	1991 Losses	12/31/91 Total Book Value	Memo Item
1-4 Family Mtges	$40.0	$29.0	$40.5	$2.6	$25.9	$19.5
Other Mtges	36.6	20.4	11.5	1.6	43.9	16.4
Other Loans	11.2	7.2	7.8	1.6	9.0	4.8
Real Estate Owned	18.1	7.3	3.8	4.5	17.1	5.6
Other Assets	12.0	6.2	5.5	-3.5	16.2	9.3
Cash/Securities	28.8	35.8	45.2	1.1	18.3	14.4
Totals	$146.7	$105.9	$114.3	$7.9	$130.4	$70.0

Memo Item: Assets transferred from conservatorship to receivership. Does not affect total of assets in liquidation.
*Totals may not foot due to rounding differences.
Source: RTC August 1989/September 1995 Statistical Abstract.

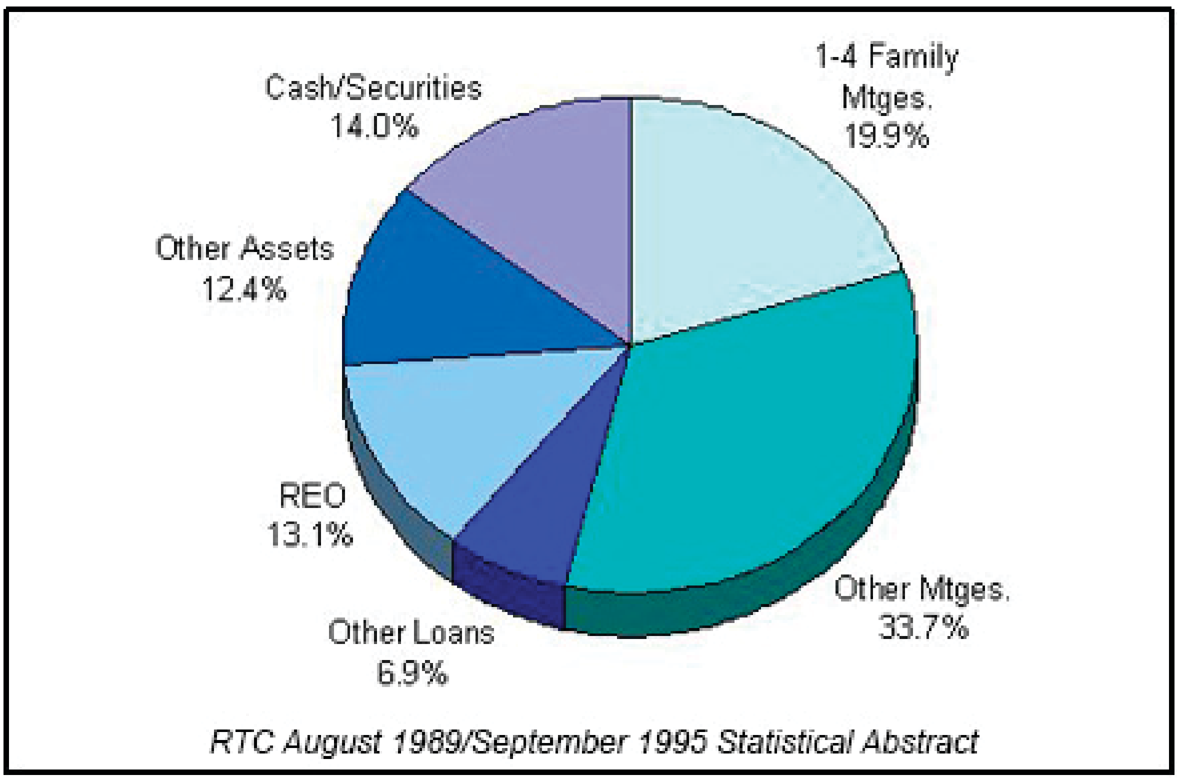


Figure 14-3 — 1991 RTC End of Year Asset Mix

1-4 Family Mtges.	Other Mtges.	Other Loans	REO	Other Assets	Cash/Securities
19.9%	33.7%	6.9%	13.1%	12.4%	14.0%

Source: RTC August 1989/September 1995 Statistical Abstract

Funding and Staffing

As of December 31, 1991, the Treasury had contributed $48.8 billion in capital to the RTC. Of this total, $18.8 billion had been authorized by FIRREA, and another $30 billion had been authorized by the RTC Funding Act of 1991. Additionally, the RTC had $31.2 billion in capital certificates issued to the Resolution Funding Corporation, $7 billion of which were issued in 1991. By the end of 1991, staffing levels had reached about 8,600 employees, roughly doubling the 4,899 employees at the end of 1990.

Chapter Fifteen: 1992

For the first time in the history of the FDIC, the Bank Insurance Fund (BIF) dropped below zero to a negative $7 billion. On April 30, 1991, the FDIC issued a regulation raising the deposit insurance assessment rate from 19.5 cents to 23 cents per $100 in assessable deposits. That increase in assessment revenue was designed to help offset BIF losses, which had been outpacing revenue since 1984.

Table 15-1

1991 - 1992: FDIC at a Glance ($ in Millions)			
	12/31/91	12/31/92	Percent Change
Number of Bank Failures	124	120	-3.23%
Assistance to Open Banks	3	2	-33.33%
Total Failed and Assisted Banks	127	122	-3.94%
Total Assets of Failed and Assisted Banks	$64,635.0	$45,391.1	-29.77%
Estimated Losses on Failed and Assisted Banks*	$6,136.1	$3,675.2	-40.11%
Estimated Losses as a Percent of Total Assets	9.49%	8.10%	-14.65%
Assets in Liquidation	$43,258.3	$43,273.4	0.03%
FDIC Staffing	13,972	15,044	7.67%
Number of Problem Banks	1,090	863	-20.83%
Bank Insurance Fund Balance	-$7,027.9	$-100.6	98.57%
Bank Insurance Fund Balance as a Percent of Insured Deposits	-0.36%	-0.01%	97.22%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1992 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

After only ten months as chairman of the FDIC, William Taylor passed away on August 20, 1992. Chairman Taylor was praised and admired as a dedicated public servant and a man of integrity. Vice Chairman Andrew C. Hove, Jr., was appointed acting chairman, a position he would hold for two years. Prior to his appointment as vice chairman, Mr. Hove had been in banking for 30 years and was chairman and chief executive officer of the Minden Exchange Bank & Trust Company, Minden, Nebraska.

Economic/Banking Conditions

The U.S. economy began to turn around in 1992 with Gross Domestic Product (GDP) growing at a modest 2.7 percent, which was a substantial improvement over the previous year's GDP growth rate of -0.97 percent[15-1]. Despite the increase in GDP growth, the unemployment rate continued to rise from 6.8 percent in 1991 to 7.5 percent in 1992[15-2]. The spur to the economy can be attributed in part to a resurgence in the housing sector brought about by a decline in interest rates and the inflation rate. The discount rate fell from 5.5 percent to 3.3 percent, and the 30-year mortgage rate fell from 9.3 percent to 8.4 percent. The inflation rate also

15-1 Bureau of Economic Analysis.

15-2 CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

declined from 4 percent to 2.8 percent[15-3]. Housing sales and housing starts showed dramatic improvements, going from no growth in 1991 to 10.8 percent and 18.3 percent in 1992, respectively. The office vacancy rate also stabilized at 18.5 percent[15-4].

The Southwest banking industry continued to have problems, even though the number of failures continued to decrease and was down from 41 in 1991 to 36. Gross State Product (GSP) growth in the Southwest was consistent with GDP for the nation at 2.7 percent[15-5]. Total lending, relative to assets, continued to decline while total real estate lending increased slightly to 27.7 percent of assets, though still well below the national median of 49.9 percent. Nonperforming assets relative to total assets continued to decline, as did net charge-offs on loans and leases for the region.

There were 43 failures in the Northeast in 1992, many of which were attributed to huge losses from nonperforming real estate loans. Those failures accounted for 79 percent of all U.S. resolution costs in that year. The Northeast banking industry was beginning to recover, however, with increases in return on assets and asset growth and decreases in nonperforming assets and net charge-offs on loans and leases. But none of those trends could measure up to the levels of the rest of the U.S. banking industry. Lending continued to tighten with continuing decreases in Commercial and Industrial (C&I) loans and steady levels of total real estate and commercial real estate loans. The Northeast was coming out of its recession, but the region still under-performed the U.S. in overall production growth[15-6].

California experienced negative GSP growth for the second year in a row[15-7]. While the U.S. was bouncing back from the recession, California was not. By September, the state's unemployment rate reached 9.5 percent, 2 percent higher than the national level. Many of California's banks were not healthy. Commercial banks in the state reported $22 million in losses. Recently chartered banks, especially those in the southern part of the state, were vulnerable due to their poor earnings going into the recession. In Southern California, nonperforming assets peaked at around 5.5 percent of

total assets. There were 12 bank failures in the state, including Independence Bank, Encino, California, the largest ($564 million in assets) and costliest ($140 million estimated loss) California bank failure ever. More than 26 percent of all of the banks in the state were considered problem banks.

First Interstate resumed marginally profitable operations in 1992, with a return on assets of 0.07 percent. Bank of America also reported net income on California operations of $1.3 billion, and Wells Fargo reported net income of $306 million. The diversification of those "Big Four" banks helped them to withstand the pressures of the recession while smaller regional banks could not. Lending in the state began to tighten with total real estate loans holding steady at 40.5 percent of assets and commercial real estate loans remaining unchanged at 25 percent. C&I loans continued their gradual decline from 15.7 percent in 1991 to 13.5 percent in 1992.

The number of new charters granted declined from 110 to 74. During 1992, the FDIC did not have an operating loss for the first time in five years and the profitability and solvency of commercial banks improved significantly. As a result, the FDIC viewed 1992 as a year in which the commercial banking industry began to get stronger overall.

[15-3] Housing Market Statistics, National Association of Home Builders (June 1996), Federal Home Loan Mortgage Corporation and Bureau of Labor Statistics, Department of Labor.

[15-4] Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

[15-5] Bureau of Economic Analysis, Department of Commerce.

[15-6] Bureau of Economic Analysis, Department of Commerce.

[15-7] Bureau of Economic Analysis, Department of Commerce.

In 1992, although a large number of banks failed, many banks benefited from favorable interest rates and improved asset quality, and they showed record profits. The number of commercial banks on the FDIC's problem bank list declined by 227 institutions in 1992, to 863, which was the lowest number on the list since 1983. Although savings banks insured by the Bank Insurance Fund (BIF) also reported their first profit in four years, there were still some problems. Problem savings banks accounted for more than 26 percent of savings banks' assets, and 22 BIF insured savings banks failed in 1992. In addition, there were 207 Savings Association Insurance Fund (SAIF) insured savings banks with combined assets of $128 billion on the FDIC's problem list by the end of 1992.

The number of newly chartered banks fell slightly to 110. Despite the enormous volume of problem bank assets removed from the system through FDIC resolutions and supervision activity in 1991, and some signs that the condition of the banking industry was improving, underlying difficulties continued to trouble the industry. At the end of 1991, about $600 billion in assets were held by problem banks, compared with about $400 billion one year earlier. Moreover, bank exposure to weakened real estate markets in several regions of the country remained substantial. The number of banks on the FDIC's problem bank list increased slightly to 1,090 at the end of 1991 from 1,046 at the end of 1990. In addition, there were 337 Savings Association Insurance Fund insured savings banks with combined assets of $209 billion on the FDIC's problem list by the end of 1991.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, the FDIC Board of Directors approved the prompt corrective action rule on September 15, 1992. On December 19, 1992, the prompt corrective action rule took effect. Expectations of multiple bank failures triggered by the new rule (the so called "December Surprise") failed to materialize. At the end of 1992, the FDIC revised downward the estimated liability to the BIF for troubled banks to $10.8 billion from the 1991 liability estimate of $16.3 billion.

Prompt Corrective Action was a requirement that an institution be closed by regulators if it was "critically undercapitalized" and was determined not to have an adequate capital restoration plan. In general, a critically undercapitalized institution was defined as having a "tangible equity" to total assets ratio of 2 percent or less.

Table 15-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1992.

Table 15-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1991	1992	Percent Change
Number	11,921	11,462	-3.85%
Total Assets	$3,430.7	$3,505.7	2.19%
Return on Assets	0.53%	0.93%	75.47%
Return on Equity	7.94%	12.98%	63.48%

Savings Banks - FDIC Regulated

Item	1991	1992	Percent Change
Number	449	518	15.37%

Savings Banks - FDIC Regulated			
Item	1991	1992	Percent Change
Total Assets	$217.8	$218.2	0.18%
Return on Assets	-0.27%	0.74%	--
Return on Equity	-3.57%	9.35%	--

Savings Associations - OTS Regulated			
Item	1991	1992	Percent Change
Number	2,112	1,872	-11.36%
Total Assets	$895.2	$812.0	-9.29%
Return on Assets	0.16%	0.63%	293.75%
Return on Equity	2.73%	9.53%	249.08%

Percent change is not provided if either the latest period or the year-ago period contains a negative number.
Source: Reports from FDIC Division of Research and Statistics.

Bank Failures and Assistance to Open Banks

During 1992, the FDIC resolved 120 failed banks and provided assistance to 2 open banks in danger of failing. Those numbers were similar to those of 1991. Although total assets of failed and assisted banks decreased in 1992 to $45.4 billion from the record levels of $64.6 billion in 1991, the 1992 number was still the second highest in the FDIC's history, primarily due to the increased number of failed savings banks.

Of the 120 failed banks, 95 were purchase and assumption (P&A) transactions, including 5 whole bank deals. The FDIC used a variation of the P&A transaction in 36 of the 95 P&A transactions. That variation was called an "insured deposit purchase and assumption" in which the assuming bank received only the insured deposits rather than all deposits. The traditional insured deposit transfer (IDT) method was used in 14 resolutions, and payoffs accounted for the remaining 11 transactions.

Only two institutions received open bank assistance (OBA) in 1992: the $20.9 million asset Freedom Bank, Ranger, Texas; and the $12.9 million asset Citizens State Bank, Princeton, Texas. Because of the cost savings inherent in a closed bank transaction, it was difficult to judge an open assistance proposal the least costly, particularly when the institution's failure was imminent (that is, the possibility of a second resolution increased the proposed cost of the initial OBA.) Therefore, for an OBA proposal to be acceptable, it generally had to be submitted well before grounds existed for the institution's closure.

A recent estimate of losses per transaction type is shown in Table 15-3.

Table 15-3

1992 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss*as of 12/31/03	Estimated Losses as a Percent of Assets
OBA	2	$33.8	$0.3	0.89%
P&As	95	43,240.1	3,182.8	7.36%
IDTs	14	962.8	223.4	23.20%
Payoffs	11	1,154.4	268.7	23.28%
Totals	122	$45,391.1	$3,675.2	8.10%

1992 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss*as of 12/31/03	Estimated Losses as a Percent of Assets
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Source: Reports from FDIC Division of Research and Statistics.				

In out the requirements of FDICIA, FDIC encouraged all bidders to submit not only proposals to assume all deposits, but also proposals to assume only insured deposits. As a direct result of FDICIA's "least cost test," the number of uninsured depositors experiencing a loss increased substantially in 1992. Uninsured depositors in 66 of 120 failures received less than 100 cents on each dollar above the $100,000 insurance limit. That was a significant increase from 1991, when less than 20 percent of the failures involved a loss for uninsured depositors. Because of that development, in March 1992, the FDIC resumed the practice of paying advance dividends to uninsured depositors and unsecured creditors. Advance dividends were paid at 50 percent to 80 percent of the claim amounts. The FDIC based the dividend percentage on an estimate of the value of each failed bank's assets to be liquidated.

The **Least Cost Test** was a FDICIA requirement that the FDIC pursue the least costly resolution of a failed institution. Prior to FDICIA, the FDIC could pursue any resolution alternative, as long as it was less costly than a payoff of insured deposits and the liquidation of the assets. Under the new law, the FDIC was required to review all proposals received and compare them to each other and to the cost of a payoff. The FDIC then chose the alternative with the least cost to the FDIC.

Among the 120 institutions resolved in 1992 were six banking organizations with total assets of more than $3 billion. Five of the six were savings banks as depicted as follows:

- On January 24, CrossLand Savings Bank, F.S.B., Brooklyn, New York, with total assets of $7.4 billion was closed. The FDIC established a full service savings bank (an FDIC conservatorship) that assumed the assets, deposits, and certain liabilities of CrossLand Savings.
- On February 21, Dollar Dry Dock Bank, White Plains, New York, a savings bank with total assets of $4 billion was closed. Emigrant Savings Bank, New York, New York, acquired certain assets and assumed deposits and certain other liabilities. Apple Savings Bank of New York, New York, also acquired one of the failed bank's twenty-one branches.
- On June 12, American Savings Bank, White Plains, New York, with total assets of $3.2 billion was closed. The FDIC sold the savings bank's insured deposits to eight different banks in New York and New Jersey.
- On October 2, The Howard Savings Bank, Newark, New Jersey, with total assets of $3.5 billion was closed. First Fidelity Bank, N.A., of Newark, New Jersey, acquired certain assets and assumed the deposits.
- On October 30, twenty bank subsidiaries of First City Bancorporation of Texas, Inc., (First City) Houston, Texas, were closed. First City, with $8.1 billion in total assets, was one of the largest failed bank transactions in the FDIC history and failed only four years after the FDIC had provided a $970 million assistance package to the affiliated banks. The FDIC established 20 new full service bridge banks, which eventually were sold to various acquirers.

- On December 11, Meritor Savings Bank, Philadelphia, Pennsylvania, with total assets of $4.1 billion was closed. Mellon Bank, N.A., of Pittsburgh, Pennsylvania, acquired certain assets and assumed the deposits.

Payments to Depositors and Other Creditors

In the 122 banks that failed or were assisted in 1992, deposits totaled $40 billion in 4,280,325 deposit accounts. There were two assistance agreements for banks with total deposits of $33.1 million in 6,571 deposit accounts. Payoffs accounted for 11 transactions with 74,790 deposit accounts with total deposits of $1.1 billion. Dividends paid on all active receiverships totaled $28.8 billion in 1992.

Of the 2,067 insured bank resolutions[15-8] since the FDIC began operations in 1934, there were a total of 1,188 P&A transactions and 202 whole bank deals. Deposit payoff transactions accounted for 598 cases, of which there were 176 IDTs. There were also 79 OBA transactions.

Total disbursements by the FDIC since January 1, 1934, amounted to $100.4 billion. Of that amount, the FDIC recovered $62.8 billion, for a net loss of $37.6 billion.

Asset Disposition

As of the beginning of 1992, the FDIC held $43.3 billion in failed bank assets for both BIF and the FSLIC Resolution Fund (FRF). During 1992, the FDIC handled 120 bank failures with $45.4 billion in assets. From those institutions, the FDIC acquired $19 billion in assets for liquidation. Total principal collections were $9.4 billion for BIF and $1 billion for FRF, for a total of $10.4 billion. At the end of 1992, total assets in liquidation were $38.1 billion for BIF and $5.2 billion for FRF, or a total of $43.3 billion. In 1992, responsibility for managing and monitoring the FRF assistance agreements was transferred from the RTC to the FDIC.

In March 1992, months before receiving Congressional funding, the FDIC implemented an Affordable Housing Program to help low- and moderate-income homebuyers purchase single-family homes in FDIC's inventory. Approximately 1,500 properties acquired from failed institutions were included in the program. In September, the FDIC received $5 million in funding from Congress for costs associated with this program.

The FDIC held its second national real estate owned auction in Dallas and sold 218 properties from 31 states for a record $412 million. In addition, 146 properties were sold for $262 million before the auction. These efforts created a combined total sales figure of $674 million. Total real estate owned sales of 15,100 properties by the FDIC in 1992, including sales by asset managers under the FDIC's direction, produced $2.3 billion, representing 92 percent of aggregate appraised value. During 1992, real estate owned sales included the following significant properties:

- Occidental Tower in Dallas, Texas, sold for $37.5 million;
- Goldome Center in Buffalo, New York, sold for $14.6 million;
- Radisson Lord Baltimore Hotel in Baltimore, Maryland, sold for $8.5 million; and
- Centurion Plaza in West Palm Beach, Florida, sold for $6.6 million.

At the end of the year, FDIC's liquidation inventory, including assets serviced by asset management contractors and national servicers, consisted of $44.1 billion in assets. Total recoveries for 1992 totaled $15.1 billion, including loan collections, real estate owned sales, loan sales, the sale of securities, investment income, and professional liability settlements

[15-8] This figure now includes five open bank assistance transactions from 1934-1980. In 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per transaction; this report calculates failures per failed institution. Actual resolutions through 1992 totaled 2,125.

The FDIC monitored the performance of ten asset pools with total assets of $12.2 billion as of the end of 1992, which were managed by private contractors. The FDIC also implemented a new type of asset servicing contract known as the Regional Asset Liquidation Agreement (RALA) to contract out the servicing of asset pools valued at less than $500 million to smaller firms.

Legal matters in 1992 were 11 percent higher than in 1991, with 90 percent relating to asset disposition.

> A **Regional Asset Liquidation Agreement (RALA)** was an asset management and disposition contract with an independent entity (contractor) for the resolution of asset pools acquired by the FDIC. A RALA contract was awarded subsequent to and apart from the resolution process. Assets in the pool were specified by the FDIC, and the asset pool was not associated with any single institution.

There were 23,900 litigation cases; 9,202 bankruptcy claims; and 9,286 nonlitigation matters such as asset sales, foreclosures, and other collection activities. The FDIC collected $610 million from professional liability cases. Although the number of professional liability matters declined in 1992, the amount collected was almost double the 1991 figure.

The FDIC assisted the Department of Justice in obtaining the convictions of 30 people who caused losses to failed financial institutions. The FDIC also benefited from the 37 court orders issued in 1992 requiring defendants to pay a total of $106 million in criminal restitution to the FDIC.

During 1992, the FDIC also cooperated with the Department of Justice in defending a number of lawsuits challenging the capital standards mandated by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989. Most of those cases involved resolutions of insolvent thrifts by the Federal Home Loan Bank Board prior to the enactment of FIRREA. The transactions authorized acquiring institutions to use supervisory goodwill to meet capital requirements. FIRREA phased out the use of goodwill as capital. In 1992, the U.S. Court of Appeals for the Federal Circuit concluded that thrifts were not entitled to relief for that change in the treatment of supervisory goodwill. However, the plaintiff thrifts asked for, and received, a rehearing of the court en banc, and the court found for the thrifts.

The government appealed that decision to the Supreme Court, which ruled in July 1996 that the government had a contract with the thrifts granting the thrifts the goodwill and that the government breached that contract by phasing out the use of goodwill early. The results of the Supreme Court decision and the results of certain other trials not yet conducted in the Court of Federal Claims as of the end of 1996 had the potential to be applied in more than 120 other cases filed by thrifts in the Court of Federal Claims.

To carry out FDICIA, the FDIC issued and promulgated several regulations in 1992:

- In April, limitations on the loans that state nonmember banks could make to their executive officers;
- In May, tighter restrictions on brokered deposits;
- In September, prompt corrective action, which required regulators to take specified actions when an insured institution's capital falls below certain levels; and
- In October, (1) risk-related insurance premiums; (2) real estate lending policy amendments; (3) maximum levels of loan-to-value ratios, and (4) ownership by insured state chartered banks of corporate stock, mutual fund shares, and certain equity investments.

Congress enacted the Housing and Community Development Act of 1992, which contained provisions relating to banking and bank regulators. Among other provisions, this Act: (1) prohibited the FDIC from setting a specific range of compensation for officers, directors, and employees of insured financial institutions with some exceptions; (2) relieved lenders from a requirement in the Real Estate Settlement Procedures Act that they mail booklets on closing costs to all mortgage loan applicants; and, (3) clarified that caps on the maximum interest rate that a lender can charge on an adjustable rate mortgage apply only to consumer loans and not to business loans.

Table 15-4 shows the FDIC's assets in liquidation and Chart 15-1 shows the asset mix.

Table 15-4

1991 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/91 Book Value	1992 Assets Acquired	1992 Prin. Coll.	1992 Write Downs	12/31/92 Book Value	12/31/92 Est. Rec. Value
Commercial Loans	$15.3	$5.0	$3.1	$2.3	$14.9	$14.4
Mortgage Loans	12.8	6.5	3.6	1.5	14.2	7.9
Other Loans	1.4	0.5	0.3	0.9	0.7	**
Real Estate Owned	6.0	1.5	1.6	2.1	3.8	4.0
Judgments	1.9	1.2	0.1	1.1	1.9	**
Securities	0.3	1.6	1.1	0.0	0.8	0.7
Other Assets	5.6	0.1	0.5	0.7	4.5	6.1
Equity in Subs.***		2.6	0.1	0.0	2.5	**
Totals	$43.3	$19.0	$10.4	$8.6	$43.3	$33.1

*Totals may not foot due to rounding differences.
**For estimated value only, Commercial Loans includes Other Loans and Other Assets includes Judgments and Equity in Subsidiaries.
***New asset category added in 1992.
Source: Reports from FDIC Division of Finance.

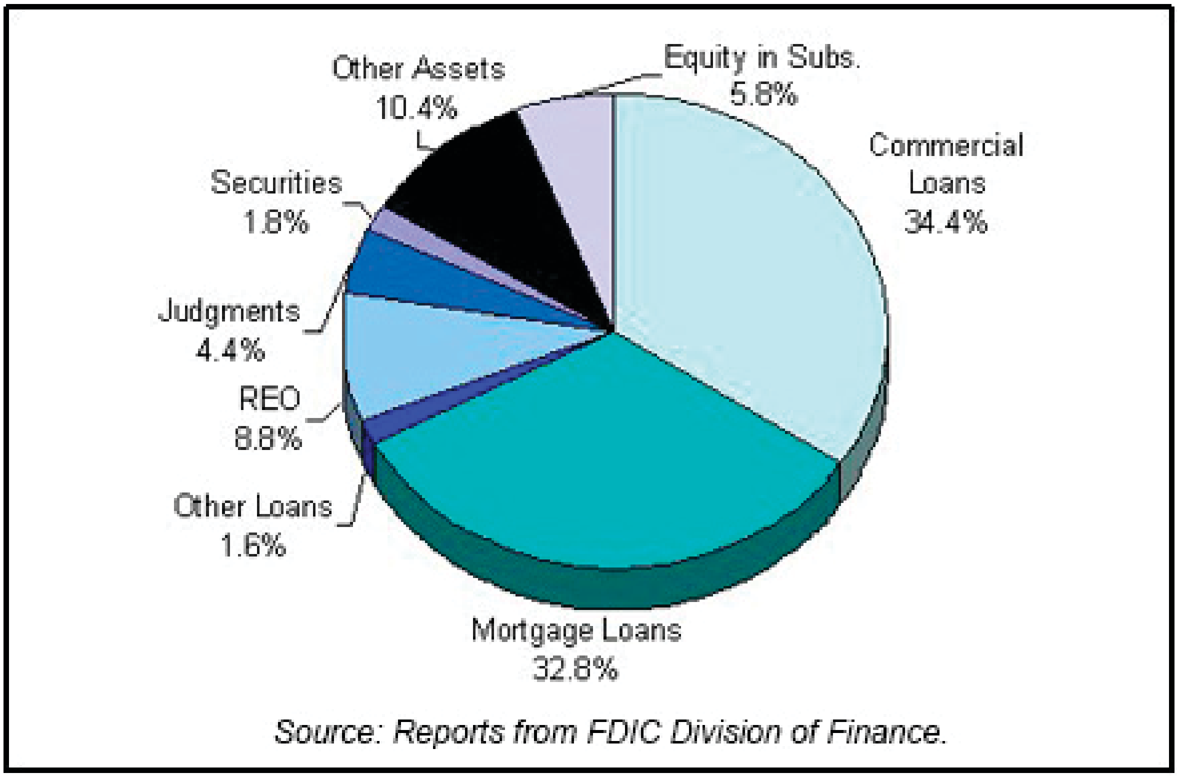


Chart 15-1 — 1992 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs
34.4%	32.8%	1.6%	8.8%	4.4%	1.8%	10.4%	5.8%
Source: Reports from FDIC Division of Finance							

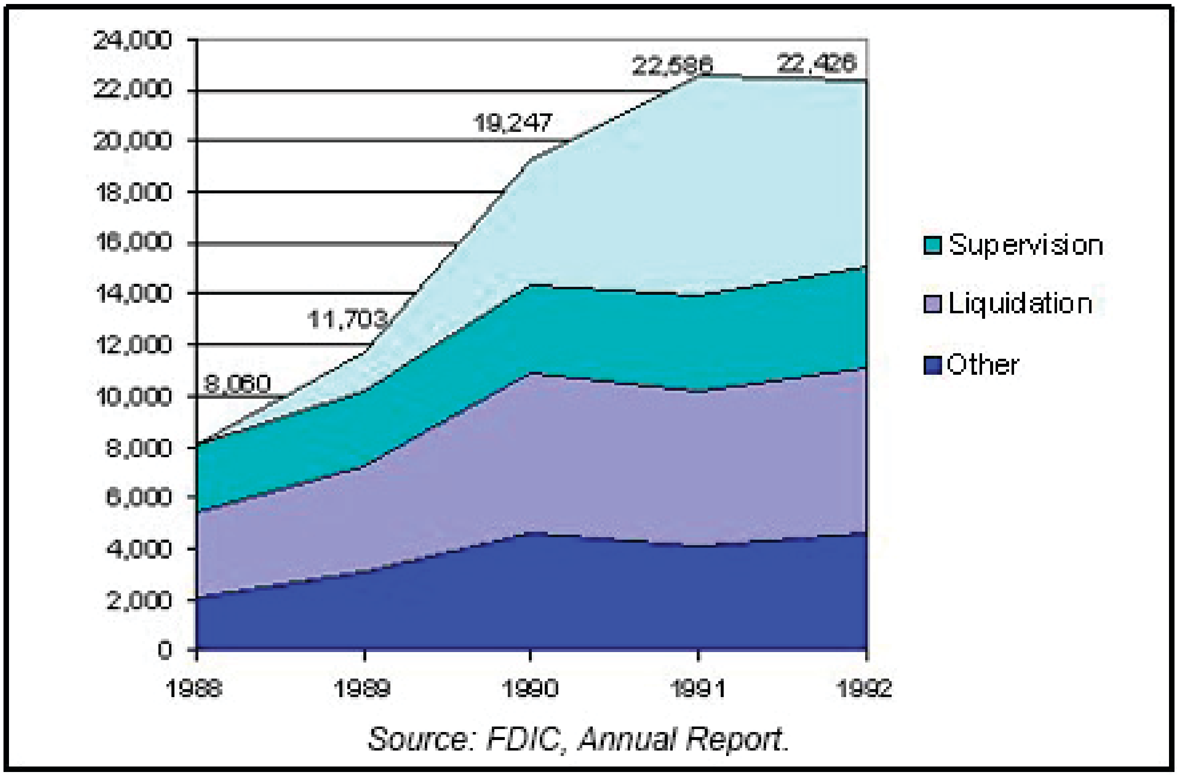


Chart 15-2 — 1992 FDIC/RTC Staffing

	1988	1989	1990	1991	1992
Other	2,095	3,143	4,637	4,062	4,621
Liquidation	3,371	4,141	6,311	6,097	6,427
Supervision	2,594	2,903	3,400	3,813	3,996
RTC		1,516	4,899	8,614	7,382
Total	8,060	11,703	19,247	22,586	22,426
Source: FDIC, 1992 Annual Report					

Insurance Fund and Staffing

The BIF had a slight negative balance of $101 million at the end of 1992. Overall, the FDIC employed 15,044 people, which was up from 13,972 at the end of 1991. There were 3,996 Division of Supervision employees, which was up from 3,813 at the end of 1991. Division of Liquidation employees totaled 6,427, which was an increase of 330 over the previous year. The FDIC also imposed a freeze on most permanent hiring and promotions in May in anticipation of the return to the FDIC of the RTC permanent employees at the RTC's sunset. Total staffing including 7,382 RTC employees equaled 22,426. Chart 15-2 shows the staffing levels for the past five years.

Private Resolutions

In April of 1992, two private banks with aggregate deposits of $203 million insured by the Pennsylvania Deposit Insurance Corporation (PDIC) were seized by the Pennsylvania Department of Banking. PDIC insured deposits to $100,000, but its $4 million in reserves was not sufficient to pay depositors. Consequently, insured deposits were transferred to two newly chartered, federally insured banks with deposits of $66 million and $116 million, respectively. Depositors, however, lost an aggregate $21 million in the process. The new banks were capitalized by stock purchased by the Pennsylvania's State Workers' Insurance Fund.

Litigation over the appropriateness of the closure of one of the private banks was settled in 1994. The pool of settlement money was to come from a $3.2 million direct cash payment by the state and from the sale of the failed bank assets by the state banking department. That settlement made 190 uninsured depositors almost whole[15-9].

The federally insured banks subsequently were merged and sold in July of 1995. The total cost to the state's taxpayers, as stated by the Pennsylvania Auditor General, was expected to be more than $33 million.

Small state insurance funds were prone to be hit hard with failure of just one or two institutions. PDIC never had more than four members and ultimately did not have sufficient funds to cover the losses from the two failed institutions.

Table 15-5

Resolution Trust Corporation 1991 - 1992: RTC at a Glance ($ in Millions)			
	12/31/91	12/31/92	Percent Change
Number of Conservatorships at the beginning of the year	179	91	-49.16%
Number of Conservatorships added during the year	123	50	-59.35%
Thrifts in the ARP Program*	21	9	-57.14%
Total of all thrift takeovers	144	59	-59.03%
Total of thrift resolutions	232	69	-70.26%
Conservatorships resolved during the year	211	60	-71.56%
Conservatorships at the end of the year	91	81	-10.99%

Total Assets at Takeover			
	12/31/91	12/31/92	Percent Change
Conservatorships	$70,929	$35,448	-50.02%
Thrifts in the ARP Program	$8,105	$9,437	16.43%
Total	$79,034	$44,885	-43.21%
Estimated losses on thrift resolutions**	$10,773	$4,180	-61.20%
Estimated losses as a percent of total assets	13.63%	9.31%	-31.69%

Assets in Liquidation			
	12/31/91	12/31/92	Percent Change
Conservatorships	$47,318	$40,211	-15.02%
Receiverships	$83,066	$64,335	-22.55%
Total	$130,384	$104,546	-19.82%
RTC Staffing	8,614	7,382	-14.30%

[15-9] The Philadelphia Business Journal, Inc., August 26, 1994.

Assets in Liquidation			
	12/31/91	12/31/92	Percent Change
*Thrifts placed into the ARP program are included for clarity, although they were never placed into the conservatorship program. **Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Source: RTC, 1992 Annual Report and Reports from FDIC Division of Research and Statistics.			

Notable Events

Various changes mandated by the enactment of the RTC Refinancing, Restructuring, and Improvement Act (RTCRRIA) of 1991 on November 27, 1991, were implemented in 1992. The changes included funding through April 1, 1992; extension of the time frame to accept appointment as conservator or receiver; establishment of the Thrift Depositor Protection Oversight Board; removal of the FDIC as exclusive manager of the RTC; and creation of the office of chief executive officer of the RTC. Pursuant to RTCRRIA, Albert V. Casey was named chief executive officer.

S&L Resolutions

At the beginning of 1992, the RTC was managing 91 conservatorships with total assets of $47.3 billion. During the year, another 50 thrifts with assets of about $35.5 billion were placed into conservatorship. By the end of the year, the RTC had resolved 69 failed thrifts with total assets of $35.5 billion. Of the 69 resolutions in 1992, 60 were conservatorships, and the remaining 9 thrifts were resolved through the Accelerated Resolution Program (ARP). The nine thrifts that were resolved under ARP had total deposits of $8.5 billion, and the deposit premiums paid by acquirers totaled $131 million, or about 1.8 percent of the transferred core deposits. The largest conservatorship resolution in 1992 was Sunbelt Federal Savings, F.S.B., Irving, Texas, with $3.4 billion in deposits and 112 offices.

Gross conservatorship assets, which totaled $47.3 billion in January 1992, were reduced by sales, collections, and resolutions to about $40.2 billion by the end of the year. The gross RTC funding for the 69 resolutions was $24.4 billion, including conservatorship advances of $2.5 billion, for a net RTC funding cost of $21.9 billion.

In 1992, 63 thrifts with total assets of $35.2 billion were resolved in P&A transactions. Two thrifts with total assets of $103.4 million were resolved through IDTs. Buyers could not be found for four thrifts with total assets of $170.3 million, and therefore, the thrift depositors were paid off.

Losses per transaction type are shown in Table 15-6 and Table 15-7 shows conservatorships and receiverships at year-end 1992.

Table 15-6

1992 Losses by RTC Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Loss*as of 12/31/95	Estimated Losses as a Percent of Assets
P&As	63	$35,211.1	$6,574.1	18.67%
IDTs	2	103.4	18.2	17.60%
Payoffs	4	170.3	46.9	27.54%
Totals	69	$35,484.8	$6,639.2	18.71%

1992 Losses by RTC Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Loss* as of 12/31/95	Estimated Losses as a Percent of Assets
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. Source: Reports from FDIC Division of Research and Statistics.				

Table 15-7

Conservatorships	
Item	Total
In Conservatorship at 12/31/91	91
Conservatorships added in 1992	50
Subtotal	141
Conservatorships resolved in 1992 (New Receiverships)	60
Conservatorships remaining 12/31/92	81
Receiverships	
Item	Total
Receiverships as of 12/31/91	584
New Receiverships that were previously Conservatorships in 1992	60
New Receiverships that were resolved through ARP in 1992	9
Total Receiverships during 1992	69
Total Receiverships as of 12/31/92	653
Source: Reports from FDIC Division of Research and Statistics.	

Payments to Depositors and Other Creditors

In 1992, there were 69 resolutions with total deposits of $27.6 billion in 3,080,701 deposit accounts. Of that total, there were four payoff transactions with $116.6 million in total deposits in 10,477 deposit accounts.

Of the 653 insured thrift failures since the RTC began operations in August of 1989, a total of 407 were P&A transactions, 88 were payoff transactions, and 158 were IDTs.

Asset Disposition

At the beginning of 1992, the RTC held $130.4 billion in assets of savings and loan associations in receivership and in conservatorship. Assets acquired during the year through conservatorships, other resolved institutions, and putbacks or repurchases totaled $60.2 billion for the year. Losses and collections totaled $86.1 billion for the year. At the end of 1992, total assets in liquidation from both receiverships and conservatorships were $104.5 billion.

During 1992, the RTC asset sales and collections totaled $79.4 billion. That figure is net of assets sold and then put back or repurchased, as well as net of discounted payoffs, bulk sale discounts, and write-offs. Book value reductions for the end of the fiscal year September 30, 1992, totaled $101 billion, an 87 percent return of the book value of disposed assets.

In 1992, the RTC National Sales Center was involved in a number of large sales transactions of commercial real estate and nonperforming mortgages. Two of those transactions are worthy of mention.

- The RTC executed its first large structured sale netting $130.5 million. The portfolio, with a total book value of $237 million, consisted of hotel properties, and performing and nonperforming loans collateralized by hotel assets.
- In September 1992, the RTC conducted its largest auction since inception, selling almost $500 million in book value of nonperforming loans. The auction was held in Los Angeles and generated a total of $247.9 million.

By the end of the year, a total of 92 Standard Asset Management Disposition Agreement (SAMDA) program contractors were managing assets with a total book value of approximately $23 billion. In 1992, the RTC established special teams in each field office to evaluate problem assets and execute necessary workout negotiations or collection strategies with defaulted borrowers. By the end of the year, the teams, with contractor assistance, had restructured, sold, or worked out $2.7 billion in assets and had another $4.7 billion in assets under review.

During the first two months of 1992, the RTC consummated its first manufactured housing and commercial mortgage securitizations, RTC 1992-MH1 and RTC 1992-C1, respectively. The RTC issued an internal circular requiring securitization to be the primary and priority method for selling all performing loans secured by one-to-four family homes, multi-family properties, commercial real estate, and manufactured housing contracts. On June 29, 1992, the RTC's only home equity loan securitization, RTC 1992-HEL1, was originated. During 1992, the RTC registered a total of $15 billion in mortgage pass-through securities with the Securities and Exchange Commission.

From the inception of the securities sales program in 1990, more than $61 billion in securities were sold, along with $9 billion in interest rate swaps and more than $8 billion in junk bonds. At the end of the year only $211 million in junk bonds remained in the RTC's inventory. The RTC used several programs to sell highly nonliquid securities, including limited partnership interests, highly leveraged transactions, and commercial loan participations.

In 1992, the RTC used Multiple Investor Funds and N Series securitization transactions to dispose of nonperforming and subperforming loans, as well as real estate owned to a lesser extent. The benefits of those programs were access to a broader investment base than was available through other disposition strategies, a potential upside economic interest for the RTC, and a structure to ensure that asset managers' interests were parallel to those of the RTC. The RTC also developed a securitization program for nonconforming single-family mortgages, multi-family loans, and commercial real estate loans. Table 15-8 shows the RTC's assets in liquidation and Chart 15-3 shows the asset mix.

> The RTC used the **Multiple Investor Fund (MIF) and N Series** securitization transactions to dispose of nonperforming and subperforming loans. Those transactions involved establishing partnerships between the RTC and private investors who purchased, managed, and then sold portfolios of nonperforming and subperforming loan assets, and then shared in the profits with the RTC. The structure provided incentives for equity partners to work out portfolios with the highest returns to the partners and the RTC.

Table 15-8

1992 RTC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/91 Total Book Value	Assets Acq'd During the Year	1992 Collections	1992 Losses	12/31/92 Total Book Value	Memo Item
1-4 Family Mtges	$25.9	$18.3	$24.4	$3.2	$16.6	$4.3
Other Mtges	43.9	10.6	15.8	6.0	32.7	6.8
Other Loans	9.0	3.3	5.1	0.0	7.2	1.2
Real Estate Owned	17.1	3.3	3.7	3.8	12.9	2.8
Other Assets	16.2	3.9	7.5	-4.2	16.8	7.0
Cash/Securities	18.3	20.8	22.9	-2.1	18.3	3.8
Totals	$130.4	$60.2	$79.4	$6.7	$104.5	$25.9

Memo Item: Assets transferred from conservatorship to receivership. Does not affect total of assets in liquidation.
*Totals may not foot due to rounding differences.
Source: RTC August 1989/September 1995 Statistical Abstract.

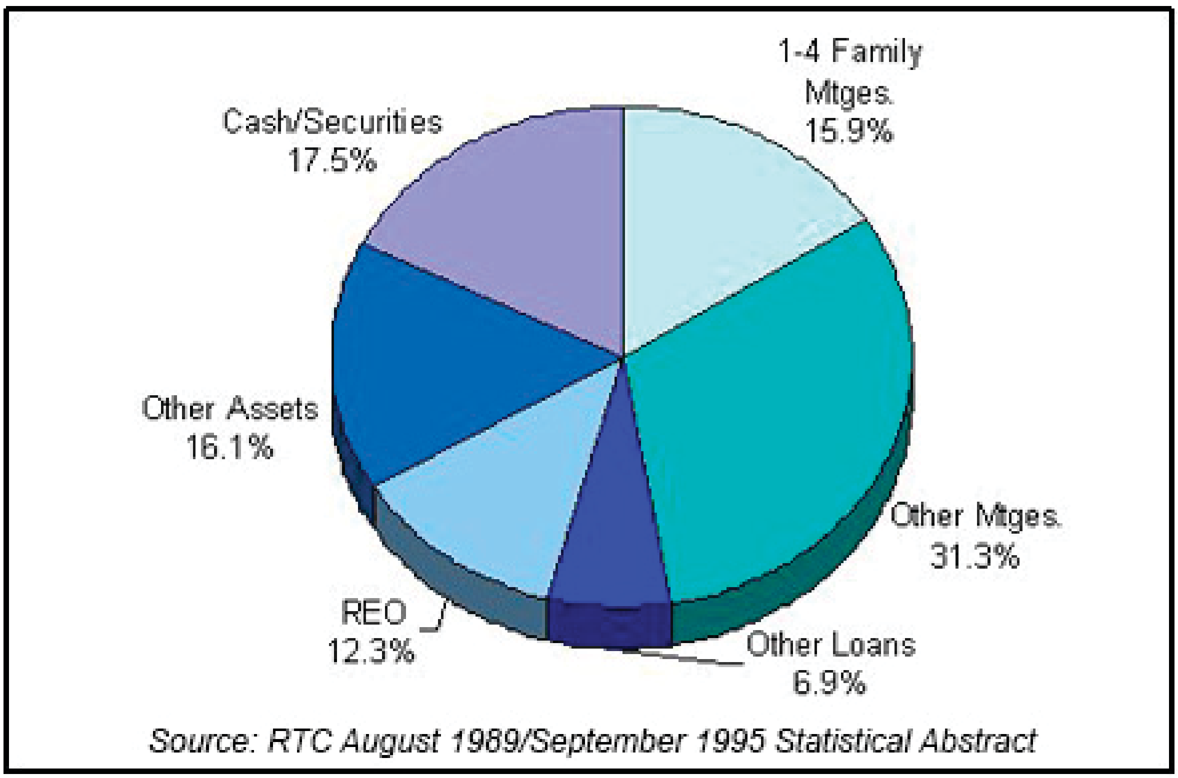


Figure 15-3 — 1992 RTC End of Year Asset Mix

1-4 Family Mtges.	Other Mtges.	Other Loans	REO	Other Assets	Cash/Securities
15.9%	31.3%	6.9%	12.3%	16.1%	17.5%

Source: RTC August 1989/September 1995 Statistical Abstract

Funding and Staffing

During 1992, the RTC was not given additional funding by Congress after April 1 to resolve failed thrifts. When the RTC was without funding, resolution activity was severely reduced. The pace of resolutions, followed the availability of funding and resolution delays, kept thrifts in conservatorship longer, which increased conservatorship operating losses. Those losses were $5.4 billion in 1989 and decreased steadily each year. In 1992, they were $669 million, but because of the reduced resolution activity from the lack of funding, in 1993, conservatorship operating losses increased to $1.3 billion. Resolution delays and conservatorship operating losses led to increased resolution costs because of the relatively high carrying cost of maintaining assets in failed thrifts[15-10]. Nonetheless, the RTC assumed control of 50 thrifts closed by the Office of Thrift Supervision during 1992, and the total number of employees declined from 8,614 to 7,382 by the end of the year.

[15-10] Resolution Trust Corporation, Office of Research and Statistics, "The History of RTC Funding." Unpublished document.

Chapter Sixteen: 1993

Acting FDIC Chairman Andrew C. Hove, Jr. remarked in the FDIC's 1993 annual report, "The reductions in both actual bank failures and in our forecasts for future closings enabled the BIF [Bank Insurance Fund] to end 1993 with a balance of $13.1 billion. That is a significant improvement over the negative balance of $101 million at the close of 1992 and the $7 billion deficit at year–end 1991—the only years since the FDIC began operations in 1934 that the insurance fund had a negative balance."

Table 16-1

1992 - 1993: FDIC at a Glance ($ in Millions)

	12/31/92	12/31/93	Percent Change
Number of Bank Failures	120	41	-65.83%
Assistance to Open Banks	2	0	-100.00%
Total Failed and Assisted Banks	122	41	-66.39%
Total Assets of Failed and Assisted Banks	$45,391.1	$3,828.9	-91.56%
Estimated Losses on Failed and Assisted Banks*	$3,675.2	$646.1	-82.42%
Estimated Losses as a Percent of Total Assets	8.10%	16.87%	108.27%
Assets in Liquidation	$43,273.4	$28,015.1	-35.26%
FDIC Staffing	15,044	14,220	-5.48%
Number of Problem Banks	863	472	-45.31%
Bank Insurance Fund Balance	$-100.6	$13,121.6	--
Bank Insurance Fund Balance as a Percent of Insured Deposits	-0.01%	0.69%	--
Savings Insurance Fund Balance	$279.0	$1,155.7	314.23%
Savings Insurance Fund Balance as a Percent of Insured Deposits	0.04%	0.17%	325.00%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Percent change is not provided if either the latest period or the year–ago period contains a negative number. Back to table
Source: FDIC, 1993 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

Certain events important to the FDIC occurred in 1993, as follows:

- On January 1, FDIC insured institutions began paying risk-based premiums for deposit insurance;
- On September 29, $391 million in additional funds were distributed to the FDIC and the RTC in the Drexel Burnham Lambert case;
- On November 17, President William J. Clinton announced his intention to nominate Ricki Tigert as chairman of the FDIC; and
- On December 14, the FDIC held a two-day nationwide real estate auction in which 165 properties were sold for a total of $312.2 million.

Economic/Banking Conditions

The economy continued its recovery with Gross Domestic Product growing at the modest pace of 2.3 percent and the unemployment rate declining from 7.5 percent to 6.9 percent[16-1]. The discount rate fell to 3 percent, and the 30-year mortgage rate also reached a low of 7.3 percent[16-2]. The inflation rate fell slightly from 2.8 percent to 2.6 percent[16-3]. The low interest rates and inflation rate spurred the housing sector with home sales and housing starts at 8.2 percent and 7.3 percent, respectively. The office vacancy rate also declined from 18.5 percent to 17.1 percent[16-4].

The Southwest was in the midst of a full recovery, as the number of failures declined from 36 in 1992 to only 10 failures in 1993. The recovery was fueled in part by the fact that Southwest banks held smaller fractions of their portfolios in the form of commercial real estate and Commercial and Industrial (C&I) loans than they had held in the mid-1980s. Commercial real estate loans made up close to 9 percent of Southwest banks' assets in 1986, but only 6.8 percent of the assets in 1993. Similarly, the percentage of C&I loans was about 16 percent in the early 1980s, but plummeted to a low of 7 percent in 1993. Total loans and leases, which made up about 57 percent of the assets in the mid-1980s, fell to under 45 percent in 1993.

The Northeast had only three failures in 1993, a substantial drop from the previous years' totals of 52 in 1991 and 43 in 1992. Further, the number of problem banks in the region also declined to 148 institutions. Asset growth rates came out of the red for the first time in four years, and return on assets increased by more than 20 basis points. Nonperforming assets relative to total assets continued to fall, as did net charge-offs on loans and leases. The decline in the number of failures was accompanied by a huge drop in the Northeast banks' holding of C&I loans from a high of slightly above 10 percent in 1980 to an all-time low of under 4 percent in 1993. Total loans and leases also declined to 62 percent of assets from a high of 73 percent in the mid-1980s. Real estate loans also declined in 1993, but not as much as those other types of loans.

Bank failures in California peaked in 1993 at 19 institutions. Unlike the Southwest, California did not experience large numbers of failures. Of the banks that did fail in California, 77 percent were banks that had been chartered in the 1980s, and 83 percent of the failures were southern California community banks which were small, local, and not diversified. Net charge-offs on loans and leases peaked in southern California at 0.8 percent of assets, while the rest of California and the U.S. had levels of 0.2 percent and 0.1 percent, respectively. Return on assets for the California banking industry was -0.01 percent, its lowest point in ten years. Lending activity in the state remained steady with total loans and leases totaling 64 percent of assets. Total real estate loans fell slightly relative to assets, while commercial real estate loans remained around 24 percent of assets. C&I loans continued to fall from 13.5 percent of assets in 1992 to 12.5 percent.

Overall, the U.S. banking industry continued its good performance from the previous year. There were 59 new charters, down slightly from the previous year.

FDIC insured institutions in 1993 reported record earnings, due to favorable interest rates and improved interest earning asset quality. More than two-thirds of the institutions reported higher earnings, and fewer than 1 in 20 institutions was unprofitable. In addition, troubled assets declined further in 1993, and noncurrent loans and other real estate portfolios shrank to their lowest levels since 1986.

[16-1] Bureau of Economic Analysis and Bureau of Labor Statistics, Department of Labor.

[16-2] Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

[16-3] Bureau of Labor Statistics, Department of Labor.

[16-4] Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

Commercial banks reported a gain in net income of $43.4 billion, exceeding the 1992 record of $32 billion. The Northeast and California banking industries were slightly less profitable than the rest of the U.S. because of the condition of some large savings banks. Equity capital grew, supported by high levels of retained earnings and favorable conditions for new capital issues. Commercial banks' equity capital as a percent of total assets rose to an average of 8.01 percent by the end of 1993, and that was the first time in 30 years that capital rates were above 8 percent. Total loans held by commercial banks grew by 6 percent in 1993. The FDIC's problem bank list shrank again to 472 commercial banks with assets of $269.2 billion at the end of the year. In addition, there were 100 Savings Association Insurance Fund (SAIF) insured savings banks with combined assets of $65 billion on the FDIC's problem list by the end of 1993. That was the third consecutive decline in the SAIF member problem bank list.

By the end of the year, 2,264[16-5] savings banks and savings associations insured by the FDIC held assets totaling $1 trillion and had combined earnings of $7 billion. Their net income for 1993 was up 4.2 percent, although total assets declined by 2.8 percent. Unlike commercial banks, savings institutions did not show uniform earnings strength. Institutions in the Northeast and California, including some of the largest savings institutions in the nation, were less profitable than the rest of the industry.

Table 16-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1993.

Table 16-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1992	1993	Percent Change
Number	11,462	10,958	-4.40%
Total Assets	$3,505.7	$3,706.2	5.72%
Return on Assets	0.93%	1.20%	29.03%
Return on Equity	7.94%	12.98%	63.48%

Savings Banks - FDIC Regulated

Item	1992	1993	Percent Change
Number	518	593	14.48%
Total Assets	$218.2	$226.1	3.62%
Return on Assets	0.74%	0.95%	28.38%
Return on Equity	9.35%	11.09%	18.61%

Savings Associations - OTS Regulated

Item	1992	1993	Percent Change
Number	1,872	1,669	-10.84%
Total Assets	$812.0	$774.8	-4.58%
Return on Assets	0.63%	0.63%	0.00%
Return on Equity	9.53%	8.61%	-9.65%

Source: Reports from FDIC Division of Research and Statistics.

[16-5] Figures do not include member institutions of SAIF that were in RTC conservatorship.

Bank Failures

During 1993, bank failures decreased in both pace and volume. The FDIC handled 41 bank closings in 1993, the lowest level in 12 years. Assets in the failed institutions totaled $3.8 billion, and there was only one failed bank with total assets near $1 billion. No assistance transactions took place in 1993.

Of the 41 failures in 1993, a total of 36 were purchase and assumption (P&A) transactions, including 30 transactions in which only the insured deposits (as opposed to all deposits) passed to the assuming institution. The five remaining failures were resolved through payoffs. In most of the closings in 1993, advance dividends were paid to uninsured depositors. In 35 of the 41 failures, uninsured depositors received less than 100 cents per dollar on their uninsured deposits.

In 1993, there were three major resolutions, and each one involved failed banks from previous years:

On February 13, the 20 bridge banks with total assets of $8.1 billion established in 1992 for First City Bancorporation of Houston, Inc., Houston, Texas, were sold in P&A transactions to various purchasers.

On April 23, Missouri Bridge Bank, N.A., Kansas City, Missouri, established in 1992 to assume certain assets and liabilities of two banks, Metro North State Bank, Kansas City, Missouri, and The Merchants Bank, Kansas City, Missouri, was sold to Boatmen's First National Bank of Kansas City, Kansas City, Missouri; total assets were $1.9 billion (two resolutions).

On August 12, CrossLand Federal Savings Bank, Brooklyn, New York was resolved through a public stock offering, with estimated savings to BIF of $400 million; total assets were $7.4 billion.

A recent estimate of losses per transaction type is shown in Table 16-3.

Table 16-3

1993 Estimated Losses by Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	36	$3,493.3	$544.2	15.58%
Payoffs	5	335.6	101.9	30.36%
Totals	41	$3,828.9	$646.1	16.87%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Back to table
Source: Reports from FDIC Division of Research and Statistics.

In 1993, the FDIC promulgated several final regulations to further implement the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, including the following:

A new prohibition against insured state chartered banks and their majority-owned subsidiaries from conducting activities "as principal" which were not permitted at national banks.

The final risk-related insurance premium system;

The final amendments to risk-based capital rules; and

Regulations further implementing the prompt corrective action requirement.

During the year, two significant acts of Congress had an impact on the FDIC. In the Omnibus Budget Reconciliation Act of 1993, Congress included a "national depositor preference" amendment, which applied to all insured institutions closed on or after August 10, 1993. The second significant act was the appropriation by Congress of an additional $1.2 billion to the FSLIC Resolution Fund (FRF) to handle the assets and liabilities of the former Federal Savings and Loan Insurance Corporation.

The **National Depositor Preference Amendment** provided for failed bank assets to be distributed in the following order to:

Cover the FDIC's administrative expenses;

Pay the claims of all depositors;

Pay general creditor claims;

Pay subordinated creditor claims; and

Pay claims of shareholders

Payments to Depositors and Other Creditors

In the 41 banks that failed in 1993, deposits totaled $3.5 billion in 1,712,224 deposit accounts. Payoffs accounted for five transactions with 16,774 deposit accounts and total deposits of $320.2 million. Dividends paid on all active receiverships totaled $17.9 billion in 1993.

Of the 2,108 insured bank resolutions[16-6] since the FDIC began operations in 1934, 1,224 were P&A transactions and 202 were whole bank deals. Deposit payoff transactions accounted for 603 cases, of which there were 176 insured deposit transfers (IDTs). There were also 79 open bank assistance (OBA) transactions.

Total disbursements by the FDIC since January 1, 1934, amounted to $102.1 billion. Of that amount, the FDIC recovered $64.4 billion, for a net loss of $37.7 billion.

Asset Disposition

At the beginning of 1993, the FDIC held $43.3 billion in assets of failed banks. During the year, the FDIC handled 41 failed banks with total assets of $3.8 billion and acquired $1.9 billion in assets for liquidation. Also during 1993, the FDIC became responsible for certain failed institutions insured by SAIF. Assets from failed SAIF–insured institutions totaled $729 million, of which the FDIC acquired $354 million for liquidation. Principal collections amounted to $8.1 billion for BIF, $769 million for FRF, and $278 million for SAIF, for a total of about $9.2 billion. At the end of 1993, there were $25.2 billion in assets in liquidation for BIF, $2.7 billion for FRF, and $72 million for SAIF, for a total of $28 billion, a reduction of 35 percent from the total at the end of 1992.

- During 1993, the FDIC disposed of a large portion of its asset inventory acquired from failed institutions. Total book value reduction was $15.3 billion, from $43.3 billion to $28 billion. Total collections were approximately $9.2 billion. Significant activities were as follows:
- During the year, the sale of 10,275 real estate properties had a total sales price of $2.2 billion. The sales resulted in recoveries of 89.8 percent of the average appraised value.
- The sale of over 136,000 loans, totaling $5.4 billion in book value, in sealed bid offerings and other asset marketing events, or $1.3 billion more than the $4.1 billion record of 1992. Net sales proceeds of $3.3 billion hit a new high and represented 99.8 percent of appraised value.
- The third annual national real estate auction held in December in Boston, Massachusetts, included 197 properties valued at approximately $400 million. The FDIC sold 165 of the properties for $312.2

[16-6] In 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per transaction; this report calculates failures per failed institution. Actual resolutions through 1993 totaled 2,166.

million, which was an average price of more than 90 percent of the appraised value. Satellite coverage allowed bidders to participate from several other major locations.

In 1993, the FDIC acquired its first assets for liquidation from SAIF–insured institutions. The SAIF had responsibility for:

- All federally insured depository institutions that became members of SAIF after August 8, 1989, for which the RTC did not have resolution authority, and
- All deposits insured by SAIF held by BIF member banks, so called "Oakar banks," created pursuant to the Oakar amendment provisions found in Section 5(d)(3) of the Federal Deposit Insurance Act.

The "Oakar Amendment" provisions allowed, with approval of the appropriate federal regulatory authority, any insured depository institution to merge, consolidate, or transfer the assets and liabilities of an acquired institution without changing insurance coverage for the acquired deposits. Such acquired deposits continued to be either SAIF-insured deposits or BIF insured deposits and assessed at the appropriate assessment rate. In addition, any losses from the failure of those institutions were to be allocated between BIF and SAIF based on the respective dollar amounts of the deposits.

Table 16-4 shows the FDIC's assets in liquidation and Chart 16-1 shows the asset mix.

Table 16-4

1993 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/92 Book Value	1993 Assets Acquired	1993 Prin. Coll.	1993 Write Downs	12/31/93 Book Value	12/31/93 Est. Rec. Value
Commercial Loans	$14.9	$0.7	$2.6	$3.0	$10.0	$5.0
Mortgage Loans	14.2	1.2	3.2	2.1	10.1	6.5
Other Loans	0.7	0.2	0.2	0.2	0.5	0.3
Real Estate Owned	3.8	1.3	1.4	1.3	2.4	1.4
Judgments	1.9	0.5	0.1	0.5	1.8	0.3
Securities	0.8	0.2	0.7	0.1	0.2	0.0
Other Assets	4.5	-1.9**	0.2	0.5	1.9	0.7
Equity in Subs.	2.5	-0.7**	0.8	0.1	0.9	0.4
Deficiencies***		0.8	0.0	0.6	0.2	0.1
Totals	$43.3	$2.3	$9.2	$8.4	$28.0	$14.7

*Totals may not foot due to rounding differences. Back to table
**Amounts are negative due to adjustments made for the previous year's transactions. Back to table
***New asset category added in 1993. Back to table
Source: Reports from FDIC Division of Finance.

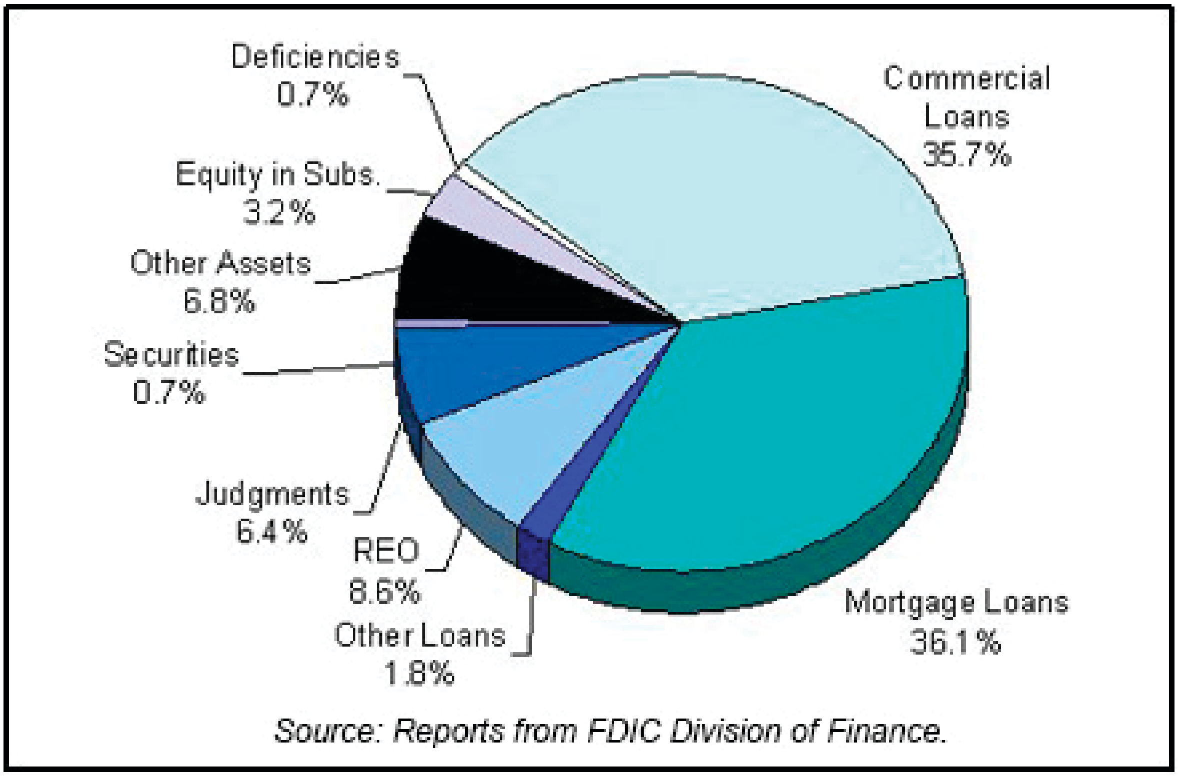


Chart 16-1 — 1993 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
35.7%	36.1%	1.8%	8.6%	6.4%	0.7%	6.8%	3.2%	0.7%
Source: Reports from FDIC Division of Finance								

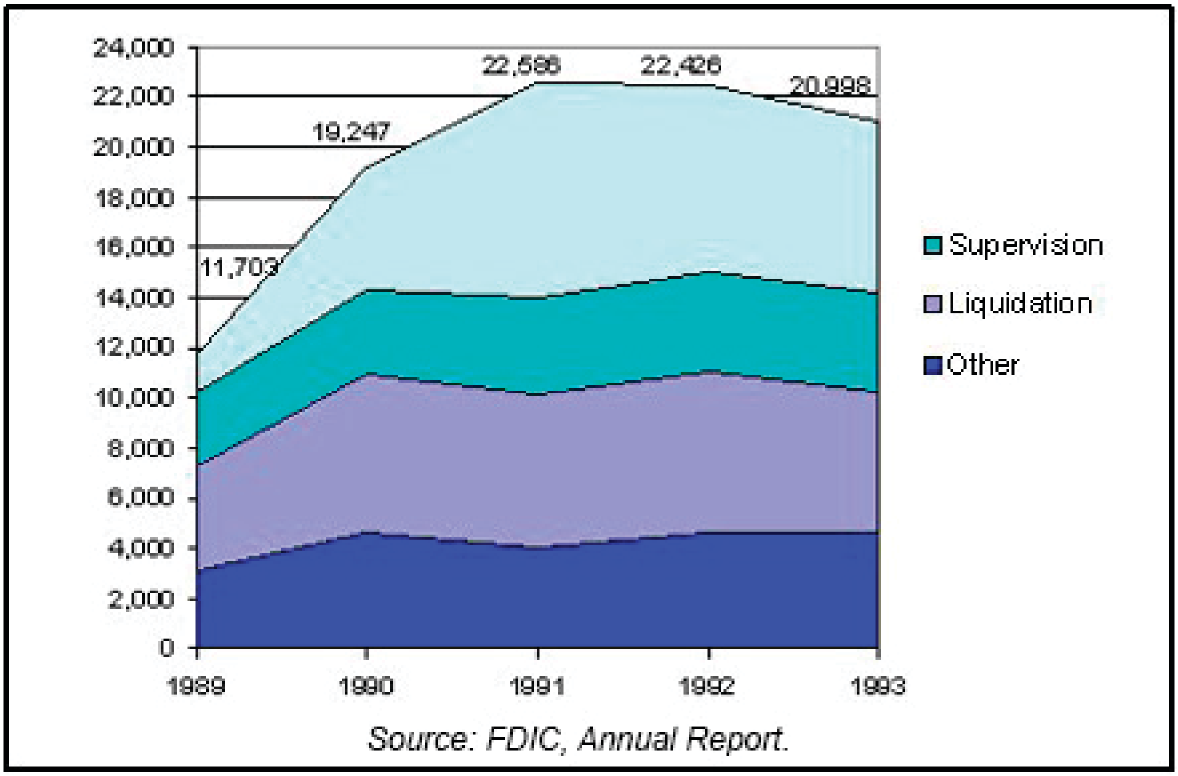


Chart 16-2 — 1993 FDIC/RTC Staffing chart

	1989	1990	1991	1992	1993
Other	3,143	4,637	4,062	4,621	4,584
Liquidation	4,141	6,311	6,097	6,427	5,665
Supervision	2,903	3,400	3,813	3,996	3,971
RTC	1,516	4,899	8,614	7,382	6,778
Total	11,703	19,247	22,586	22,426	20,998
Source: FDIC, 1993 Annual Report					

Insurance Fund and Staffing

At the end of 1993, BIF's balance was $13.1 billion, significantly up from 1992's negative $101 million and 1991's negative $7 billion. SAIF reserves grew to $1.2 billion from $279 million in 1992. However, SAIF's reserves were only 17 cents per $100 of insured deposits, compared with 69 cents per $100 in BIF.

FDIC staffing stood at 14,220, including 3,971 Division of Supervision personnel and 5,665 Division of Depositor and Asset Services (formerly known as Division of Liquidation) personnel. Total staffing including 6,778 RTC employees equaled 20,998. Chart 16–2 shows the staffing levels for the past five years.

Table 16-5

Resolution Trust Corporation 1992 - 1993: RTC at a Glance ($ in Millions)			
	12/31/92	12/31/93	Percent Change
Number of Conservatorships at the beginning of the year	91	81	-10.99%
Number of Conservatorships added during the year	50	8	-84.00%

Resolution Trust Corporation 1992 - 1993: RTC at a Glance ($ in Millions)			
	12/31/92	12/31/93	Percent Change
Thrifts in the ARP Program*	9	1	-88.89%
Total of all thrift takeovers	59	9	-84.75%
Total of thrift resolutions	69	27	-60.87%
Conservatorships resolved during the year	60	26	-56.67%
Conservatorships at the end of the year	81	63	-22.22%
Total Assets at Takeover			
	12/31/92	12/31/93	Percent Change
Conservatorships	$35,448	$6,061	-82.90%
Thrifts in the ARP Program	$9,437	$44	-99.53%
Total	$44,885	$6,105	-86.40%
Estimated losses on thrift resolutions**	$4,180	$609	-85.43%
Estimated losses as a percent of total assets	9.31%	9.97%	7.09%
Assets in Liquidation			
	12/31/92	12/31/93	Percent Change
Conservatorships	$40,211	$23,166	-42.39%
Receiverships	$64,335	$40,664	-36.79%
Total	$104,546	$63,830	-38.95%
RTC Staffing	7,382	6,778	-8.18%

*Thrifts placed into the ARP program are included for clarity, although they were never placed into the conservatorship program. Back to table

**Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Back to table

Source: RTC, 1993 Annual Report and Reports from FDIC Division of Research and Statistics.

Notable Events

On March 15, 1993, Deputy Treasury Secretary Roger C. Altman became interim chief executive officer (CEO), taking over the helm from resigning President and CEO Albert V. Casey. Altman would later hold the post for approximately one year.

In the RTC's 1993 annual report issued in June 1994, RTC Acting CEO John Ryan stated that: "[RTC] has now entered the last phase of its operations…The days when RTC resolved scores of thrifts in a single month and disposed of tens of billions of dollars in assets in one quarter are thankfully behind us." By the end of the year, the RTC had only 63 thrifts remaining to be resolved, and $63.8 billion in assets awaiting disposal.

On December 17, 1993, President Clinton signed the Resolution Trust Corporation Completion Act into law. The Act removed the prior April 1, 1992 limitation on funds previously established under the RTC Refinancing, Restructuring, and Improvement Act (RTCRRIA) of 1991, and authorized up to $18.3 billion to resolve the remaining insolvent thrifts. The Act also established a new RTC sunset date of December 31, 1995, one year earlier than previously mandated.

S&L Resolutions

At the beginning of 1993, the RTC was managing 81 conservatorships with total assets of $71.9 billion in total assets. During the year, eight more thrifts with total assets of $6.3 billion entered the conservatorship program, while 26 conservatorships with total assets of $7.5 billion were resolved. Additionally, one institution with total assets of $44 million was resolved through the Accelerated Resolution Program (ARP). In spite of the Congressional funding impasse, recoveries on asset sales and favorable economic conditions resulted in a release of unallocated reserves, which made $3 billion available for resolutions. Of the 27 resolutions in 1993, 24 were resolved using those funds, while the remaining three were completed without cost to the RTC. Estimated savings over the cost of paying off insured deposits was $300 million.

In 16 of the 26 P&A resolutions, all deposits were transferred to acquirers, while in ten resolutions, only insured deposits were transferred. One institution was resolved through a payoff. The 26 thrifts resolved in P&A transactions had total assets of $7.4 billion. The only institution whose deposits were paid off in 1993 had total assets of $93.7 million.

The largest conservatorship resolution in 1993 was HomeFed Bank, F.A., San Diego, California, (HomeFed) which had $10.2 billion in deposits, $13.9 billion in assets, and 201 offices in July 1992 at the time it was placed into conservatorship. While HomeFed was in conservatorship, the RTC aggressively marketed the institution's assets as it downsized the thrift by selling 56 branches and closing 9 branches in the process. The remaining 136 branches were sold in the resolution of HomeFed to four acquirers.

Losses per transaction type are shown in Table 16-6 and Table 16-7 shows conservatorships and receiverships at year-end 1993.

Table 16-6

1993 Losses by RTC Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Loss* as of 12/31/95	Estimated Losses as a Percent of Assets
P&As	26	$7,392.1	$1,643.8	22.24%
Payoffs	1	93.7	16.5	17.61%
Totals	27	$7,485.8	$1,660.3	22.18%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. Back to table
Source: Reports from FDIC Division of Research and Statistics.

Table 16-7

Conservatorships

Item	Total
In Conservatorship at 12/31/92	81
Conservatorships added in 1993	8
Subtotal	89
Conservatorships resolved in 1993 (New Receiverships)	26
Conservatorships remaining 12/31/93	63

Receiverships

Item	Total
Receiverships as of 12/31/92	653

Receiverships	
Item	**Total**
New Receiverships that were previously Conservatorships in 1993	26
New Receiverships that were resolved through ARP in 1993	1
Total Receiverships during 1993	27
Total Receiverships as of 12/31/93	680
Source: RTC, 1994 Annual Report.	

Payments to Depositors and Other Creditors

In 1993, there were 27 resolutions with total deposits of $8 billion in 1,065,319 deposit accounts. Of that total, there was one payoff transaction with $47.1 million in total deposits in 751 deposit accounts.

Of the 680 insured thrift failures since the RTC began operations in August of 1989, a total of 433 were P&A transactions, 89 were payoff transactions, and 158 were IDTs.

Asset Disposition

At the beginning of 1993, the RTC held $104.5 billion in assets of savings and loan associations in receivership and conservatorship. Assets acquired during the year through conservatorships, other resolved institutions, and putbacks or repurchases totaled $23.5 billion for the year. Losses and collections totaled $64.2 billion for the year. At the end of 1993, total assets in liquidation from receiverships and conservatorships was $63.8 billion, a reduction of 39 percent.

In December 1992, the RTC had established goals to reduce the book value of Standard Asset Management Disposition Agreement (SAMDA) assets as of September 30, 1992, by 90 percent before the end of 1993. In 1993, the RTC developed policies and procedures to ensure that all RTC contractors completed their contractual obligations. The focus of the SAMDA program was shifted back to loan workout/compromise and sale of individual assets and away from the bulk sales strategies used in 1992. At the end of the year, 91 SAMDA contractors were managing assets with a total book value of approximately $10.9 billion.

During 1993, the RTC closed approximately $1.6 billion in commercial seller financed transactions. Special teams in 23 offices restructured, sold, or worked out approximately $2 billion in problem assets, and another $2.9 billion in assets were being reviewed at the end of 1993.

In addition, the RTC conducted two national, nonperforming loan auctions in Kansas City, Missouri. In March 1993, approximately 18,000 loans with a total book value of about $503 million were sold at an auction yielding a $249 million recovery. Later, in August 1993, 11,200 loans with a total book value of $670 million were sold for a total recovery of $335 million.

Concerning the RTC's securities portfolio, the RTC sold a total of $62.5 billion of securities from March 1990 through the end of 1993. The securities sold included $9 billion of interest rate swaps and $9 billion in junk bonds for a total recovery of about 65 cents on the dollar.

In 1993, the RTC used the Multiple Investor Fund, the N Series, and the S Series transactions to dispose of nonperforming and subperforming loans. Those transactions involved the formation of partnerships with private investors who purchased, managed, and then sold portfolios of nonperforming and subperforming loan assets, and then shared in the profit with the RTC. Approximately $4.1 billion book value in nonperforming commercial and multi-family mortgage loans was sold in 1993.

The S Series securitization transactions were similar to the N Series transactions designed to dispose of nonperforming and subperforming commercial loans through leveraged trusts. The S Series transactions targeted investors with moderate capital levels by reducing the investors' equity investment to $4 million, which was down from the $9 million required in the N Series transactions.

Approximately $3.8 billion book value in performing loans was securitized in 1993. Five transactions were collateralized by $1.6 billion in performing single-family mortgages and three transactions by $2.2 billion in performing commercial and multi-family mortgages. More than $36.6 billion in assets were securitized from the inception of the program in June 1991 through 1993, including single-family, multi-family, commercial mortgages, and commercial and consumer loans.

Overall, $50 billion was recovered through collections and asset sales. This figure is net of assets sold and then put back or repurchased and net of discounted payoffs, bulk sale discounts, and write-offs. Table 16-8 shows the RTC's assets in liquidation and Chart 16-3 shows the asset mix.

Table 16-8

1993 RTC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/92 Total Book Value	Assets Acq'd During the Year	1993 Collections	1993 Losses	12/31/93 Total Book Value	Memo Item
1-4 Family Mtges	$16.6	$3.4	$10.0	$1.0	$9.0	$0.9
Other Mtges	32.7	2.2	10.2	7.2	17.5	1.2
Other Loans	7.2	2.1	3.8	1.0	4.5	0.1
Real Estate Owned	12.9	0.6	3.5	4.0	6.0	0.5
Other Assets	16.8	1.0	2.7	-0.2	15.3	1.3
Cash/Securi-ties	18.3	14.2	19.7	1.3	11.5	3.4
Totals	$104.5	$23.5	$49.9	$14.3	$63.8	$7.4

Memo Item: Assets transferred from conservatorship to receivership. Does not affect total of assets in liquidation.
*Totals may not foot due to rounding differences. Back to table
Source: RTC August 1989/September 1995 Statistical Abstract.

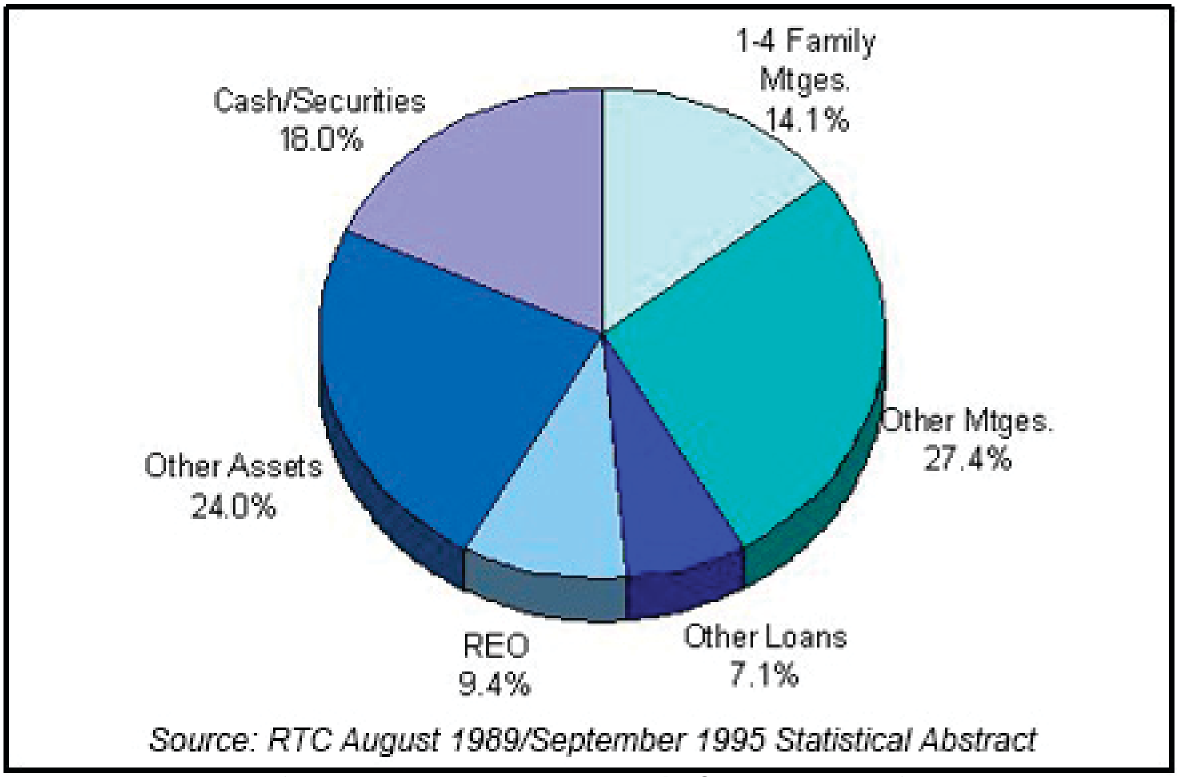


Figure 16-3 — 1993 RTC End of Year Asset Mix

1-4 Family Mtges.	Other Mtges.	Other Loans	REO	Other Assets	Cash/Securities
14.1%	27.4%	7.1%	9.4%	24.0%	18.0%
Source: RTC August 1989/September 1995 Statistical Abstract					

Funding and Staffing

During the year, the RTC reorganized its field operations in a downsizing effort. The RTC closed field offices in Houston, Texas; Baton Rouge, Louisiana; Somerset, New Jersey; Phoenix, Arizona; Tampa, Florida; San Antonio, Texas; and Chicago, Illinois. More than 600 permanent employees returned to the FDIC. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 guaranteed that all transferred (returned) employees were guaranteed a position with the same status, tenure, and pay as that held on the day immediately preceding the transfer. Each such employee holding a permanent position could not be involuntarily separated or reduced in grade or compensation for one year after the date of the transfer, except for cause. Total RTC staffing declined from 7,382 at the end of 1992 to 6,778 at the end of 1993.

Chapter Seventeen: 1994

Chairman Ricki Helfer is quoted in the FDIC's 1994 annual report as stating, "The banking crisis of recent years is now behind us. After reporting repeated record earnings, the banking industry as a whole last year was in the best financial condition it has ever experienced."

Table 17-1

1993 - 1994: FDIC at a Glance ($ in Millions)	12/31/93	12/31/94	Percent Change
Number of Bank Failures	41	13	-68.29%
Assistance to Open Banks	0	0	0.00%
Total Failed and Assisted Banks	41	13	-68.29%
Total Assets of Failed and Assisted Banks	$3,828.9	$1,463.9	-61.77%
Estimated Losses on Failed and Assisted Banks*	$646.1	$179.0	-72.30%
Estimated Losses as a Percent of Total Assets	16.87%	12.23%	-27.50%
Assets in Liquidation	$28,015.1	$16,737.9	-40.25%
FDIC Staffing	14,220	11,627	-18.23%
Number of Problem Banks	472	264	-44.07%
Bank Insurance Fund Balance	$13,121.6	$21,847.8	66.50%
Bank Insurance Fund Balance as a Percent of Insured Deposits	0.69%	1.15%	66.67%
Savings Insurance Fund Balance	$1,155.7	$1,936.7	67.58%
Savings Insurance Fund Balance as a Percent of Insured Deposits	0.17%	0.28%	64.71%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1994 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

A number of significant events occurred in 1994.

- On March 14, the accounting firm of Deloitte & Touche agreed to pay $75.2 million to the FDIC and $236.8 million to the RTC to settle claims based on alleged accounting and auditing failures at banks and savings associations, resolving 18 pending suits.
- On March 17, the FDIC sold $762 million in performing commercial real estate loans in its first securitized loan offering.
- March 31 marked the end of the first quarter since 1978 with no bank failures.
- On July 7, the FDIC placed The Meriden Trust and Safe Deposit Company, Meriden, Connecticut, in receivership using the FDIC's self-appointment power authority for the first time.
- On August 9, KPMG Peat Marwick, LLP, an accounting firm, agreed to pay $58.5 million to the FDIC and $128 million to the RTC to settle claims based on alleged accounting and auditing failures at banks and savings associations, resolving seven pending suits.

- On October 7, Ricki Tigert (who became Ricki Helfer later that same year) was sworn in as the 16th chairman of the FDIC, and Andrew C. Hove, Jr., was sworn in for a second term as vice chairman. Ms. Tigert was the first woman ever to head a federal banking agency. Before her appointment, Ms. Tigert had been a partner in the Washington office of the law firm of Gibson, Dunn, and Crutcher, specializing in banking and finance. From 1985 to 1992, she was the chief international lawyer for the Board of Governors of the Federal Reserve System.
- On November 7, a special task force was created to analyze and make recommendations regarding the risks posed to banks by derivatives and other investment products.
- On November 9, the FDIC began developing a five-year strategic plan.

Economic/Banking Conditions

In 1994, the U.S. economy continued to grow at a moderate pace with Gross Domestic Product, increasing at a rate of 3.5 percent[17-1]. Employment growth increased from 1.4 percent in 1993 to 2.4 percent in 1994 while the unemployment rate fell to 6.1 percent from 6.9 percent in 1993[17-2]. Interest rates increased but remained low with the discount rate at 3.6 percent and the 30-year mortgage rate at 8.4 percent[17-3]. The inflation rate continued to decline and was at 2.3 percent, which was about 7 percent lower than inflation rates in the early 1980s[17-4]. Real estate markets continued to fare well. Home sales were up 3.3 percent for the year, and housing starts were up 13.1 percent. The office vacancy rate declined for the third year in a row to 15.3 percent, which was the lowest level in 10 years[17-5].

The Southwest banking industry continued to recover, and for the first time since 1981 there was not a bank failure in the region. Nonperforming assets relative to total assets continued to fall and were the same as the national level. Net charge-offs on loans and leases as a percentage of assets also continued to decrease and fell below the U.S. banking industry level. For the second year in a row, total loans and leases relative to total assets increased, but remained below the national level. Those increases included total real estate loans, commercial real estate loans, and the first increase in the Commercial and Industrial (C&I) loan ratio in 10 years. The Southwest economy was healthy, as was most of the country. The increase in loan activity in the region proved that expansion was resuming and the Southwest had recovered from the economic crisis in the 1980s.

Total loans and leases in the Northeast remained steady, although above national levels, at almost 62 percent of assets. Total real estate loans, relative to assets, were more than 20 percent above national levels and commercial real estate loans were at 12 percent of assets. C&I loans continued to decrease relative to assets and fell further below the rest of the U.S. The health of the banking industry in the region was improving, but not quite back to levels attained around the country. The return on assets for the region's banks increased for the fourth year in a row to 0.8 percent. Nonperforming assets and net charge-offs on loans, both as percentages of total assets, continued to fall. There were four failures in the region in 1994, accounting for $15 million in estimated losses, only 10 percent of total U.S. failure costs. In addition, only 6 percent of all Northeast banks were considered problem banks.

17-1 Bureau of Economic Analysis, Department of Commerce.

17-2 CB Commercial Torto/Wheaton Research and Bureau of Labor Statistics, Department of Labor.

17-3 Housing Market Statistics, National Association of Home Builders (June 1996), and Federal Home Loan Mortgage Corporation.

17-4 Bureau of Labor Statistics, Department of Labor.

17-5 Housing Market Statistics, National Association of Home Builders (June 1996), and CB Commercial Torto/Wheaton Research.

California was experiencing the end of its economic downturn of the early 1990s. In 1994, there was a slight increase in construction employment in California, but defense-related employment continued to decrease and fell below 500,000[17-6]. Over the 38-month recession, California had lost 25 percent of its aerospace high tech employment, 21.5 percent of its construction employment, and 14 percent of its manufacturing employment. C&I loans and total loans and leases, as percentages of assets, continued to decline for the state. Office vacancy rates in the state were declining, but Los Angeles and San Diego still had rates above the national level[17-7]. Completions in the commercial real estate market were virtually nonexistent[17-8].

The recession, while affecting the earnings of the California banking sector, was relatively mild in terms of bank failures. In 1994, eight banks failed in the state. Declining interest rates assisted in cushioning the impact of the recession on the number of bank failures. The three remaining Big Four were able to withstand the pressures of the recession through diversification of statewide operations. On the other hand, community banks and recently chartered banks that pursued aggressive real estate lending strategies were more affected by the recession. The bank performance ratios for the three remaining Big Four banks were excellent, while the performance of the smaller banks continued to lag. Bank of America, First Interstate, and Wells Fargo Bank posted an average return on assets of 1.25, which was well above the national level compared to the 23 basis point return on assets of the entire California banking industry. The number of problem banks in the state remained high at 21 percent of the total number of banks in California. Nonperforming assets continued to fall, but Southern California's level was still more than 4 percent of assets compared to the national median of 1.2. Net charge-offs on loans and leases as a percentage of assets began to decline although they still remained higher than the national median.

Lending activity in California, though slowing, continued to outperform the rest of the country. Although they were above national levels, C&I loans, relative to assets in the state, continued to decrease to 11.8 percent, while total real estate loan and commercial total real estate loan ratios increased to 39.9 percent and 27 percent, respectively. The number of new housing permits remained steady, and median home prices leveled off just below $200,000, well above the national level of $109,400[17-9].

Despite California's problems, the U.S. banking industry had experienced an almost complete turnaround from the massive problems of the previous decade. In 1994, insured commercial banks reported a record net income of $44.7 billion, an increase of 3.7 percent over 1993 earnings. More than 96 percent of all commercial banks were profitable in 1994, due mainly to higher net interest income and lower provisions for future loan losses. The number of insured commercial banks fell to 10,451 at the end of 1994, for a net reduction of 507 banks. Mergers and consolidations accounted for a reduction of approximately 550 banks. Only 50 new bank charters were issued, the fewest charters since 1943. The number of Bank Insurance Fund (BIF) member banks on the FDIC's problem list declined for the third consecutive year, shrinking to 247 commercial and 17 savings banks. Those 264 banks had assets of $42 billion at the end of the year. In addition, there were 54 Savings Association Insurance Fund (SAIF) insured savings banks with combined assets of $31 billion on the FDIC's problem list by the end of 1994.

17-6 California Statistical Abstract.

17-7 CB Commercial Torto/Wheaton Research.

17-8 CB Commercial Torto/Wheaton Research.

17-9 Construction Industry Research Board and California Association of Realtors, Research and Economics Department, "California Existing Single-Family Housing Market Historical Data Summaries" (March 1995)

At the end of 1994, there were 2,1521[17-10] savings banks insured by the FDIC. Those savings banks held assets of just over $1 trillion, which was 20 percent of all assets of FDIC insured financial institutions. Although there was a $1.9 billion decline in provisions for future loan losses, that improvement was offset by a $1.7 billion drop in net interest income of savings banks. One of every four large thrifts with assets greater than $5 billion lost money in 1994, although more than 93 percent of all savings banks reported a net profit.

Table 17-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1994.

Table 17-2

Open Financial Institutions Insured by FDIC ($ in Billions)
Commercial Banks - FDIC Regulated

Item	1993	1994	Percent Change
Number	10,958	10,451	-4.63%
Total Assets	$3,706.2	$4,010.5	8.21%
Return on Assets	1.20%	1.15%	-4.17%
Return on Equity	15.34%	14.61%	-4.76%

Savings Banks - FDIC Regulated

Item	1993	1994	Percent Change
Number	593	610	2.87%
Total Assets	$226.1	$234.5	3.72%
Return on Assets	0.95%	1.01%	6.32%
Return on Equity	11.09%	10.93%	-1.44%

Savings Associations - OTS Regulated

Item	1993	1994	Percent Change
Number	1,669	1,542	-7.61%
Total Assets	$774.8	$774.1	-0.09%
Return on Assets	0.63%	0.55%	-12.70%
Return on Equity	8.61%	7.26%	-15.68%

Source: Reports from FDIC Division of Research and Statistics.

Bank Failures

Only 13 commercial and savings banks with $1.5 billion in assets were closed in 1994. That was the smallest number of failures since 1981 when only 10 banks failed. Eight of the 13 failures in 1994 were in California. There were no instances of assistance to open banks in 1994.

In each of the 13 commercial and savings banks that failed in 1994, the FDIC arranged a purchase and assumption (P&A) transaction under which some or all of the deposits were assumed by another institution, avoiding any payoff of insured deposits. However, in eight of the 13 failures, only insured deposits passed to the assuming bank. Therefore, depositors received less than 100 cents on each dollar above the $100,000 insured amount, although further distributions were projected. In all, $8.3 million in advance dividend

[17-10] Figures do not include member institutions of SAIF that were in RTC conservatorship, and one SAIF member self-liquidating institution.

payments were made to uninsured depositors in 1994. Estimated losses to BIF for those 13 banks were $139 million at the time of resolution, or 9.93 percent of the total assets in those institutions. A more recent estimate of losses is shown in Table 17-3.

Table 17-3

1994 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	13	$1,463.9	$179.0	12.23%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Division of Research and Statistics.

During 1994, the FDIC used the authority granted to it in 1989 to assess cross guarantees against commonly controlled insured institutions. The FDIC used that authority against Coastal Savings Bank, Portland, Maine, part of the same holding company structure as Suffield Bank, Suffield, Connecticut. In November 1994, the FDIC agreed to settle its claim for the $90 million cost to BIF caused by Suffield's insolvency in exchange for a $9 million interest bearing promissory note from the holding company, First Coastal Corporation.

In addition, the FDIC, for the first time, used its power (provided by the Federal Deposit Insurance Corporation Improvement Act of 1991) to close an institution and appoint itself receiver. The FDIC assessed The Meriden Trust and Safe Deposit Company (Meriden Trust), Meriden, Connecticut, an affiliate of Central Bank, Meriden, Connecticut, for the $152 million loss to BIF from the failure of Central Bank. Both Meriden Trust and Central Bank were owned by Cenvest, Inc. Meriden Trust was an insured institution based on previous deposit activities, although it no longer made loans or took deposits from the public. Cenvest challenged the FDIC in court, partly on the basis that Meriden Trust was not an insured depository institution. The U.S. District Court in Connecticut ruled in favor of the FDIC on June 30, 1994, and the FDIC closed Meriden Trust on July 7, 1994. At the time of closing, Meriden Trust had total assets of approximately $3.2 million, but had a franchise value substantially higher because it primarily operated a trust department that managed $180 million in over 500 accounts. With the closing of Meriden Trust, the FDIC used its bridge bank authority to establish a new bank and then later sold it in November 1994 for a premium of $7.8 million.

The FDIC's resolution efforts in 1994 resulted in the immediate return to the private sector of approximately one third of the $1.4 billion in assets from the 13 banks that failed during 1994, or about $400 million.

In 1994, the FDIC promulgated several significant regulations, including:

- Standardizing bank real estate appraisal rules with other regulators by increasing the threshold to $250,000 from $100,000 (raised from $50,000 to $100,000 in 1991) for loans that require an appraisal;
- Requiring advance notice of an institution's conversion from mutual to stock ownership;
- Requiring foreign banks to obtain approval from the FDIC and the Federal Reserve Board for an insured state branch to engage in or to continue an activity not permissible for a federally licensed branch of a foreign bank; and
- Amending risk-based capital standards by recognizing the risk-reducing benefits of qualifying bilateral netting contracts.

The Riegle Community Development and Regulatory Improvement Act was signed into law in 1994, authorizing funding for community development financial institutions and providing regulatory and paperwork relief for financial institutions. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 was also enacted, authorizing interstate banking and branching for United States and foreign banks over a three-year period.

Payments to Depositors and Other Creditors

In the 13 banks that failed or were assisted in 1994, deposits totaled $1.4 billion in 144,742 deposit accounts. Dividends paid on all active receiverships totaled $7.2 billion in 1994.

Of the 2,121 insured bank resolutions[17-11] since the FDIC began operations in 1934, 1,237 were P&A transactions and 202 were whole bank deals. Deposit payoff transactions accounted for 603 cases, of which 176 were insured deposit transfers (IDTs). There were also 79 open bank assistance (OBA) transactions.

Total disbursements by the FDIC since January 1, 1934, amounted to $103.5 billion. Of that amount, the FDIC recovered $67 billion for a net loss of $36.5 billion.

Asset Disposition

At the beginning of 1994, the FDIC held $28 billion in assets from failed institutions. That included $25.2 billion in BIF assets, $2.7 billion in FSLIC Resolution Funds (FRF) assets, and $72 million in assets from SAIF-insured institutions. During the year, the FDIC acquired an additional $1.9 billion in assets from 13 bank failures. Another $695 million was repurchased from FRF institutions. The FDIC collected $6.7 billion during the year, and the ending balance for assets in liquidation was $16.7 billion, a reduction of $11.3 billion. Of the $16.7 billion, $14.9 billion was assets in liquidation for BIF, $1.8 billion for FRF, and $15 million for SAIF.

During 1994, the FDIC sold or otherwise disposed of a large amount of its asset inventory from failed institutions. Real estate properties sold for a total of $1.2 billion, yielding a recovery of 91 percent of average appraised value. In addition, the FDIC sold $762 million of performing commercial mortgage loans through securitization, providing purchasers a partial guarantee backed by BIF to cover credit losses. More than 63,780 loans and other assets totaling $4.6 billion in book value were sold through asset marketing efforts, with net sales proceeds during 1994 representing 101 percent of appraised value.

The FDIC's Affordable Housing Program received $7 million in Congressional appropriations in 1994 and assisted qualified buyers with the purchase of 681 one-to-four family properties. In addition, ten multi-family properties consisting of 286 units were sold through the program to nonprofit organizations and public agencies that provide rental housing to low income households.

Table 17-4 shows the FDIC's assets in liquidation and Chart 17-1 shows the asset mix.

Table 17-4

1994 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/93 Book Value	1994 Assets Acquired	1994 Prin. Coll.	1994 Write Downs	12/31/94 Book Value	12/31/94 Est. Rec. Value
Commercial Loans	$10.0	-$1.9	$1.6	$2.0	$4.5	$2.3
Mortgage Loans	10.1	2.2	3.5	2.4	6.4	4.4

[17-11] In 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per transaction; this report calculates failures per failed institution. Actual resolutions through 1994 totaled 2,179.

1994 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/93 Book Value	1994 Assets Acquired	1994 Prin. Coll.	1994 Write Downs	12/31/94 Book Value	12/31/94 Est. Rec. Value
Other Loans	0.5	0.0	0.1	0.2	0.2	0.2
Real Estate Owned	2.4	0.1	0.8	0.6	1.1	0.8
Judgments	1.8	0.9	0.1	0.9	1.7	0.2
Securities	0.2	0.1	0.1	0.0	0.2	0.0
Other Assets	1.9	-0.1	0.0	0.5	1.3	0.3
Equity in Subs.	0.9	-0.1	0.5	0.1	0.2	0.1
Deficiencies	0.2	1.4	0.0	0.5	1.1	0.1
Totals	$28.0	$2.6	$6.7	$7.2	$16.7	$8.4

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance.

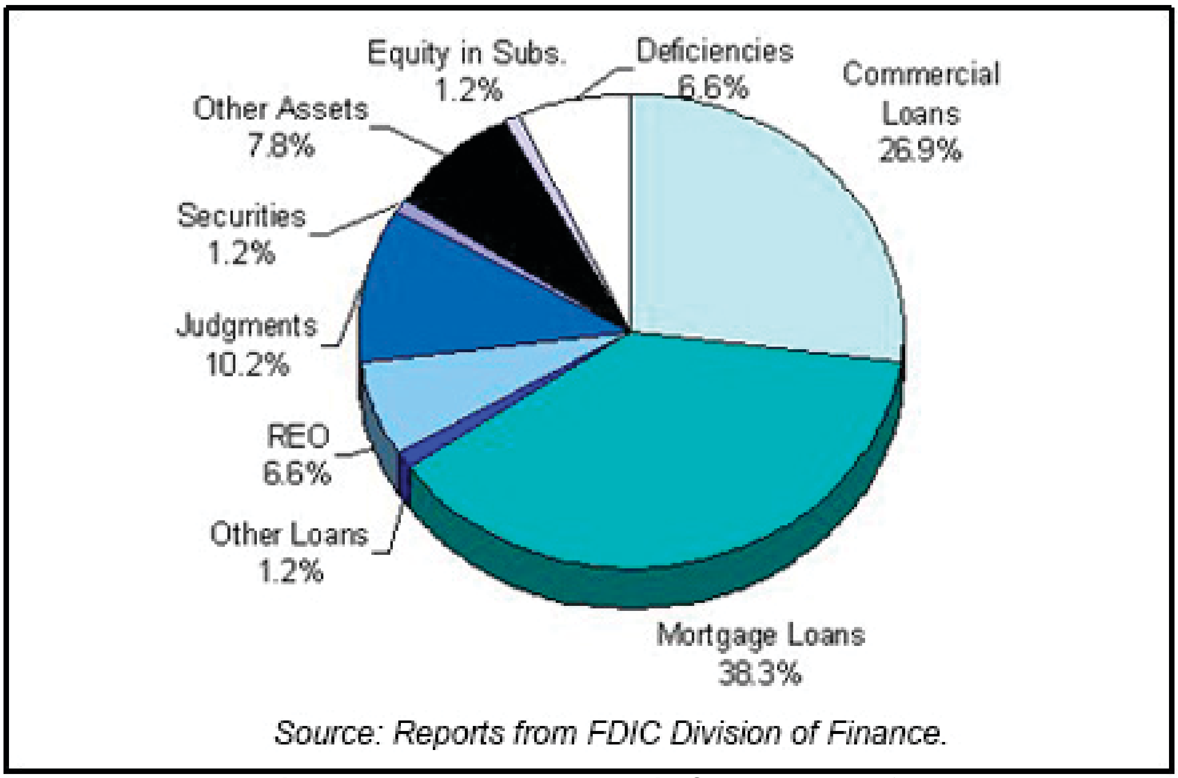


Chart 17-1 — 1994 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
26.9%	38.3%	1.2%	6.6%	10.2%	1.2%	7.8%	1.2%	6.6%

Source: Reports from FDIC Division of Finance

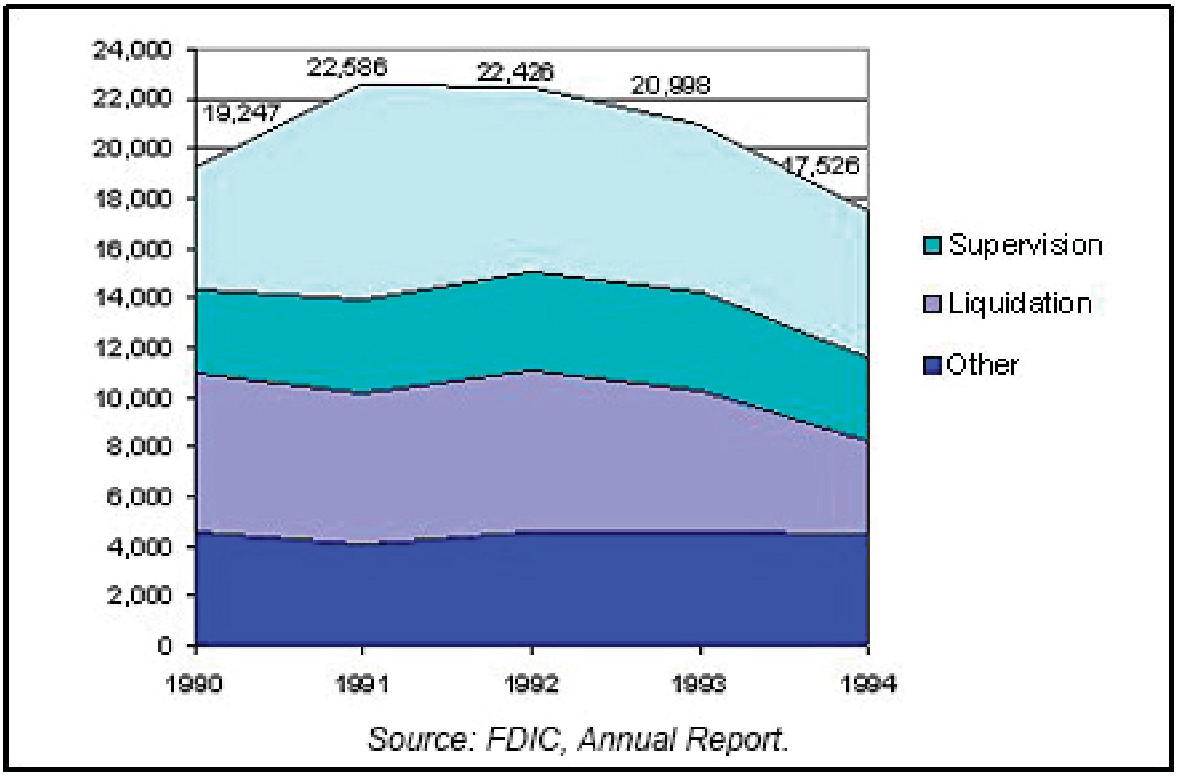


Chart 17-2 — 1994 FDIC/RTC Staffing chart

	1990	1991	1992	1993	1994
Other	4,637	4,062	4,621	4,584	4,462
Liquidation	6,311	6,097	6,427	5,665	3,796
Supervision	3,400	3,813	3,996	3,971	3,369
RTC	4,899	8,614	7,382	6,778	5,899
Total	19,247	22,586	22,426	20,998	17,526
Source: FDIC, 1994 Annual Report					

Insurance Fund and Staffing

The BIF had another positive year, ending 1994 with a record high of $21.8 billion. The SAIF also grew to $1.9 billion from $1.2 billion at the end of 1993. FDIC staffing, however, decreased 18.2 percent to 11,627, continuing a decline since reaching its historical high of 15,585 in the second quarter of 1993. The Division of Depositor and Asset Services (liquidation) had 3,796 employees, which was significantly down from 5,665 at year-end 1993. The Division of Supervision staff also decreased from 3,971 to 3,369 at year-end 1994. Total staffing including 5,899 RTC employees equaled 17,526. Chart 17-2 shows the staffing levels for the past five years.

A buyout was offered to targeted groups of employees corporate-wide in the late summer of 1994 and was accepted by 72 employees. That downsizing was in response to the decreased workload from bank failures and the eventual transfer of operations and personnel from the RTC. The FDIC placed available permanent employees of the RTC as vacancies occurred. A total of 132 permanent employees of the RTC returned to the FDIC during 1994. The FDIC and the RTC worked together in planning for the return of the RTC employees and operations, establishing joint committees, task forces, and working groups to develop transition strategies.

Table 17-5

Resolution Trust Corporation 1993 - 1994: RTC at a Glance ($ in Millions)			
	12/31/93	12/31/94	Percent Change
Number of Conservatorships at the beginning of the year			
Number of Conservatorships added during the year			
Thrifts in the ARP Program			
Total of all thrift takeovers			
Total of thrift resolutions			
Conservatorships resolved during the year			
Conservatorships at the end of the year			

Total Assets at Takeover			
	12/31/93	12/31/94	Percent Change
Conservatorships	$6,061	$0	-100.00%
Thrifts in the ARP Program	$44	$129	193.18%
Total	$6,105	$129	-97.89%
Estimated losses on thrift resolutions**	$609	$15	-97.54%
Estimated losses as a percent of total assets	9.97%	11.93%	19.66%

Assets in Liquidation			
	12/31/93	12/31/94	Percent Change
Conservatorships	$23,166	$2,067	-91.08%
Receiverships	$40,664	$22,900	-43.68%
Total	$63,830	$24,967	-60.89%
RTC Staffing	6,778	5,899	-12.97%

*Thrifts placed into the ARP program are included for clarity, although they were never placed into the conservatorship program.
**Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: RTC, 1994 Annual Report and Reports from FDIC Division of Research and Statistics.

Notable Events

On March 31, 1994, Deputy Chief Executive Officer John E. Ryan became deputy and acting chief executive officer, replacing Roger C. Altman. Mr. Ryan joined the RTC on January 4, 1994.

In 1994, the RTC completed the sale of the second National Land Fund, a $370 million partnership structure in which the RTC retained a limited partnership interest and shared in the appreciation of land assets.

The RTC conducted the following three national nonperforming loan auctions in Kansas City, Missouri:

- In April, the RTC sold 5,809 loans with a total book value of about $318 million, yielding a $191 million recovery;
- In September, the RTC sold 8,814 loans with a total balance of $399 million, yielding a $223 million recovery; and
- In December, the RTC sold 9,786 loans with a total balance of $370 million, yielding a $229 million recovery.

The RTC had nearly completed the conservatorship program. Through 1994, there had been 744 resolutions, of which 705 had been conservatorships prior to resolution.

S&L Resolutions

In 1994, the RTC resolved 64 thrifts. At the start of 1994, 63 thrifts with total assets of $23.2 billion were in the RTC's conservatorship program. No new thrifts entered the program during 1994; 62 conservatorships with total assets of $21.1 billion were resolved, leaving only one conservatorship with total assets of $2.1 billion in the program at the end of 1994. Of the 64 resolutions, 62 institutions were in the conservatorship program; two were resolved through the Accelerated Resolutions Program (ARP).

In 1994, 61 of the 64 thrift resolutions were P&A transactions. In 39 of those resolutions, all deposits were transferred to the acquirers, while in 22 of those resolutions, only the insured deposits were transferred. The other three resolutions were payoffs.

The 61 thrifts resolved in P&A transactions had total assets of $15.2 billion. The three payoffs in 1994 had total assets of $115.6 million.

The resolutions saved an estimated $1.1 billion over the cost of a payoff of all insured deposits. RTC funding for the resolutions totaled $17.2 billion, including conservatorship advances of $4.2 billion, for a net funding cost of $16.1 billion.

Losses per transaction type are shown in Table 17-6 and Table 17-7 shows conservatorships and receiverships at year-end 1994.

Table 17-6

1994 Losses by RTC Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Loss*as of 12/31/95	Estimated Losses as a Percent of Assets
P&As	61	$15,196.5	$5,963.6	39.24%
Payoffs	3	115.6	42.8	37.02%
Totals	64	$15,312.1	$6,006.4	39.23%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/95.
Source: Reports from FDIC Division of Research and Statistics.

Table 17-7

Conservatorships

Item	Total
In Conservatorship at 12/31/93	63
Conservatorships added in 1994	0
Subtotal	63

Conservatorships	
Item	**Total**
Conservatorships resolved in 1994 (New Receiverships)	62
Conservatorships remaining 12/31/94	1

Receiverships	
Item	**Total**
Receiverships as of 12/31/93	680
New Receiverships that were previously Conservatorships in 1994	62
New Receiverships that were resolved through ARP in 1994	2
Total Receiverships during 1994	64
Total Receiverships as of 12/31/94	744

Source: RTC, 1994 Annual Report.

Payments to Depositors and Other Creditors

In 1994, there were 64 resolutions with total deposits of $14.3 billion in 1,907,220 deposit accounts. Of that total, there were three payoff transactions with $36.7 million in 2,559 deposit accounts.

Of the 744 insured thrift failures since the RTC began operations in August of 1989, a total of 494 were P&A transactions, 92 were payoff transactions, and 158 were IDTs.

Asset Disposition

At the beginning of 1994, the RTC held $63.8 billion in assets of savings and loan associations in receivership and conservatorship. Assets acquired during the year through conservatorships, other resolved institutions, and putbacks or repurchases totaled $5.1 billion for the year. Losses and collections totaled $43.9 billion for the year. At the end of 1994, the RTC's inventory of assets in liquidation totaled $25 billion.

The RTC in 1994 continued to phase out the Standard Asset Management Disposition Agreement (SAMDA) program. At the end of the year, SAMDA contractors were managing assets with a total book value of $6 billion. From the program's inception in August 1990 through the end of 1994, a total book value of $37 billion in assets was managed by SAMDA contractors, and 84 percent (or $31 billion) of those assets were disposed of by the end of the year.

During the year, the RTC special teams restructured or sold $4.3 billion in problem assets, with about $1.4 billion in assets under review at the end of the year. From the inception of the program in July 1992, special teams had negotiated settlements, restructured loans, and had taken other actions on assets totaling $11.8 billion and had collected $1.2 billion.

The RTC closed approximately $1.5 billion in commercial seller financed transactions. From the program's inception in March 1991 through the end of 1994, about $5 billion in commercial seller financed transactions were closed by the RTC, while during the same period, about $2.4 billion in funds were received by the RTC from the liquidation of RTC commercial seller financed notes.

During 1994, over 100,000 assets totaling over $7.2 billion in book value were sold through the Judgments, Deficiencies, and Charge-offs initiative. Additionally, about 1,308 subsidiaries were either sold or dissolved during the year.

The RTC securitization program was responsible for the sale of approximately $2.6 billion book value in performing loans in three transactions. Loans totaling $1.5 billion book value of nonperforming commercial and multi-family mortgages were sold in 1994. There were three N Series transactions, accounting for about $1 billion of the assets, and six S Series transactions, accounting for $500 million of the assets. From the program's inception in June 1991 through the end of 1994, almost $45 billion in performing and nonperforming loans were securitized.

In 1994, the RTC was involved in implementing the Resolution Trust Corporation Completion Act of 1993 provisions of expanding opportunities for minorities and women. In the contracting area, the RTC continued its goal of ensuring maximum opportunities for minority- and women-owned firms. In 1994, 8,725 contracts were awarded to minority- and woman-owned businesses (MWOBs), or 48.6 percent of all 1994 RTC contracts. Estimated contract fees to MWOBs reached $268.8 million, or 48.8 percent of the estimated fees paid for all 1994 RTC contracts, a 28 percent increase over the 1993 contracting fees paid to MWOBs. The RTC made 4,281 referrals to minority- and women-owned law firms, or 42.6 percent of all referrals to outside counsel, and $59.3 million in fees were paid to those firms, or 25.8 percent of all fees paid to outside contractors that year.

The RTC's Department of Minority- and Women-Owned Business ensured that firms owned and operated by minorities and women had maximum opportunities to do business with the RTC. A primary focus for the department staff in 1994 was informing minority investors of RTC opportunities to purchase thrifts or branch offices located in predominately minority neighborhoods. The staff also participated in the RTC's contracting process, including presolicitation, solicitation, evaluation, selection, contract administration, and post-award activity. The RTC exceeded its annual goal of awarding 30 percent of all contracts and fees to minority- and women-owned businesses.

Through its Affordable Housing Disposition Program, the RTC in 1994 sold 1,751 single-family properties for a total of $48 million, and 137 multi-family housing properties for a total of $246 million. From the program's inception in 1990 through the end of 1994, 22,064 single-family properties were sold for a total of $605 million, and 708 multi-family affordable housing properties containing 75,614 units were sold for a total of $857 million. Additionally, from its inception through the close of 1994, the affordable housing program provided a total of 712 single-family dwellings and 61 multi-family dwellings with no reasonable recovery value to nonprofit organizations and public agencies.

Table 17-8 shows the RTC's assets in liquidation and Chart 17-3 shows the asset mix.

Table 17-8

1994 RTC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/93 Total Book Value	Assets Acq'd During the Year	1994 Collections	1994 Losses	12/31/94 Total Book Value	Memo Item
1-4 Family Mtges	$9.0	$0.1	$3.4	$0.9	$4.8	$2.9
Other Mtges	17.5	0.3	5.7	5.6	6.5	3.0
Other Loans	4.5	1.1	2.7	0.7	2.2	0.6
Real Estate Owned	6.0	0.1	1.5	2.5	2.1	0.7
Other Assets	15.3	0.2	3.7	5.8	6.0	3.3
Cash/Securities	11.5	3.3	10.0	1.4	3.4	4.5
Totals	$63.8	$5.1	$27.0	$16.9	$25.0	$15.0

1994 RTC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/93 Total Book Value	Assets Acq'd During the Year	1994 Collections	1994 Losses	12/31/94 Total Book Value	Memo Item

Memo Item: Assets transferred from conservatorship to receivership. Does not affect total of assets in liquidation.
*Totals may not foot due to rounding differences. Back to table
Source: RTC August 1989/September 1995 Statistical Abstract.

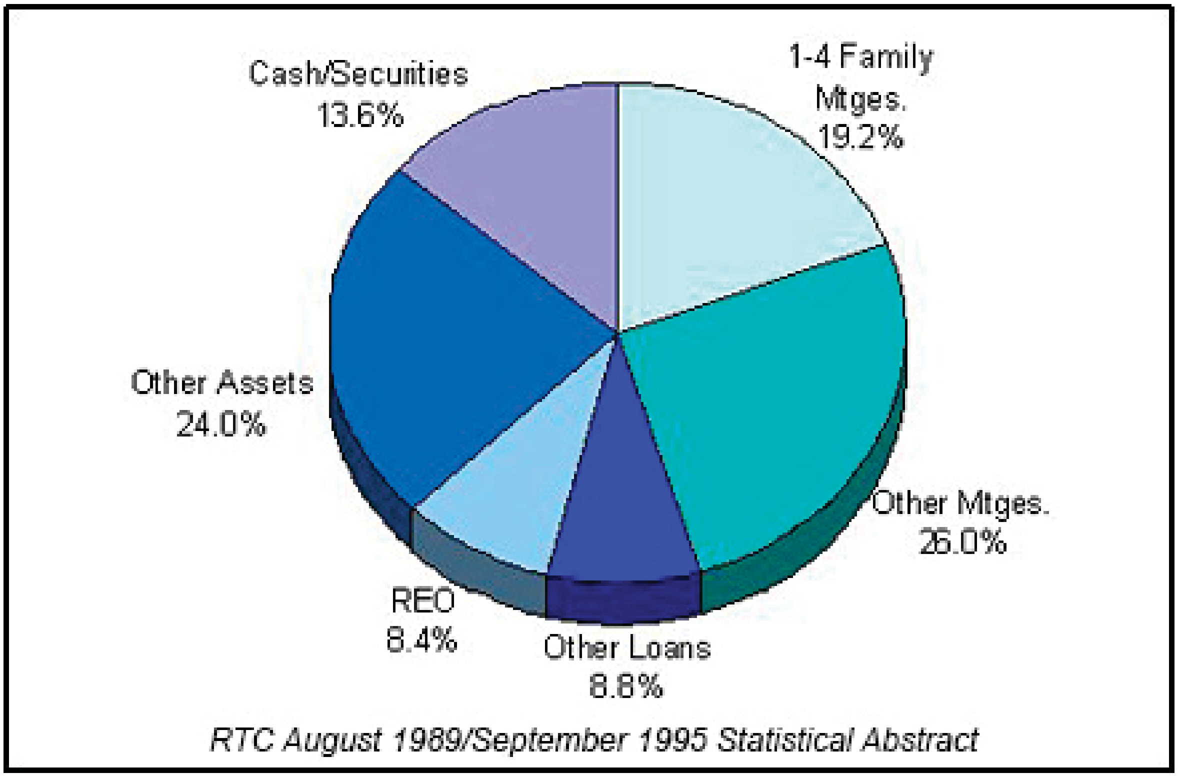


Figure 17-3 — 1994 RTC End of Year Asset Mix

1-4 Family Mtges.	Other Mtges.	Other Loans	REO	Other Assets	Cash/Securities
19.2%	26.0%	8.8%	8.4%	24.0%	13.6%

Source: RTC August 1989/September 1995 Statistical Abstract

Staffing

As previously discussed, the FDIC accepted 132 available permanent RTC employees as FDIC vacancies occurred during 1994. Total RTC staff at the end of 1994 was 5,899, which was down from 6,778 at the end of 1993.

Chapter Eighteen: 1995

Chairman Ricki Helfer stated in the 1995 Annual Report, “For three generations of Americans, federal deposit insurance ? with the full faith and credit backing of the U.S. government – has provided a reason for unconditional faith in the banking system. It is a certainty in an uncertain world. The FDIC will continue to make sure that faith in the banking system is justified.”

Table 18-1

1994 - 1995: FDIC at a Glance ($ in Millions)	12/31/94	12/31/95	Percent Change
Number of Bank Failures	13	6	-53.85%
Total Assets of Failed and Assisted Banks	$3,828.9	$1,463.9	-61.77%
Estimated Losses on Failed and Assisted Banks*	$179.0	$84.5	-52.79%
Estimated Losses as a Percent of Total Assets	12.23%	10.53%	-13.90%
Assets in Liquidation	$16,737.9	$10,308.2	-38.41%
FDIC Staffing	11,627	9,789	-15.81%
Number of Problem Financial Institutions#	264	193	-26.89%
Bank Insurance Fund Balance	$21,847.8	$25,453.7	16.50%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.15%	1.30%	13.04%
Savings Insurance Fund Balance	$1,936.7	$3,357.8	73.38%
Savings Insurance Fund Balance as a Percent of Insured Deposits	0.28%	0.47%	67.86%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
#This line item, starting in 1995, includes bank and savings associations.
Source: FDIC, 1995 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- In February, the FDIC unveiled its World Wide Web page on the Internet, providing the public with ready access to FDIC consumer information, press releases, and statistics on banking.
- On April 1, the FDIC began a system to invoice and collect deposit insurance premiums electronically. The new arrangement will make the process of calculating and collecting insurance assessments more efficient and less burdensome. With the new method, the FDIC experienced an error rate of less than 0.1 percent, a significant improvement over the error rate of 8 to 13 percent under the previous manual, paper-based system. The new process further proved its value in September 1995, when the FDIC used it to refund $1.5 billion to BIF-insured institutions within 10 days of a recapitalization announcement.
- On Apri1 24, for the first time in the agency’s 61-year history, the Board approved a corporate-wide strategic plan. Major goals centered on identifying and addressing risks to the insurance funds and improving communications with the public.
- On May 17, the FDIC announced a reorganization that included the creation of four new divisions: the Division of Insurance (DOI) to identify risks to the insurance funds; the Office of the Ombudsman (OO) to respond to questions or concerns about the FDIC; the Division of Administration (DOA) which consolidated the three separate offices of personnel management, corporate services, and staff training; and the Office of Policy Development (PD) to coordinate policy development among all FDIC

Divisions and Offices, to evaluate the policy implication of regulatory and legislative proposals, and to quickly update corporate positions on emerging issues.

- On July 28, the last two FDIC-insured bank closings of 1995 occurred, bringing the total for the year to six, which was the lowest number since 1977.
- On August 8, the FDIC Board voted to reduce premiums paid by institutions insured by the Bank Insurance Fund in recognition of the health of the banking industry and the increased strength of the fund. The Board did not reduce assessment rates for the Savings Association Insurance Fund (SAIF), which remained seriously undercapitalized.
- On November 2, the FDIC, the Federal Reserve Board, and the New York State Banking Department issued joint cease-and-desist orders against The Daiwa Bank, Limited, Osaka, Japan and its insured New York subsidiary, Daiwa Bank Trust Company. In September, Daiwa disclosed approximately $1.1 billion in securities trading losses at its New York City branch after having concealed those losses from bank regulators.
- On November 9, the FDIC announced a program to reduce staffing levels by offering many career employees incentives to retire or to voluntarily seek other employment.
- On November 14, the FDIC reduced insurance premiums for a second time for BIF-insured institutions. The rates for the seriously undercapitalized SAIF fund were not reduced.
- On December 22, Mississippi Banking Commissioner Joseph H. Neely was confirmed by the U. S. Senate to be a member of the FDIC Board of Directors. He was sworn in on January 29, 1996. This marked the first time since August 1992 that all five Board positions were filled.
- December 31, the Resolution Trust Corporation (RTC), created in 1989 to manage and sell failed savings associations officially closed. All remaining assets and liabilities were transferred to the FDIC-managed FSLIC Resolution Fund (FRF). The FRF was established by law in 1989 to assume the assets and obligations of the former FSLIC thrifts that failed prior to January 1, 1989.

Economic/Banking Conditions

The U.S. economy grew by an impressive 4.9 percent during 1995, as measured by GDP. Even so, unemployment rose slightly from 5.5 percent to 5.6 percent. However, this slight rise reflects a sharp increase in the number of persons seeking employment. The number of employed persons rose by roughly 360,000, or 2.9 percent, to 125,088,000. New home sales were virtually unchanged from the 1994 level of 670,000, down to 667,000. By contrast, the number of new housing starts fell by 103,000 or 7.1 percent during the period.[18-1]

Inflation was meager at 2.5 percent, and the interest rate environment was mixed. The discount rate rose 50 basis points from 4.75 percent to 5.25 percent, while 30-year mortgage rates fell by 202 basis points from 9.53 percent to 7.51 percent. Because new housing starts during the previous year totaled more than twice the number of new homes sold, home builders backed off in new starts from the 1994 level. While home builders paused a briefly to allow demand to catch up to supply, office space demand actually increased, producing a 140 basis-point drop in the vacancy rate from 15 percent to 13.6 percent.

Commercial banks experienced continued increases in profitability and asset growth. Net income increased almost 10 percent to $49 billion. Loan quality was also good, and delinquency and charge-off rates remained low in all areas except consumer and credit card loans.

[18-1] Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

Commercial bank assets increased by 8 percent. Equity capital also grew $37.5 billion or 12 percent. Non-interest income increased by $6.2 billion, or 10.6 percent, reflecting strong growth in fee income. Non-interest expense increased only 4.5 percent. This can be attributed to the improvement in operating efficiency which was largely due to decreases in employee costs and occupancy costs relative to total revenue.

Commercial and Industrial loans experienced their largest increase in the last 15 years. In addition, commercial real estate loans increased by 5.75 percent. Consumer loans and consumer debt also increased. The increase in both of these areas is related to the rise in credit card use. Credit cards were becoming more accepted by consumers in 'nontraditional' places, such as the grocery store.

Banks depended on managed liabilities as a source to fund asset growth. Previously, banks used borrowings from abroad. However, because of the decrease in deposit insurance premiums, banks were able to use large time deposits as source of funds for the first time. Core deposits became significant source of funds, which had previously been declining last year. Savings accounts rose due to the establishment of 'sweep accounts.'[18-2]

At end of 1995, there were 12,009 financial institutions in the United States and 193 institutions[18-3] on the problem bank list[18-4].

Table 18-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1995.

Table 18-2

Open Financial Institutions Insured by FDIC ($ in Billions) BIF Members			
	1994	1995	Percent Change
Number	10,760	10,243	-4.80%
Total Assets	$4,248.3	$4,577.9	7.76%
Return on Assets	1.14%	1.15%	0.88%
Return on Equity	14.43%	14.32%	-0.76%

SAIF Members			
Item	1994	1995	Percent Change
Number	1,843	1,727	-6.29%
Total Assets	$770.8	$760.5	-1.34%
Return on Assets	0.56%	0.76%	35.71%
Return on Equity	7.16%	9.47%	32.26%
US Branches of Foreign Banks	51	39	-23.53%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2001.			

18-2 Federal Reserve Bulletin Volume 82, Number 6, June 1996.

18-3 Starting in 1995, the figure for problem institutions includes both commercial and savings institutions.

18-4 FDIC Quarterly Banking Profile, Fourth Quarter 1995.

Bank Failures

During 1995, the FDIC resolved six FDIC-insured institutions, and the failed institutions had combined assets of approximately $802.1 million. The size of the bank failures in 1995 was the lowest since 1980 when failed bank assets totaled $239.3 million, and the number of failures was the lowest since 1977 when there were also only six failures.

A recent estimate of losses per transaction type is shown in Table 18-3.

Table 18-3

1995 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss*as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	6	$802.1	$84.5	10.53%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Website ? Historical Statistics on Banking.

Payments to Depositors and Other Creditors

In the six financial institutions that failed in 1995, deposits totaled $776.4 million in 47,651 deposit accounts. Dividends paid on all active receiverships totaled over $3.9 billion in 1995.

There have been a total of 2,127[18-5] insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,445 were P&A transactions, 79 were open bank assistance transactions, and 603 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $104.3 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $67.4 billion, which equates to a projected loss of $36.9 billion to the BIF fund.

Asset Disposition

At the beginning of 1995, the FDIC held $16.7 billion in assets from failed institutions, and acquired some $550 million in assets from the six financial institutions that failed during the year. The FDIC successfully collected, sold, or otherwise resolved 40 percent, or almost $7 billion, of its asset inventory during the year. This included 2,687 real estate properties which were sold for $573.3 million, representing 94.3 percent of their appraised value. Also included were over 23,750 loans and other assets totaling $2 billion that were sold in sealed-bid and other asset marketing events, resulting in sales proceeds of 97.7 percent of the appraised value of these assets. At year-end 1995, the FDIC held $10.3 billion in assets for liquidation. That included $8.8 billion in BIF assets, $6 million in SAIF assets, and $1.5 billion in FRF assets.

The congressional appropriation for affordable housing was reduced from $15 million to $3.7 million during the year. Notwithstanding this reduction, the FDIC was able to help qualified buyers purchase 412 single-family properties during the year. In addition, eight multifamily properties containing 225 units were sold to nonprofit organizations and public agencies.

18-5 In 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per transaction; this report calculates failures per failed institution. Actual resolutions through 1995 totaled 2,185.

Other financial recoveries during the year included $252 million from professional liability settlements or judgments, and $7.6 million in collections from court-ordered restitution from individuals convicted of bank fraud. Table 18-4 shows the FDIC's assets in liquidation and Chart 18-1 shows the asset mix.

Table 18-4 shows the FDIC's assets in liquidation and Chart 18-1 shows the asset mix.

Table 18-4

1995 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/94 Book Value	1995 Assets Acquired	1995 Prin. Coll.	1995 Write Downs	12/31/95 Book Value	12/31/95 Est. Rec. Value
Commercial Loans	$4.5	0.3	-0.2	2.0	$2.6	
Mortgage Loans	6.4	0.2	0.5	3.2	4.0	
Other Loans	0.2	0.0	0.0	0.1	0.0	
Real Estate Owned	1.1	0.1	0.2	0.8	1.5	
Judgments	1.7	0.0	0.5	0.8	1.5	
Securities	0.2	0.0	-0.1	-0.1	0.0	
Other Assets	1.3	0.0	0.2	0.7	0.7	
Equity in Subs.	0.2	0.0	0.0	0.1	0.1	
Deficiencies	1.1	0.0	0.3	0.7	0.7	
Totals	$16.7	$0.6	$1.4	$8.3	$10.3	

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance.

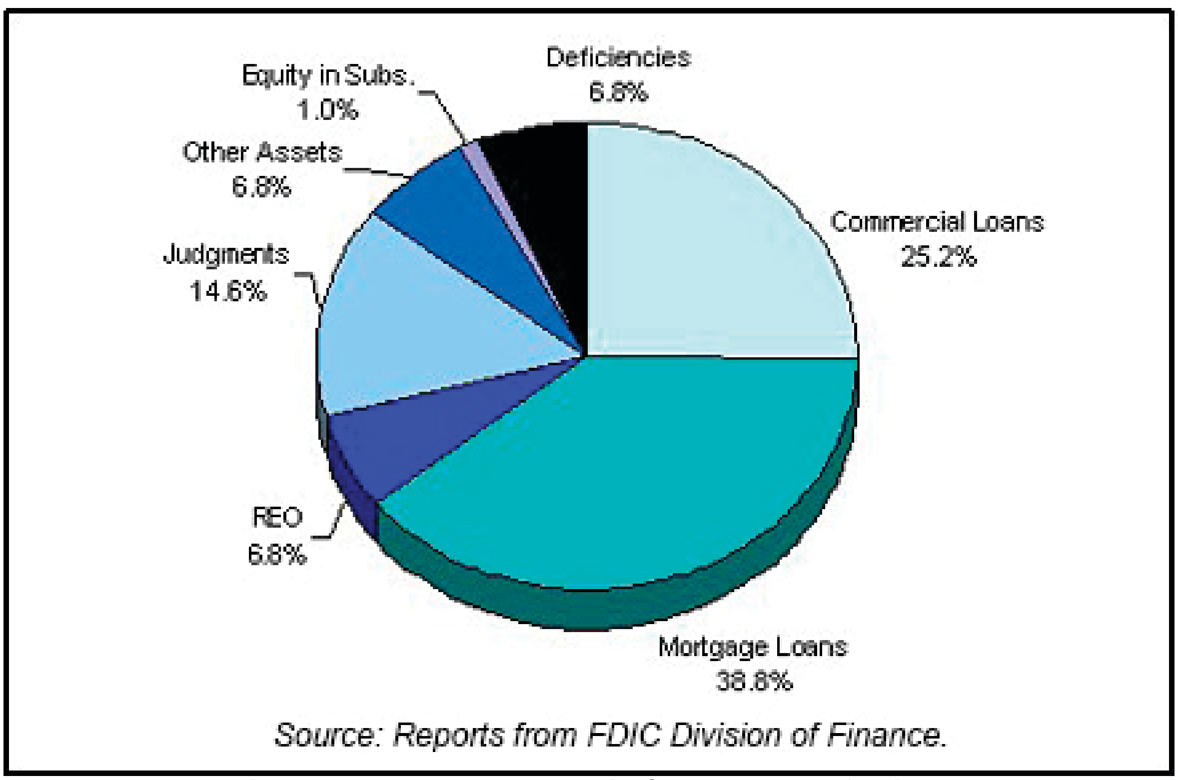


Chart 18-1—1995 FDIC End of Year Asset Mix chart

Commercial Loans	Mortgage Loans	REO	Judgments	Other Assets	Equity in Subs	Deficiencies
25.2%	38.8%	6.8%	14.6%	6.8%	1.0%	6.8%
Source: Reports from FDIC Division of Finance						

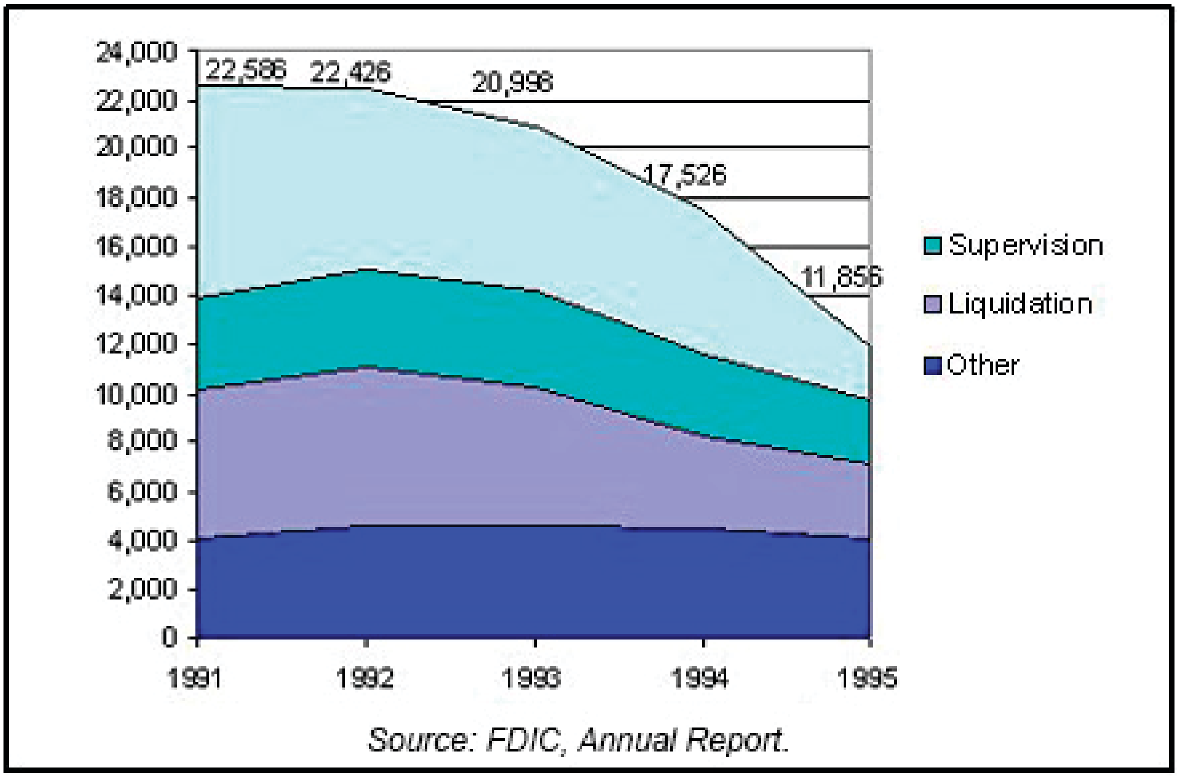


Chart 18-2—1995 FDIC/RTC Staffing chart

	1991	1992	1993	1994	1995
Other	4,062	4,621	4,584	4,462	4,111
Liquidation	6,097	6,427	5,665	3,796	3,055
Supervision	3,813	3,996	3,971	3,369	2,623
RTC	8,614	7,382	6,778	5,899	2,067
Total	22,586	22,426	20,998	17,526	11,856
Source: FDIC, 1995 Annual Report					

Insurance Fund and Staffing

With the continuing recovery of the banking industry and institution's earnings at record levels, 1995 was another positive year for the BIF. The BIF grew to a record high of $25.5 billion at the close of 1995, which represented a 16.5 percent increase from the year-end 1994 balance of $21.8 billion. The BIF was in the strongest position it had experienced since 1971, which was the last time the bank deposit insurance fund exceeded 1.25 percent of insured deposits. The SAIF grew to a balance of $3.4 billion at year-end, which represented a 73.4 percent increase over year-end 1994.

In May, Chairman Helfer announced significant organizational changes.

Including the creation of a Division of Insurance, an Office of the Ombudsman, a Division of Administration, and an Office of Policy Development. The Division of Administration consolidated the functions of three separate offices for personnel management, corporate services, and staff training.

In November, senior management announced a two-phased buyout program for career FDIC and RTC employees with incentives either to retire or voluntarily resign. Employees in the first phase were eligible to leave by year-end, and more than 300 accepted. Employees in the second phase began leaving during the first quarter of 1996 through the third quarter of 1997. For both phases, 940 employees accepted the buyout offer.

The RTC staffing totals include employees who were organizationally transferred from the RTC to the FDIC in Spring/Summer 1995 but who continued to work exclusively on RTC functions throughout 1995. The RTC totals also include certain FDIC employees in Chicago who were dedicated to RTC functions early in 1995, and who worked exclusively on these RTC functions for the balance of 1995.

At year-end, the FDIC had 9,789 employees (RTC employees totaled 2,067), down approximately 16 percent from year-end 1994 and 37 percent below the peak level in the second quarter of 1993. These figures reflect the continuing decline in agency workload from bank failures. Total staffing including the RTC employees equaled 11,856. Chart 18-2 shows the staffing levels for the past five years.

Table 18-5

Resolution Trust Corporation

1994 - 1995: RTC at a Glance ($ in Millions)			
	12/31/94	**12/31/95**	**Percent Change**
Number of Conservatorships at the beginning of the year	63	1	-98.41%
Number of Conservatorships added during the year	0	0	0.00%
Thrifts in the ARP Program*	2	2	0.00%
Total of all thrift takeovers	2	2	0.00%
Conservatorships resolved during the year	2	2	0.00%
Total of thrift resolutions	64	3	-95.31%
Conservatorships at the end of the year	1	0	-100.00%
Total Assets at Takeover			
	12/31/94	**12/31/95**	**Percent Change**
Conservatorships	$0	$0	0.00%
Thrifts in the ARP Program	$129	$426	230.23%
Total	$129	$426	230.23%
Estimated losses on thrift resolutions**	$15	$63	320.00%
Estimated losses as a percent of total assets	11.93%	14.79%	23.97%
Assets in Liquidation			
	12/31/94	**12/31/95**	**Percent Change**
Conservatorships	$2,067	$0	-100.00%
Receiverships	$22,900	$7,689	-66.42%
Total	$24,967	$7,689	-69.20%

Assets in Liquidation			
	12/31/94	12/31/95	Percent Change
RTC Staffing	5,899	2,067	-64.96%

*Thrifts placed into the ARP program are included for clarity, although they were never placed into the conservatorship program.
**Losses for all resolutions occurring in this calendar year have been updated through 12/31/95. The loss amounts are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: RTC August 1989/September 1995 Statistical Abstract (Amended April 1996) and Reports from FDIC Division of Research and Statistics.

Notable Events

The RTC ceased operations on December 31, 1995, and transferred all employees, remaining assets, liabilities, and responsibilities to the FDIC. During its lifetime, the RTC resolved 747 thrift institutions, including 706 conservatorships. Since its inception through December 31, 1995, the RTC had disposed of assets with a book value of $455 billion, or nearly 98 percent of the approximately $465 billion (book value) in assets for which it had been responsible.

S&L Resolutions

In 1995, the RTC resolved three thrifts. At the start of 1995, one thrift with total assets of $2.1 billion was in the RTC's conservatorship program. No new thrifts entered the program during 1995; and the one remaining thrift was subsequently resolved, leaving no thrifts in the conservatorship program at the end of 1995.

In 1995, all three thrift resolutions were purchase and assumption (P&A) transactions, and all deposits were transferred to the acquirers. The three thrifts had total assets of $1.7 billion.

Table 18-6 shows conservatorships and receiverships at year-end 1995.

Table 18-6

Conservatorships	
Item	Total
In Conservatorship at 12/31/94	1
Conservatorships added in 1995	0
Subtotal	1
Conservatorships resolved in 1995 (New Receiverships)	1
Conservatorships remaining 12/31/95	0

Receiverships	
Item	Total
Receiverships as of 12/31/94	744
New Receiverships that were previously Conservatorships in 1995	2
New Receiverships that were resolved through ARP in 1995	1
Total Receiverships during 1995	3
Total Receiverships as of 12/31/95	747

Source: RTC August 1989/September 1995 Statistical Abstract (Amended April 1996).

Payments to Depositors and Other Creditors

In 1995, there were three resolutions with total deposits of $1.8 billion in 227,980 deposit accounts.

Of the 747 insured thrift failures since the RTC began operations in August of 1989, 497 were P&A transactions, 92 were payoff transactions, and 158 were insured deposit transfers.

Asset Disposition

At the beginning of 1995, the RTC held $25 billion in assets from savings and loan associations in receivership and conservatorship. Assets acquired during the year through conservatorships, other resolved institutions, and putbacks or repurchases totaled $1.2 billion for the year. Losses and collections totaled $18.5 billion for the year. At the end of 1995, the RTC's remaining inventory of assets in liquidation totaled $7.7 billion.

Table 18-7 shows the RTC's assets in liquidation and Chart 18-3 shows the asset mix.

Table 18-7

1995 RTC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/94 Total Book Value	Assets Acq'd During the Year	1995 Collections	1995 Losses	12/31/95 Total Book Value	Memo Item
1-4 Family Mtges	$4.8	$0.2	$2.9	$1.6	$0.5	$0.7
Other Mtges	6.5	0.4	3.5	2.0	1.4	0.1
Other Loans	2.2	0.0	1.1	0.6	0.5	0.0
Real Estate Owned	2.1	0.0	0.9	0.4	0.8	0.0
Other Assets	6.0	0.0	1.3	1.5	3.2	0.0
Cash/Securities	3.4	0.6	3.2	-0.5	1.3	0.5
Totals	$25.0	$1.2	$12.9	$5.6	$7.7	$1.3

Memo Item: Assets transferred from conservatorship to receivership. Does not affect total of assets in liquidation.
*Totals may not foot due to rounding differences.
Source: RTC August 1989/September 1995 Statistical Abstract.

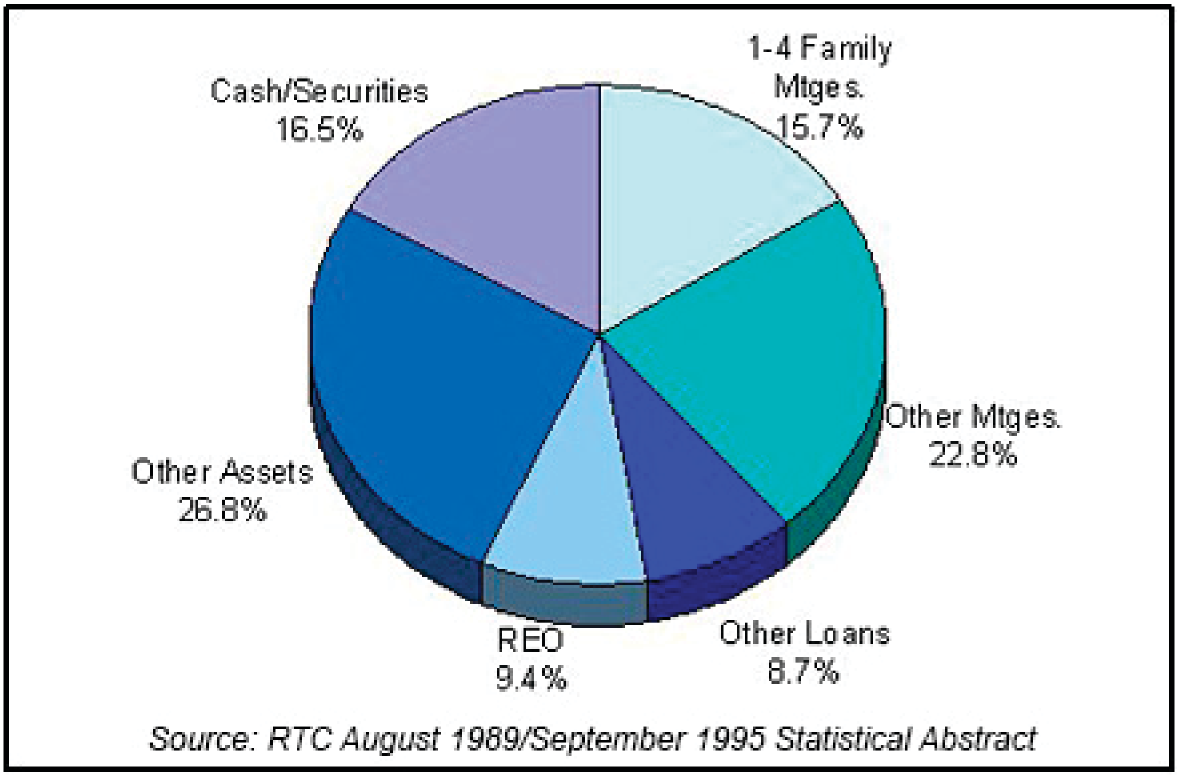


Figure 18-3—1995 RTC End of Year Asset Mix chart

1-4 Family Mtges.	Other Mtges.	Other Loans	REO	Other Assets	Cash/Securities
15.7%	22.8%	8.7%	9.4%	26.8%	16.5%
Source: RTC August 1989/September 1995 Statistical Abstract					

Staffing

As previously discussed, the FDIC accepted 132 available permanent RTC employees as FDIC vacancies occurred during 1994. Total RTC staff at the end of 1994 was 5,899, which was down from 6,778 at the end of 1993.

Chapter Nineteen: 1996

Acting Chairman Andrew C. Hove is quoted in the FDIC's 1997 Annual Report as stating, "The FDIC spent much of 1997 preparing for a new financial world being shaped by consolidation and technical change. Our freedom to focus on the future was, in large part, a reflection of the extraordinary healthy state of the banking and thrift industries. Low and stable interest rates, and a growing economy, gave both industries the opportunity to register record profits in 1997."

Table 19-1

1995 - 1996: FDIC at a Glance ($ in Millions)	12/31/95	12/31/96	Percent Change
Number of Bank Failures#	6	6	0.00%
Total Assets of Failed and Assisted Banks	$802.1	$232.6	-71.00%
Estimated Losses on Failed and Assisted Banks*	$84.5	$60.6	-28.28%
Estimated Losses as a Percent of Total Assets	10.53%	26.05%	147.39%
Assets in Liquidation	$10,308.2	$8,711.2	-15.49%
FDIC Staffing	9,789	9,151	-6.52%
Number of Problem Banks	193	117	-39.38%
Bank Insurance Fund Balance	$25,453.7	$26,854.4	5.50%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.30%	1.34%	3.08%
Savings Insurance Fund Balance	$3,357.8	$8,888.4	164.71%
Savings Insurance Fund Balance as a Percent of Insured Deposits	0.47%	1.30%	176.60%

#Includes one SAIF institution failure in 1996.
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1996 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- On January 29, Joseph H. Neely, former Mississippi banking commissioner, was sworn in as a member of the FDIC Board of Directors. His appointment brought the Board to its full membership of five directors for the first time since August 1992.
- On February 9, at a FDIC symposium on derivatives, Chairman Helfer announced new efforts to monitor and assess risk at insured institutions. The efforts were designed to enhance the FDIC's traditional approach to risk assessment allowing the agency to respond more quickly and efficiently to emerging risks. The FDIC developed specific guidelines for examiners on how to factor relevant economic and other data into their risk evaluations of specific institutions.
- On July 16, the FDIC's Legal Division issued guidance to help bank and thrifts decide whether the stored-value cards they issue qualify for federal deposit insurance. The FDIC Board of Directors approved General Counsel Opinion No. 8 that states in most cases the stored-value cards are not protected by deposit insurance because the issuing institution would typically maintain a single pooled account to hold the funds represented by all their customers' stored-value cards.
- On October 29, responding to the FDIC's declining workload, Deputy to the Chairman and Chief Operating Officer Dennis F. Geer outlined the Corporation's plans for downsizing in 1997 and subsequent years.

- On December 8, the FDIC created the new Division of Resolutions and Receiverships (DRR), to handle the reduced levels of resolution and liquidation work projected over the next several years. The new division represented a merger of the Division of Depositor and Asset Services and the Division of Resolutions.
- On December 10, the FDIC unveiled a new service called "Institution Directory," which enables the public to obtain information about individual banks and savings institutions via the Internet.
- On December 20, the FDIC Board adopted the interagency Federal Financial Institutions Examination Council's revised "CAMELS" rating system for assessing the soundness of financial institutions on a uniform basis. Along with: capital (C), asset quality (A), management (M), earnings (E), and liquidity (L), the banking agencies added a sixth component to the rating system ? sensitivity to market risk (S).

Economic/Banking Conditions

The U.S. economy grew rapidly in 1996, as GDP expanded by a robust 5.6 percent. Unemployment reflected this favorable trend, declining 20 basis points from 5.6 percent to 5.4 percent. An additional 2,272,000 individuals found employment during 1996. Reflecting the improved economy, new home sales spiked by 13.5 percent during 1996 to 757,000. Also, new housing starts rose 9.1 percent. This strong performance in the residential sector is especially impressive in light of the 63 basis-point rise in the 30 year mortgage rate from 7.51 percent to 8.14 percent. Moving in the opposite direction was the discount rate which declined modestly from 5.25 percent to 5 percent during the year. Another favorable trend was the decline in the office vacancy rate from 13.6 percent to 12 percent[19-1].

It was a very strong year for commercial banks as profits grew, and there were high levels of returns on both equity and assets. Commercial bank assets also grew this year, however slower than in 1995. The increase in assets was due largely to an increase in loan volume that was spurred by the strong economy. Net income increased by 8 percent and return on assets experienced a new high. Security holdings grew less than 1 percent. Both interest income and interest expense fell. Non-interest income increased 17 basis points and non-interest expense increased 8 basis points as a percentage of assets. The increase in non-interest expense was attributed to the restructuring costs of several large bank mergers.

Commercial and Industrial loans grew by 7.25 percent. Good conditions in the real estate market, an increase in real estate prices, and a reduction in vacancy rates allowed commercial real estate loans to increase 7.75 percent. The balance of consumer loans increased 5 percent. Delinquency and charge-off rates were low in business loans, especially in the real estate area. However, household delinquency rates continued to rise. Core deposits increased slowly which was partly be explained by low yields on bank deposits relative to alternative investments[19-2].

At end of 1996, there were 11,484 financial institutions in the United States and 117 institutions on the problem bank list[19-3].

Table 19-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1995.

19-1 Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

19-2 Federal Reserve Bulletin; Volume 83; Number 6; June 1997.

19-3 FDIC Quarterly Banking Profile, Fourth Quarter 1996.

Table 19-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	1995	**1996**	**Percent Change**
Number	10,243	9,823	-4.10%
Total Assets	$4,577.9	$4,857.8	6.11%
Return on Assets	1.15%	1.17%	1.74%
Return on Equity	14.32%	14.14%	-1.26%
SAIF Members			
Item	**1995**	**1996**	**Percent Change**
Number	1,727	1,629	-5.67%
Total Assets	$760.5	$749.6	-1.43%
Return on Assets	0.76%	0.67%	-11.84%
Return on Equity	9.47%	8.08%	-14.68%
US Branches of Foreign Banks	39	32	-17.95%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2001.			

Bank Failures

During 1996, the FDIC resolved six institutions ? five insured by the BIF and one insured by the SAIF. One of the BIF-insured institutions, however, had a portion of its deposits insured by the SAIF (this is known as an “Oakar” institution ? refer to Chapter 16 ? 1993). The five BIF-insured failures had combined assets of $200 million. The one SAIF-insured institution that closed, with total assets of $32.6 million, was the first SAIF-insured failure since the FDIC took over that responsibility from the Resolution Trust Corporation (RTC).

Purchase-and-assumption (P&A) transactions were used to resolve all six failures in 1996. In two of the six failures, all deposits were assumed. In the remaining four failures, the acquiring institution assumed only the insured deposits, and those depositors with balances above the $100,000 insurance limit received a proportionate share of the proceeds from the liquidation of the failed institution’s assets. In 1996, DRR unveiled the Standard Asset Valuation Estimation (SAVE) project, which provides consistent asset valuation methodology in the resolution and liquidation process. This is done by employing standard discounted cash flow models and valuation assumptions in the valuation of assets. The SAVE methodology is also used to calculate loss reserve estimations for assets held by the BIF, the SAIF, and the FSLIC Resolution Fund (FRF) as a part of the FDIC year-end 1996 financial statements.

A recent estimate of losses per transaction type is shown in Table 19-3.

Table 19-3

1996 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	**Number of Transactions**	**Total Assets**	**Estimated Loss*as of 12/31/03**	**Estimated Losses as a Percent of Assets**
P&As	6	$232.6	$60.6	26.05%

1996 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss*as of 12/31/03	Estimated Losses as a Percent of Assets
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Source: Reports from FDIC Website ? Historical Statistics on Banking.				

Payments to Depositors and Other Creditors

In the six financial institutions that failed in 1996, deposits totaled $230.4 million in 16,970 deposit accounts. Dividends paid on all active receiverships totaled almost $10.2 billion in 1996.

There have been a total of 2,133[19-4] insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,451 were P&A transactions, 79 were open bank assistance transactions, and 603 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $104.4 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $66.5 billion, which equates to a projected loss of $37.9 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 1996, the FDIC held $10.3 billion in assets from failed institutions. That total included $8.8 billion in BIF assets, $6 million in SAIF assets, $1.5 billion in FRF assets. Assets totaling $7.7 billion were transferred from the RTC to the FDIC at the beginning of 1996. During the year, the FDIC acquired an additional $213 million in assets from five bank failures and one thrift failure. The FDIC collected $5.9 billion during the year[19-5] and the ending balance for assets in liquidation was $8.7 billion, a reduction of $9.3 billion. Of the $8.7 billion, $3.8 billion was assets in liquidation for BIF, $36 million for SAIF, $476 million for FRF, and $4.4 billion for RTC.

During 1996, the FDIC sold real estate properties for a total of $353 million, yielding a recovery of 95 percent of average appraised value. More than 17,112 loans and other assets totaling $4.1 billion in book value were sold through asset marketing efforts, with net sales proceeds during 1996 representing 98 percent of appraised value.

When the RTC's unfinished work was transferred to the FDIC at the end of 1995, the FDIC assumed responsibility for the RTC Affordable Housing Program. The program was revised in 1996 to meet standards for asset disposition set forth in the FDIC Improvement Act of 1991. The revised program included the following: a 90-day period during which all single and multi-family properties designated as affordable housing were to be marketed exclusively to eligible individuals or organizations; an expanded clearinghouse program to provide property lists to potential buyers; and a technical assistance program to advise nonprofit organizations and public agencies when purchasing multifamily properties.

During 1996, the FDIC sold more than 3,266 affordable housing units from failed thrifts and banks for $39.9 million under this program. Sales included 46 multifamily and 455 single-family properties. Since 1990, the

19-4 In 1988 there were 21 assistance agreements that resolved 79 institutions. The FDIC annual report (source data) calculates failure data per transaction; this report calculates failures per failed institution. Actual resolutions through 1996 totaled 2,191.

19-5 After 1996, a joint DRR, DOF, DRS task force redefined what constitutes a collection. The $5.9 billion in collections is based on the new definition. In 1996, FDIC actually reported collections of $6.6 billion.

FDIC and RTC programs have had cumulative sales of more than 123,900 affordable housing units for $1.8 billion.

In addition, 32 state housing agencies and nonprofit organizations acting under a memorandum of understanding with the FDIC monitored 38,567 rental units for low- and very low-income households to ensure that purchasers were making units available to these households at adjusted rents as specified in the purchase agreement. These units originally were sold under the FDIC/RTC affordable housing program.

Table 19-4 shows the FDIC's assets in liquidation and Chart 19-1 shows the asset mix.

Table 19-4

1996 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/95 FDIC Book Value	12/31/95 RTC Book Value	1996 Assets Acquired	1996 Prin. Coll.	1996 Write Downs	12/31/96 Book Value	12/31/96 Est. Rec. Value
Commercial Loans	$2.6	$0.5	$0.1	$0.0	$1.8	$1.4	$0.5
Mortgage Loans	4.0	1.8	0.0	0.7	4.1	2.5	2.4
Other Loans	0.0	0.1	0.0	0.0	0.1	0.0	0.0
Real Estate Owned	0.7	0.8	0.1	0.2	1.1	0.6	0.6
Judgments	1.5	1.1	0.0	0.2	1.5	0.3	0.8
Securities	0.0	1.3	0.0	0.7	1.3	0.7	0.1
Other Assets	0.7	0.1	0.0	-0.3	0.1	0.8	0.0
Equity in Subs.	0.1	1.5	0.0	0.3	1.0	2.0	0.1
Deficiencies	0.7	0.5	0.0	0.3	0.7	0.4	0.4
Totals	$10.3	$7.7	$0.2	$2.1	$11.7	$8.7	$4.8

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance.

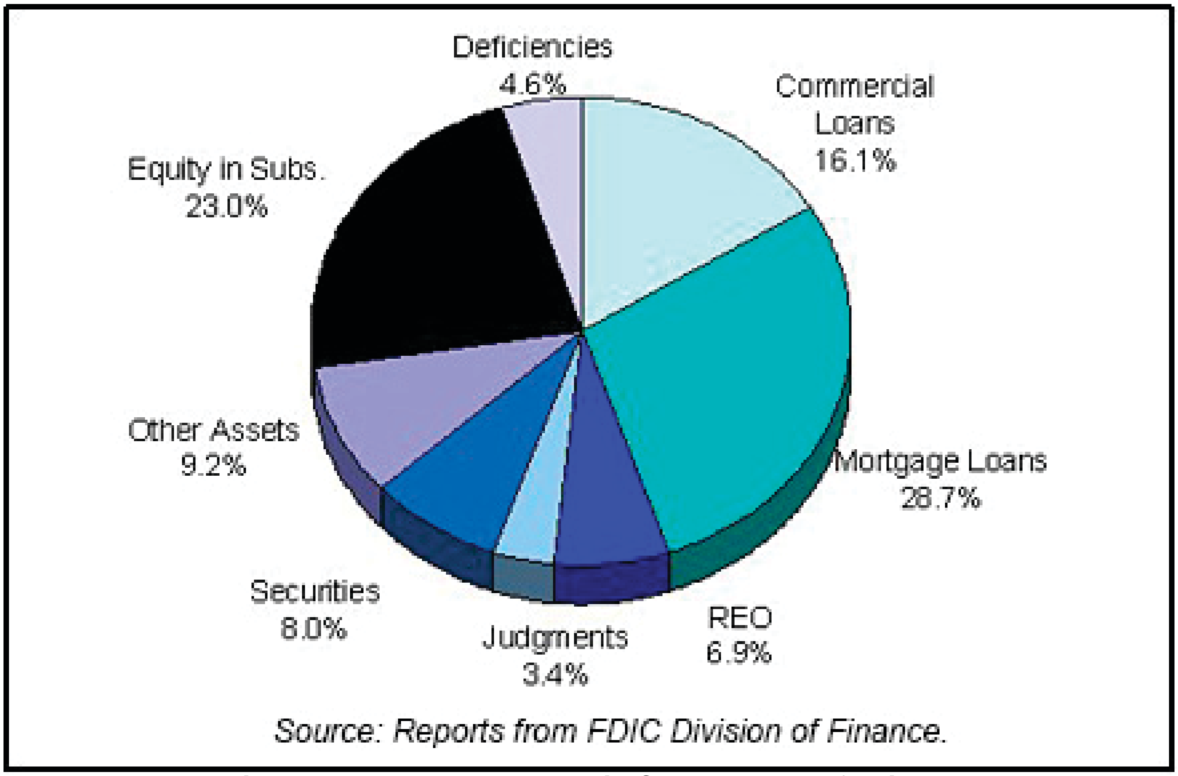


Chart 19-1—1996 FDIC End of Year Asset Mix chart

Commercial Loans	Mortgage Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
16.1%	28.7%	6.9%	3.4%	8.0%	9.2%	23.0%	4.6%
Source: Reports from FDIC Division of Finance							

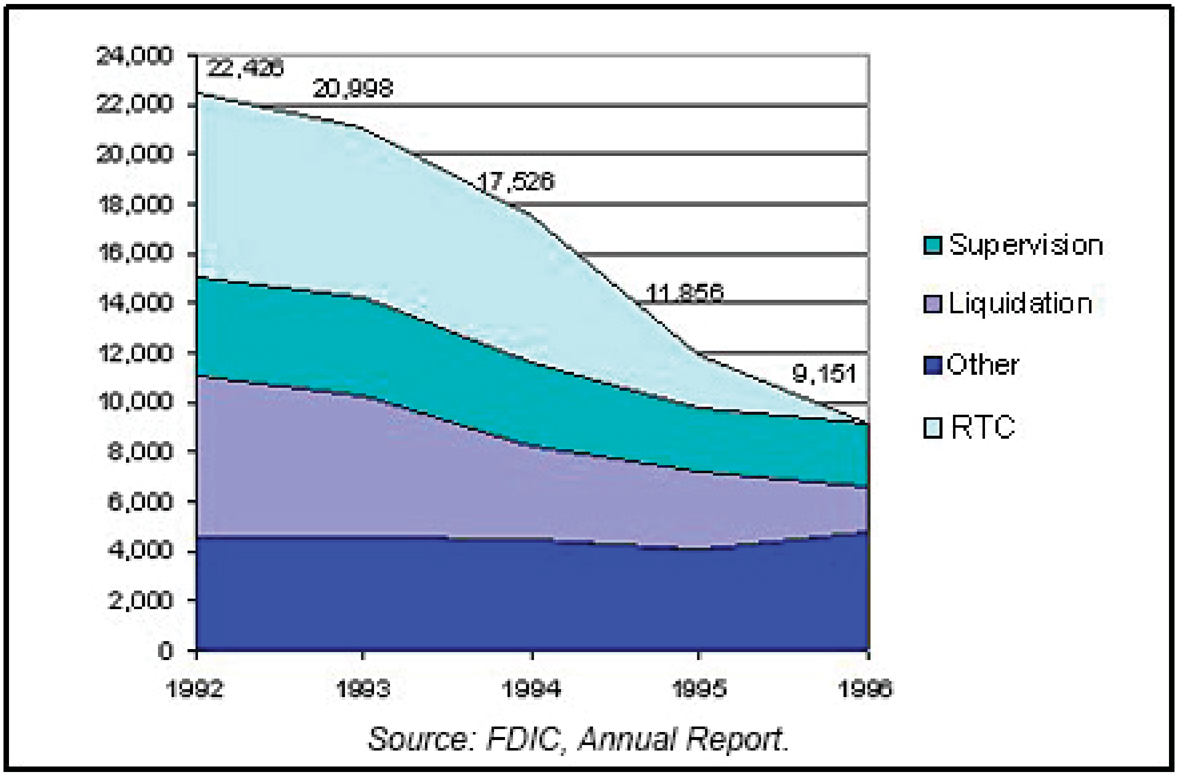


Chart 19-2—1996 FDIC/RTC Staffing chart

	1992	1993	1994	1995	1996
Other	4,621	4,584	4,462	4,111	4,760
Liquidation	6,427	5,665	3,796	3,055	1,819
Supervision	3,996	3,971	3,369	2,623	2,572
RTC	7,382	6,778	5,899	2,067	
Total	22,426	20,998	17,526	11,856	9,151

Source: FDIC, 2002 Annual Report

Insurance Fund and Staffing

With the recapitalization of the BIF in May 1995, the FDIC Board of Directors lowered the assessment rates for BIF-assessable deposits, creating a significant disparity in the assessment rates paid to the BIF and the SAIF. This disparity created incentives for institutions to move deposits from the SAIF to the BIF which, in turn, raised the question of whether a shrinking SAIF-assessable deposit base could continue paying the interest on debt and also capitalize the SAIF.

To address the financial problems of the SAIF, Congress passed the Deposit Insurance Funds Act of 1996 (DIFA), which became law on September 30, 1996The DIFA required the FDIC to impose a one-time special assessment to capitalize the SAIF on October 1, 1996, at the statutorily required Designated Reserve Ratio of 1.25 percent of insured deposits.

The FDIC Board set the special assessment at 65.7 cents per $100 of SAIF-assessable deposits. With the SAIF fully capitalized, the Board approved a reduction in SAIF assessment rates effective October 1, 1996.

With banks experiencing yet another record-breaking year of profitability and only a handful of bank failures, 1996 was another positive year for the BIF. In recent years, the BIF had climbed steadily, reaching

$26.9 billion in 1996, its third consecutive record year-end high. With the special assessment adding $4.5 billion to the SAIF on October 1, the fund ended the year with a balance of $8.9 billion, a 164.7 percent rise over the $3.4 billion balance at year-end 1995.

The Corporation continued to shrink the size of its workforce substantially during 1996 because of reduced workload. Total FDIC staffing was reduced by approximately 22.8 percent, from 11,856 on December 31, 1995 (including more than 2,000 RTC employees transferred to the FDIC on that date), to 9,151 on December 31, 1996. This was accomplished primarily through the expiration of term and temporary appointments, and the second phase of the buyout program. The program was open to almost 7,000 FDIC and RTC employees from November 1995 through January 1996. Approximately 300 employees applied for buyouts during the first phase and were required to leave the Corporation by December 31, 1995. About 600 employees applied during the second phase, and most left the Corporation at various times during 1996. Both phases of the buyout program saved the Corporation an estimated $97.5 million in employee-related costs. Chart 19-2 shows the staffing levels for the past five years.

Chapter Twenty: 1997

Acting Chairman Andrew C. Hove is quoted in the FDIC's 1997 Annual Report as stating, "The FDIC spent much of 1997 preparing for a new financial world being shaped by consolidation and technical change. Our freedom to focus on the future was, in large part, a reflection of the extraordinary healthy state of the banking and thrift industries. Low and stable interest rates, and a growing economy, gave both industries the opportunity to register record profits in 1997."

Table 20-1

1996 - 1997: FDIC at a Glance ($ in Millions)

	12/31/96	12/31/97	Percent Change
Number of Bank Failures#	6	1	-83.33%
Total Assets of Failed and Assisted Banks	$232.6	$27.9	-88.01%
Estimated Losses on Failed and Assisted Banks*	$60.6	$5.0	-91.75%
Estimated Losses as a Percent of Total Assets	26.05%	17.92%	-31.21%
Assets in Liquidation	$8,711.2	$4,114.6	-52.77%
FDIC Staffing	9,151	7,793	-14.84%
Number of Problem Financial Institutions	117	92	-21.37%
Bank Insurance Fund Balance	$26,854.4	$28,292.5	5.36%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.34%	1.38%	2.99%
Savings Insurance Fund Balance	$8,888.4	$9,368.3	5.40%
Savings Insurance Fund Balance as a Percent of Insured Deposits	1.30%	1.36%	4.62%

Includes one SAIF institution failure in 1996.
* Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1997 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- On January 16, experts from around the country gathered at a FDIC-sponsored symposium, History of the Eighties ? Lessons for the Future, to examine the causes of the crisis in the savings & loan and the banking industry during the 1980s and early 1990s.
- On January 29, the FDIC became the first federal banking agency to issue examination procedures on electronic banking and associated risks to its staff. The FDIC also provided the examination guidance to financial institutions, assisting them in the early development of their electronic banking systems.
- On April 28, the FDIC announced a series of seminars to educate bankers about its new examination procedures for the sale of non-deposit investment products, such as mutual funds and annuities.
- On May 9, the Federal Financial Institutions Examination Council issued guidance on the activities necessary for insured financial institutions to make computer systems capable of recognizing dates in the Year 2000 and beyond. Unless the computers were capable of distinguishing 2000 from 1900, the institutions faced substantial risks from faulty accounting and recordkeeping to system shutdowns.

- On June 1, Andrew C. Hove, Jr., became Acting Chairman of the FDIC for the third time, succeeding Ricki Helfer, who left the Corporation after more than two and a half years.
- On July 30, Acting Chairman Hove told Congress that FDIC-supervised banks are generally aware they face serious disruptions if their computer systems are not modified to handle transactions starting January 1, 2000. The FDIC monitored the situation closely and took supervisory and enforcement action, if banks did not address the problem.
- On November 17, the FDIC and the Georgia Department of Banking and Finance jointly issued cease and desist orders against three affiliated Georgia banks in the government's first enforcement actions to address Year 2000 compliance in the banking industry.
- On November 21, the only commercial bank failure of 1997 occurred, marking 1997 as the first year since 1972 with only one commercial bank failure. In 1997, there were no insured savings institution failures, the first year without a thrift failure since 1959.
- At year-end, the FDIC had approved two applications for banks that plan to operate solely through the Internet or other electronic means.

Economic/Banking Conditions

The U.S. economy roared forward during 1997, as GDP advanced by a whopping 6.5 percent, and unemployment fell by 60 basis points to 4.7 percent. The number of employed persons rose by 2,833,000 or 2.2 percent. While new home sales increased a healthy 6.5 percent, housing starts was virtually unchanged. Office vacancy rates provided the biggest news in the real estate sector during 1997, plummeting by 230 basis points from 12 percent to 9.7 percent. The discount rate remained unchanged at 5 percent, and the 30-year mortgage rate fell by 63 basis points to 7.51 percent[20-1].

It was a good year for commercial banks as returns on equity and assets increased. In fact, the return on assets reaching another new high. Due to the strong economy, bank loans increased by 8.25 percent, and loan losses remained low. Although banks earned lower rates on interest earning assets and paid more for liabilities, increased efficiency and higher fee income offset these costs. Stock prices overall matched those of the broader market. Although in the fourth quarter, stock prices were 'buffeted' because of concerns over economic problems in Asia.

Banks earned $59.2 billion; this is up 12.75 percent from 1996. Assets grew by 9.25 percent; the fastest growth in more than a decade. Total bank equity grew by10.25 percent. Securities that had been unchanged for last couple of years, expanded 8.75 percent. Non-interest income passed the $100 billion mark to $105.7 billion (up $10.5 billion in 1996). The net interest margin declined to 4.21 percent (from 4.27 percent in 1996). This is the fifth consecutive year it has declined. Net interest income as a percentage of average assets declined 6 basis points because of a decline in net interest margin. Non-interest income increased by 5 basis points.

Commercial and Industrial loans expanded by 12.25 percent. This is the second largest increase in 17 years. Non-current loans fell by $659 million. Commercial real estate loans increased by more than 9.75 percent. Home mortgages secured by first liens also expanded by 8.75 percent.

Bank core deposits grew 4.5 percent and savings accounts continued to expand rapidly because of the increased use of ?sweep' programs. In June, most of the remaining legal restrictions on interstate mergers were removed and many bank holding companies combined subsidiary banks that had been operating

20-1 Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

in different regions. Mergers accounted for 599 commercial banks absorptions, and 190 of these were in interstate mergers. By the end of the year, the largest 100 banks accounted for two-thirds of bank assets.

An Asian financial crisis primarily affected the trading income of the ten largest banks in America. The Asian crisis began when the Thai baht dropped sharply and the Thai authorities no longer defended the baht's peg to the dollar. In response, other East Asian economies experienced downward pressure on their currencies and equity prices and there was an upward pressure on interest rates. The crisis quickly spread to Korea and other countries as markets in Thailand, Indonesia, and Korea were turbulent through 1998[20-2].

At end of 1997, there were 10,950 financial institutions in the United States and 92 institutions on the problem bank list[20-3].

Table 20-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1997.

Table 20-2

Open Financial Institutions Insured by FDIC ($ in Billions) BIF Members			
	1996	1997	Percent Change
Number	9,823	9,406	-4.25%
Total Assets	$4,857.8	$5,292.8	8.95%
Return on Assets	1.17%	1.22%	4.27%
Return on Equity	14.14%	14.43%	2.05%
SAIF Members			
Item	1996	1997	Percent Change
Number	1,629	1,517	-6.88%
Total Assets	$749.6	$752.0	0.32%
Return on Assets	0.67%	0.94%	40.30%
Return on Equity	8.08%	11.11%	37.50%
US Branches of Foreign Banks	32	27	-15.63%

Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003.

Bank Failures

During 1997, the FDIC resolved only one institution, the fewest in one year since 1972. Southwest Bank, Jennings, Louisiana, which was insured by the BIF, was closed by the state banking commissioner on November 21, 1997. It had total deposits of $27.5 million and total assets of $27.9 million. The FDIC was able to find a bank to assume all of the bank's deposits and $20 million of its assets.

A more recent estimate of losses per transaction type is shown in Table 20-3.

20-2 Federal Reserve Bulletin Volume 84, Number 6, June 1998.

20-3 FDIC Quarterly Banking Profile, Fourth Quarter 1997.

Table 20-3

1997 Estimated Losses by Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	1	$27.9	$5.0	17.92%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Website ? Historical Statistics on Banking.

Payments to Depositors and Other Creditors

In the one financial institution that failed in 1997, deposits totaled $27.5 million in 2,000 deposit accounts. Dividends paid on all active receiverships totaled almost $5.6 billion in 1997.

There have been a total of 2,193[20-4] insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,449 were P&A transactions, 141 were open bank assistance transactions, and 603 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $106.6 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $69.5 billion, which equates to a projected loss of $37.1 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 1997, the FDIC held $8.7 billion in assets from failed institutions. That included $3.8 billion in BIF assets, $36 million in SAIF assets, $476 million in FSLIC Resolution Fund (FRF) assets, and $4.4 billion in Resolution Trust Corporation (RTC) assets. During the year, the FDIC acquired an additional $26 million in assets from one bank failure. The FDIC collected $3.6 billion during the year, and the ending balance for assets in liquidation was $4.1 billion, a reduction of $4.6 billion. Of the $4.1 billion, $1.7 billion was assets in liquidation for BIF, $17 million for SAIF, $169 million for FRF, and $2.2 billion for RTC.

During 1997, the FDIC sold real estate properties for a total of $321 million, yielding a recovery of 102 percent of average appraised value. More than 23,207 loans and other assets totaling $1.5 billion in book value were sold through asset marketing efforts, with net sales proceeds during 1997 representing 111 percent of appraised value.

The FDIC Affordable Housing Disposition Program sold 37 multifamily and 25 single-family properties consisting of 1,755 units for $9.8 million. Since 1990, the FDIC and RTC affordable housing programs had cumulative sales of more than 125,000 affordable housing units for $18 billion. In addition, 30 state housing agencies and nonprofit organizations, acting under a memorandum of understanding with the FDIC, monitored 93,409 multifamily rental units to ensure that the purchasers were making units available at adjusted rents as specified in the purchase agreements.

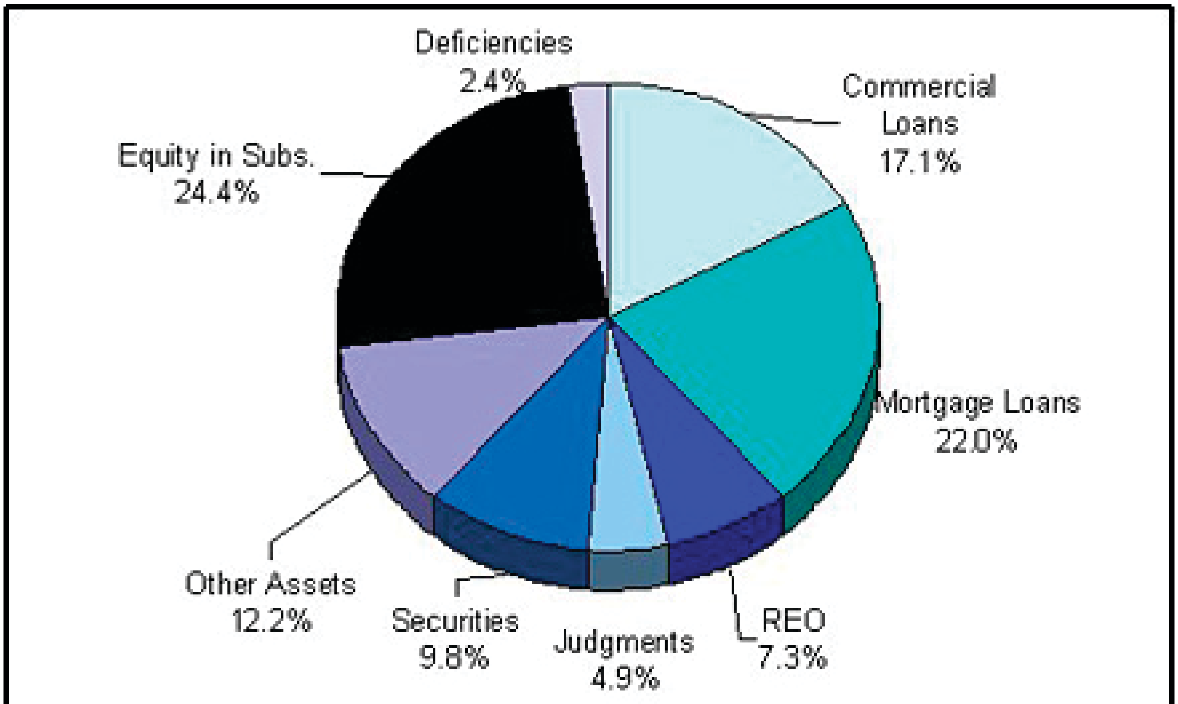
Table 20-4 shows the FDIC's assets in liquidation and Chart 20-1 shows the asset mix.

[20-4] Beginning with the 1997 Annual Report, the number of financial institutions listed in the open bank assistance transactions column for 1988 was changed from 21 to 80 and the total number of insured financial institution resolutions column was changed from 221 to 280 to reflect that one assistance transaction encompassed 60 institutions. Also, certain 1982, 1983, 1989, and 1992 resolutions previously reported in either the deposit payoff or P&A transactions categories were reclassified.

Table 20-4

1997 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/96 FDIC Book Value	1997 Assets Acquired	1997 Asset Adj.	1997 Coll. & Write Downs	12/31/97 Book Value	12/31/97 Est. Rec. Value
Commercial Loans	$1.4	$0.0	$0.0	$0.8	$0.7	$0.3
Mortgage Loans	2.5	0.0	0.1	1.7	0.9	1.1
Other Loans	0.0	0.0	0.0	0.0	0.0	0.0
Real Estate Owned	0.6	0.0	0.1	0.4	0.3	0.2
Judgments	0.3	0.0	0.1	0.2	0.2	0.8
Securities	0.7	0.0	0.0	0.3	0.4	0.3
Other Assets	0.8	0.0	0.1	0.4	0.5	0.0
Equity in Subs.	2.0	0.0	0.1	1.1	1.0	0.0
Deficiencies	0.4	0.0	0.1	0.3	0.1	0.3
Totals	$8.7	$0.0	$0.6	$5.2	$4.1	$3.0

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance.



Source: Reports from FDIC Division of Finance.

Chart 20-1—1997 FDIC End of Year Asset Mix chart

Commercial Loans	Mortgage Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
17.1%	22.0%	7.3%	4.9%	9.8%	12.2%	24.4%	2.4%
Source: Reports from FDIC Division of Finance							

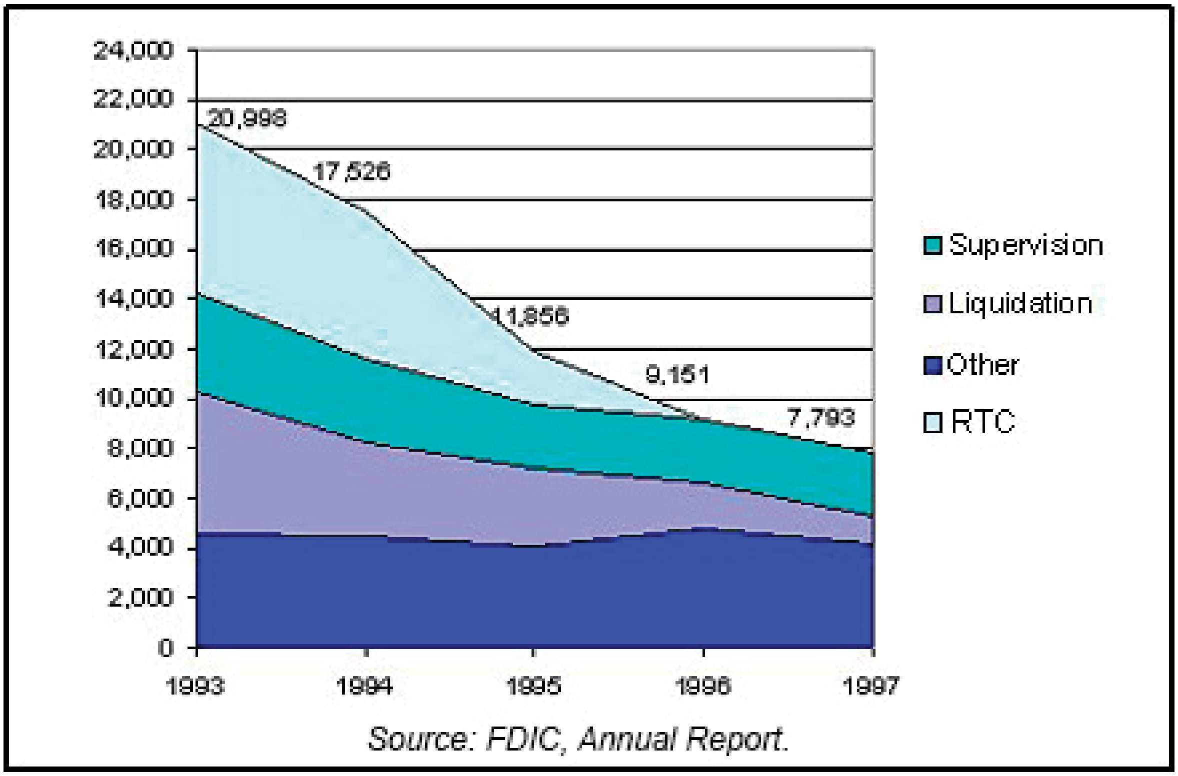


Chart 20-2—1997 FDIC/RTC Staffing chart

	1993	1994	1995	1996	1997
Other	4,584	4,462	4,111	4,760	4,150
Liquidation	5,665	3,796	3,055	1,819	1,093
Supervision	3,971	3,369	2,623	2,572	2,550
RTC	6,778	5,899	2,067		
Total	20,998	17,526	11,856	9,151	7,793
Source: FDIC, 1997 Annual Report					

Insurance Fund and Staffing

The BIF grew to $28.3 billion by December 31, 1997. BIF-insured deposits grew at a comparable rate and the fund's reserve ratio totaled 1.38 percent. The balance of the SAIF increased to $9.4 billion, and SAIF-insured deposits grew at a slightly slower pace, to $690 billion at the end of 1997. As a result, the reserve ratio of the SAIF edged upward to 1.36 percent. The near-term prospects for both insurance funds remained quite favorable, and investment income was expected to be sufficient to meet expenses.

The Corporation continued to shrink the size of its workforce in 1997 due to a further decline in workload. Total FDIC staffing in 1997 fell by approximately 14.8 percent. Staffing for the Division of Resolutions and

Receiverships (DRR), which liquidates the assets of failed institutions, fell by over 39.9 percent during the year. Chart 20-2 shows the staffing levels for the past five years.

DRR staffing reductions were accomplished primarily through the expiration of term and temporary appointments and by consolidating field liquidation operations. DRR operations and related Legal Division and other support activities in San Francisco, New York, Chicago, Atlanta, and Franklin, MA, were consolidated into other offices during the year. This was part of a three-year phased consolidation plan announced the previous year. DRR field operations are expected to be fully consolidated into a single site in Dallas by year-end 1999. In addition, the Division of Finance's field financial activities were consolidated in Dallas in 1997, and three Division of Supervision (DOS) field offices and a Division of Compliance and Consumer Affairs (DCA) satellite office were closed.

As a result of the buyout programs initiated in 1995 and 1996, a total of 379 employees left the Corporation during 1997. Another 87 permanent employees elected buyouts in 1997 in lieu of being reassigned to other areas of the country. In late 1997, the Corporation announced that new buyout and early retirement opportunities would be available during 1998 for selected employees in overstaffed divisions and offices.

Chapter Twenty-One: 1998

The conditions in the industry—and the strength of the insurance funds—in 1998 gave the FDIC opportunity to focus on three corporate priorities: Year 2000 readiness; emerging risks facing insured institutions, and, therefore, the insurance funds; and diversity in the workforce. Each in its way contributed to the efforts to ensure that the FDIC remains the world's leading deposit insurance authority.

Table 21-1

1997 - 1998: FDIC at a Glance ($ in Millions)

	12/31/97	12/31/98	Percent Change
Number of Bank Failures	1	3	200.00%
Total Assets of Failed and Assisted Banks	$27.9	$290.2	940.14%
Estimated Losses on Failed and Assisted Banks*	$5.0	$227.5	4,450.00%
Estimated Losses as a Percent of Total Assets	17.92%	78.39%	337.44%
Assets in Liquidation	$4,114.6	$2,375.5	-42.27%
FDIC Staffing	7,793	7,359	-5.57%
Number of Problem Financial Institutions	92	84	-8.70%
Bank Insurance Fund Balance	$28,292.5	$29,612.3	4.66%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.38%	1.38%	0.00%
Savings Insurance Fund Balance	$9,368.3	$9,839.8	5.03%
Savings Insurance Fund Balance as a Percent of Insured Deposits	1.36%	1.39%	2.21%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1998 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- On April 4, FDIC Board member Eugene A. Ludwig's tenure on the Board ended with the expiration of his five-year term as Comptroller of the Currency.
- On April 29, a two-day symposium, Managing the Crisis: The FDIC and RTC Experience, was presented. Current and former FDIC and Resolution Trust Corporation executives discussed the strategies they used to resolve trouble banks and thrifts during the financial crisis of the 1980s and 1990s. Between 1980 and 1994, a total of 1,617 banks and 1,295 thrifts failed and were resolved. Books developed as part of the symposium would soon rank among the most popular publications in the FDIC history.
- On May 26, Donna Tanoue was sworn in as the 17th Chairman of the FDIC. Andrew C. Hove, Jr., who had served as Acting Chairman since June 1997, resumed his position as the agency's Vice Chairman.
- By May 31, FDIC bank examiners, with assistance from state bank regulators, completed the first round of on-site Year 2000 assessments for FDIC supervised institutions, and also all data service providers and vendors that FDIC is responsible for examining. By year-end, approximately 97 percent of FDIC supervised institutions were making satisfactory progress toward achieving Year 2000 readiness.

- On June 18, the FDIC announced its "Suspicious Internet Banking" web site designed to help detect potentially fraudulent Internet banking activity. The site provides the public and the industry with a "user friendly" vehicle for reporting entities on the Internet that may be misrepresenting themselves as legitimately chartered or federally insured depository institutions.
- On September 9, the FDIC hosted the International Deposit Insurance Conference in Washington, DC to discuss the role of deposit insurance in sustaining public confidence in the world's banking system, drawing top government officials from 62 countries, including the leaders of deposit insurance agencies in more than 20 nations.
- On September 30, Joseph H. Neely resigned as a member of the FDIC's Board of Directors. He had served since January 29, 1996.
- Also on September 30, a "user friendly" electronic deposit insurance estimator called "EDIE" became available on the FDIC's web site. The service enables consumers and financial institutions employees to quickly check whether a depositor with multiple accounts at the same institution has exceeded the $100,000 statutory limit for deposit insurance coverage.
- On December 8, John D. Hawke, Jr., was sworn in as the 28th Comptroller of the Currency, filling the FDIC Board seat vacated by Eugene A. Ludwig.

Economic/Banking Conditions

The U.S. economy continued to speed along during 1998, registering a 5.6 percent expansion in GDP growth. Unemployment declined another 30 basis points to 4.4 percent and the actual count of employed persons rose 1.4 percent to 132,581,000. Inflation remained tame, as the cost of living advanced by a modest 1.7 percent. Encouraged by the low inflation rate, the discount rate was lowered by 50 basis points to 4.5 percent. Remarkably similar was the decline in interest rates on 30-year mortgages which fell by 49 basis points to 7.02 percent. Given this rather idyllic environment, both new home sales (up 10.2 percent) and new housing starts (up 9.7 percent) rose sharply. Office vacancy rates fell another 100 basis points to 8.7 percent, as all aspects of the economy did well[21-1].

The commercial banking industry faired well, but not as well as in previous years. Both returns on assets and equity were down, 5 basis points, and 75 basis points, respectively. There was a decline in rates earned on interest-bearing assets. In 1998, 5.8 percent of all commercial banks reported net losses; compared to 4.9 percent in 1997.

Commercial bank earnings totaled $61.5 billion; an increase of 3.9 percent or $2.3 billion from 1997. Bank assets grew by 8.25 percent. Security holdings rose 8.33 percent. Bank equity grew 9.5 percent. Net-interest income declined 15 basis points. The net interest margin also declined to a level not seen in seven years. There were two main reasons attributed to the decline: a shift in bank assets away from high-yielding assets, and a shift in bank sources of funding toward more expensive liabilities. Non-interest income as a percentage of assets rose 18 basis points. Non-interest expense rose due to merger and restructuring charges, increases in data processing services, and a rise in wage/occupancy costs.

Overall, loans increased 9 percent. Commercial and Industrial loans expanded by 13 percent and commercial real estate loans rose 11.3 percent, which can be attributed to continuing strong conditions in the property market (especially in the office sector). Loans to consumers expanded by 1 percent.

[21-1] Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

Bank stock prices rose during the first half of the year as fear of Asian crisis diminished. However, there was a sharp decline during the middle of the year due to the Russian debt default. By the end of the year, fears eased and bank stock prices recovered to around the price they were at the beginning of year.

Core deposits grew 7 percent and managed liabilities increased 9.5 percent. Many bank mergers occurred in 1998, resulting in the top 100 banks controlling 70 percent of industry assets[21-2].

At end of 1998, there were 10,489 financial institutions in the United States and 84 institutions on the problem bank list[21-3].

Table 21-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1998.

Table 21-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	1997	1998	Percent Change
Number	9,406	9,032	-3.98%
Total Assets	$5,292.8	$5,702.9	7.75%
Return on Assets	0.48%	0.53%	10.42%
Return on Equity	14.43%	13.82%	-4.23%
SAIF Members			
Item	1997	1998	Percent Change
Number	1,517	1,432	-5.60%
Total Assets	$752.0	$828.2	10.13%
Return on Assets	0.94%	0.98%	4.26%
Return on Equity	11.11%	11.29%	1.62%
US Branches of Foreign Banks	27	25	-7.41%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003.			

Bank Failures

During 1998, the FDIC resolved three BIF-insured institutions that failed. OmniBank, River Rouge, Michigan, with a total of $42 million in assets, was closed on April 9. The majority of the bank's assets and all of the deposits were acquired under a "loss-share agreement." Q Bank, Fort Benton, Montana, with total assets of $15 million, was closed on August 7. The failed bank's insured deposits and some assets were acquired by an assuming bank.

The most notable failure in 1998 was the BestBank, Boulder, Colorado. BestBank with total assets of $233.2 million and total liabilities of $206.3 million, was closed July 23, 1998, by the Colorado State Bank Commissioner. Losses associated with pursuing subprime credit card customers through an allegedly fraudulent telemarketing travel club program caused the bank's failure. The bank pursued rapid growth in subprime credit cards funded primarily by out-of-territory time deposits. In addition, there was evidence of significant alleged fraud by the credit card marketer posting internally generated credits on 40 to 50 percent

21-2 Federal Reserve Bulletin, Volume 85, Number 6, June 1999.

21-3 FDIC Quarterly Banking Profile, Fourth Quarter 1998.

of the credit card accounts. The principal of BestBank was arrested based on a 46-count Federal grand jury indictment of bank fraud, wire fraud, and money laundering from a Denver, Colorado court. The estimated total loss to the deposit insurance fund is $223 million.

A more recent estimate of losses per transaction type is shown in Table 21-3.

Table 21-3

1998 Estimated Losses by FDIC Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	3	$290.2	$227.5	78.39%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Website ? Historical Statistics on Banking.

Payments to Depositors and Other Creditors

In the three financial institutions that failed in 1998, deposits totaled $260.7 million in 12,700 deposit accounts. Dividends paid on all active receiverships totaled almost $4.8 billion in 1998.

There have been a total of 2,196 insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,452 were P&A transactions, 141 were open bank assistance transactions, and 603 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $106.9 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $69.8 billion, which equates to a cumulative projected loss of $37.1 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 1998, the FDIC held $4.1 billion in assets from failed institutions. That included $1.7 billion in BIF assets, $17 million in SAIF assets, $169 million in FSLIC Resolution Fund (FRF) assets, and $2.2 billion in Resolution Trust Corporation (RTC) assets. During the year, the FDIC acquired an additional $370 million in assets from three bank failures and $17 million from the establishment of a FRF receivership related to the closeout of a previous FRF agreement. The FDIC collected $3.5 billion during the year[21-4], and the ending balance for assets in liquidation was $2.4 billion, a reduction of $1.7 billion. Of the $2.4 billion, $1.3 billion was assets in liquidation for BIF, $349 thousand for SAIF, $105 million for FRF, and $947 million for RTC.

During 1998, FDIC sold real estate properties for a total of $149 million, yielding a recovery of 89 percent of average appraised value. More than 6,545 loans and other assets totaling $335 million in book value were sold through asset marketing efforts.

Table 21-4 shows the FDIC's assets in liquidation and Chart 21-1 shows the asset mix.

[21-4] Collections include 68 RTC Securitization deals that were either purchased by FDIC in its Corporate capacity or were called and the underlying assets (collateral) were liquidated and the bondholders were paid off ($1.9 billion in collections).

Table 21-4

1998 FDIC End of the Year Assets in Liquidation ($ in Billions*)

Asset Type	12/31/97 Book Value	1998 Assets Acquired	1998 Asset Adj.	1998 Coll. & Write Downs	12/31/98 Book Value	12/31/98 Book Val. Recovery[21-5]
Commercial Loans	$0.7	$0.0	$0.0	$0.3	$0.4	$0.2
Mortgage Loans	0.9	0.0	0.0	0.06	0.04	0.03
Other Loans	0.0	0.0	0.0	0.0	0.3	0.0
Real Estate Owned	0.3	0.0	0.0	0.2	0.1	0.1
Judgments	0.2	0.0	0.2	0.2	0.2	0.8
Securities	0.4	0.0	0.0	0.2	0.2	0.3
Other Assets	0.5	0.1	0.0	0.2	0.3	0.0
Equity in Subs.	1.0	0.0	0.0	0.6	0.4	0.0
Deficiencies	0.1	0.0	0.0	0.1	0.1	0.1
Totals	$4.1	$0.4	$0.2	$2.4	$2.4	$1.8

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance.

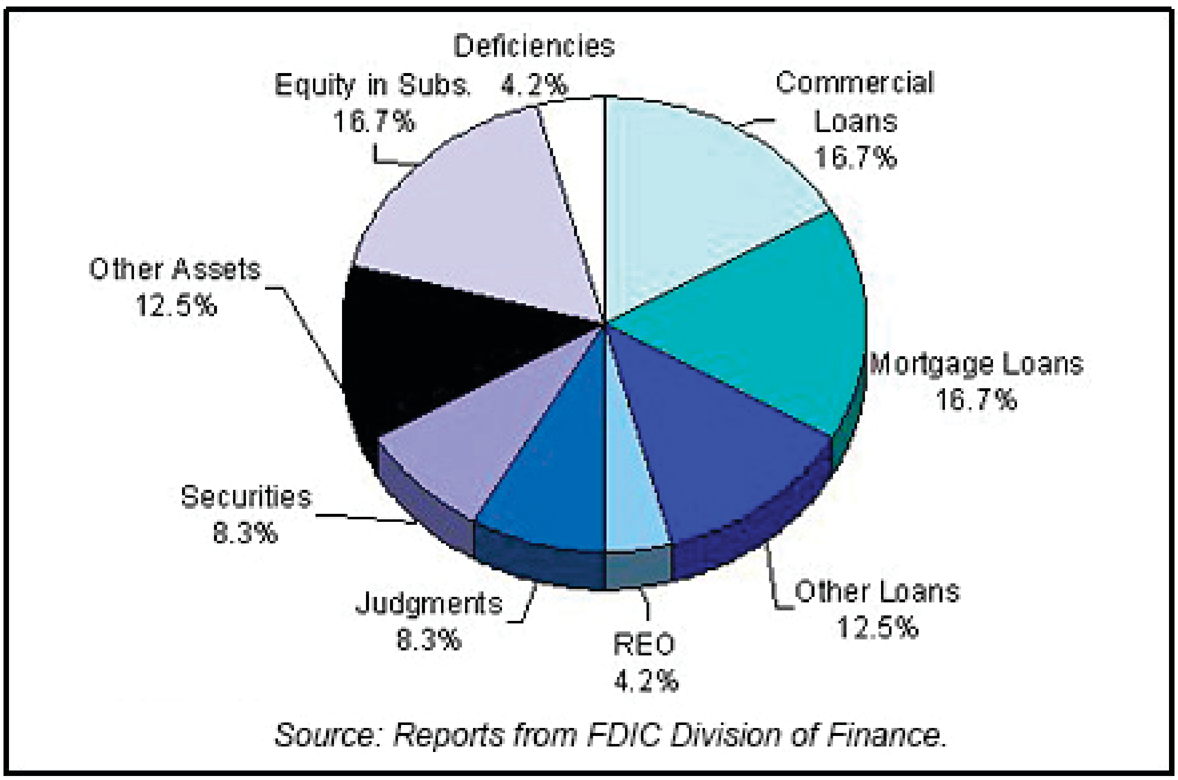


Chart 21-1—1998 FDIC End of Year Asset Mix chart

[21-5] Book Value Recovery excludes 68 RTC Securitization deals that were either purchased by FDIC in its Corporate capacity or called with the underlying assets (collateral) disposed and the bondholders paid off ($1.9 billion in recovery).

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
16.7%	16.7%	12.5%	4.2%	8.3%	8.3%	12.5%	16.7%	4.2%

Source: Reports from FDIC Division of Finance

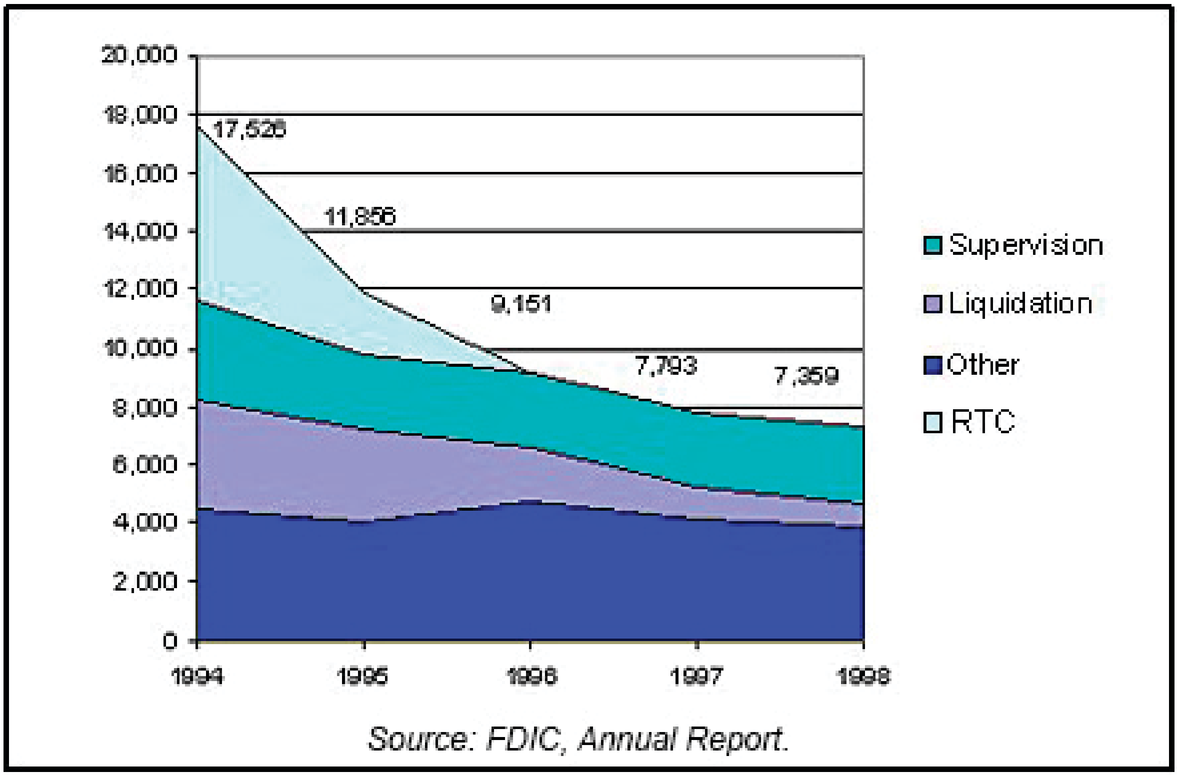


Chart 21-2—1998 FDIC/RTC Staffing chart

	1994	1995	1996	1997	1998
Other	4,462	4,111	4,760	4,150	3,909
Liquidation	3,796	3,055	1,819	1,093	795
Supervision	3,369	2,623	2,572	2,550	2,655
RTC	5,899	2,067			
Total	17,526	11,856	9,151	7,793	7,359

Source: FDIC, 1998 Annual Report

Insurance Fund and Staffing

With banks experiencing another highly profitable year and only three bank failures, 1998 was another positive year for the BIF. The BIF continued to grow steadily and stood at $29.6 billion at year-end 1998. The 1998 fund balance represents a 4.7 percent increase over the 1997 balance of $28.3 billion. BIF-insured deposits grew by 4.1 percent in 1998, yielding a reserve ratio of 1.38 percent of insured deposits at year-end 1998, unchanged from year-end 1997.

The SAIF ended 1998 with a fund balance of $9.8 billion, a 5 percent increase over the year-end 1997 balance of $9.4 billion. Estimated insured deposits increased by 2.8 percent in 1998. During the year, the reserve ratio of the SAIF grew from 1.36 percent of insured deposits to 1.39 percent. More than 95 percent of BIF members and 90 percent of SAIF members paid no deposit insurance premiums for the first half of 1998.

The Corporation continued to reduce the size of its workforce in 1998 to levels consistent with its declining resolutions and liquidation workload. Total FDIC staffing decreased to 7,359 at year-end 1998, down 5.6 percent from year-end

1997. Staffing reductions were primarily due to further declines in the inventory of assets in liquidation and related workload. They were accomplished largely through the expiration of non-permanent appointments and by consolidating field operations. Chart 21-2 shows the staffing levels for the past five years.

In accordance with a 1996 plan for a phased consolidation of its field operations, the Division of Resolutions and Receiverships (DRR) in 1998 closed field offices in Irvine, California; Jersey City, New Jersey; and Boston, Massachusetts; and consolidated the residual workload from those sites into the Dallas and Washington offices. Only the Hartford, Connecticut office remained to be closed under DRR's 1996 field consolidation plan. In December 1998, the FDIC Board of Directors delayed the Hartford office's projected closing date until June 30, 2000. This allowed the Corporation to retain a large number of experienced staff as part of a contingent workforce ready to respond to any unexpected increase in bank failures in early 2000 due to Y2K technical issues. The Division of Supervision also continued to streamline its field office structure in 1998 by closing small field offices in Bath, Ohio; Cincinnati, Ohio; Macon, Georgia; and Fort Wayne, Indiana.

Chapter Twenty-Two: 1999

In 1999, the U.S. economy marked its ninth year of a remarkably strong economic expansion, which contributed to record profits for the banking industry. Insured commercial banks posted record earnings for the eighth consecutive year, and insured savings institutions recorded their third consecutive year of record earnings.

Table 22-1

1998 - 1999: FDIC at a Glance ($ in Millions)			
	12/31/98	12/31/99	Percent Change
Number of Bank Failures#	3	8	166.67%
Total Assets of Failed and Assisted Banks	$290.2	$1,592.2	448.66%
Estimated Losses on Failed and Assisted Banks*	$227.5	$831.5	265.49%
Estimated Losses as a Percent of Total Assets	78.39%	52.22%	-33.38%
Assets in Liquidation	$2,375.5	$1,981.5	-16.59%
FDIC Staffing	7,359	7,266	-1.26%
Number of Problem Financial Institutions	84	79	-5.95%
Bank Insurance Fund Balance	$29,612.3	$29,414.2	-0.67%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.38%	1.36%	-1.45%
Savings Insurance Fund Balance	$9,839.8	$10,280.7	4.48%
Savings Insurance Fund Balance as a Percent of Insured Deposits	1.39%	1.45%	4.32%

#Includes one SAIF institution failure in 1999.
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 1999 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- During 1999, the FDIC took an aggressive approach to supervising insured financial institutions to assure readiness for the Year 2000 (Y2K) date conversion and engaged in an extensive program of Y2K public education and outreach.
- Throughout the year, FDIC?s Division of Supervision (DOS) examiners, with assistance from state bank regulators, performed comprehensive on-site Y2K readiness assessments of FDIC supervised financial institutions and their service providers, a well as software vendors that the FDIC is responsible for examining. On December 13, FDIC Chairman Donna Tanoue announced that every FDIC-insured financial institution in the nation had achieved a satisfactory assessment.
- During the year, the Y2K issue of FDIC Consumer News was one of the most popular publications offered by the Consumer Information Center, which distributed more than 500,000 copies to the public.
- Throughout the day on January 1, 2000, Chairman Tanoue appeared on NBC and CNN, withdrawing money from an automated teller machine illustrating that it was business as usual for banking. Banks reported no significant Y2K problems. Public confidence in the banking sector was maintained.

- On November 12, the Gramm-Leach-Bliley Act, was signed by President Clinton. The Act (Public Law 106-102) repeals Sections 20 and 32 of the Banking Act of 1933 (Glass-Steagall Act) and amends the Bank Holding Company Act of 1956. The amendment allows affiliations between any insured depository institution and any ?financial? company, including securities and insurance firms, in new types of bank holding companies known as financial holding companies. The Act also allows certain financial activities, permitted by financial holding companies, to be carried out through bank subsidiaries, subject to safe guards and restrictions.

Economic/Banking Conditions

While the U.S. economy as a whole continued to steam forward throughout 1999, the breadth of prosperity was not as great as during 1998. On the bullish side, GDP growth climbed sharply once again, rising by 5.6 percent. Likewise, unemployment fell another 30 basis points to 4.1 percent, a very low level by historical standards. Moreover total employment, rose by 1.5 percent, as 1,857,000 more individuals found work. Also bullish was the inflation rate which added only a modest 2.7 percent to the average cost of goods and services. The final piece of bullish economic news came from a 3 percent increase in new housing starts, to 1,665,000.

By contrast, new home sales were flat to down slightly, losing 70 basis points from the 1998 level. Also bearish were the 60 basis-point rise in office vacancy, a 50 basis-point climb in the discount rate, and a 104 basis-point rise in interest charged on 30-year mortgages[22-1].

This was an extremely strong year for banks. Both returns on assets and equity rose above last year's levels. Profits were concentrated in the top 100 banks because of a large increase in non-interest income and a decrease in non-interest expense.

Growth in commercial bank assets decreased from 8.2 percent to 5.4 percent. Net income grew 16 percent (to $71.5 billion) while capital growth slowed 4 percent. Growth of securities slowed to 5.1 percent.

There were record profits due to an increase in non-interest income, which was largely due to non-deposit fee income. The net interest margin remained constant at 4.1 percent. Most profitability was evident in medium to large size banks. The top ten banks held 35 percent of industry's assets, and the next 90 also held 35 percent. The next 900 held 18 percent, and the remaining banks held 12 percent.

Total Loans expanded 8 percent. Commercial and Industrial loans expanded 8.1 percent, however this pace was slower than the past two years. Commercial real estate loans increased more than 15 percent; the greatest increase since 1987. The largest loan category increase was in construction and land development loans, which increased 27 percent. There were three main reasons for the strong increase commercial real estate loans: the strong economy, the decrease in REITs (which allowed private developers to develop), and the issuance of domestic securities backed by commercial mortgages was off 24 percent. Consumer loans grew 4.7 percent and home equity loans increased 5.9 percent.

Core deposits were constant for the entire year. As a share of total liabilities, core deposits were down 3 basis points, to about 52 percent. This caused banks to rely on more expensive managed liabilities—this area advanced more than 15 percent. Foreign deposits and large time deposits rose. Dividends (primarily paid to parent companies) increased more than 26 percent. Bank holding companies' stock prices were down 20 percent[22-2].

[22-1] Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

[22-2] Federal Reserve Bulletin Volume 86 Number 6 June 2000.

Overall, 10,242 financial institutions were in operation at the end of 1999 and there were 79 banks on the problem bank list.[22-3]]

Table 22-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1999.

Table 22-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	1998	**1999**	**Percent Change**
Number	9,032	8,835	-2.18%
Total Assets	$5,702.9	$5,980.1	4.86%
Return on Assets	1.18%	1.29%	9.32%
Return on Equity	13.82%	15.11%	9.33%
SAIF Members			
Item	**1998**	**1999**	**Percent Change**
Number	1,432	1,387	-3.14%
Total Assets	$828.2	$903.5	9.09%
Return on Assets	0.98%	0.99%	1.02%
Return on Equity	11.29%	11.97%	6.02%
US Branches of Foreign Banks	25	20	20.00%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003.			

Bank Failures

Eight institutions insured by the FDIC were closed during 1999. Seven of those institutions were insured by the BIF and one was insured by the SAIF. These failed entities had combined assets of approximately $1.6 billion. All eight resolutions involved purchase and assumption transactions.

The First National Bank of Keystone, Keystone, West Virginia, was closed on September 1, 1999, by the Office of the Comptroller of the Currency. The bank?s failure was the result of fraudulent activities involving $515 million in loans carried on the bank?s books that should have been removed after they were securitized and sold, along with embezzlement and excessive compensation in the form of fees and commissions. The bank reported total assets of just over $1 billion and total liabilities of $976.4 million. On September 3, 1999, the FDIC and AmeriBank, Inc., Welch, West Virginia, reached an agreement whereby AmeriBank would assume the insured local deposits totaling $135 million and purchase $74.2 million in assets for a discount of $105,000. The FDIC paid out the non-local insured deposits not assumed by AmeriBank. The uninsured deposits totaled approximately $27.9 million in about 674 accounts. The estimated total loss to the deposit insurance fund is $751 million.

A more recent estimate of losses per transaction type is shown in Table 22-3.

[22-3] FDIC Quarterly Banking Profile, Fourth Quarter 1999.

Table 22-3

1999 Estimated Losses by FDIC Transaction Type ($ in Millions*)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	8	$1,592.2	$831.5	52.22%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Website ? Historical Statistics on Banking.

Payments to Depositors and Other Creditors

In the eight financial institutions that failed in 1999, deposits totaled $1.3 billion in 59,601 deposit accounts. Dividends paid on all active receiverships totaled almost $959 million in 1999.

There have been a total of 2,204 insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,460 were P&A transactions, 141 were open bank assistance transactions, and 603 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $108.1 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $70.1 billion, which equates to a projected loss of $38 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 1999, the FDIC held $2.4 billion in assets from failed institutions. That included $1.3 billion in BIF assets, $349 thousand in SAIF assets, $105 million in FSLIC Resolution Fund (FRF) assets, and $947 million in Resolution Trust Corporation (RTC) assets. During the year, the FDIC acquired an additional $1.5 billion in assets from seven bank failures and one thrift failure. The FDIC collected $980 million during the year, and the ending balance for assets in liquidation was $2 billion, a reduction of $394 million. Of the $2 billion, $1.5 billion was assets in liquidation for BIF, $10 million for SAIF, $42 million for FRF, and $467 million for RTC.

During 1999, the FDIC sold real estate properties for a total of $67 million, yielding a recovery of 83 percent of average appraised value. More than 16,976 loans and other assets totaling $567 million in book value were sold through asset marketing efforts. Table 22-4 shows the FDIC?s assets in liquidation and Chart 22-1 shows the asset mix.

Table 22-4 shows the FDIC's assets in liquidation and Chart 22-1 shows the asset mix.

Table 22-4

1999 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/98 Book Value	1999 Assets Acquired	1999 Asset Adj.	1999 Coll. & Write Downs	12/31/99 Book Value	12/31/99 Book Val. Recovery
Commercial Loans	$0.3	$0.1	$0.1	$0.3	$0.0	$0.1
Mortgage Loans	0.4	0.2	0.0	0.4	0.2	0.2
Other Loans	0.3	0.0	0.0	0.3	0.0	0.0

1999 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/98 Book Value	1999 Assets Acquired	1999 Asset Adj.	1999 Coll. & Write Downs	12/31/99 Book Value	12/31/99 Book Val. Recovery
Real Estate Owned	0.1	0.0	0.0	0.1	0.0	0.1
Judgments	0.2	0.0	0.0	0.1	0.1	0.1
Securities	0.3	0.1	-0.1	0.1	0.2	0.1
Other Assets	0.3	1.1	-0.6	0.1	0.7	0.0
Equity in Subs.	1.4	0.0	0.5	0.1	0.8	0.0
Deficiencies	0.1	0.0	0.0	0.1	0.0	0.1
Totals	$2.4	$1.5	($0.2)	$1.7	$2.0	$0.7

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance.

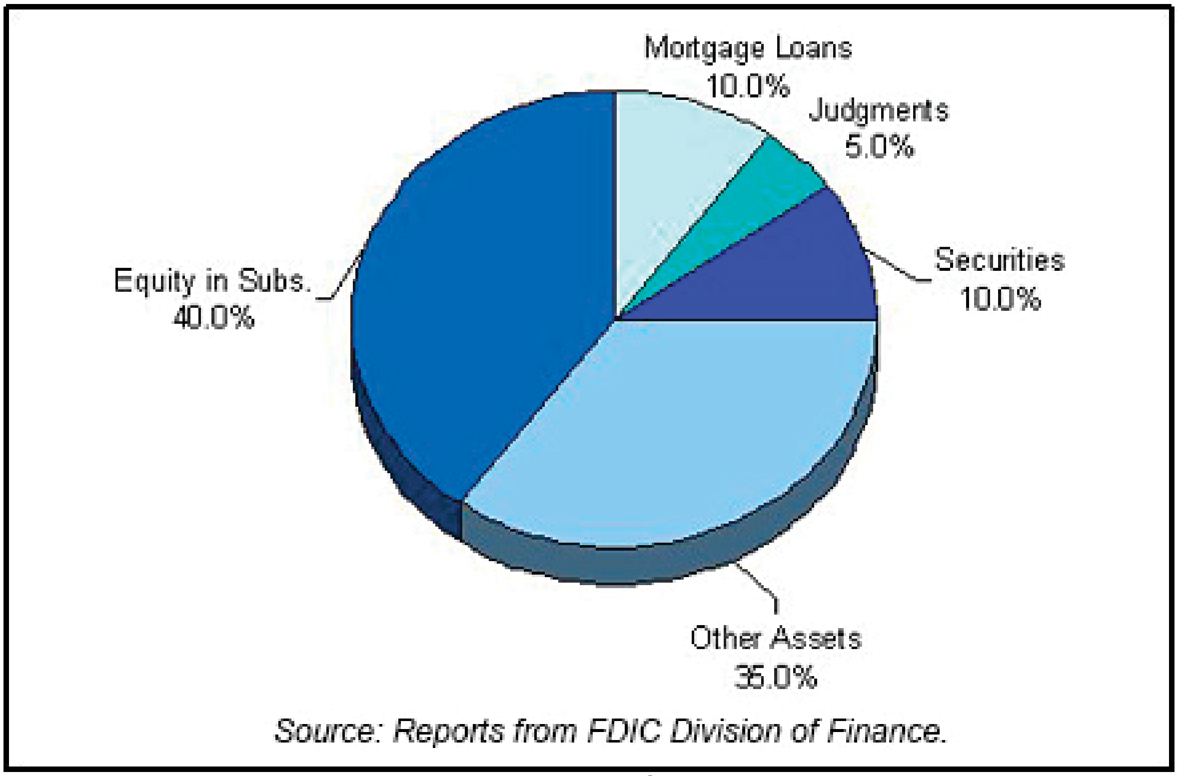


Chart 22-1—1999 FDIC End of Year Asset Mix chart

Mortgage Loans	Judgments	Securities	Other Assets	Equity in Subs
10.0%	5.0%	10.0%	35.0%	40.0%

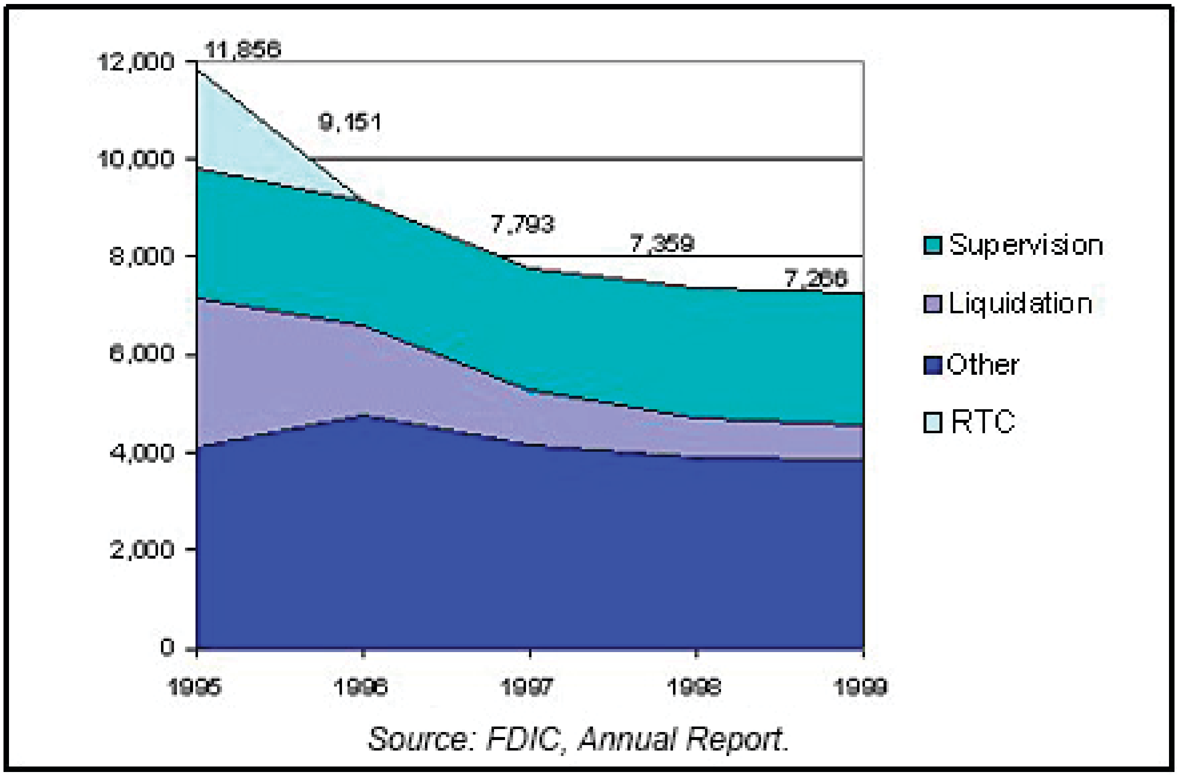


Chart 22-2—1999 FDIC/RTC Staffing chart

	1995	1996	1997	1998	1999
Other	4,111	4,760	4,150	3,909	3,820
Liquidation	3,055	1,819	1,093	795	753
Supervision	2,623	2,572	2,550	2,655	2,693
RTC	2,067				
Total	11,856	9,151	7,793	7,359	7,266

Insurance Fund and Staffing

At year-end 1999, the BIF had a balance of $29.4 billion, representing a loss of $198 million for the year. This was the first year-end loss reported since 1991 and the loss was primarily attributable to insurance losses recognized in 1999. During the year, BIF-insured deposits grew by 0.76 percent, yielding a reserve ratio of 1.36 percent of insured deposits at year-end 1999. The reserve ratio at year-end 1998 was slightly higher, at 1.39 percent.

The SAIF ended 1999 with a fund balance of $10.3 billion, a 4.5 percent increase over the year-end 1998 balance of $9.8 billion. Estimated insured deposits increased by 0.34 percent in 1999. The reserve ratio grew from 1.39 percent of insured deposits at year-end 1998 to 1.45 percent.

After reducing the size of its workforce by over 4,500 or 38.7 percent over the previous four years, staffing remained relatively constant during 1999, decreasing by only 93 (1.3 percent) down to 7,266. The Corporation continued its practicing of allowing temporary and term appointments to expire, which accounted for almost 50 percent of the staff reductions. Additionally, the Corporation utilized an Early Out Retirement authority, and the Legal Division offered a buyout opportunity in its continued efforts to remedy staffing imbalances. Chart 22-2 shows the staffing levels for the past five years.

Chapter Twenty-Three: 2000

The year 2000 may well be remembered as a watershed in the history of the FDIC. The Corporation undertook a comprehensive review of the deposit insurance system with an eye toward addressing its weaknesses.

Table 23-1

1999 - 2000: FDIC at a Glance ($ in Millions)	12/31/99	12/31/2000	Percent Change
Number of Bank Failures#	8	7	-12.50%
Total Assets of Failed and Assisted Banks	$1,592.2	$414.5	-73.97%
Estimated Losses on Failed and Assisted Banks*	$831.5	$37.3	-95.51%
Estimated Losses as a Percent of Total Assets	52.22%	9.00%	-82.77%
Assets in Liquidation	$1,981.5	$535.5	-72.98%
FDIC Staffing	7,266	6,452	-11.20%
Number of Problem Financial Institutions	79	94	18.99%
Bank Insurance Fund Balance	$29,414.2	$30,975.2	5.31%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.36%	1.35%	-0.74%
Savings Insurance Fund Balance	$10,280.7	$10,758.6	4.65%
Savings Insurance Fund Balance as a Percent of Insured Deposits	1.45%	1.43%	-1.38%

#Includes two SAIF institution failures, one each in 1999 and 2000.
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 2000 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- The FDIC began a major study of its deposit insurance system in order to offer a constructive framework for change to better promote macroeconomic stability, fairness, and appropriate economic incentives for the banking and thrift industries. The FDIC believes the recommendations for deposit insurance reform developed during the year will provide a sound basis for helping the agency achieve it mission, more effectively and more fairly, for years to come.
    - One core recommendation from the FDIC to Congress was to resume operating one insurance fund by merging the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF).
    - Other FDIC recommendations were:
        - ◊ Sharp premium swings triggered by deviations from the Designated Reserve Ratio should be eliminated. If the fund falls below a target level, premiums should gradually increase. If it grows above the target level, funds should gradually be rebated.
        - ◊ The current statutory restrictions on the FDIC's ability to charge risk-based premiums to all institutions should be eliminated; the FDIC should charge regular premiums for risk regardless of the level of the fund.
        - ◊ Rebates should be based on past contributions to the fund, not the current assessment base.

- ◊ The deposit insurance coverage limit should be indexed to keep pace with inflation.

- In May, the Corporation and the Financial Stability Institute co-hosted a seminar on the above issues and drew approximately 150 people from more than 60 countries as part of the FDIC-sponsored global efforts to establish or improve deposit insurance systems.
- In 2000, the Corporation undertook several safety and soundness initiatives to address emerging risks. It also developed contingency plans for the failure of a very large institution, and the failure of an Internet institution.
- By year-end 2000, the FDIC had established the Electronic Banking Branch in its Division of Supervision and trained bank examiners and similar specialists nationwide in electronic banking.

Economic/Banking Conditions

The U.S. economy continued to set new records for the longevity of this peace-time expansion and the economy showed remarkable strength, as GDP grew by 6.5 percent. Unemployment reflected this hearty pace of economic activity, declining 10 basis points to a phenomenal 4 percent. Office vacancies fell by 100 basis points to 8.3 percent. Rounding out the year's positive economic news was a 48 basis-point decline in interest on 30-year mortgages, to 7.58 percent.

Fueled primarily by a sharp spike in both oil and natural gas prices, inflation rose to 3.5 percent, the highest level in several years—but nonetheless quite modest by historic standards. This inflation scare helped to prompt an increase of 100 basis points in the discount rate—from 5 percent to 6 percent. This shift toward tightening the discount rate may have contributed to the 4.4 percent decline in housing starts experienced during 2000. New home sales remained virtually consistent with the 1999 level, declining by an imperceptible 30 basis points[23-1].

For most financial institutions, the returns on assets and equity fell during the year. Even though, the asset growth rate for commercial banks went from 5.4 percent to 8.8 percent. Commercial banks' total net income decreased 2 percent to $69.8 billion. The decline in profitability was due mainly to the continued narrowing of net interest margins, an increase in loan-loss provisions, and the slowed growth of non-interest income. Banks had a strong first quarter, but some institutions experienced large restructuring charges in the second quarter. A total of 605 banks reported negative income. However, this was down from 1999, which had 658 banks experiencing negative income. Holdings of securities expanded 6.4 percent; largely attributed to the increase in trading accounts. Growth of securities in investment accounts did not rise (due to the fact that holdings in U.S. Treasury securities had a record drop). Equity capital rose 10.5 percent.

Overall, loans expanded in 2000. Commercial and Industrial loans grew 12.9 percent during the first half of the year; but slowed to 2.9 percent during second half because of variety of reasons. On the demand side, there was a reduced need for credit. On the supply side, commercial banks tightened lending standards. The growth rate for commercial real estate loans slowed to 12.1 percent. Consumer loans rose by 8.7 percent and home equity loans increased by 24.6 percent.

Core deposits increased by 7.5 percent. This can partly be explained by the falling equity prices and economic uncertainty which increases the incentive to hold liquid bank assets. Managed liabilities expanded at a slower rate than the previous year (at 8.8 percent down from 15.5 percent pace in 1999). Over 70 percent of the industry assets were held by the top 100 largest banks. Fleet Bank and BankBoston

[23-1] Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

combined to create the nation's fourth largest bank (resulting in the 10 largest banks controlling 38 percent of assets)[23-2].

For the fifth year in a row, the number of financial institutions dropped. Overall, 9,923 financial institutions were in operation at the end of 2000. The number of banks on the problem bank list increased from 79 banks to 94[23-3].

Table 23-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 1999.

Table 23-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	1999	2000	Percent Change
Number	8,835	8,572	-2.98%
Total Assets	$5,980.1	$6,510.7	8.87%
Return on Assets	1.29%	1.18%	-8.53%
Return on Equity	15.11%	13.86%	-8.27%
SAIF Members			
Item	1999	2000	Percent Change
Number	1,387	1,332	-3.97%
Total Assets	$903.5	$952.2	5.39%
Return on Assets	0.99%	0.89%	-10.10%
Return on Equity	11.97%	11.12%	-7.10%
US Branches of Foreign Banks	20	19	-5.00%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003.			

Bank Failures

During 2000, seven FDIC-insured institutions failed. Six of those institutions were insured by the BIF and one was insured by the SAIF. The failed institutions had combined assets of approximately $414.5 million. Losses for the seven failures are estimated at $37.3 million. All resolutions involved purchase and assumption agreements.

In 2000, the FDIC conducted its first teleconference with prospective acquirers for a failed bank at five locations across the country. With the failure of Bank of Honolulu, Honolulu, Hawaii, it was not economically feasible to conduct an information meeting in Hawaii. Marketing specialists set up video teleconferences in San Francisco, Chicago, Dallas, New York and Washington, D. C., with the main presentation held in Dallas. The result was several competitive bids received and a successful resolution consummated.

A more recent estimate of losses per transaction type is shown in Table 23-3.

[23-2] Federal Reserve Bulletin Volume 87, Number 6, June 2001.

[23-3] FDIC Quarterly Banking Profile, Fourth Quarter 2000.

Table 23-3

2000 Estimated Losses by FDIC Transaction Type ($ in Millions*)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	7	$414.5	$37.3	9.00%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Website ? Historical Statistics on Banking.

Payments to Depositors and Other Creditors

In the seven financial institutions that failed in 2000, deposits totaled $343.9 million in 39,250 deposit accounts. Dividends paid on all active receiverships totaled almost $1.7 billion in 2000.

There have been a total of 2,211 insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,467 were PA transactions, 141 were open bank assistance transactions, and 603 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $108.4 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $70.3 billion, which equates to a projected loss of $38.1 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 2000, the FDIC held $2 billion in assets from failed institutions. That included $1.5 billion in BIF assets, $10 million in SAIF assets, $42 million in FSLIC Resolution Fund (FRF) assets, and $467 million in Resolution Trust Corporation (RTC) assets. During the year, the FDIC acquired an additional $407.6 million in assets from six bank failures and one thrift failure. The FDIC collected $604 million during the year[23-4], and the ending balance for assets in liquidation was $535.5 million, a reduction of $1.4 billion. Of the $535 million, $226.2 million was assets in liquidation for BIF, $8.1 million for SAIF, $28.3 million for FRF, and $272.9 million for RTC.

During 2000, the FDIC sold real estate properties for a total of $15 million, yielding a recovery of 79 percent of average appraised value. More than 11,584 loans and other assets totaling $337 million in book value were sold through asset marketing efforts, with net sales proceeds during 2000 representing 132 percent of appraised value.

Asset Marketing conducted its first sale of financial assets over the Internet, with approximately $12.3 million of loans at a recovery that was 16 percent higher than expected.

Table 23-4 shows the FDIC's assets in liquidation and Chart 23-1 shows the asset mix.

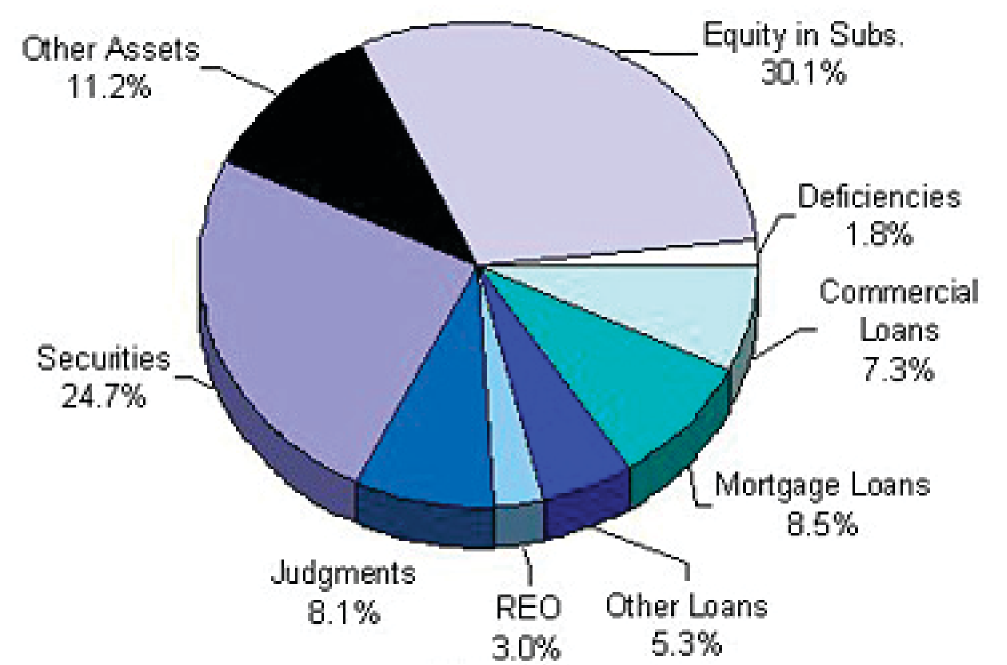
Table 23-4

2000 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/99 Book Value	2000 Assets Acquired	2000 Asset Adj.	2000 Coll. & Write Downs	12/31/00 Book Value	12/31/00 Est. Rec. Value
Commercial Loans	$87.2	$90	-$14.7	$123.5	$39.1	$68.0

[23-4] Collections include prior year activity. This activity has the net result of reducing Collections by $50 million.

2000 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	12/31/99 Book Value	2000 Assets Acquired	2000 Asset Adj.	2000 Coll. & Write Downs	12/31/00 Book Value	12/31/00 Est. Rec. Value
Mortgage Loans	152.3	161.7	440.0	312.4	45.6	211.0
Other Loans	27.6	32.5	-6.0	25.7	28.4	20.0
Real Estate Owned	42.1	6.4	-0.4	31.7	16.3	15.0
Judgments	59.1	0.0	14.9	30.4	43.6	98.0
Securities	166.2	72.8	-56.5	50.4	132.1	3.0
Other Assets	653.7	44.2	-432.4	205.7	59.8	6.0
Equity in Subs.	751.8	0.0	-46.4	544.4	161.1	0.0
Deficiencies	41.5	0.0	8.5	40.5	9.5	23.0
Totals	$1,981.5	$407.6	($489.0)	$1,364.7	$535.5	$444.0

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance



Source: Reports from FDIC Division of Finance.

Chart 23-1—2000 FDIC End of Year Asset Mix chart

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
7.3%	8.5%	5.3%	3.0%	8.1%	24.7%	11.2%	30.1%	1.8%

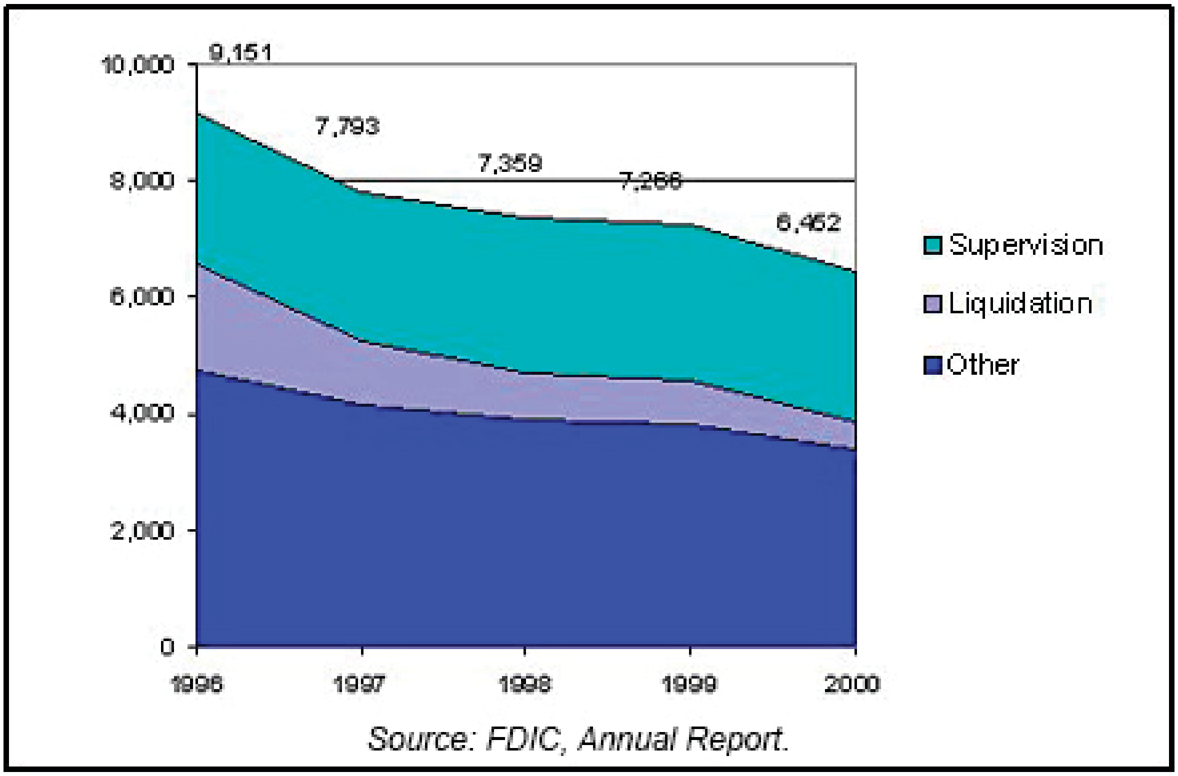


Chart 23-2—2000 FDIC/RTC Staffing chart

	1996	1997	1998	1999	2000
Other	4,760	4,150	3,909	3,820	3,395
Liquidation	1,819	1,093	795	753	468
Supervision	2,572	2,550	2,655	2,693	2,589
Total	9,151	7,793	7,359	7,266	6,452

Insurance Fund and Staffing

In 2000, the Corporation undertook a comprehensive review of the deposit insurance system. As part of that effort, the Corporation commissioned a national household survey, conducted by the Gallup Organization, to measure public understanding of?and support for?the deposit insurance program. Also, the FDIC sponsored global efforts to establish or improve deposit insurance systems.

The BIF balance was $31 billion at year-end 2000, or 1.35 percent of estimated insured deposits. This was down from the year-end 1999 reserve ratio of 1.36 percent as the $1.6 billion growth of the fund's balance during 2000 was more than offset by the growth of insured deposits. The balance of the SAIF was $10.8 billion on December 31, 2000. SAIF-insured deposits were $753 billion at year-end 2000, having grown 5.8 percent for the year. The annual growth rate was the highest since the inception of the SAIF in 1989.

In an effort to keep pace with its declining workload, the Corporation reduced its staff by 814 (11.2 percent) during the year, down to 6,452. The reductions were accomplished largely through the Corporation's continuing practice of allowing temporary and term appointments to expire, which accounted for 63 percent of the decline. Most of the remaining decline was attributable to the closing of the DRR field site in Hartford, Connecticut during the year, leaving Dallas as the sole field site for the division. The Hartford office was originally scheduled to close prior to 2000, however the FDIC Board of Directors delayed the closing date until June 30, 2000, so that the Corporation would have an experienced staff available to respond to an unexpected increase in bank failures in early 2000, in the event of any Y2K technical issues. Chart 23-2 shows the staffing levels for the past five years.

Chapter Twenty-Four: 2001

Chairman Donald E. Powell is quoted in the FDIC's 2001 Annual Report as stating, "We must be ready to meet the challenges of the future, and we are not there yet. I believe history will see 2001 as a setup year for the FDIC. We spent a lot of time working on initiatives that will bear fruit in 2002 and beyond."

Table 24-1

2000 - 2001: FDIC at a Glance ($ in Millions)	12/31/00	12/31/01	Percent Change
Number of Bank Failures#	7	4	-42.86%
Total Assets of Failed and Assisted Banks	$414.5	$1,821.8	339.52%
Estimated Losses on Failed and Assisted Banks*	$37.3	$433.5	1,062.20%
Estimated Losses as a Percent of Total Assets	9.00%	23.80%	164.44%
Assets in Liquidation	$535.5	$573.4	7.08%
FDIC Staffing	6,452	6,167	-4.42%
Number of Problem Financial Institutions	94	114	21.28%
Bank Insurance Fund Balance	$30,975.2	$30,438.8	-1.73%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.35%	1.26%	-6.67%
Savings Insurance Fund Balance	$10,758.6	$10,935.0	1.64%
Savings Insurance Fund Balance as a Percent of Insured Deposits	1.43%	1.36%	-4.90%

#Includes two SAIF institution failures, one each in 2000 and 2001.
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC, 2001 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- For the first time, the FDIC in January 2001 used the Internet to sell a failing institution's deposits and assets. The Internet had previously been used to sell assets after a resolution.
- On January 16, longtime community banker, John M. Reich was appointed to the FDIC Board of Directors. Following Chairman Tanoue's resignation in July 2001 until Mr. Powell took office in August 2001, Mr. Reich was Acting Chairman of the FDIC.
- In April, the FDIC published Keeping the Promise: Recommendations for Deposit Insurance Reform which included, among other initiatives, proposed changes to the method for assessing deposit insurance premiums, and indexing the $100,000 coverage limit to keep pace with inflation.
- In July, the FDIC unveiled its Money Smart program, which was designed to promote and facilitate financial education for adults outside of the financial mainstream.
- On August 29, Donald E. Powell was sworn in as the 18th Chairman of the FDIC. Prior to his appointment, Mr. Powell was President and CEO of The First National Bank of Amarillo, Amarillo, Texas. He began his banking career in 1963 at First Federal Savings & Loan of Amarillo.
- On December 7, by virtue of his appointment as Director of the Office of Thrift Supervision, James E. Gilleran, also became a member of the FDIC Board.

The FDIC Reacts to the September 11 Terrorist Attacks

The terrorist attacks against the United States on September 11, 2001, shook the country and the world. Among the fallout, the tragedy jolted business and consumer confidence, impairing economic activity in virtually every region of the country. The banking industry and others near "Ground Zero"?the site of the attacks on the World Trade Center towers in New York?responded with remarkable resiliency to maintain the continuity of the financial system. What many Americans do not know is how the FDIC and other bank regulatory agencies reacted during the crisis to ensure the continuity of their operations and the stability of the banking system.

With the evacuation of the New York Regional Office, located just six blocks from the World Trade Center, the FDIC faced significant operational challenges, yet contingency planning and interagency coordination enabled the FDIC to resume in a timely manner all of its crucial business in New York from two satellite offices in New Jersey. Interim contact information was posted on the FDIC's public Web site. The New York Regional Office reopened on September 17.

In the days and weeks following the attacks, the New York staff actively monitored the operational and financial condition of depository institutions in the region. FDIC headquarters staff, along with the other federal banking regulators and the state chartering authorities, monitored the attacks' impact on the banking system. Immediate concerns about the continued operations of affected institutions were constantly monitored, and senior officials at the regulatory agencies were briefed daily. Liquidity concerns nationwide were monitored through daily conference calls between the various regional offices of each of the agencies until the situation had stabilized and concerns had been mitigated. In conjunction with other bank regulators, the FDIC assessed the long-term impact of these events on the U.S. banking industry. The FDIC also issued supervisory guidance to the industry similar to guidance normally issued when natural disasters occur, and encouraged FDIC-supervised institutions to cooperate with law enforcement agencies in the investigation of terrorist activity.

Following the terrorist attacks, economists and financial analysts in the eight FDIC regional offices worked with their counterparts in Washington to stay abreast of regional and national economic developments and to evaluate their likely effects on the banking system. FDIC staff delivered a report to the FDIC Board of Directors on October 9 detailing the effects on the banking industry up to that time. A summary of that report was published in the FDIC's fourth quarter Regional Outlook. The third quarter 2001 edition of the FDIC's Quarterly Banking Profile, which provides a comprehensive analysis of banking industry statistics and trends, included the supplement "How the Banking Industry Has Responded to Crises." This piece chronicled the history of bank performance indicators during previous historical periods of national and international crisis.

Economic/Banking Conditions

With the demise of the 'tech boom' and 'nine-eleven' the U.S. economy weathered a short lived recession with some corresponding significant downturn in certain economic factors. After enjoying four years of single digit rates, office vacancies spiked up almost 600 basis points to 14.2 percent. GDP dropped over 300 basis points to 3.2 percent. Unemployment moved up over 200 basis points to 6.1 percent overshadowing any overall job growth as total employment decreased by 1.1 percent, a net decrease of over 1.5 million jobs.

Government action put significant downward pressure on interest rates to respond. By the end of the year, the discount rate was down to 1.3 percent from a beginning rate of 6 percent. The prime rate was cut by almost 50 percent to 4.8 percent from 9.5 percent, and the 30-year mortgage rates started a modest decline of 0.3 percent to 7.1 percent. With other sectors not being as hard hit as technology combined with more favorable interest rates, housing starts were up 2.2 per cent at 1,602,700, existing home sales were up 3.5 percent, and there was a decrease in the inflation rate to 1.6 percent from 3.4 percent in 2000[24-1].

The economic slowdown did not affect commercial bank profitability. Bank assets grew 5.2 percent. Net income rose 8 percent to $75.3 billion. Interest expense dropped 14 percent, while interest income fell only 3.8 percent. There was a 5.4 percent growth in non-interest income. Securities expanded 7.6 percent. Investment accounts grew 9.3 percent. Lower short-term interest rates caused an increase in core deposits, which grew from 7.5 percent in 2000 to 10.7 percent in 2001. Equity capital increased $67 billion or 12.8 percent.

Commercial and Industrial loans declined 6.6 percent. This can be attributed to more conservative lending patterns and a slower economy. Banks tended to shift assets away from loan/leases to government/agency securities (less risk involved in latter). Growth in commercial real estate loans was stronger, but was still slightly down from 2000. Loans to consumers (that were either held or securitized) grew 7.6 percent. Delinquency and charge-offs rose on credit card and other consumer loans caused by the increased economic uncertainty. Loan provisions rose, but were offset by gains in investment account securities[24-2].

Overall, 9,632 financial institutions were in operation at the end of 2001. The number of banks on the problem bank list continued to grow and increased from 94 to 114[24-3].

Table 24-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 2001

Table 24-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	2000	2001	Percent Change
Number	8,572	8,327	-2.86%
Total Assets	$6,510.7	$6,857.5	5.33%
Return on Assets	1.18%	1.14%	-3.39%
Return on Equity	13.86%	12.91%	-6.85%
SAIF Members			
Item	2000	2001	Percent Change
Number	1,332	1,287	-3.38%
Total Assets	$952.2	$1,011.7	6.25%
Return on Assets	0.89%	1.11%	24.72%
Return on Equity	11.12%	13.46%	21.04%
US Branches of Foreign Banks	19	18	-5.26%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003.			

24-1 Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

24-2 Federal Reserve Bulletin Volume 88, Number 6, June 2002.

24-3 FDIC Quarterly Banking Profile, Fourth Quarter 2001.

Bank Failures

During 2001, four FDIC-insured institutions failed. Three of those institutions, with combined assets of $56.3 million, were insured by the BIF. The other institution, with assets of $1.8 billion, was insured by the SAIF. All four resolutions were purchase and assumption transactions.

For the first time, the FDIC used the Internet to sell the deposits and assets of a failing institution. This process marks a significant departure from the FDIC's normal procedure of selling the assets and deposits of failing institutions by inviting several hundred potential bidders to a meeting location near the failing bank. Only those attending would then obtain the confidential information necessary to complete the bidding process. The Internet was used to market all four failures in 2001.

First Alliance Bank and Trust Company, Manchester, New Hampshire, with assets of $17.4 million, was the first failing bank to be marketed by the FDIC on the Internet. Interested parties were registered and given a unique password to gain access to a secure Web site containing the confidential bidding information and materials. Potential bidders avoided the time and expense of attending the bidders meeting and had immediate and around-the-clock access to information about the failing bank and the bidding process.

On July 27, 2001 the FDIC was named receiver of Superior Bank, FSB, Hinsdale, Illinois (Superior). Superior was closed and placed into receivership on very short notice, and therefore the FDIC had no opportunity to market the franchise prior to the failure. Therefore, simultaneous with its appointment as receiver, the FDIC transferred substantially all of Superior's assets and insured deposits to a newly chartered mutual savings bank operated under the FDIC's conservatorship powers. The conservatorship continued to maintain the depository base, the loan origination platform, and loan servicing operation in an attempt to maximize the value of each business line. While the operation of a conservatorship is not new to the FDIC, the Superior resolution represented the first time that this liquidation approach had been used for a SAIF-insured institution.

Ultimately, through the operation of the conservatorship the FDIC obtained a $52.4 million premium for the deposit franchise. The conservatorship produced positive results on the loan side as well. Prior to its failure, Superior had entered into forward loan commitments (loan sale agreements) with several brokerage firm investors under which Superior was to provide pools of residential mortgage loans, at specified dates in the future. As part of the effort to maintain the viability of Superior's loan origination and servicing operations, it was determined that the conservatorship would continue to generate loans to fulfill these commitments. During 2001, the conservatorship successfully completed the sale of almost 2,500 loans under the forward loan commitments, at an average sales price of 102.9 percent.

The FDIC also reached a settlement of the claims against the primary shareholders of Superior during 2001. The FDIC received $100 million in cash in December, and a note for an additional $360 million to be repaid over the next 15 years.

A more recent estimate of losses per transaction type is shown in Table 24-3.

Table 24-3

2001 Estimated Losses by FDIC Transaction Type ($ in Millions*)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	4	$1,821.8	$433.5	23.80%

2001 Estimated Losses by FDIC Transaction Type ($ in Millions*)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Source: Reports from FDIC Website ? Historical Statistics on Banking.				

Payments to Depositors and Other Creditors

In the four financial institutions that failed in 2001, deposits totaled $1.7 billion in 95,036 deposit accounts. Dividends paid on all active receiverships totaled almost $465 million in 2001.

There have been a total of 2,215 insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,471 were PA transactions, 141 were open bank assistance transactions, and 603 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $108.4 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $70.3 billion, which equates to a projected loss of $38.1 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 2001, the FDIC held $535.5 million in assets from failed institutions. That included $226.2 million was assets in liquidation for BIF, $8.1 million for SAIF, $28.3 million for the FSLIC Resolution Fund (FRF), and $272.9 million for the Resolution Trust Corporation (RTC). During the year, the FDIC acquired an additional $213.2 million in assets from four bank failures. Asset acquisitions would have been significantly greater if not for the fact that Superior Bank, which held almost $2 billion in assets at the time of failure, was operated as a conservatorship for almost one year, and the bulk of the assets were liquidated during the conservatorship. For accounting purposes, conservatorship activities are reflected separately from receivership activities. The FDIC collected $219 million during the year, and the ending balance for assets in liquidation was $573.4 million. Of the $573.4 million, $131.7 million was assets in liquidation for BIF, $233.6 million for RTC, $14.2 million for FRF, and $193.9 million for SAIF.

Asset marketing continued to play a key role in asset liquidations for the FDIC as their efforts contributed almost $35 million (2,100 loans sold) to the recoveries. However, asset marketing's most significant contribution during the year was its sale of 14,036 loans for the Superior conservatorship, which resulted in recoveries of over $72 million during the year attributed to the conservatorship.

The FDIC also had over $89 million in non-asset related collections during this year. While these collections came from a number of different sources, almost $28 million represented recoveries of state and federal tax benefits due to failed institutions, and another $28 million was the result of recoveries from fidelity bond insurance claims, director and professional liability settlements, and criminal restitutions. Table 24-4 shows the FDIC's assets in liquidation and Chart 24-1 shows the asset mix.

Table 23-4 shows the FDIC's assets in liquidation and Chart 23-1 shows the asset mix.

Table 24-4

2001 FDIC End of the Year Assets in Liquidation ($ in Billions*)						
Asset Type	**12/31/00 Book Value**	**2001 Assets Acquired**	**2001 Asset Adj.**	**2001 Coll. & Write Downs**	**12/31/01 Book Value**	**12/31/01 Est. Rec. Value**
Commercial Loans	$39.1	$3.0	$18.5	$35.8	$24.8	$27.6
Mortgage Loans	45.6	9.3	-1.7	39.7	13.6	38.0
Other Loans	28.4	10.7	-23.1	15.0	1.0	8.2
Real Estate Owned	16.3	1.2	1.0	6.1	12.4	6.4
Judgments	43.6	0.0	5.1	5.6	43.0	51.8
Securities	132.1	0.5	11.5	21.5	122.6	-77.2
Other Assets	59.8	188.0	-65.3	33.4	149.1	0.5
Equity in Subs.	161.1	0.5	123.4	84.7	200.2	1.7
Deficiencies	9.5	0.0	0.0	2.8	6.7	19.4
Totals	$535.5	$213.2	$69.4	$244.6	$573.4	$76.4

*Totals may not foot due to rounding differences.
Source: Reports from FDIC Division of Finance.

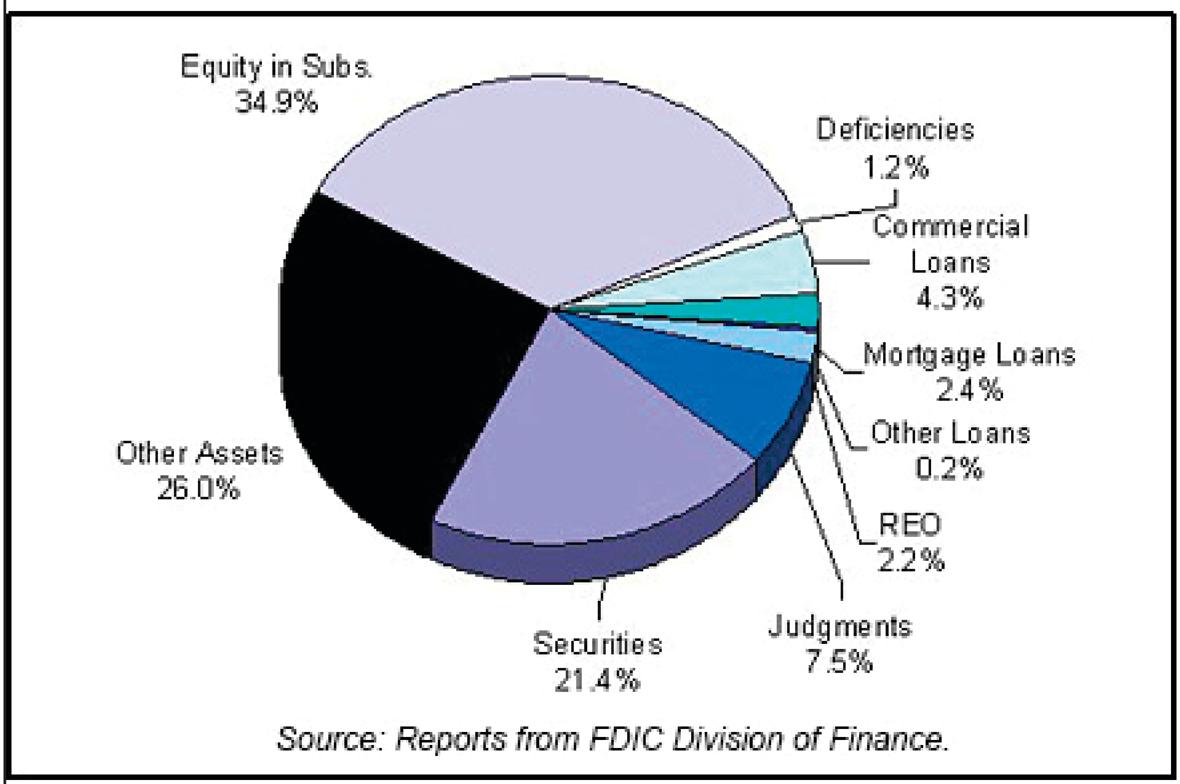


Chart 24-1—2001 FDIC End of Year Asset Mix chart

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
4.3%	2.4%	0.2%	2.2%	7.5%	21.4%	26.0%	34.9%	1.2%

Source: Reports from FDIC Division of Finance

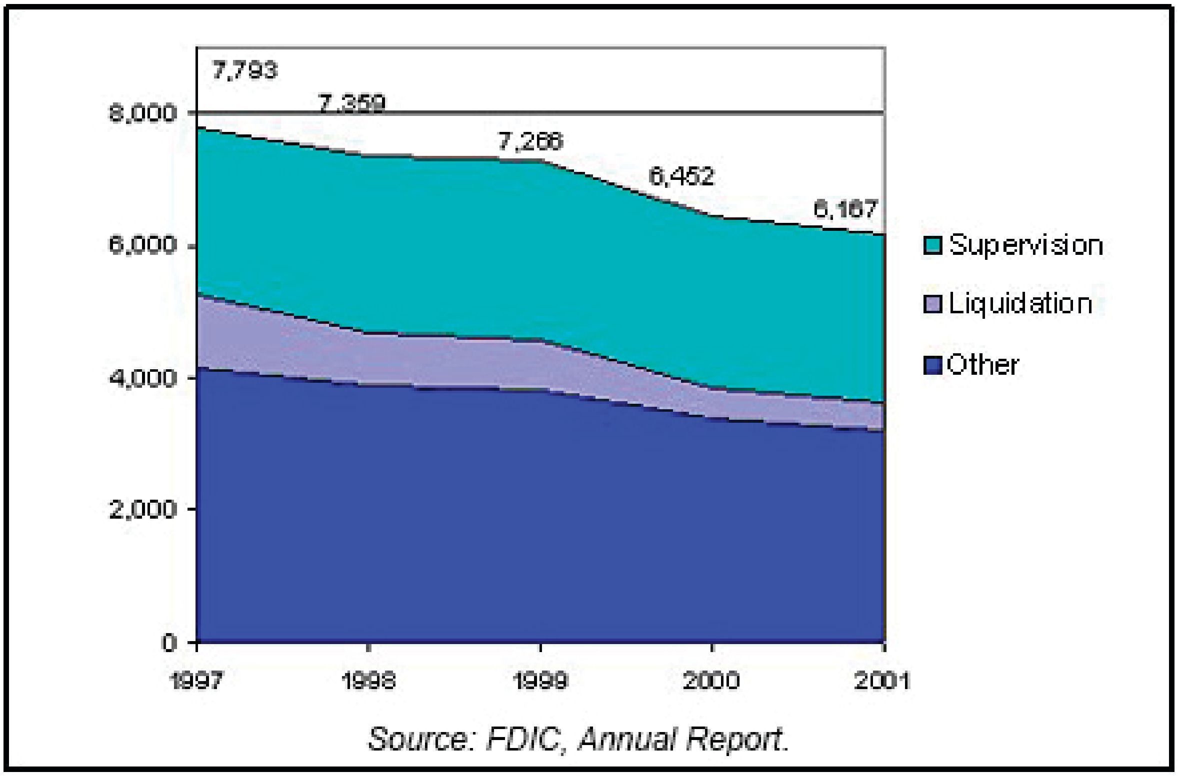


Chart 24-2—2001 FDIC/RTC Staffing chart

	1997	1998	1999	2000	2001
Other	4,150	3,909	3,820	3,395	3,181
Liquidation	1,093	795	753	468	454
Supervision	2,550	2,655	2,693	2,589	2,532
Total	7,793	7,359	7,266	6,452	6,167

Source: FDIC, 2001 Annual Report

Insurance Fund and Staffing

During 2001, the BIF balance was $30.4 billion at year-end 2001, or 1.26 percent of estimated insured deposits. The balance of the SAIF was $10.9 billion on December 31, 2001. SAIF-insured deposits were $802 billion at year-end 2001, having grown 6.2 percent for the year. This was the highest growth rate of insured deposits since the inception of SAIF in 1989. This stellar growth rate, however, decreased the reserve ratio from 1.43 percent at year-end 2000 to 1.36 at year-end 2001.

Staffing decreased by 285 (4.4 percent) during the year, down to 6,167 as the Corporation continued its efforts to match staffing with its declining workload.

Approximately one third of this decline was accomplished through the expiration of temporary and term appointments. Additionally, the Legal Division, the Office of Ombudsman, and the Office of Diversity and

Economic Opportunity offered buyout opportunities to its staff members. Chart 24-2 shows the staffing levels for the past five years.

Chapter Twenty-Five: 2002

In 2002, the FDIC continued to position itself to meet the demands of an evolving banking industry, one that was reshaped by institutional consolidation, globalization, and technology.

Table 25-1

2001 - 2002: FDIC at a Glance ($ in Millions)			
	12/31/01	**12/31/02**	**Percent Change**
Number of Bank Failures#	4	11	175.00%
Total Assets of Failed and Assisted Banks	$1,821.8	$2,914.5	59.98%
Estimated Losses on Failed and Assisted Banks*	$433.5	$629.8	45.28%
Estimated Losses as a Percent of Total Assets	23.80%	21.61%	-9.20%
Assets in Liquidation	$573.4	$1,240.3	116.31%
FDIC Staffing	6,167	5,430	-11.95%
Number of Problem Financial Institutions	114	136	19.30%
Bank Insurance Fund Balance	$30,438.8	$32,050.3	5.29%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.26%	1.27%	0.79%
Savings Insurance Fund Balance	$10,935.0	$11,746.7	7.42%
Savings Insurance Fund Balance as a Percent of Insured Deposits	1.36%	1.38%	1.47%

#Includes two SAIF institution failures, one each in 2001 and 2002. Back to table

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries. Back to table

Source: FDIC, 2002 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- On January 29, the FDIC Board of Directors adopted an agreement with the Office of Thrift Supervision, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System to streamline the FDIC's ability to examine insured institutions that represent a heightened risk to the deposit insurance fund by:
    - Enabling the FDIC to conduct special examinations of any insured deposit institution that has a “3”, “4” or “5” CAMELS composite rating.
    - Establishing a dedicated FDIC examiner to the eight largest banking institutions, which control approximately 41 percent of industry assets.

- On May 22, the United States House of Representatives passed the Federal Deposit Insurance Reform Act of 2002, by a vote of 408 to 18.

Economic/Banking Conditions

The U.S. economy moved modestly forward with the further reductions of interest rates and belt tightening by corporations in all sectors. GDP improved by 30 basis points to 3.5 percent and inflation was up, but still only at 2.4 percent. The discount rate dropped to 0.75 percent. At the end of the year, the prime rate stood at 4.25 percent, and the 30-year mortgage rate average was down over 100 basis points to 6.05 percent. Encouraged in part by interest rates, housing starts increased by 6.4 percent to 1,705,000, and existing sales were up 7.2 percent. Corporate efficiency efforts cut deeper, however, into employment and office vacancy rates. Total employment remained almost flat with an increase of only 0.3 percent and unemployment increased by 0.3 percent to 6.4 percent. Office vacancies were up over 200 basis points to 16.5 percent.[25-1]

Although the economy was still sluggish, the profitability in commercial banks remained high, partially attributable to extraordinarily low interest rates. Falling mortgage rates surged mortgage refinancing. Returns on equity and assets both rose, with the latter reaching its highest level in the last 30 years.

Commercial banks' total assets grew by 7.2 percent and holdings of securities increased by 16 percent. Equity capital increased by 7.9 percent. Interest expense fell 37 percent and interest income fell 13 percent. Thus, the net interest margin increased 9 basis points to 4.04 percent. Non-interest income grew 5.3 percent while non-interest expense fell due to lower merger-related costs.

Commercial and Industrial loans fell 7.3 percent, the largest decline since 1991. This decrease was a result of tightening of lending practices and a low demand. There was an increase in delinquency and charge-off rates in corporate loans (several large firms claimed bankruptcy—for example, WorldCom). Commercial real estate loans grew 8.8 percent; this is down from 2001 due to less expansion in construction and land development lending. Residential mortgage loans increased 20 percent, and home equity loans increased almost 40 percent. Core deposits expanded 7.6 percent.[25-2]

Overall, 9,372 financial institutions were in operation at the end of 2002. The number of banks on the problem bank list continued to increase for the third year in a row and grew from 114 to 136.[25-3]

Table 25-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 2002.

Table 25-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	2001	**2002**	**Percent Change**
Number	8,327	8,125	-2.43%
Total Assets	$6,857.5	$7,336.2	6.98%
Return on Assets	1.14%	1.32%	15.79%
Return on Equity	12.91%	14.34%	11.08%

25-1 Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.
25-2 Federal Reserve Bulletin Volume 89, Number 6, June 2003.
25-3 FDIC Quarterly Banking Profile, Fourth Quarter 2002.

SAIF Members			
Item	2001	2002	Percent Change
Number	1,287	1,229	-4.51%
Total Assets	$1,011.7	$1,100.0	8.73%
Return on Assets	1.11%	1.17%	5.41%
Return on Equity	13.46%	12.79%	-4.98%
US Branches of Foreign Banks	18	18	0.00%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003			

Bank Failures

During 2002, the FDIC resolved 11 financial institution failures. These failed institutions had a total of $2.9 billion in assets and $2.5 billion in deposits. Ten of the institutions were insured by the BIF and the remaining one was insured by the SAIF. Four of the failures resulted in insured deposit payoffs, and one other was a partial payoff transaction.

Two resolutions in 2002 warrant special note: Hamilton Bank, N.A., Miami, Florida, and NextBank, Phoenix, Arizona. Hamilton Bank had total assets of $1.4 billion and total deposits of $1.3 billion, and was closed by the Office of the Comptroller of the Currency on January 11. The bank operated eight bank branches in Florida and a single bank branch in Puerto Rico. Hamilton Bank also had a small representative office in Panama and another in Peru. What made this failure so unique was that it was the first time the FDIC was Receiver for such a large volume of international loans. Hamilton's principal focus was commercial trade finance and lending to small companies operating in the United States and throughout Central America.

In resolving this failure, the FDIC took a rarely used approach to protect depositors by transferring all the insured deposits (savings and checking accounts, certificates of deposit, and Individual Retirement Accounts) from three of Hamilton's nine branches, and only the insured transactional accounts (savings and checking) from the remaining six branches to an assuming bank. The Israel Discount Bank, New York, NY assumed $531.6 million of the insured deposits. The FDIC paid out more than $582.6 million of the remaining insured deposits through checks mailed directly to the remaining account holders.

By the end of June, more than $1 billion of Hamilton's assets had either been collected, sold, or booked as a market-determined loss. At that time, Hamilton's Miami-based receivership office was closed, and responsibility for the remaining assets (approximate book value of $100 million) was transferred to the FDIC's office in Dallas, Texas. Those remaining assets principally involve bankruptcies, litigation or investigations. As of December 31, 2003, the cost of the Hamilton Bank failure to the Bank Insurance Fund was estimated to be $171.5 million.

The second noteworthy resolution involved an Internet-only bank, NextBank, N.A., which was chartered in Phoenix, Arizona. NextBank was closed by the Office of the Comptroller of the Currency on February 7. NextBank was formed when its holding company parent, NextCard, Inc. (NCI) purchased Avco National Bank in 1999. NextBank operated as a limited purpose national credit card bank under the provisions of the Competitive Equality Banking Act of 1987 (CEBA). As a limited purpose credit card bank, NextBank operated under the following restrictions: 1) it could only engage in credit card operations; 2) it could not accept demand deposits or deposits that the depositor may withdraw by check or similar means; 3) it could not accept savings or time deposits of less that $100,000 (except as security for loans); 4) it could maintain only one office that accepts deposits; and 5) it could not engage in the business of making commercial loans. NextBank held assets of $700.2 million, and deposits of $551.3 million.

NextBank's principal business was the origination and sale of credit card receivables to a special-purpose trust (Master Trust), which paid for the receivables by selling securities to the public. These securities were backed by the cash flows generated from the receivables. The bank had no brick-and-mortar banking facilities, and its main business was issuing credit cards. The FDIC received no bids for the deposits and paid out the insured deposits by mailing checks directly to depositors. As of December 31, 2003, the cost of the NextBank failure to the Bank Insurance Fund was estimated to be between $300 million and $350 million.

In addition to these two resolution activities, the FDIC filed a lawsuit in the district court for the Northern District of Illinois on November 1 against Ernst & Young, the outside auditors for Superior Bank, Hinsdale, Illinois. Superior Bank, a $2 billion institution, failed on July 27, 2001. The complaint charges Ernst & Young with fraud and negligence in its audits of Superior and seeks actual damages of $548 million and punitive damages in an amount three times the actual damages, as well as interest and costs. The FDIC's complaint asserts that Ernst & Young failed to properly audit Superior's residual assets and then concealed its erroneous auditing for fear that its acknowledgement would damage Ernst & Young's $11 billion sale of its consulting arm to Cap Gemini, a French company. No trial date had been set as of year-end 2003.

A more recent estimate of losses per transaction type is shown in Table 25-3.

Table 25-3

2002 Estimated Losses by FDIC Transaction Type ($ in Millions)

Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	6	$586.9	$141.3	24.08%
Payoffs	5	2,327.6	488.5	20.99%
Totals	11	$2,914.5	$629.8	21.61%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: Reports from FDIC Division of Research and Statistics.

Payments to Depositors and Other Creditors

In the 11 financial institutions that failed in 2002, deposits totaled over $2 billion in 78,170 deposit accounts. Four of the failures resulted in insured deposit payoffs, and one other (Hamilton Bank) was a partial payoff transaction. Dividends paid on all active receiverships totaled over $2.1 billion in 2002.

There have been a total of 2,226 insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,477 were P&A transactions, 141 were open bank assistance transactions, and 608 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to $111.6 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $72.5 billion, which equates to a projected loss of $39.1 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 2002, the FDIC held $573.4 million in assets from failed institutions. That included $131.7 million in BIF assets, $233.6 million in RTC assets, $14.2 million in FSLIC Resolution Funds (FRF) assets, and $193.9 million in assets from SAIF-insured institutions. During the year, the FDIC acquired an additional $2.5 billion in assets from 11 financial institution failures. The failure of Hamilton Bank, N.A. alone was responsible for almost one half of the assets acquired during the year. The FDIC collected $1.7 billion during the year, and the ending balance for assets in liquidation was $1.2 billion. Of the $1.2 billion, $657 million was assets in liquidation for BIF, $397 million for SAIF, $13 million for FRF, and $173 million for RTC.

Asset marketing continued to play a key role in asset liquidations for the FDIC and their efforts contributed almost $421 million (7,299 loans sold) to the recoveries. The FDIC also had over $77 million in non-asset related collections during this year. While these collections came from a number of different sources, $32.6 million was the result of recoveries from fidelity bond insurance claims, director and professional liability settlements, and criminal restitutions, and another $12 million represented recoveries of state and federal tax benefits due to failed institutions.

Table 25-4 shows the FDIC's assets in liquidation and Chart 25-1 shows the asset mix.

Table 25-4

2002 FDIC End of the Year Assets in Liquidation ($ in Millions*)

Asset Type	12/31/01 Book Value	2002 Assets Acquired	2002 Prin. Coll	2002 Write Downs	2002 Write Downs	2002 Write Downs
Commercial Loans	$24.8	$1,275.5	$19.1	$1,041.0	$278.5	$775.3
Mortgage Loans	13.6	143.5	2.3	113.6	45.8	92.4
Other Loans	1.0	328.9	23.8	350.5	3.1	251.3
Real Estate Owned	12.4	3.3	1.7	8.1	9.3	7.7
Judgments	43.0	0.0	-21.8	0.3	21.0	17.7
Securities	122.6	247.8	25.5	253.4	142.5	253.5
Other Assets	149.1	534.3	283.1	427.0	539.5	0.0
Equity in Subs.	200.2	0.2	104.7	111.2	193.9	0.2
Deficiencies	6.7	0.0	0.0	0.0	6.7	313.0
Totals	$573.4	$2,533.5	$438.3	$2,305.0	$1,240.3	$1,711.1

*Totals may not foot due to rounding differences. Back to table
Source: Reports from FDIC Division of Finance.

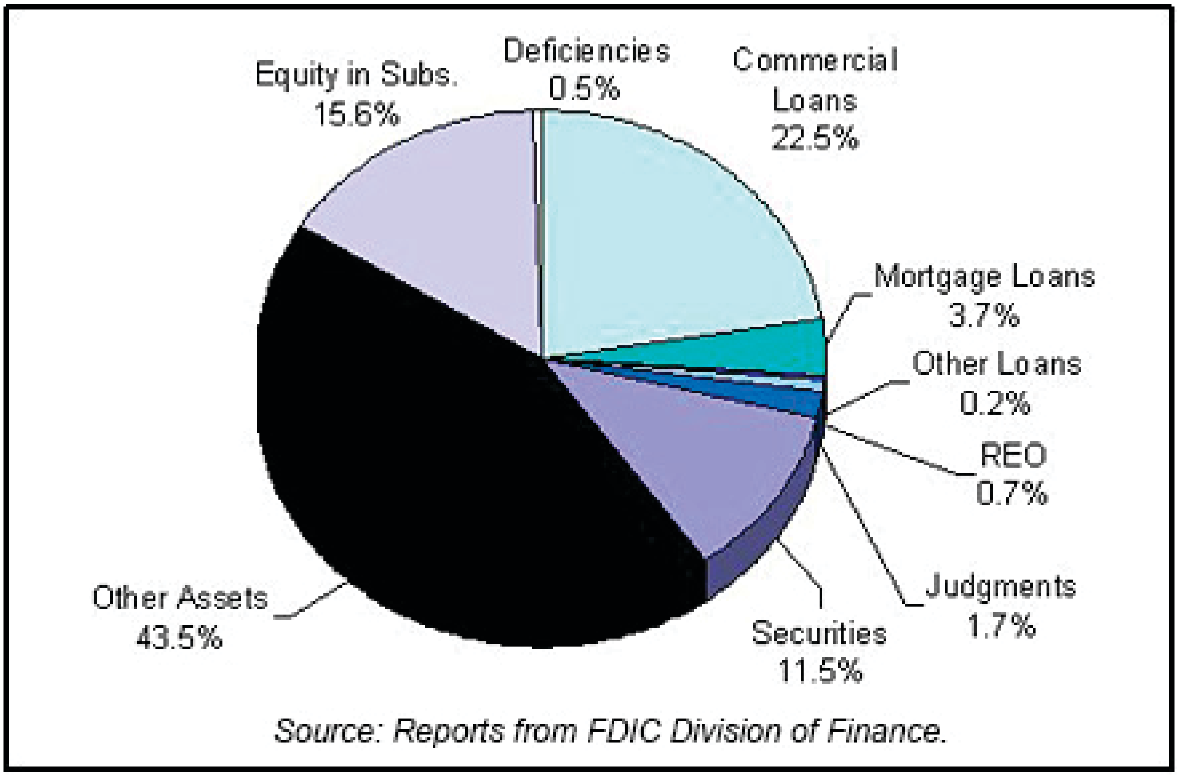
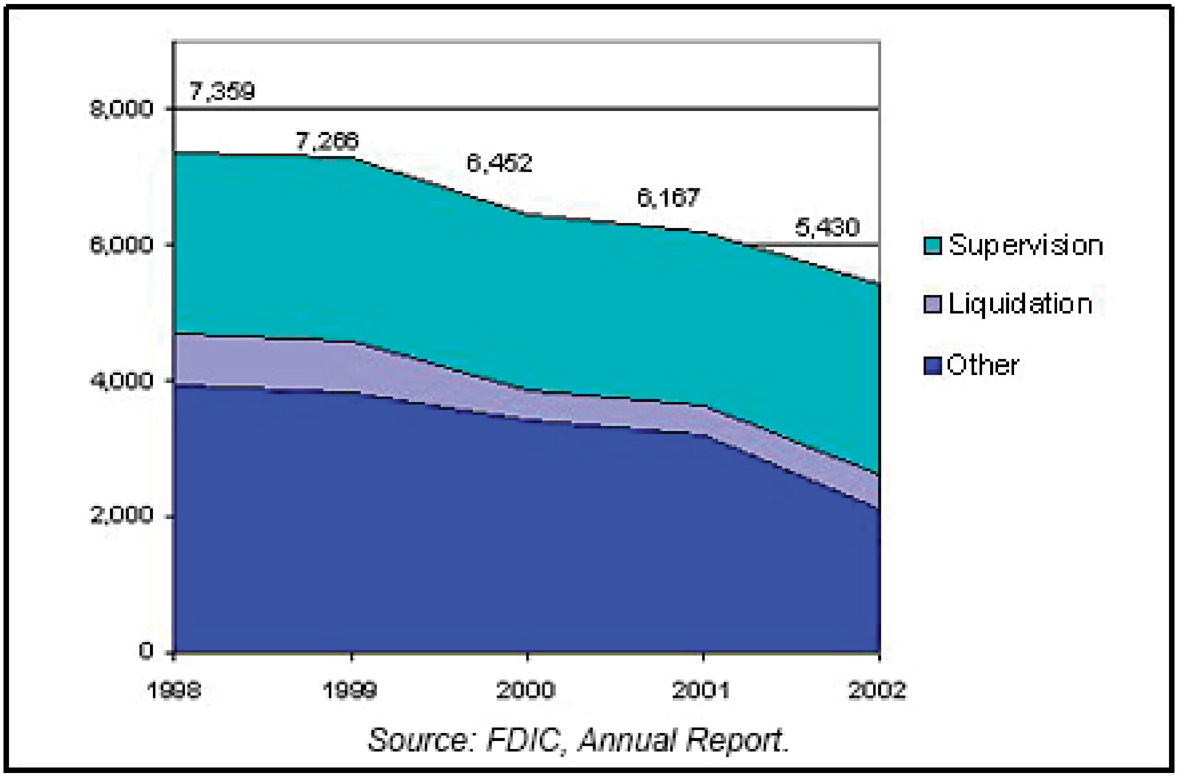


Chart 25 -1 — 2002 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
22.5%	3.7%	0.2%	0.7%	1.7%	11.5%	43.5%	15.6%	0.5%
Source: Reports from FDIC Division of Finance								



FDIC/RTC Staffing

	1998	1999	2000	2001	2002
Other	3,909	3,820	3,395	3,181	2,097
Liquidation	795	753	468	454	522
Supervision	2,655	2,693	2,589	2,532	2,811
Total	7,359	7,266	6,452	6,167	5,430
Source: FDIC, 2002 Annual Report					

Insurance Fund and Staffing

The Corporation's investment strategy reflected prudent management of the $32.1 billion BIF and $11.7 billion SAIF. It is noteworthy that the interest earned on investment securities accounted for 94.2 percent of revenues for the BIF and 95.8 percent of revenues for the SAIF, with $2.3 billion in combined interest earned.

The FDIC substantially revamped its internal organizational structure to improve operational efficiency and unify corporate efforts in each of the three major business lines: insurance, supervision, and receivership management. As part of this major restructuring, the FDIC also streamlined the Corporation's management and support structures.

The major organizational changes made in 2002 include:

- The Division of Insurance and the Division of Research and Statistics were merged into a new Division of Insurance and Research to facilitate a more integrated and effective research and policy leadership capability.
- The Division of Supervision and the Division of Compliance and Consumer Affairs were merged into a new Division of Supervision and Consumer Protection. The regional and field structure of the new division was also streamlined, with a reduction in the number of regional offices from eight to six.

Additionally, 89 field offices were consolidated into 52 territories for safety and soundness functions, and 73 field offices were consolidated into 30 territories for compliance functions.

The receivership accounting operations of the Division of Finance were transferred to the Division of Resolutions and Receiverships to better align business processes in the Corporation's receivership management program.

Personnel and training functions were merged to create a new Human Resources Branch within the Division of Administration. program.

Downsizing

The Corporation continued the downsizing that it has been addressing for much of the past decade. Employment dropped from 6,167 at the beginning of 2002 to 5,430 at year-end 2002 as a result of declining workloads and organizational streamlining. Much of the needed reduction in staffing was accomplished voluntarily through targeted buyout programs that resulted in the retirement or resignation of approximately 700 employees and the reassignment of surplus employees to vacant positions elsewhere within the Corporation. In addition, approximately 30 surplus attorney positions were eliminated through a reduction-in-force in May. Chart 25-2 shows the staffing levels for the past five years.

The savings resulting from corporate restructuring, downsizing and other initiatives directed toward cost containment and improved operating efficiency will, when fully realized, reduce future corporate operating costs by an estimated $80 million annually. The initial impact can be seen in the 2003 budget adopted by the Board of Directors in December 2002. Estimated 2003 spending will decline by 7 percent from 2002 spending.

Chapter Twenty-Six: 2003

Chairman Donald E. Powell is quoted in the FDIC's 2003 Annual Report as stating, "During 2003 our focus was to promote the stability of the financial services industry, develop and effectively articulate sound policy, and research and administer corporate operations in a manner consistent with good stewardship of the deposit insurance funds."

Table 26-1

2002 - 2003: FDIC at a Glance ($ in Millions)	12/31/02	12/31/03	Percent Change
Number of Bank Failures[#]	11	3	-72.73%
Total Assets of Failed and Assisted Banks	$2,914.5	$1,138.0	-60.95%
Estimated Losses on Failed and Assisted Banks[*]	$629.8	$103.7	-83.53%
Estimated Losses as a Percent of Total Assets	21.61%	9.11%	-57.84%
Assets in Liquidation	$1,240.3	$806.4	-34.98%
FDIC Staffing	5,430	5,311	-2.19%
Number of Problem Financial Institutions	136	116	19.30%
Bank Insurance Fund Balance	$32,050.3	$33,782.2	5.40%
Bank Insurance Fund Balance as a Percent of Insured Deposits	1.27%	1.31%	3.15%
Savings Insurance Fund Balance	$11,746.7	$12,240.1	4.20%
Savings Insurance Fund Balance as a Percent of Insured Deposits	1.38%	1.40%	1.45%

[#] Includes one SAIF institution failure in 2002. Back to table

[*] Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.

Source: FDIC, 2003 Annual Report and Reports from FDIC Division of Finance and Division of Research and Statistics.

Notable Events

- The FDIC established an inter-divisional Risk Analysis Center (RAC) to identify, quantify, and respond more quickly and effectively to existing and emerging risks to the deposit insurance funds.
- In partnership with the academic community, the FDIC established the Center for Financial Research (CFR) to encourage and support innovative research on topics that are important to the FDIC's role as deposit insurer and bank supervisor.
- Under the leadership of FDIC Vice Chairman John Reich, the FDIC joined other financial institution regulators in a multi-year interagency effort to eliminate outdated or unnecessary regulations that impose costly and time consuming burdens on the banking industry.
- During 2003, the FDIC resolved three financial institution failures, with total assets of $1.1 billion, and deposits of $1 billion.
- In June 2003, the FDIC Chairman appointed David C. Cooke as the agency's first Chief Learning Officer to head the new Corporate University (CU). The CU represents a departure from traditional training approaches and will provide a continual learning environment for FDIC employees. It will use numerous tools and techniques to prepare them for a changing banking, economic and regulatory

landscape. The CU provides opportunities for employees to enhance their sense of corporate identity while learning more about the FDIC's major program areas of Insurance, Supervision and Consumer Protection, and Receivership Management. Further, the CU will be a leader in leveraging technology to improve the efficiency and effectiveness of all Corporate training.

- On October 24, the FDIC, in association with the SW Graduate School of Banking and Southern Methodist University's Cox School of Business, presented the Lessons Learned from Recent Bank Failures symposium. This conference served as a forum for academics, regulators, and industry participants to present analyses and to debate the causes and costs of recent bank failures. Presentations and discussions centered on the root causes of recent bank failures, the impact of new banking activities on bank failures, and the costs of recent bank failures.

USA Patriot Act

Since the enactment of the USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001), the FDIC has participated in numerous interagency working groups to draft revisions to the Bank Secrecy Act as required by the USA PATRIOT Act and to develop interpretive guidance for the financial services industry. In May 2003, the FDIC, in conjunction with other regulatory agencies, jointly issued a final rule to implement Section 326 of the USA PATRIOT Act. Section 326 requires financial institutions to implement a customer identification program to verify the identity of customers opening new accounts. The FDIC has taken steps to educate its examination staff and members of the banking industry on the USA PATRIOT Act at outreach events, training conferences, and seminars. To assist financial institutions in their efforts to comply with the Bank Secrecy Act and the USA PATRIOT Act, the FDIC publicly released its examination procedures for the Bank Secrecy Act in October 2003.

To facilitate industry cooperation with law enforcement authorities in their ongoing investigation of terrorist activities through the implementation of Section 314(a) of the USA PATRIOT Act, the FDIC also worked with other federal banking regulators to incorporate point-of-contact information as a required item in the Call Report, beginning with the March 2003 Call Report. The FDIC is the only banking regulator to use this mechanism thus far to provide current point-of-contact information to the Financial Crimes Enforcement Network (FinCEN) to aid in its distribution of Section 314(a) information-sharing requests.

Money Smart Financial Literacy Program

One of the Corporation's top priorities in 2003 was the continued promotion of financial education through its Money Smart Program. The FDIC was awarded the prestigious Service to America Business and Commerce medal in October 2003 for its efforts in promoting financial literacy using the Money Smart curriculum. These medals honor people and organizations that have shown a strong commitment to public service and have made a significant contribution in their field of government that is innovative, high-impact and critical for the nation.

Since its introduction in July 2001, the Money Smart program has generated a great deal of interest. Primarily designed to help adults with little or no banking experience develop positive relationships with insured depository institutions, the program has been widely cited in over 100 national and local publications. Requests for the program have been received from Mexico, Thailand, and Canada. During 2003, the FDIC continued to expand the public's access to Money Smart by translating the program into Chinese and Korean and expanding membership in the Money Smart Alliance. By year-end 2003, the FDIC had trained over 5,000 volunteer instructors, taught over 100,000 consumers and supplied more than 111,000 copies of the Money Smart training curriculum to various groups, including government, community, financial, and faith-based organizations.

Economic/Banking Conditions

The U.S. economic trends were more positive as firms improved operations and globalization moved more to the forefront. GDP was up over 100 basis points to 4.9 percent. Unemployment decreased to 6.1 percent and total employment improved by 1.5 percent. Inflation was a modest 1.9 percent. In response to the warming economy the discount rate was raised to 2 percent, but prime rate was reduced to 4 percent, and the 30-year mortgage rate average dropped to 5.9 percent. Housing starts increased by 8.3 percent to 1,847,700, and existing sales were up 11.5 percent. Office vacancies were relatively flat, however, with a slight increase of 0.3 percent to16.8 percent. Even with employment growth, the office market was still recovering from a certain amount of 'shadow space' overhang from earlier dramatic office worker reductions. Shadow space is unoccupied, usable space within a leased building that could not be shed due to contractual obligations as the firms reduced staff.[26-1]

The commercial banking industry remained profitable during 2003 with record high earnings noted in the fourth quarter – the fourth consecutive quarter that industry earnings set a record. Returns on assets and equity continued their rising trends. Commercial bank assets grew 7.2 percent this year and equity capital increased 6.6 percent.

The net interest margin reached its lowest year-end point in more than 10 years, at 3.8 percent. Recent margin compression, a consequence of the very low interest rate environment, contributed to declining profitability, particularly for small banks. Non-interest income increased to a record 44 percent of total revenue, which can largely be explained by the increased servicing fees. Non-interest expense grew slightly during 2003.

Commercial and Industrial loans declined 4.6 percent in 2003 which can be attributed to a tightening in lending standards and increased competition from nonfinancial firms, creating a lower demand for loans. The delinquency rate fell one full percent to 2.9 percent. Home mortgage rates dropped, causing record-breaking home sales. The growth in home mortgages and refinancing caused the share of total bank assets for residential mortgages and mortgage backed securities to be 28.5 percent at the end of the year. Bank securities expanded in 2003—at a 9.4 percent growth rate (the second highest it has been in the last decade).

Core deposits increased 7.1 percent, even as banks reduced rates they paid on money market deposits and savings accounts. Managed liabilities also expanded 7.2 percent as both banks and savings institutions increased their borrowings from the Federal Home Loan Bank.[26-2]

Overall, 9,196 financial institutions were in operation at the end of 2003. This year marks the eighth straight year that the number of financial institutions has fallen; down from 12,009 in 1995. The number of banks on the problem bank list decreased from 136 to 116.[26-3]

Table 26-2 shows the number and total assets of FDIC insured institutions, as well as their profitability as of the end of 2003.

Table 26-2

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	2002	2003	Percent Change
Number	8,125	7,996	-1.59%

26-1 Bureau of Labor and Statistics, Department of Labor; Bureau of Economic Analysis, Department of Commerce; Housing Market Statistics, National Association of Home Builders; and Federal Home Loan Mortgage Corporation.

26-2 Federal Reserve Bulletin Volume 90, Number 6, June 2004.

26-3 FDIC Quarterly Banking Profile, Fourth Quarter 2003.

Open Financial Institutions Insured by FDIC ($ in Billions)			
BIF Members			
	2002	2003	Percent Change
Total Assets	$7,336.2	$7,899.3	7.68%
Return on Assets	1.32%	1.40%	6.06%
Return on Equity	14.34%	15.21%	6.07%

SAIF Members			
	2002	2003	Percent Change
Number	1,229	1,186	-3.50%
Total Assets	$1,100.0	$1,177.5	7.05%
Return on Assets	1.17%	1.25%	6.84%
Return on Equity	12.79%	13.86%	8.37%
US Branches of Foreign Banks	18	14	-22.22%
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003.			

Bank Failures

During 2003, the FDIC resolved three BIF-insured institution failures using purchase and assumption agreements; the most notable of which was the failure of Southern Pacific Bank (SPB), Torrance, California. SPB, with total assets of $1.1 billion, was closed on February 7. The insured deposits and a large portion of its assets were sold to another FDIC-insured institution. SPB had several unique business lines within its commercial loan portfolio including movie production and distribution, commercial aircraft lease financing, leasing of tobacco drying facilities, telecommunications, and asset based lending. Additionally, SPB's wholly owned subsidiary, Imperial Warehouse Finance, Inc., was an active residential mortgage warehouse lender that financed some 12,500 mortgages for more than $2.4 billion during its last full year of operation.

A more recent estimate of losses per transaction type is shown in Table 26-3.

Table 26-3

2003 Estimated Losses by FDIC Transaction Type ($ in Millions)				
Transaction Type	Number of Transactions	Total Assets	Estimated Loss* as of 12/31/03	Estimated Losses as a Percent of Assets
P&As	3	$1,138.0	$103.7	9.11%

*Losses for all resolutions occurring in this calendar year have been updated through 12/31/03. The loss amounts on open receiverships are adjusted with updated information from new appraisals and asset sales, which ultimately affect projected recoveries.
Source: FDIC Quarterly Banking Profile, Fourth Quarter 2003.

Payments to Depositors and Other Creditors

In the three financial institutions that failed in 2003, deposits totaled $1 billion in 20,239 deposit accounts. The insured deposits of all three institutions were transferred to an acquiring institution. Dividends paid on all active receiverships totaled almost $1.1 billion in 2003.

There have been a total of 2,229 insured financial institution resolutions since the FDIC began operations in 1934. Of this total, 1,480 were P&A transactions, 141 were open bank assistance transactions, and 608 were deposit payoff transactions.

Total disbursements by the FDIC since January 1, 1934, have amounted to almost $112.5 billion. Of that amount, actual and projected recoveries are anticipated to be approximately $73.5 billion, which equates to a projected loss of $39 billion to the BIF/SAIF funds.

Asset Disposition

At the beginning of 2003, the FDIC held $1.2 billion in assets from failed institutions. That included $657 million in BIF assets, $173 million in RTC assets, $13 million in FSLIC Resolution Funds (FRF) assets, and $397 million in assets from SAIF–insured institutions. During the year, the FDIC acquired an additional $1.5 billion in assets from three financial institution failures. The failure of Southern Pacific Bank alone was responsible for over $1 billion of the assets acquired during the year. The FDIC collected almost $1.6 billion during the year, and the ending balance for assets in liquidation was $806.4 million. Of the $806.4 million, $347.5 million was assets in liquidation for BIF, $121.8 million for RTC, $3.2 million for FRF, and $333.9 million for SAIF.

The FDIC also had over $76 million in non-asset related collections during this year. While these collections came from a number of different sources, $38 million was the result of recoveries from fidelity bond insurance claims, director and professional liability settlements, and criminal restitutions, and another $9 million represented recoveries of state and federal tax benefits due to failed institutions. Within 10 months after the failure of SPB, the receivership had resolved almost 94 percent of SPB's assets.

Table 26-4 shows the FDIC's assets in liquidation and Chart 26-1 shows the asset mix.

Table 26-4

2003 FDIC End of the Year Assets in Liquidation ($ in Millions*)

Asset Type	12/31/02 Book Value	2003 Assets Acquired	2003 Prin. Coll.	2003 Write Down	2003 Book Value	2003 Est. Rec Value
Commercial Loans	$278.5	$902.5	-$9.3	$1,010.1	$161.6	$765.2
Mortgage Loans	45.8	423.2	-1.6	444.7	22.7	432.5
Other Loans	3.1	33.9	-19.2	16.8	1.0	13.4
Real Estate Owned	9.3	0.0	1.8	4.9	6.2	5.3
Judgments	21.0	0.0	1.8	12.8	10.0	36.3
Securities	142.5	121.4	187.3	268.4	182.8	227.5
Other Assets	539.5	41.8	-60.2	163.6	357.5	-0.1
Equity in Subs.	193.9	0.2	-95.3	40.7	58.1	0.6
Deficiencies	6.7	0.0	0.0	0.2	6.5	87.8
Totals	$1,240.3	$1,523.0	$5.3	$1,962.2	$806.4	$1,568.5

* Totals may not foot due to rounding differences. Back to table
Source: Reports from FDIC Division of Finance.

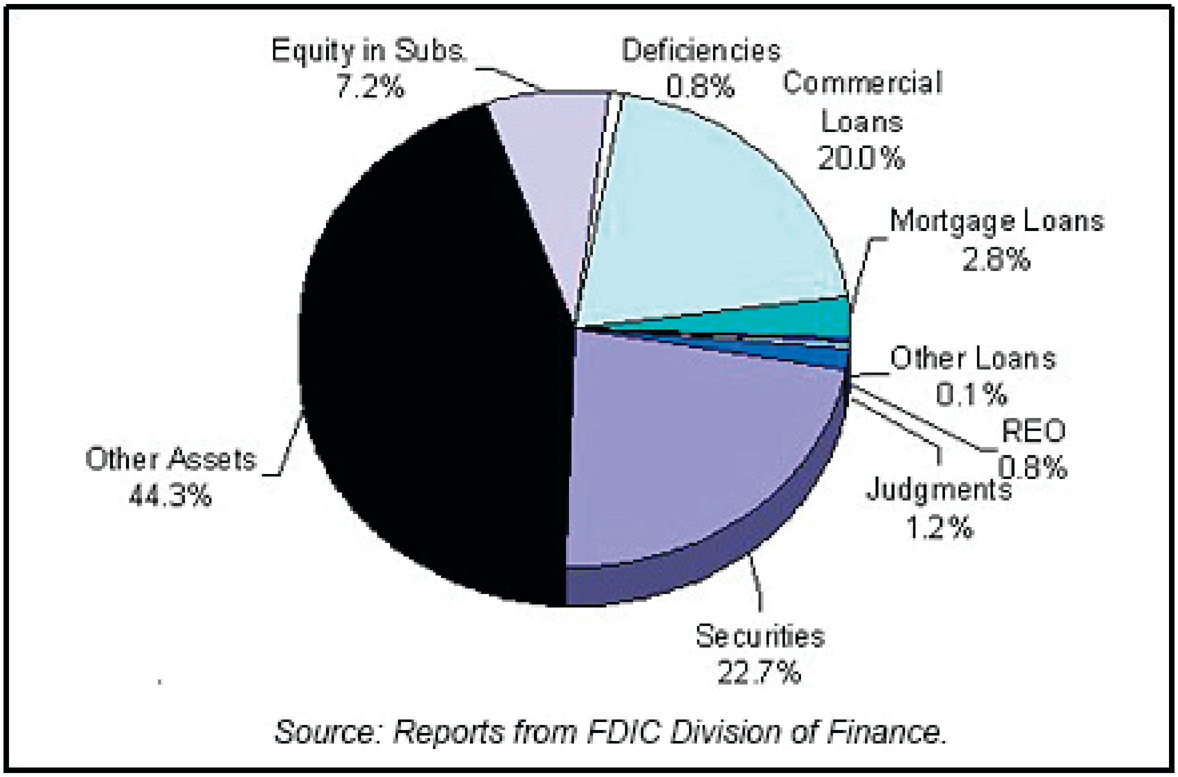


Chart 26-1 — 2003 FDIC End of Year Asset Mix

Commercial Loans	Mortgage Loans	Other Loans	REO	Judgments	Securities	Other Assets	Equity in Subs	Deficiencies
20.0%	2.8%	0.1%	0.8%	1.2%	22.7%	44.3%	7.2%	0.8%
Source: Reports from FDIC Division of Finance								

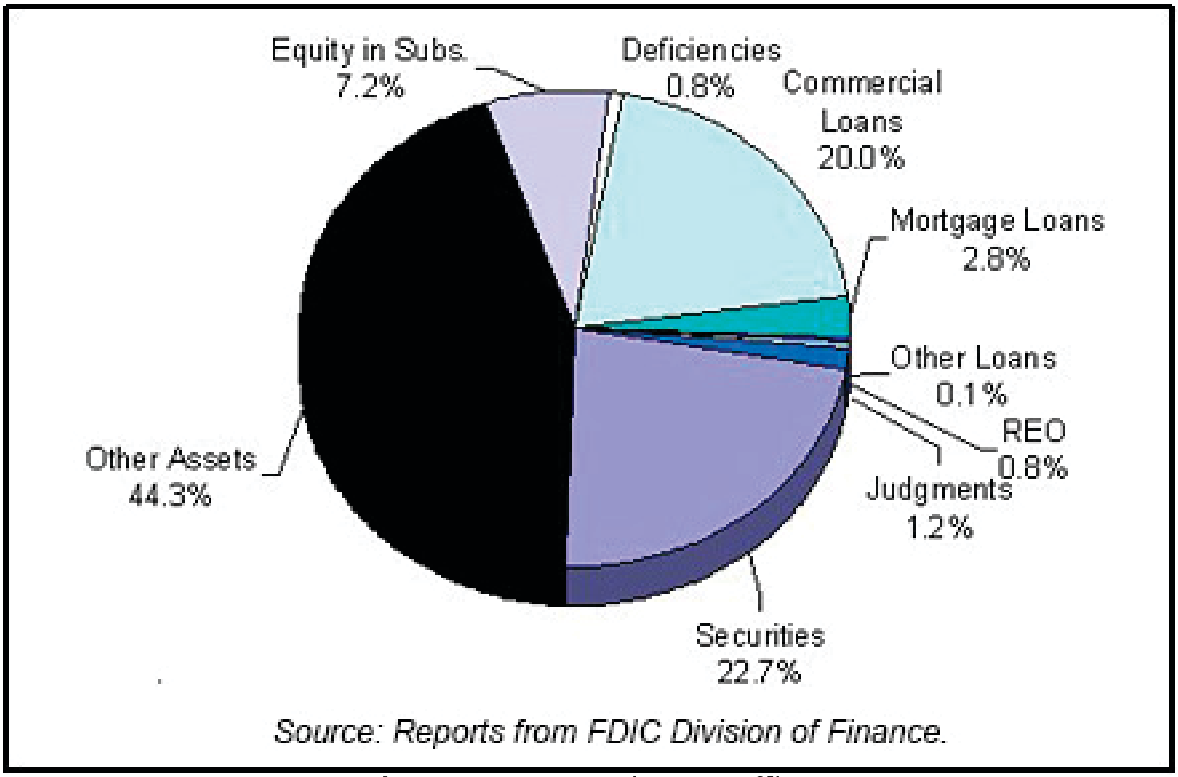


Chart 26-2 — FDIC/RTC Staffing

	1999	2000	2001	2002	2003
Other	3,820	3,395	3,181	2,097	1,994
Liquidation	753	468	454	522	520
Supervision	2,693	2,589	2,532	2,811	2,797
Total	7,266	6,452	6,167	5,430	5,311
Source: FDIC, 2003 Annual Report					

Insurance Fund and Staffing

Both insurance funds continued to rise. The BIF increased by $1.7 billion to $33.8 billion, and the SAIF increased by $493 million to $12.2 billion, compared to similar increases of $1.6 billion and $812 million, respectively, in 2002.

The FDIC has been downsizing its workforce for more than a decade, as the residual workload from the banking and thrift crises has gradually been completed. In mid-2003, a reduction in force was implemented to address 43 identified surplus positions that remained following aggressive efforts in 2002 and early 2003 to align staffing with current workload through voluntary measures. Total staffing for 2003 declined 2.2 percent from the year-end 2002 figures, for an ending total of 5,311.

Staffing at the FDIC has decreased 66 percent since the all-time high total of 15,585 at the second quarter of 1992. Chart 26-2 shows the staffing levels for the past five years.

The FDIC initiated a number of projects in 2003 to better manage and leverage its resources to meet potential challenges in the resolution of future financial institution failures. These projects were in the areas of processing depositor claims, franchise and asset marketing, asset valuation and sales, asset servicing, receivership operations and management, information systems, planning and communication, cost containment, and field operations.

Appendix

Tables

FDIC At A Glance

1980 - 1984: FDIC at a Glance ($ in Millions)					
Data for 12/31	**1980**	**1981**	**1982**	**1983**	**1984**
Number of Bank Failures	10	7	34	45	78
Assistance to Open Banks	1	3	8	3	2
Total Failed and Assisted Banks	11	10	42	48	80
Total Assets of Failed and Assisted Banks	$8,192.4	$4,947.4	$11,722.6	$7,191.7	$43,432.5
Estimated Losses on Failed and Assisted Banks	$30.7	$781.8	$1,168.6	$1,407.4	$1,640.2
Estimated Losses as a % of Total Assets	0.37%	15.80%	9.97%	19.57%	3.78%
Assets in Liquidation	$1,791.8	$1,840.6	$2,155.1	$4,259.6	$10,299.8
FDIC Staffing	3,644	3,394	3,504	3,846	5,076
Number of Problem Banks	217	223	369	642	848
Bank Insurance Fund Balance	$11,019.5	$12,246.1	$13,770.9	$15,429.1	$16,529.4
Bank Insurance Fund Balance as a % of Insured Deposits	1.16%	1.24%	1.21%	1.22%	1.19%

1985 - 1989: FDIC at a Glance ($ in Millions)					
Data for 12/31	**1985**	**1986**	**1987**	**1988**	**1989**
Number of Bank Failures	116	138	184	200	206
Assistance to Open Banks	4	7	19	79	1
Total Failed and Assisted Banks	120	145	203	279	207
Total Assets of Failed and Assisted Banks	$8,977.3	$8,069.1	$9,407.0	$53,899.4	$28,935.0
Estimated Losses on Failed and Assisted Banks	$1,007.2	$1,775.7	$2,022.8	$6,920.5	$6,198.8
Estimated Losses as a % of Total Assets	11.22%	22.01%	21.50%	12.84%	21.42%
Assets in Liquidation	$9,731.3	$10,856.0	$11,339.9	$9,335.9	$25,930.6
FDIC Staffing	7,125	8,817	9,098	8,060	10,187
Number of Problem Banks	1,140	1,484	1,575	1,406	1,109
Bank Insurance Fund Balance	$17,956.9	$18,253.3	$18,301.8	$14,061.1	$13,209.5
Bank Insurance Fund Balance as a % of Insured Deposits	1.19%	1.12%	1.10%	0.80%	0.70%

1990 - 1994: FDIC at a Glance ($ in Millions)					
Data for 12/31	**1990**	**1991**	**1992**	**1993**	**1994**
Number of Bank Failures	168	124	120	41	13
Assistance to Open Banks	1	3	2	0	0
Total Failed and Assisted Banks	169	127	122	41	13
Total Assets of Failed and Assisted Banks	$16,937.7	$64,635.0	$45,391.1	$3,828.9	$1,463.9
Estimated Losses on Failed and Assisted Banks	$2,786.3	$6,136.1	$3,675.2	$646.1	$179
Estimated Losses as a % of Total Assets	16.45%	9.49%	0.081	0.1687	0.1223

1990 - 1994: FDIC at a Glance ($ in Millions)					
Data for 12/31	**1990**	**1991**	**1992**	**1993**	**1994**
Assets in Liquidation	$30,906.5	$43,258.3	43273.4	28015.1	16737.9
FDIC Staffing	14,348	13,972	15,044	14,220	11,627
Number of Problem Banks	1,046	1,090	863	472	264
Bank Insurance Fund Balance	$4,044.5	-$7,027.9	-100.6	13,121.6	21,847.8
Bank Insurance Fund Balance as a % of Insured Deposits	0.21%	-0.36%	-0.0001	0.0069	0.0115

1995 - 1999: FDIC at a Glance ($ in Millions)					
Data for 12/31	**1995**	**1996**	**1997**	**1998**	**1999**
Number of Bank Failures	6	6	1	3	8
Assistance to Open Banks	0	0	0	0	0
Total Failed and Assisted Banks	6	6	1	3	8
Total Assets of Failed and Assisted Banks	802.1	232.6	27.9	290.2	1592.2
Estimated Losses on Failed and Assisted Banks	84.5	60.6	5	227.5	831.5
Estimated Losses as a % of Total Assets	0.1053	0.2605	0.1792	0.7839	0.5222
Assets in Liquidation	10308.2	8711.2	4114.6	2375.5	1981.5
FDIC Staffing	9789	9151	7793	7359	7266
Number of Problem Financial Institutions	193	117	92	84	79
Bank Insurance Fund Balance	25453.7	26854.4	28292.5	29612.3	29414.2
Bank Insurance Fund Balance as a % of Insured Deposits	0.013	0.0134	0.0138	0.0138	0.0136
Savings Insurance Fund Balance	3357.8	8888.4	9368.3	9839.8	10280.7
Savings Insurance Fund Balance as a % of Insured Deposits	0.0047	0.013	0.0136	0.0139	0.0145

2000 - 2003: FDIC at a Glance ($ in Millions)				
Data for 12/31	**2000**	**2001**	**2002**	**2003**
Number of Bank Failures	7	4	11	3
Assistance to Open Banks	0	0	0	0
Total Failed and Assisted Banks	7	4	11	3
Total Assets of Failed and Assisted Banks	414.5	1821.8	2914.5	1138
Estimated Losses on Failed and Assisted Banks	37.3	433.5	629.8	103.7
Estimated Losses as a % of Total Assets	0.09	0.238	0.2161	0.0911
Assets in Liquidation	535.5	573.4	1240.3	806.4
FDIC Staffing	6452	6167	5430	5311
Number of Problem Financial Institutions	94	114	136	116
Bank Insurance Fund Balance	30975.2	30438.8	32050.3	33782.2

2000 - 2003: FDIC at a Glance ($ in Millions)				
Data for 12/31	2000	2001	2002	2003
Bank Insurance Fund Balance as a % of Insured Deposits	0.0135	0.0126	0.0127	0.0131
Savings Insurance Fund Balance	10758.6	10935	11746.7	12240.1
Savings Insurance Fund Balance as a % of Insured Deposits	0.0143	0.0136	0.0138	0.014

RTC At a Glance

Overview - RTC at a Glance ($ in Millions)								
	1989	1990	1991	1992	1993	1994	1995	Total
Number of Conservatorships at the beginning of the year	0	281	179	91	81	63	1	696
Number of Conservatorships added during the year	318	207	123	50	8	0	0	706
Thrifts in the ARP Program	N/A	6	21	9	1	2	2	41
Total of all thrift takeovers	318	213	144	59	9	2	2	747
Conservatorships resolved during the year	37	309	211	60	26	62	1	706
Thrifts in the ARP Program	0	6	21	9	1	2	2	41
Total of thrift resolutions	37	315	232	69	27	64	3	747
Conservatorships at the end of the year	281	179	91	81	63	1	0	696

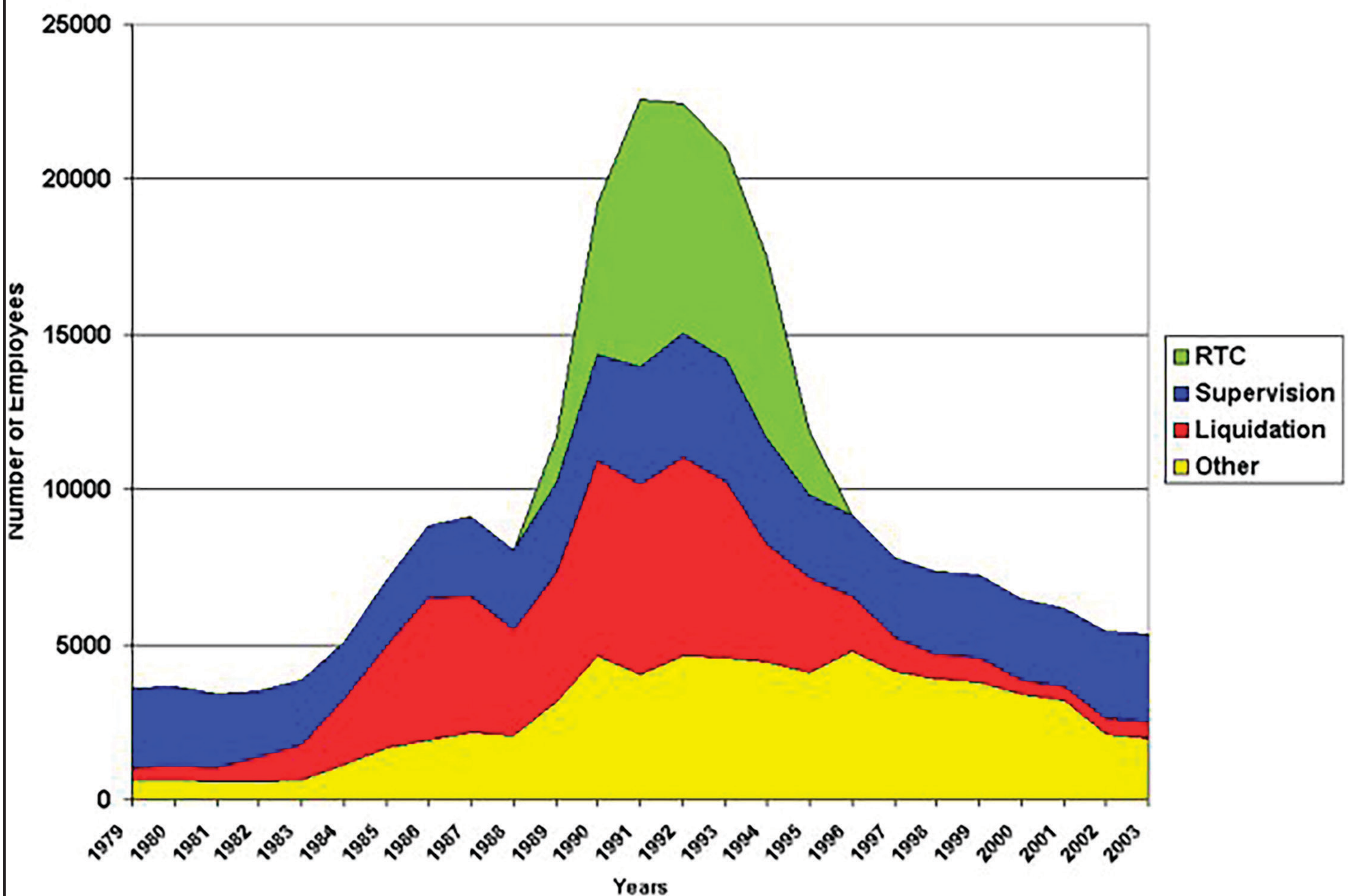
Total Assets at Takeover								
	1989	1990	1991	1992	1993	1994	1995	Total
Conservatorships	$141,749	$126,616	$70,929	$35,448	$6,061	$0	$0	$380,803
Thrifts in the ARP Program	N/A	$3,631	$8,105	$9,437	$44	$129	$426	$21,772
Total	$141,749	$130,247	$79,034	$44,885	$6,105	$129	$426	$402,575
Losses on thrifts taken over	$51,076	$20,837	$10,773	$4,180	$609	$15	$63	$87,553
Losses as a percent of Total Assets	36.03%	16.00%	13.63%	9.31%	9.97%	11.93%	14.79%	21.75%

Asset in Liquidation								
	1989	1990	1991	1992	1993	1994	1995	Total
Conservatorships	$104,899	$87,467	$47,318	$40,21	$23,166	$2,067	$0	
Receiverships	$7,945	$59,270	$83,066	$64,335	$40,664	$22,900	$7,689	

Asset in Liquidation								
	1989	1990	1991	1992	1993	1994	1995	Total
Total	$112,844	$146,737	$130,384	$104,546	$63,830	$24,967	$7,689	
RTC Staffing	1,516	4,899	8,614	7,382	6,778	5,899	3,147	
Source: RTC Annual Reports 1989 - 1994 and Reports from FDIC Division of Research and Statistics								

Charts

FDIC/RTC Staffing



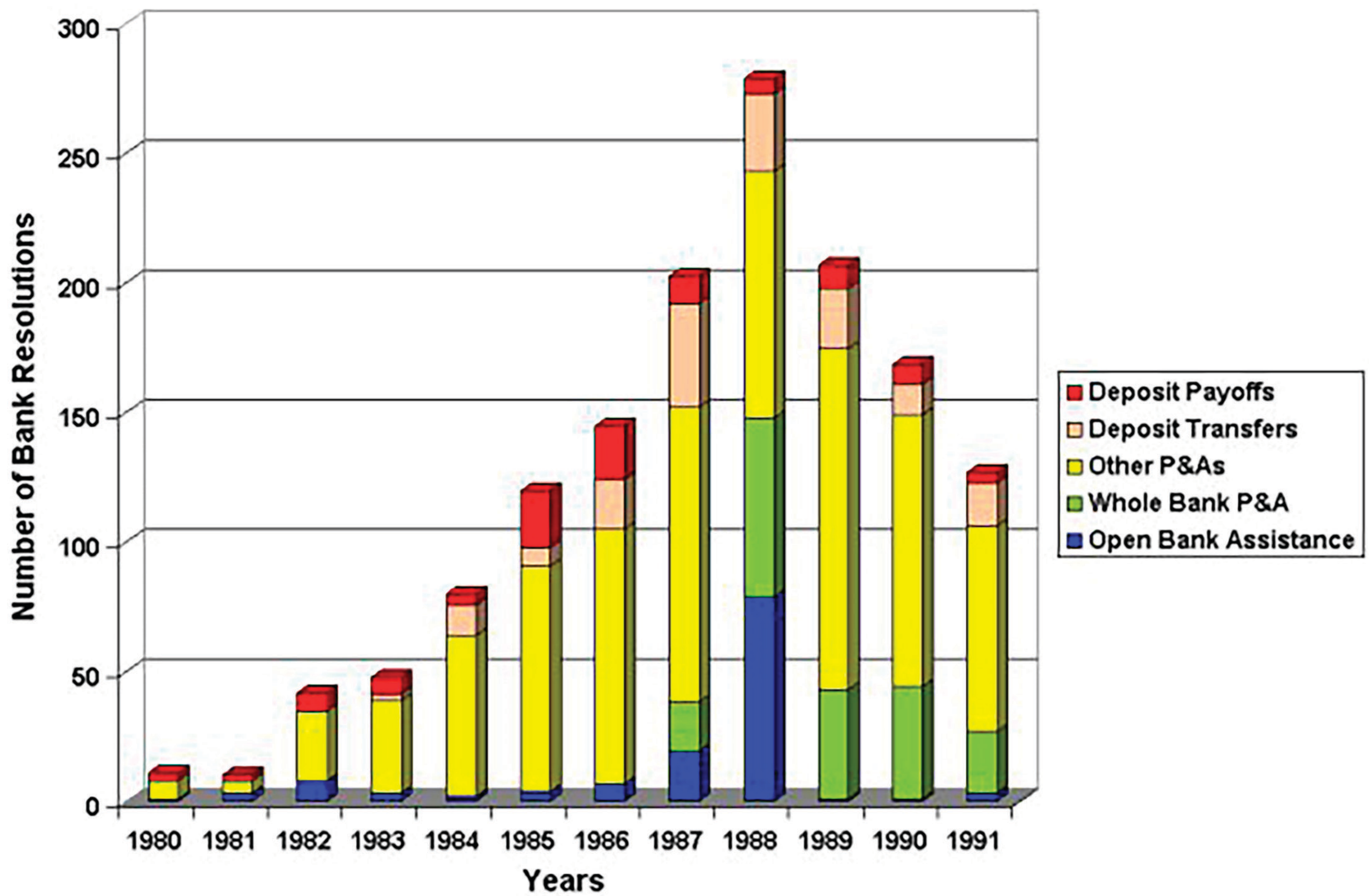
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Other	626	640	606	597	640	1,118	1,684	1,932	2,177	2,095	3,143	4,637
Liquidation	432	460	429	778	1,153	2,158	3,318	4,586	4,400	3,371	4,141	6,311
Supervision	2,540	2,544	2,359	2,129	2,053	1,800	2,123	2,299	2,521	2,594	2,903	3,400
RTC											1,516	4,899
Total	3,598	3,644	3,394	3,504	3,846	5,076	7,125	8,817	9,098	8,060	11,703	19,247

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Other	4,062	4,621	4,584	4,462	4,111	4,760	4,150	3,909	3,820	3,395	3,181	2,097	1,994

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Liquidation	6,097	6,427	5,665	3,796	3,055	1,819	1,093	795	753	468	454	522	520
Supervision	3,813	3,996	3,971	3,369	2,623	2,572	2,550	2,655	2,693	2,589	2,532	2,811	2,797
RTC	8,614	7,382	6,778	5,899	2,067								
Total	22,586	22,426	20,998	17,526	11,856	9,151	7,793	7,359	7,266	6,452	6,167	5,430	5,311

Source: FDIC Annual Reports 1980 - 2003 and RTC Annual Reports 1989 - 1994

Distribution of FDIC/Transaction Methods - 1980-1994

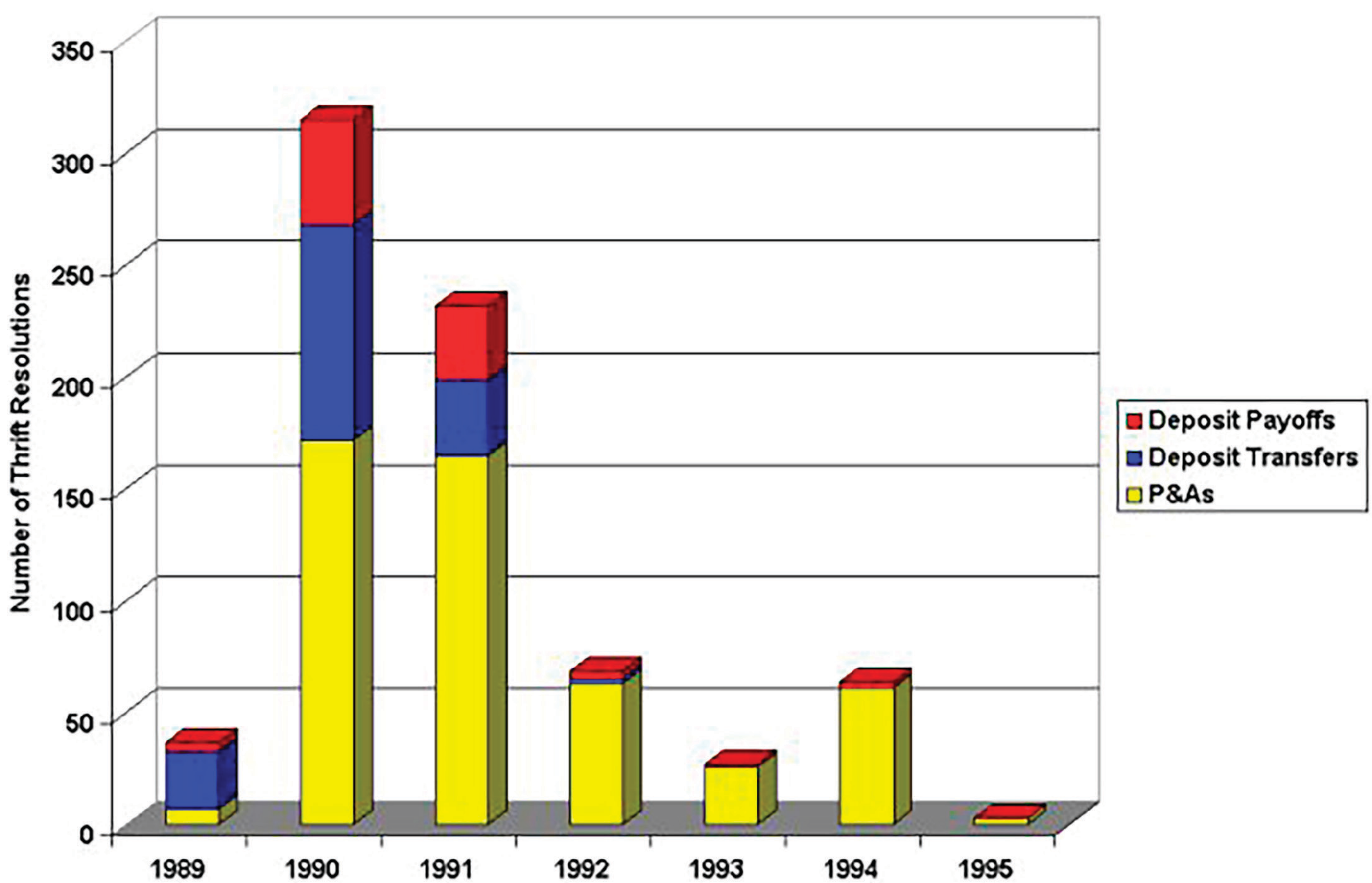


	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Open Bank Assistance	1	3	8	3	2	4	7	19	79	1	1	3
Whole Bank P&A	0	0	0	0	0	0	0	19	69	42	43	24
Other P&As	7	5	27	36	62	87	98	114	95	132	105	79
Deposit Transfers	0	0	0	2	12	7	19	40	30	23	12	17

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Deposit Payoffs	3	2	7	7	4	22	21	11	6	9	8	4
Totals	11	10	42	48	80	120	145	203	279	207	169	127

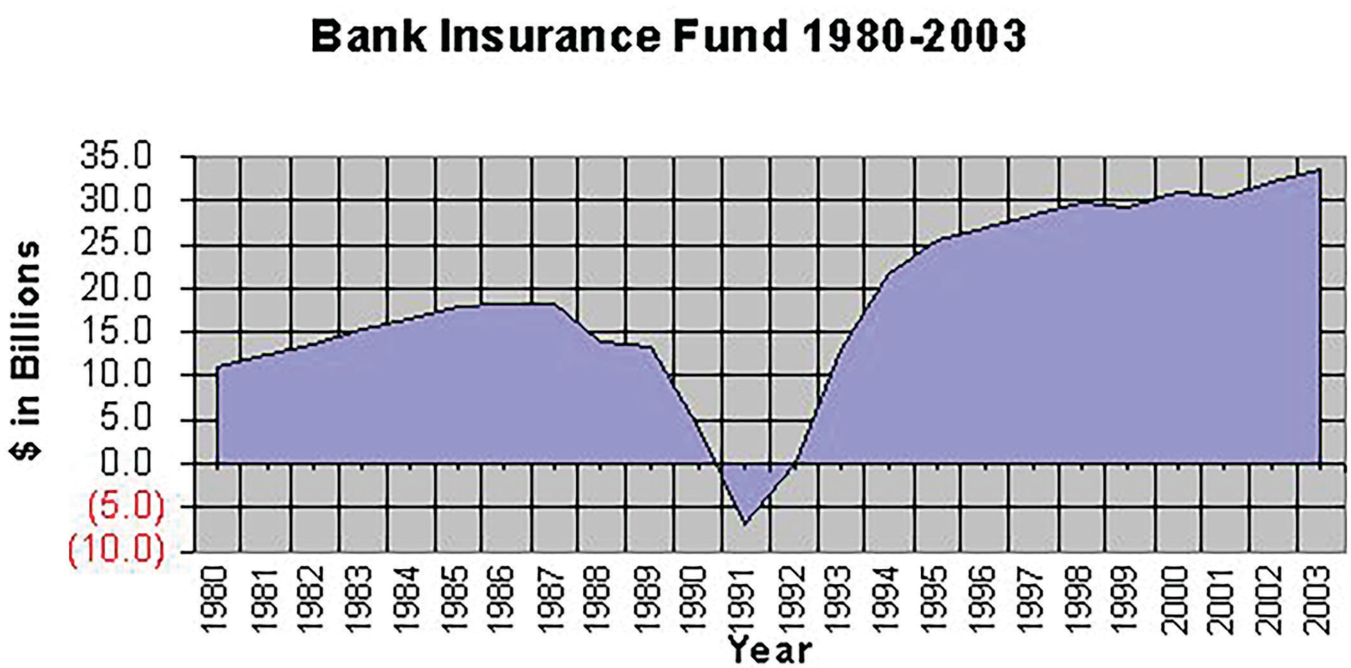
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Open Bank Assistance	2	0	0	0	0	0	0	0	0	0	0	0
Whole Bank P&A	5	0	0	0	0	0	0	0	3	2	0	0
Other P&As	90	36	13	6	6	1	3	8	4	2	6	3
Deposit Transfers	14	0	0	0	0	0	0	0	0	0	0	0
Deposit Payoffs	11	5	0	0	0	0	0	0	0	0	5	0
Totals	122	41	13	6	6	1	3	8	7	4	11	3

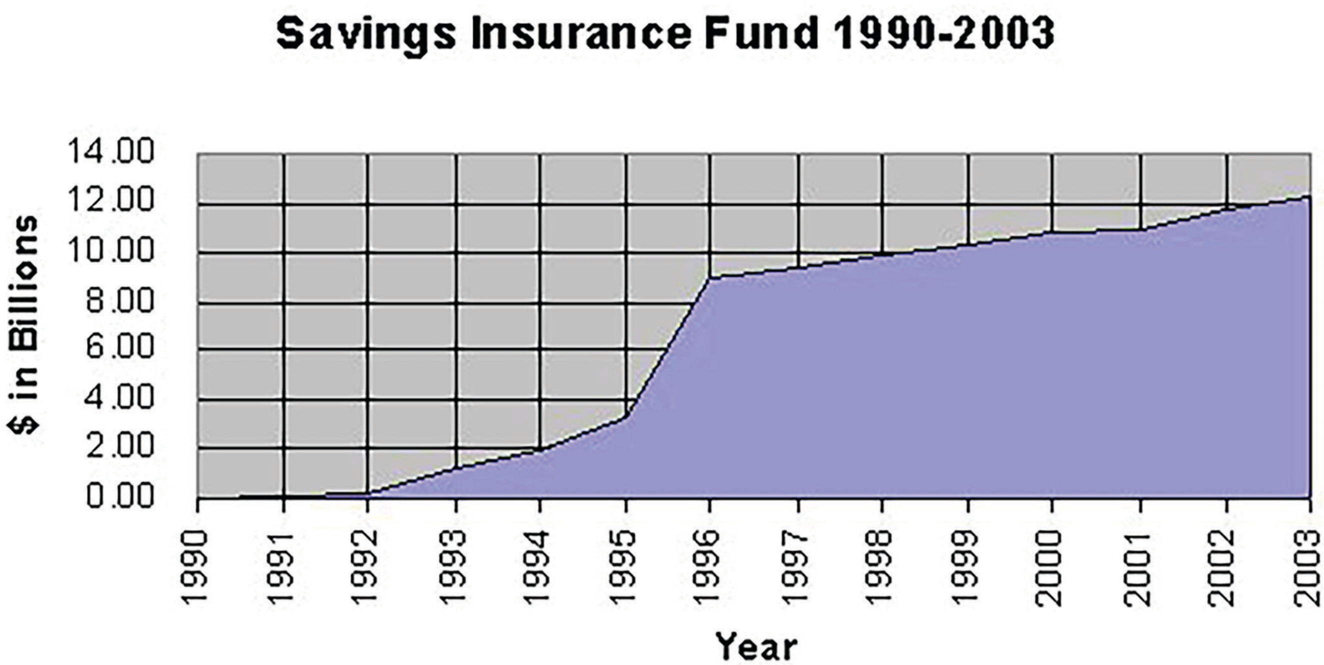
Distribution of RTC Transaction Methods - 1989-1995

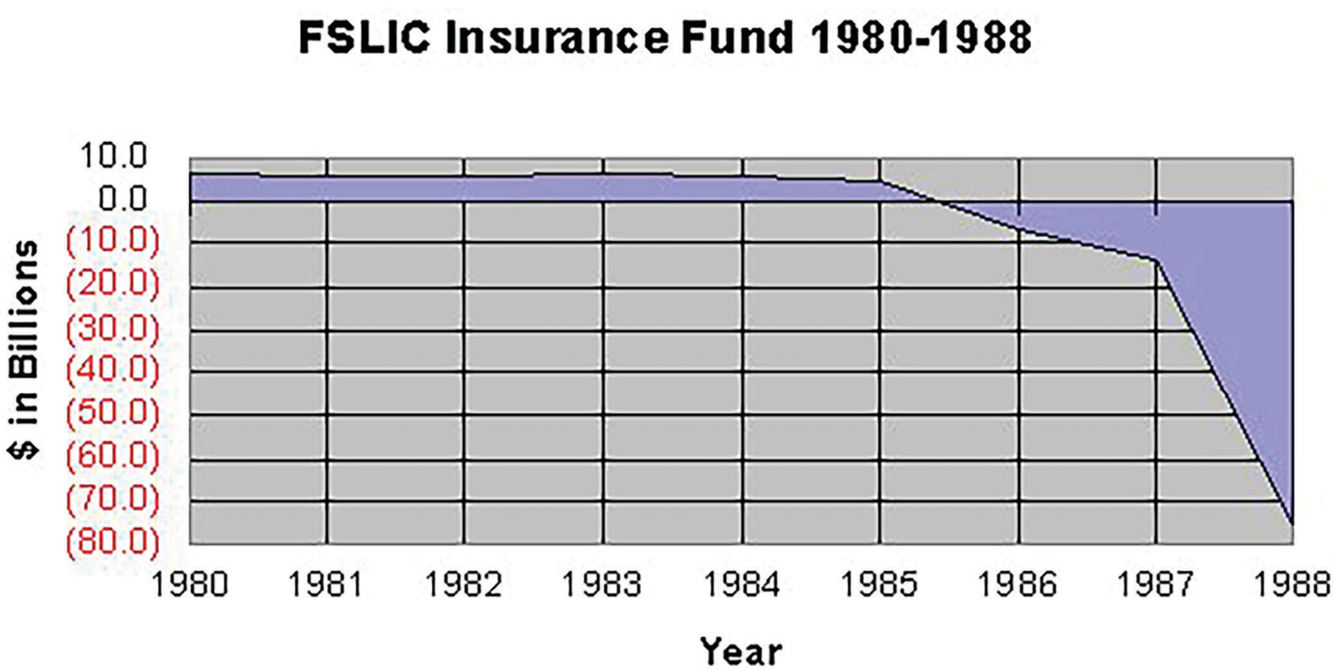


	1989	1990	1991	1992	1993	1994	1995	Totals
P&As	7	172	165	63	26	61	3	497
Deposit Transfers	26	96	34	2	0	0	0	158
Deposit Payoffs	4	47	33	4	1	3	0	92
Totals	37	315	232	69	27	64	3	747

Insurance Fund Comparison - BIF, SAIF, FSLIC







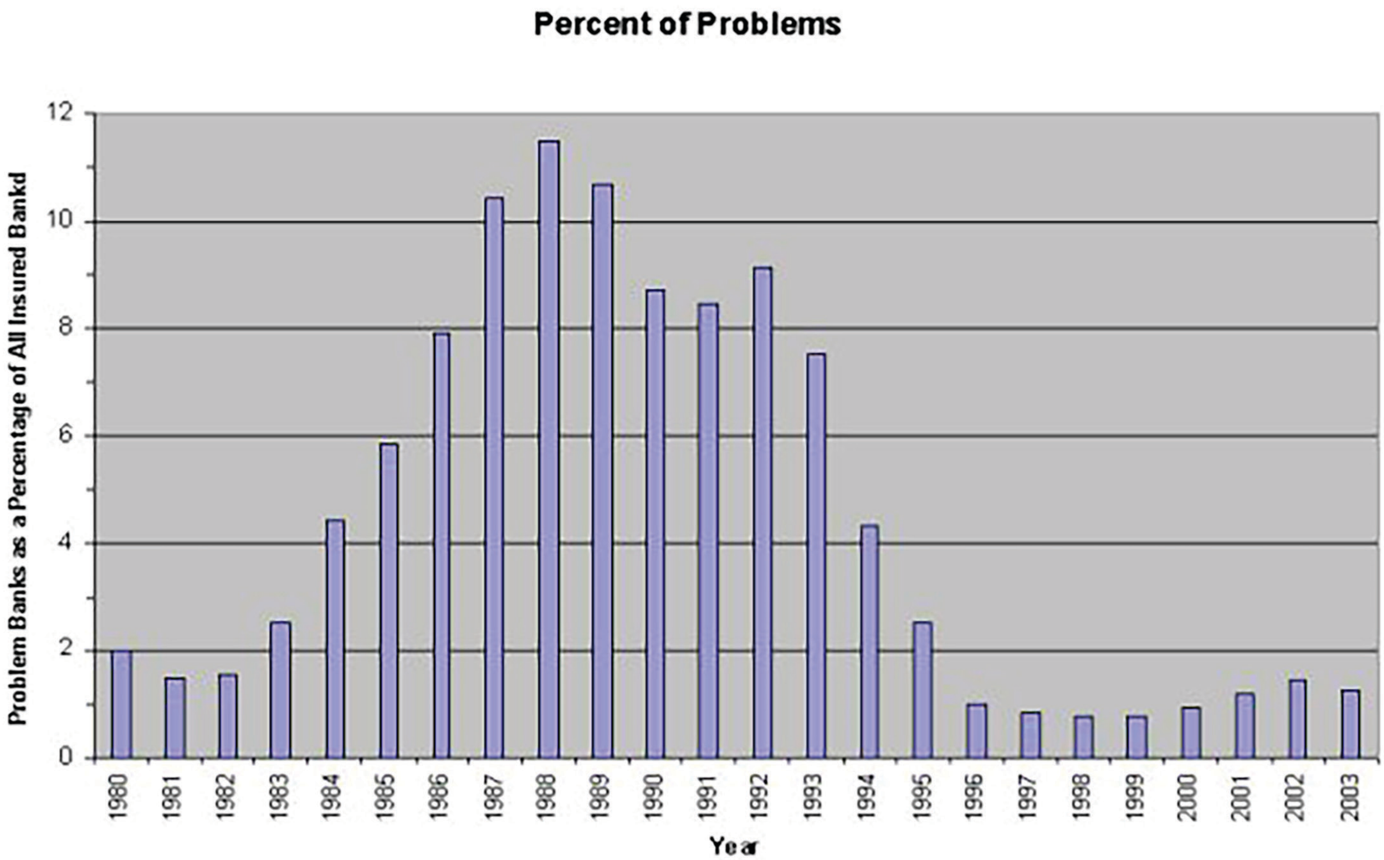
	1980	1981	1982	1983	1984	1985	1986	1987	1988
FRF	6.5	6.2	6.2	6.4	5.61	4.56	-6.33	-13.7	-75

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
SAIF	0.02	0.09	0.28	1.16	1.94	3.36	8.89	9.37	9.84	10.3	10.8	10.9	11.7	12.2

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
BIF	0.02	0.09	0.28	1.16	1.94	3.36	8.89	9.37	9.84	10.3	10.8	10.9	11.7	12.2

Source: FDIC Annual Reports 1980-2003, and FHLBB Reports 1980-1988

Problem Bank List - Banks Rated “4” or “5”



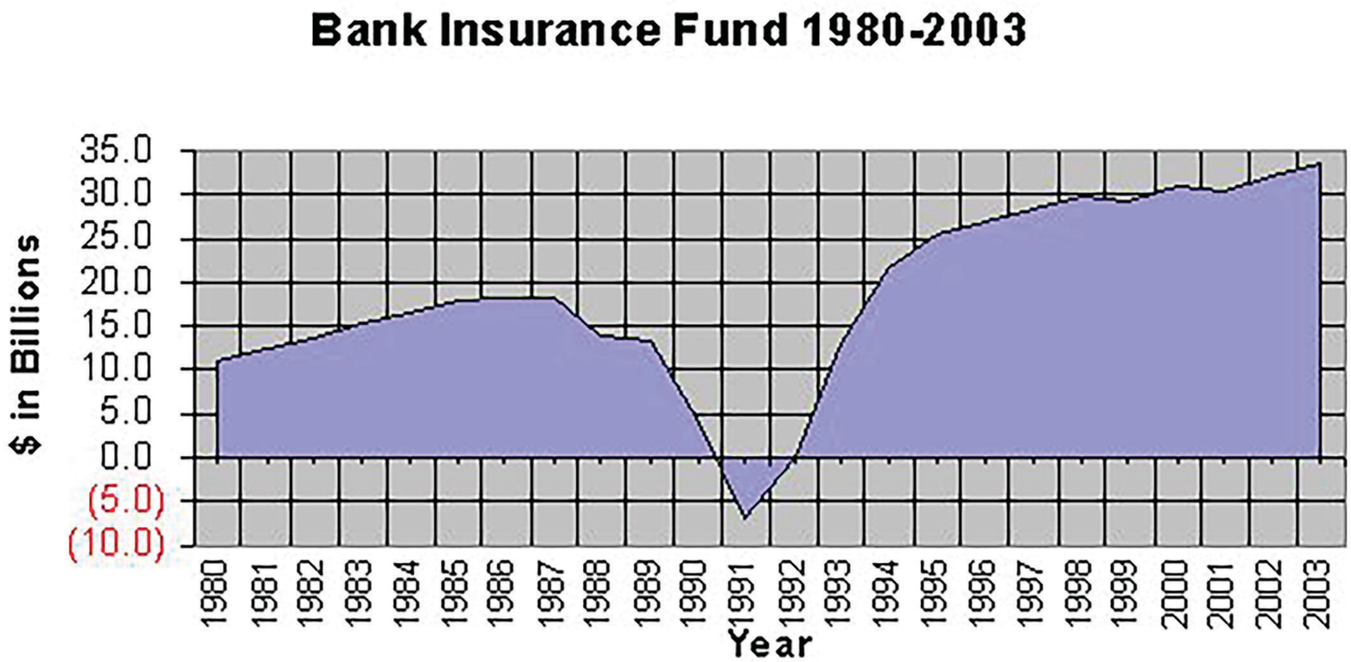
	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total Insured Banks 1980-1988	14,364	14,434	14,414	14,451	14,469	14,483	14,407	14,199	13,703
Problem Banks	287	217	223	369	642	848	1,140	1,484	1,575
Percent Problems	2	1.5	1.55	2.55	4.44	5.86	7.91	10.45	11.49

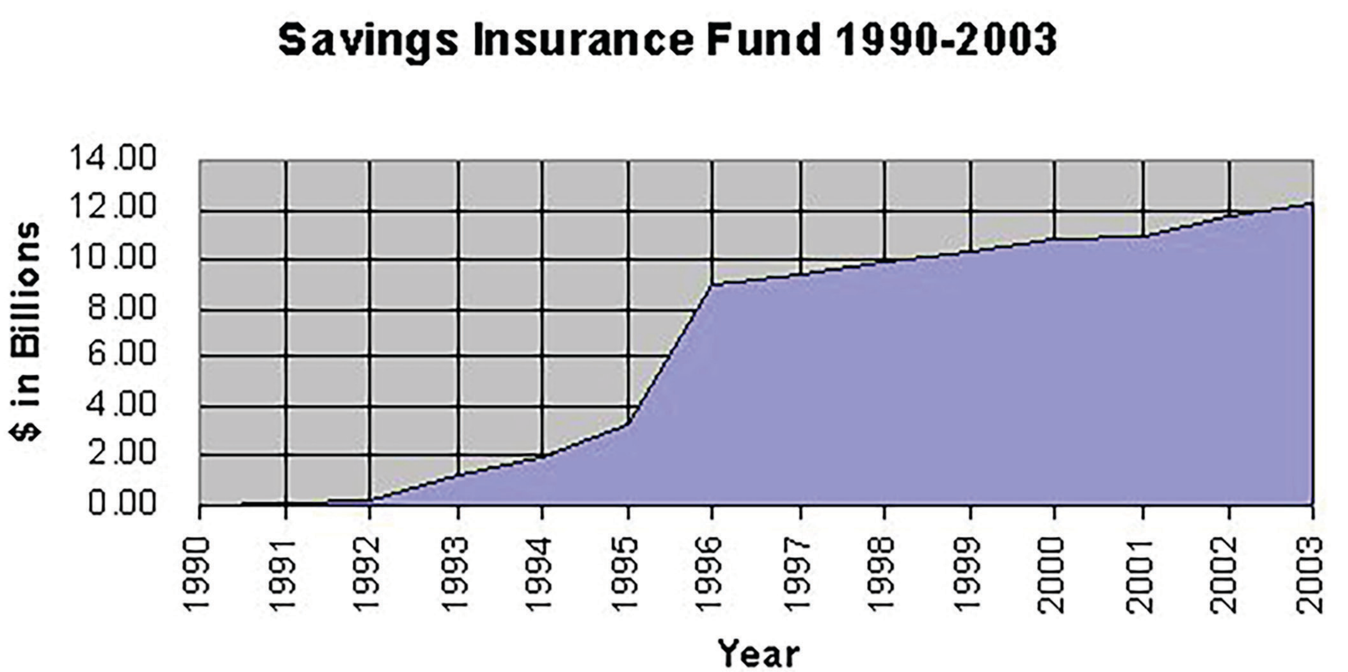
	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Insured Banks 1980-1988	13,123	12,709	12,343	11,921	11,462	10,958	10,451	11,484	10,950
Problem Banks	1,406	1,109	1,046	1,090	863	472	264	117	92
Percent Problems	10.71	8.73	8.47	9.14	7.53	4.31	2.53	1.02	0.84

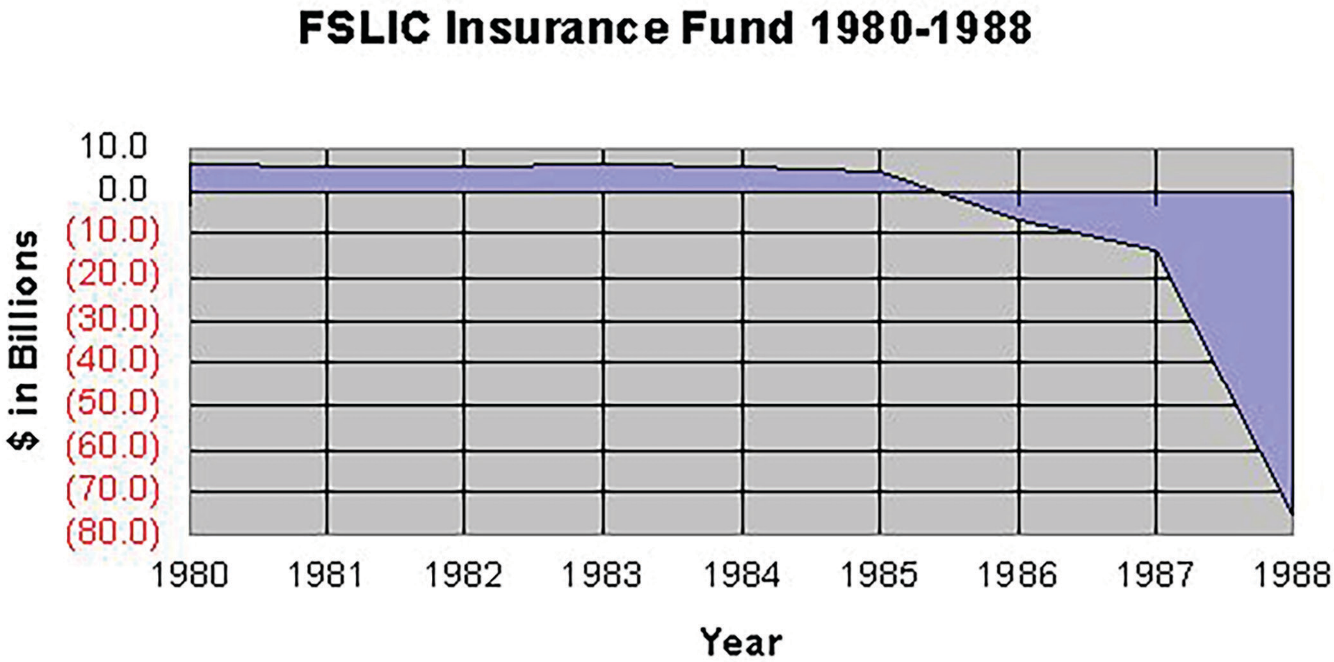
	1998	1999	2000	2001	2002	2003			
Total Insured Banks 1980-1988	10,489	10,242	9,923	9,632	9,372	9,196			

	1998	1999	2000	2001	2002	2003			
Problem Banks	84	79	94	114	136	116			
Percent Problems	0.8	0.77	0.95	1.18	1.45	1.26			
Source: FDIC Annual Reports 1980-2003, and FHLBB Reports 1980-1988									

RTC Conservatorships at the End of the Year - 1989-1995







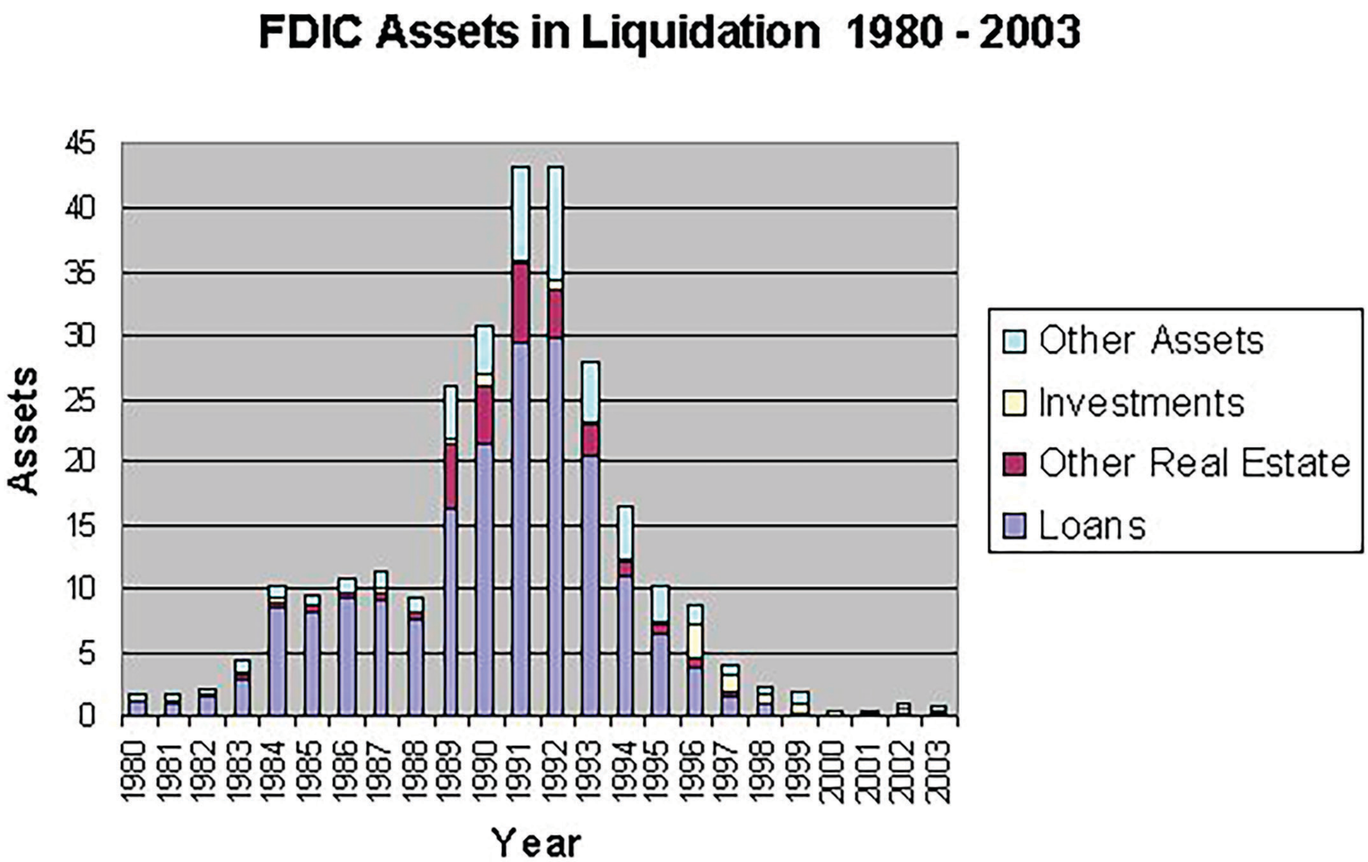
	1980	1981	1982	1983	1984	1985	1986	1987	1988
FRF	6.5	6.2	6.2	6.4	5.61	4.56	-6.33	-13.7	-75

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
SAIF	0.02	0.09	0.28	1.16	1.94	3.36	8.89	9.37	9.84	10.3	10.8	10.9	11.7	12.2

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
BIF	0.02	0.09	0.28	1.16	1.94	3.36	8.89	9.37	9.84	10.3	10.8	10.9	11.7	12.2

Source: FDIC Annual Reports 1980-2003, and FHLBB Reports 1980-1988

FDIC Assets in Liquidation - 1980-1994



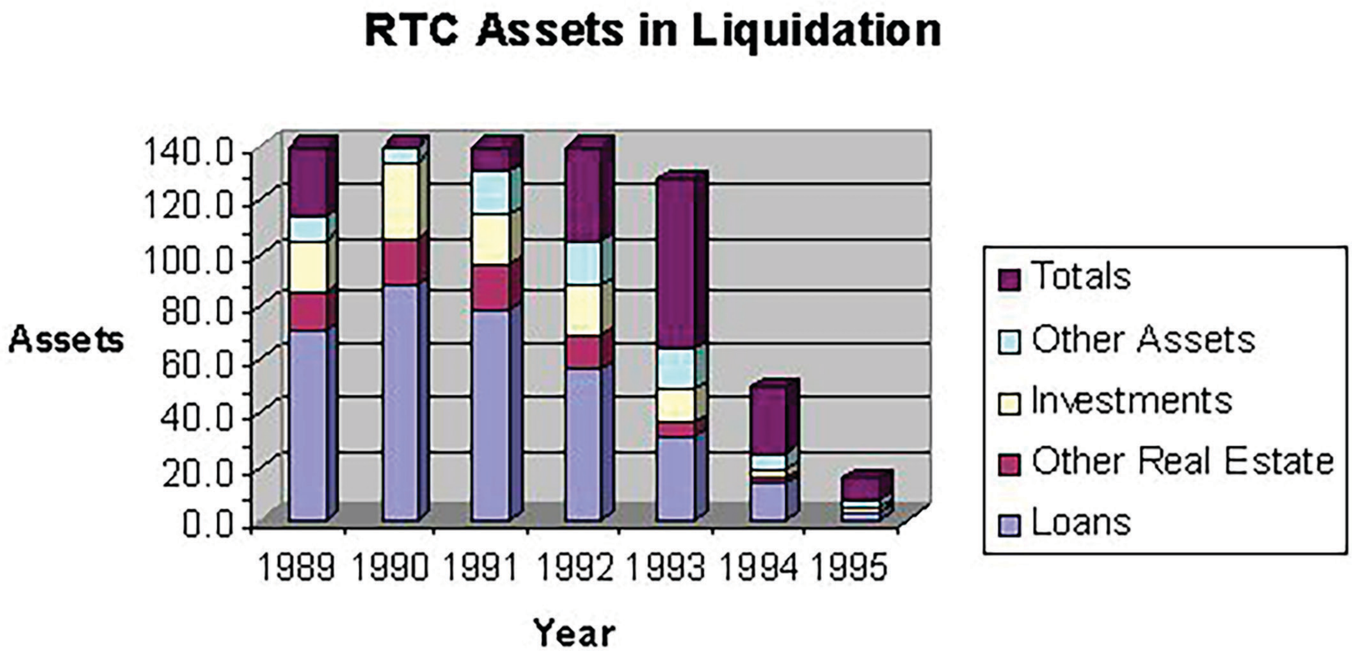
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Loans	1.3	1.1	1.5	2.9	8.6	8.4	9.3	9.2	7.7	16.4	21.4	29.5
Other Real Estate	0.1	0.1	0.1	0.3	0.3	0.3	0.5	0.6	0.5	5.0	4.5	6.0
Investments	0.0	0.1	0.2	0.3	0.4	0.1	0.1	0.2	0.1	0.5	0.9	0.3
Other Assets	0.4	0.5	0.4	0.8	1.0	0.9	1.0	1.3	1.0	4.0	4.1	7.5
Totals	1.8	1.8	2.2	4.3	10.3	9.7	10.9	11.3	9.3	25.9	30.9	43.3

Source: Reports from FDIC Division of Finance

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Loans	29.8	20.6	11.1	6.6	3.9	1.6	1.1	0.2	0.1	0	0.3	0.2
Other Real Estate	3.8	2.4	1.1	0.7	0.6	0.3	0.1	0	0	0	0	0
Investments	0.8	0.2	0.2	0.1	2.7	1.4	0.6	1	0.3	0.3	0.3	0.2
Other Assets	8.9	4.8	4.3	2.9	1.5	0.8	0.6	0.8	0.1	0.2	0.6	0.4
Totals	43.3	28	16.7	10.3	8.7	4.1	2.4	2	0.5	0.6	1.2	0.8

Source: Reports from FDIC Division of Finance

RTC Assets in Liquidation - 1989-1995

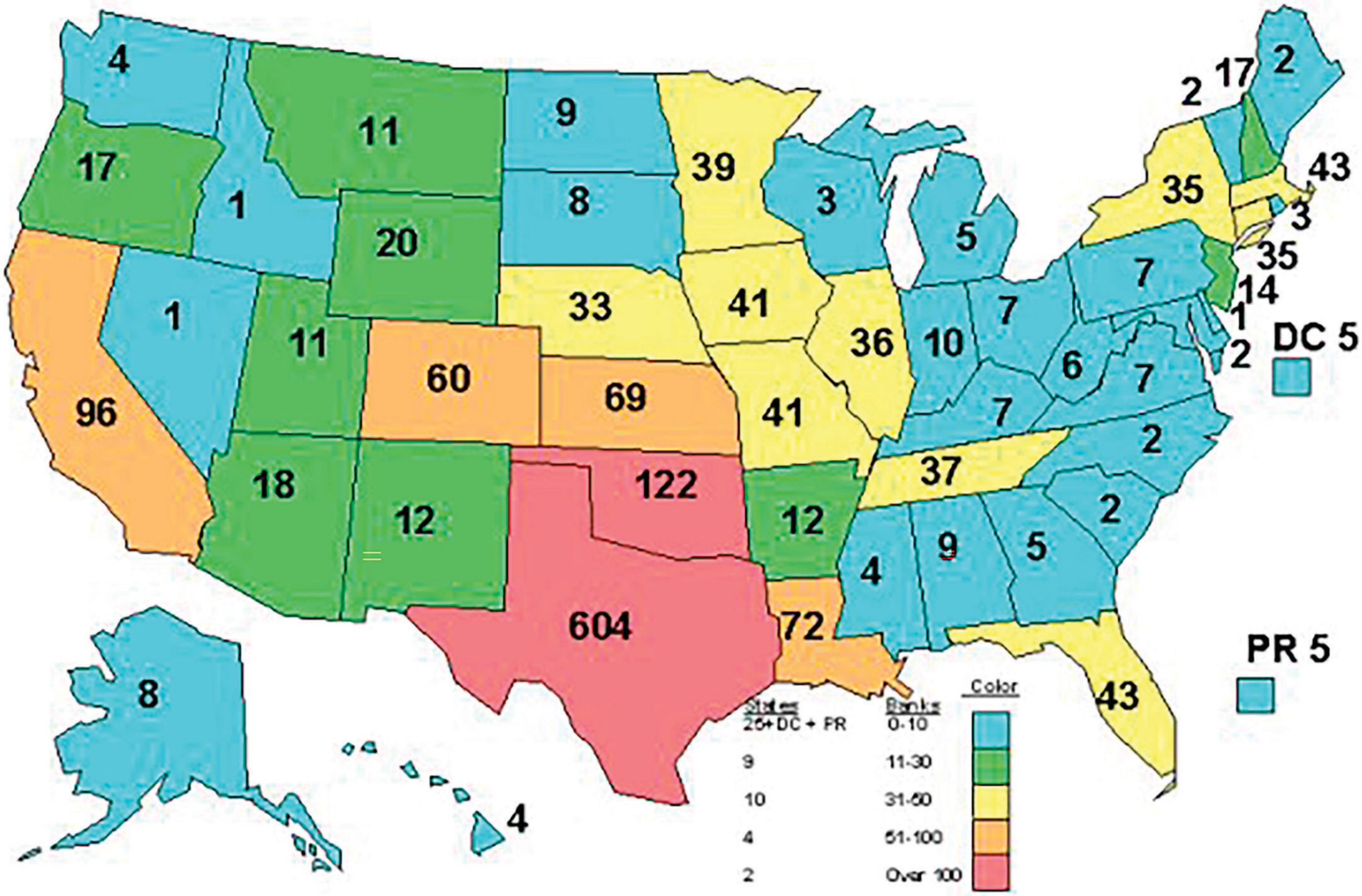


	1989	1990	1991	1992	1993	1994	1995
Loans	70.6	87.8	78.8	56.5	31	13.5	2.4
Other Real Estate	14.6	18.1	17.1	12.9	6	2.1	0.8
Investments	19.8	28.8	18.3	18.3	11.5	3.4	1.3
Other Assets	7.9	12	16.2	16.8	15.3	6	3.2
Totals	112.9	146.7	130.4	104.5	63.8	25	7.7

Source: Reports from FDIC Division of Finance

Figures

Bank Failures by State - 1980-1994



Range of Bank Failures	Number of States	Number of Bank Failures in that Range
0-10	25 + DC + PR	27
11-30	9	9
31-50	10	10
51-100	4	4
>100	2	2

State	Count of Failure
DE	1
ID	1
NV	1
MD	2
ME	2
NC	2
RI	2
SC	2
VT	2
WI	3
HI	4

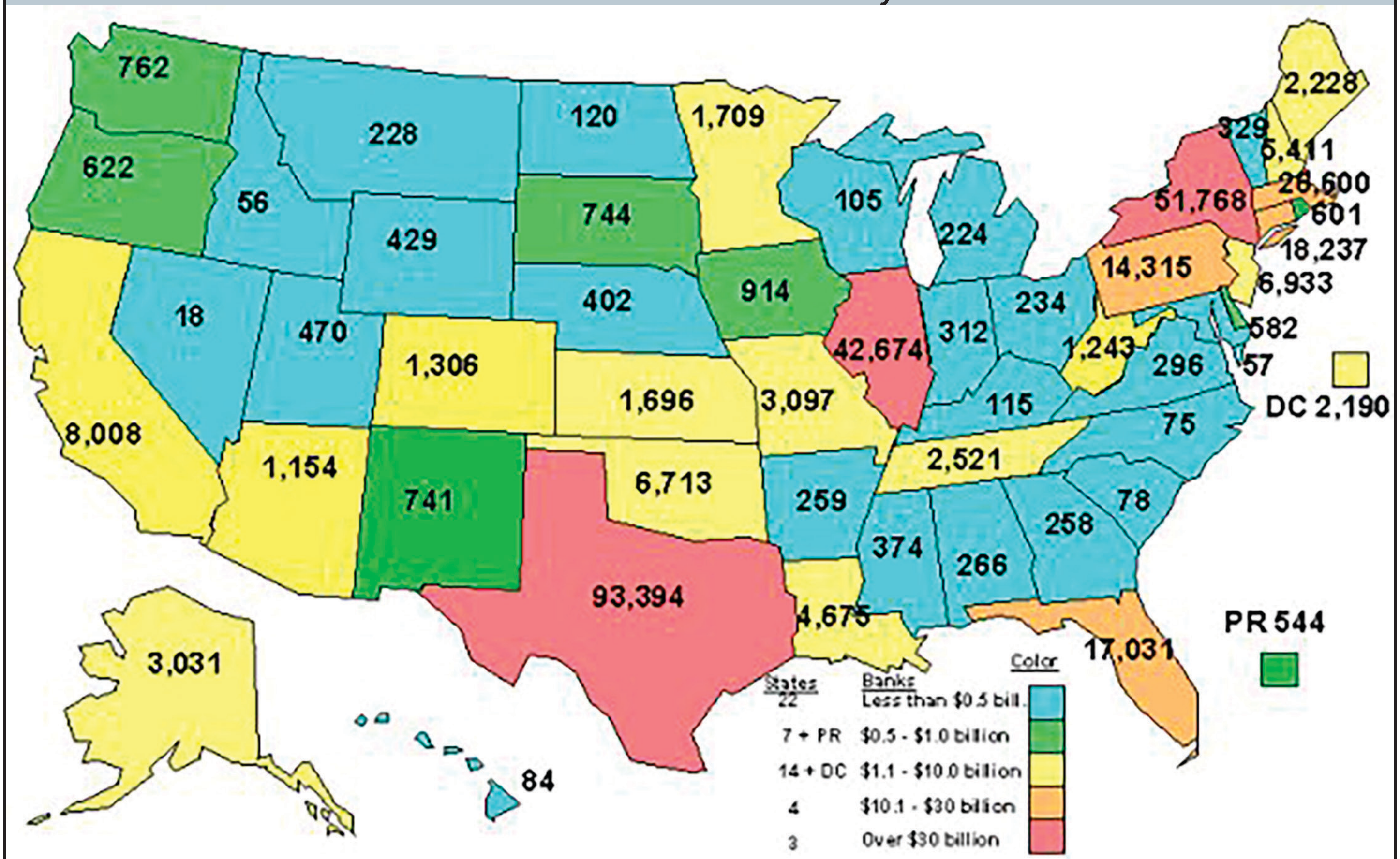
State	Count of Failure
MS	4
WA	4
DC	5
GA	5
MI	5
PR	5
WV	6
KY	7
OH	7
PA	7
VA	7

State	Count of Failure
AK	8
SD	8
AL	9
ND	9
IN	10
MT	11
UT	11
AR	12
NM	12
NJ	14
NH	17

State	Count of Failure
OR	17
AZ	18
WY	20
NE	33
CT	35
NY	35
IL	36
TN	37
MN	39
IA	41
MO	41

State	Count of Failure
FL	43
MA	44
CO	60
KS	69
LA	72
CA	96
OK	122
TX	604
TOTAL	1,667

Bank Failures and Assistance Transactions by State - 1980-1994

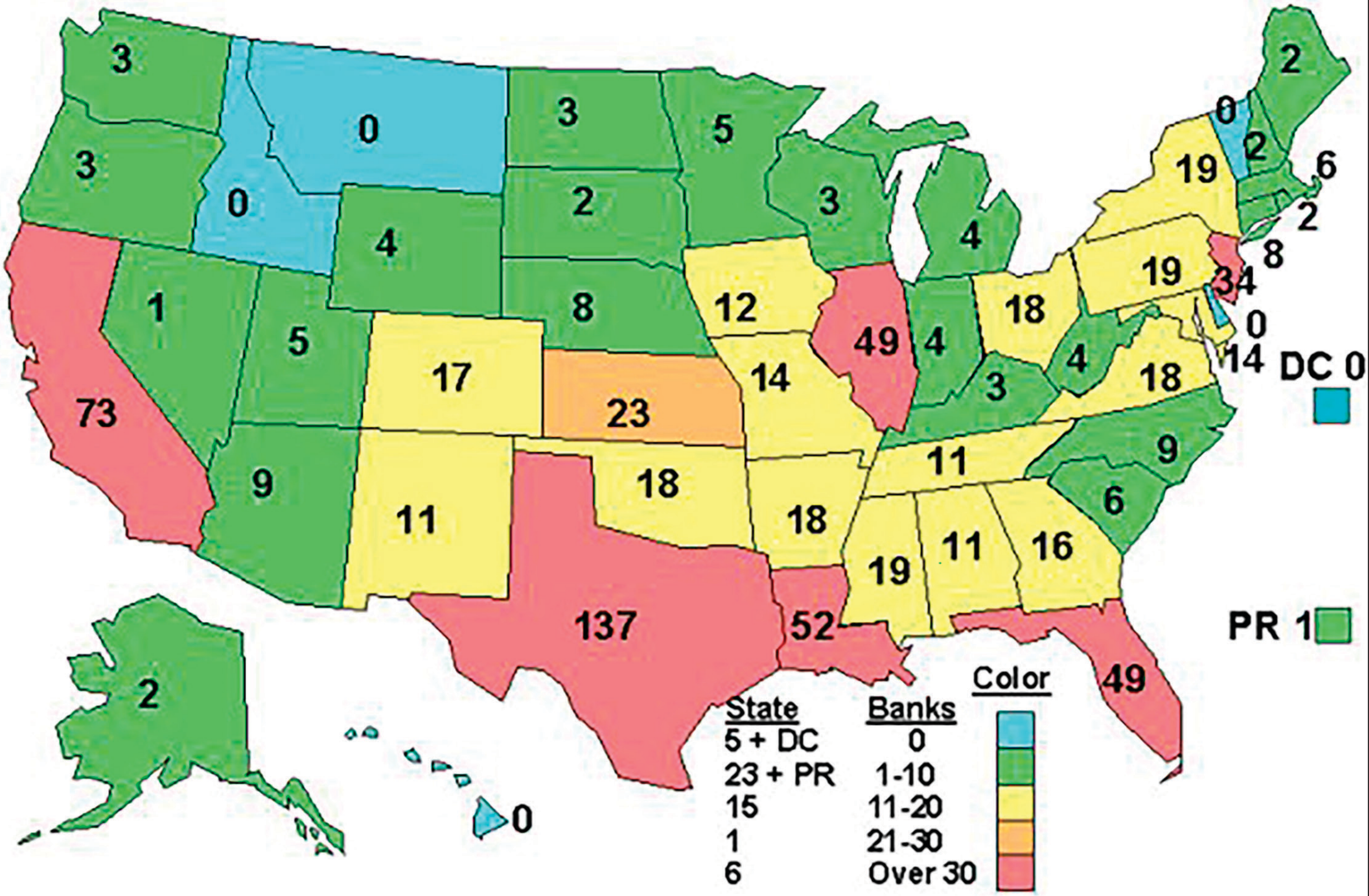


Range of Assets	Number of States
0.5 billion	22
$0.5 - $1.0 billion	7 + PR
$1.1 - $10.0 billion	14 + DC

Range of Assets	Number of States
$10.1 - $30 billion	4
$30 billion	3

State	Assets	State	Assets	State	Assets	State	Assets
AK	3,031,465	IL	42,674,262	ND	120,109	SD	743,698
AL	266,443	IN	311,825	NE	402,185	TN	2,520,524
AR	259,492	KS	1,696,373	NH	5,411,280	TX	93,394,331
AZ	1,153,702	KY	114,931	NJ	6,932,963	UT	469,637
CA	8,008,158	LA	4,675,126	NM	740,827	VA	296,464
CO	1,305,779	MA	26,632,401	NV	18,036	VT	329,478
CT	18,236,762	MD	57,000	NY	51,768,130	WA	761,672
DC	2,189,658	ME	2,228,177	OH	233,596	WI	105,293
DE	582,350	MI	223,593	OK	6,712,651	WV	1,243,004
FL	17,030,635	MN	1,708,828	OR	622,091	WY	428,606
GA	258,369	MO	3,096,719	PA	14,314,608	Grand Total	356,408,758,622
HI	84,424	MS	374,434	PR	543,748		
IA	914,133	MT	227,873	RI	600,706		
ID	55,867	NC	74,553	SC	77,834		

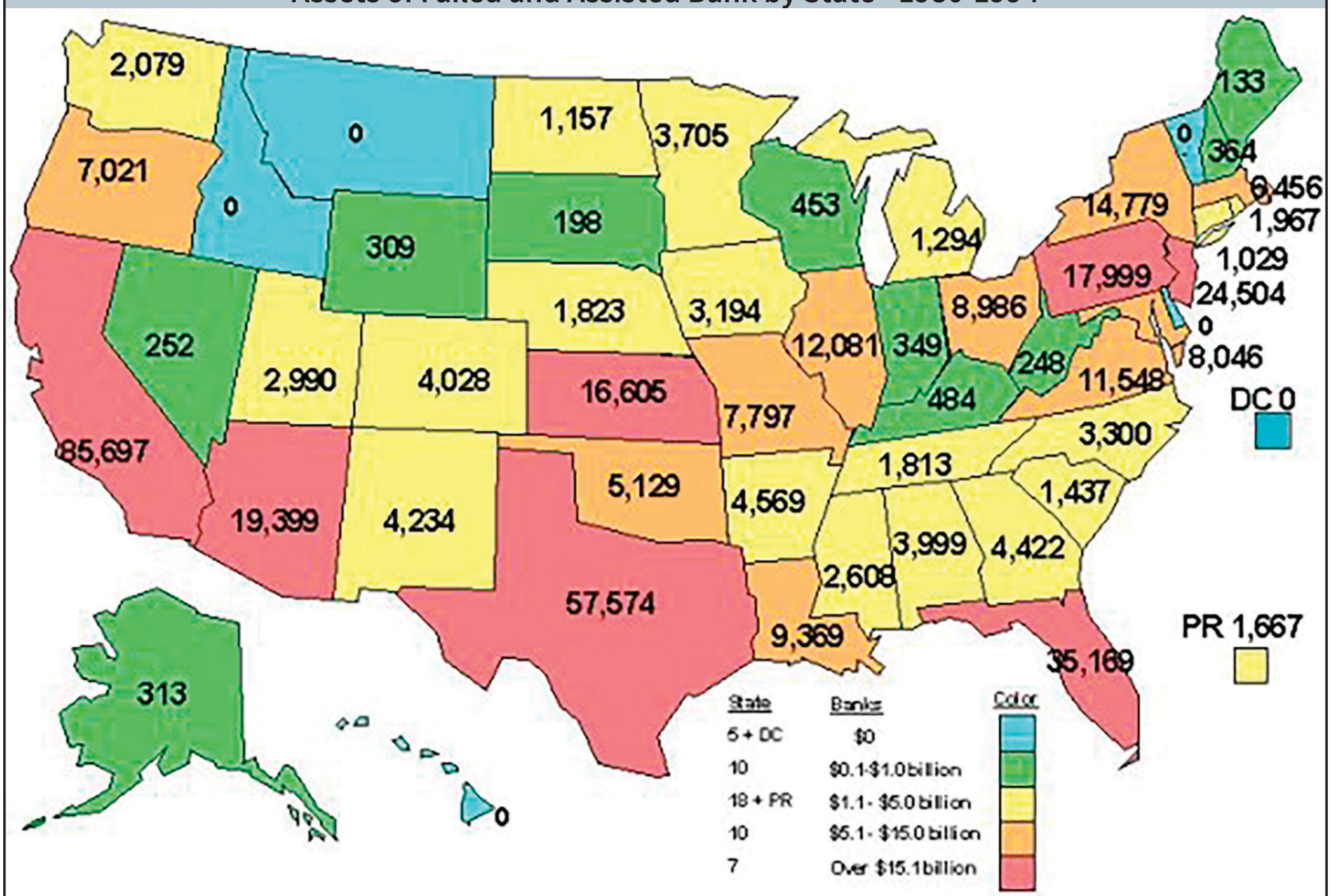
Bank Failures and Assistance Transactions by State as Percentage - 1980-1994



Range of Banks	Number of States
0	5 + DC
1-10	23 + PR
11-20	15
21-30	1
>30	6

State	Number of Failures	State	Number of Failures	State	Number of Failures	State	Number of Failures
NV	1	IN	4	AL	11	VA	18
PR	1	MI	4	NM	11	MS	19
AK	2	WV	4	TN	11	PA	19
ME	2	WY	4	IA	12	KS	23
NH	2	MN	5	MD	14	NJ	34
RI	2	UT	5	MO	14	FL	49
SD	2	MA	6	NY	15	IL	49
KY	3	SC	6	GA	16	LA	52
ND	3	CT	8	CO	17	CA	73
OR	3	NE	8	AR	18	TX	137
WA	3	AZ	9	OH	18	Grand Total	747
WI	3	NC	9	OK	18		

Assets of Failed and Assisted Bank by State - 1980-1994



Range	States
$0	5 + DC
$0.1 - $1.0 billion	10
$1.1 - $5.0 billion	18 + PR
$5.1 - $15.0 billion	10
> $15.1 billion	7

State	Total RTC Thrift Assets	State	Total RTC Thrift Assets	State	Total RTC Thrift Assets	State	Total RTC Thrift Assets
AK	313	KS	16,605	NE	1,823	SC	1,437
AL	3,999	KY	484	NH	364	SD	198
AR	4,569	LA	9,369	NJ	24,504	TN	1,813
AZ	19,399	MA	6,456	NM	4,234	TX	57,574
CA	85,697	MD	8,046	NV	252	UT	2,990
CO	4,028	ME	133	NY	14,779	VA	11,548
CT	1,029	MI	1,295	OH	8,986	WA	2,079
FL	35,169	MN	3,705	OK	5,128	WI	453
GA	4,422	MO	7,797	OR	7,021	WV	248
IA	3,194	MS	2,608	PA	17,999	WY	309
IL	12,081	NC	3,300	PR	1,667	Grand Total	402,575
IN	349	ND	1,157	RI	1,967		