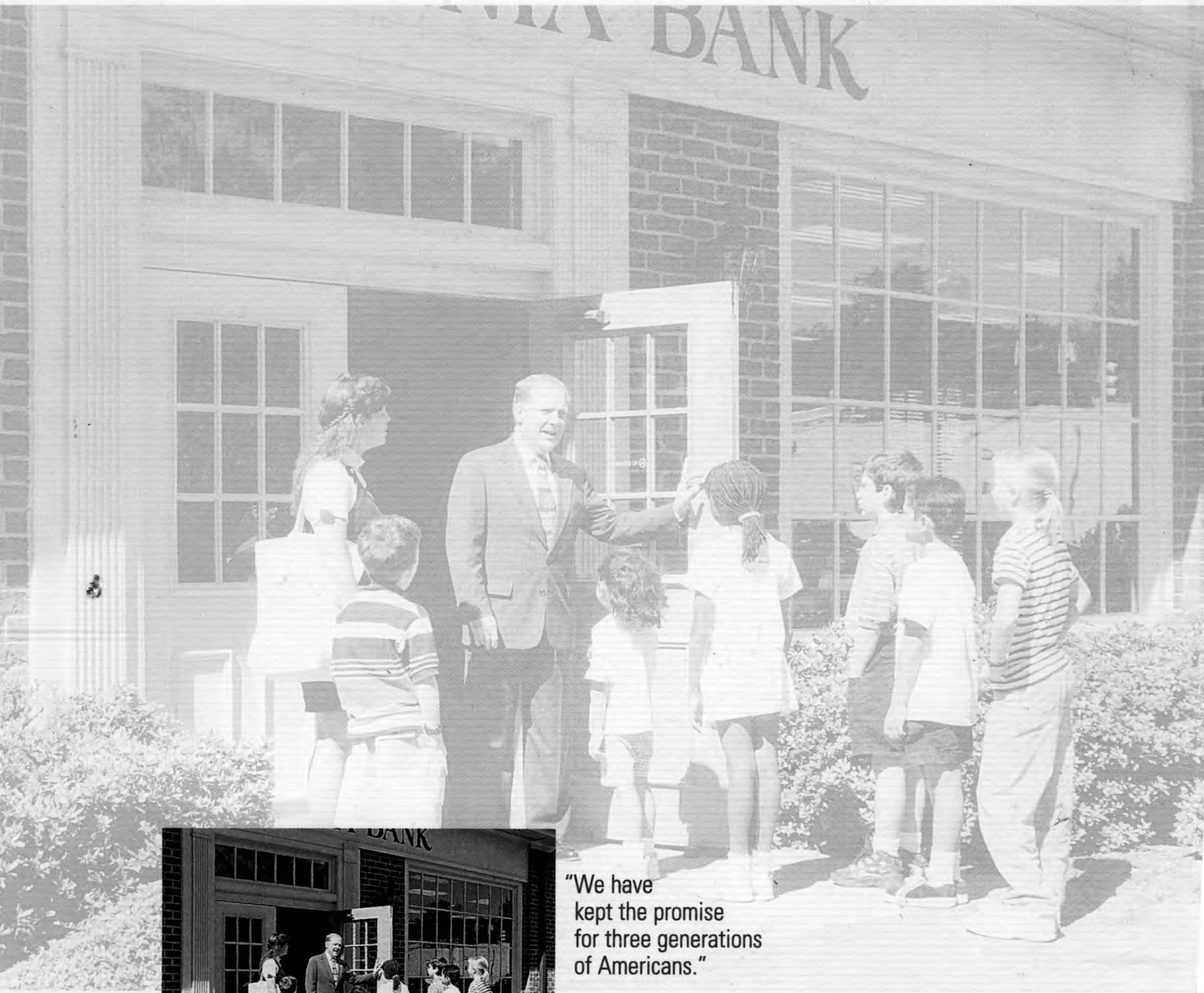


Federal Deposit Insurance Corporation  
**Annual Report**  
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"We have kept the promise for three generations of Americans."



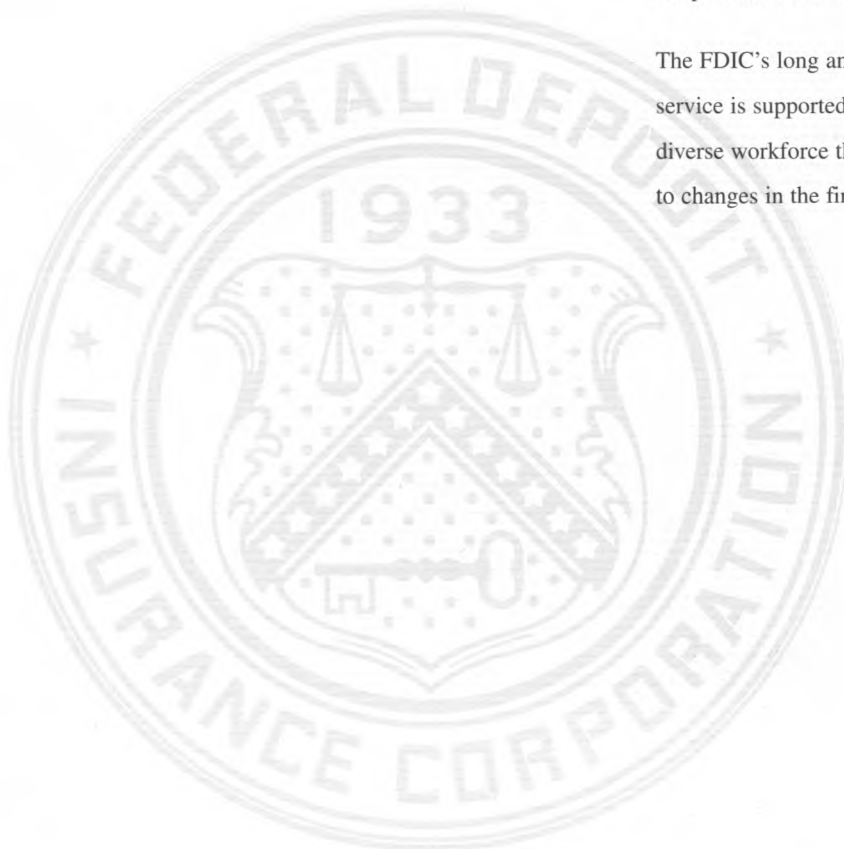
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**The Federal Deposit Insurance Corporation (FDIC)** is the independent deposit insurance agency created by Congress to maintain stability and public confidence in the nation's banking system.

In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other federal and state regulatory agencies, the FDIC promotes the safety and soundness of insured depository institutions and the U.S. financial system by identifying, monitoring and addressing risks to the deposit insurance funds.

The FDIC promotes public understanding and sound public policies by providing financial and economic information and analyses. It minimizes disruptive effects from the failure of banks and savings associations. It assures fairness in the sale of financial products and the provision of financial services.

The FDIC's long and continuing tradition of public service is supported and sustained by a highly skilled and diverse workforce that responds rapidly and successfully to changes in the financial environment.





**FDIC Annual Report 1996**

**FDIC**

**Federal Deposit Insurance Corporation**

Washington, DC 20429

Office of the Chairman

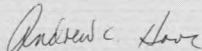
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August 12, 1997

Sirs,

In accordance with the provisions of section 17(a) of the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation is pleased to submit its Annual Report for the calendar year 1996.

Sincerely,



Andrew C. Hove, Jr.  
Acting Chairman

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The President of the U.S. Senate  
The Speaker of the U.S. House of Representatives

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## Chairman's Statement

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For the Federal Deposit Insurance Corporation, 1996 was a year of accomplishment both in putting the problems of the past behind us and in preparing this Corporation for the future.

In the 1980s and early 1990s, the greatest banking crisis since the early 1930s dictated our actions, internally and externally. From 1980 through 1994, the men and women of the Corporation managed the failures of 1,617 banks, either by closing them or assisting them to stay open. As of the end of 1996, the FDIC had liquidated almost all of the \$317 billion in assets that the failed banks held. As a result of its actions, the FDIC protected the deposits of tens of millions of Americans. Our goal is to achieve stability in the financial system, and the Corporation, in the banking crisis, achieved that goal with the dedication and professionalism that has characterized the FDIC since its creation three generations ago.

In the past two-and-a-half years, the Corporation has changed its focus to help banks stay open and serve their customers and communities. This new mission has required adjustments in how we supervise banks, how we use technology, and how we manage ourselves. In 1996, we were able to turn our full attention to our new mission after Congress in September addressed the last significant issue remaining from the banking and thrift crisis: capitalization of the Savings Association Insurance Fund (SAIF).

In capitalizing the SAIF, Congress repaired a structural defect in the deposit insurance system that threatened not only that insurance fund, but the strength of the deposit insurance system as well. The legislation assured Americans that their deposits would continue to be protected — that the words “insured by the FDIC” would continue to provide certainty in an uncertain financial world, as they have for three generations of Americans.

Moreover, in capitalizing the SAIF and repairing its flaws, Congress gave the FDIC the freedom to look ahead to anticipate future problems for the banking industry, rather than simply to react when problems occur.

Conditions in the industry also gave the FDIC the freedom necessary to prepare for the future. In 1996, commercial banks earned a record \$52.4 billion, exceeding \$50 billion in annual earnings for the first time. Return on assets (ROA) at commercial banks averaged 1.19 percent. Average ROA—a basic yardstick of profitability—has exceeded one percent for the commercial banking industry for four consecutive years. Historically, an ROA of one percent or higher has marked superior performance in banking.

Only five banks insured by the Bank Insurance Fund (BIF) and one thrift insured by the SAIF failed in 1996. The BIF had net income of \$1.4 billion in 1996, while the SAIF had net income of \$5.5 billion for the year, primarily resulting from a one-time special assessment of \$4.5 billion on SAIF members to fully capitalize the fund. At year-end, the BIF held \$26.9 billion and the SAIF \$8.9 billion, for a combined total of \$35.8 billion, the largest reserves in FDIC history.

While we were working with Congress, the other bank regulators, and the Administration to address the problems of the SAIF, we continued to initiate and carry out significant reforms to prepare ourselves for the future.

In early 1996 we announced new efforts to monitor and assess existing and emerging risks at insured institutions, in part by developing a tiered-examination approach that targets the level of risk and risk management practices

at specific institutions. The new efforts at risk assessment are designed to enhance the FDIC's traditional approach so that we can respond to new and emerging risks more quickly and more effectively. As part of those new efforts, we began developing specific guidelines for examiners on how to factor relevant economic and other data into their risk evaluations of specific institutions. While full-scope examinations will continue to be performed, these guidelines will focus examiner resources into areas of a bank that present the most risk. Ultimately, the guidelines will cover 14 areas ranging from management of the loan portfolio to electronic banking.

We implemented similar examination procedures for interest rate risk in October. To assist bankers in preparing for examinations using the new guidelines on interest rate risk, we co-sponsored 10 seminars around the country with the Independent Bankers Association of America, providing training to the more than 1,000 bankers who participated.

A major source of data for our new approach to examinations is our newly created Division of Insurance, which achieved full-scale operations in 1996. The new division analyzes data we have collected, as well as economic and financial data from other public and private sources, to give the FDIC a comprehensive perspective on the industry and the trends that affect it. Along with its staff in Washington, the new division has analysts and economists in each of our eight regions to monitor regional and local trends and conditions.



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As the year drew to a close, our economists began to circulate three draft papers on the causes of bank failures in the 1980s and early 1990s. These three papers, which would be presented at an FDIC symposium in January 1997, discussed the major findings of a systematic analysis we undertook two years ago on the causes of the 1,617 bank failures from 1980 through 1994. The report of our "History of the Eighties" project—to be published in late 1997—will tell us what went wrong in the 1980s and will give us a significant point of departure for future research and assessments of risk to the banking industry and to the deposit insurance funds.

Reflecting the heightened emphasis on risk assessment, the FDIC Board in December adopted the new interagency "CAMELS" rating system for assessing the soundness of financial institutions. Along with capital (C), asset quality (A), management (M), earnings (E), and liquidity (L), the banking agencies added a sixth component to the rating—"S" for sensitivity to market risk. In October, the FDIC also became the first federal banking agency to disclose the individual components of the composite rating to banks in order to inform management more precisely where improvements in performance are needed. In doing so, we were adopting the practice of several state bank supervisors. A dynamic dual banking system allows us to learn from each other.

Two years ago, the FDIC adopted the first corporate strategic plan in its history, as the first step in an effort to manage the Corporation the way a business is managed. To implement the goals of the strategic plan, the men and women of the FDIC developed an operating plan consisting of 189 short-term projects as of year-end. Of these



David Hattcock

Chairman Ricki Helfer

projects, 85 were completed by the end of 1996, 32 were either merged into other projects or discontinued as unnecessary; 38 remained active at year-end and 23 were moved to business plans, the latest element in the FDIC planning process. Business plans are developed to cover day-to-day operations. Today, every division and office at the FDIC has a business plan, and no activity is budgeted—or paid for—unless it has been approved in the operating plan or in a business plan.

In initiating and carrying out reforms to improve the quality and effectiveness of our work, we have structured a decision-making process that promotes efficiency, and we have become more effective in anticipating and responding to change. As part of this effort, in 1996 we established a board-level Audit Committee to make certain that standards of sound financial management are met; we created an Office of Internal Control Management to assure that operational problems are discovered and addressed quickly; and we restructured our budget process to impose stronger overall financial accountability by linking budget decisions to planning.

In 1996 the FDIC also prepared for the future by making a commitment to leveraging technology to improve the quality and efficiency of our bank examinations, as well as to enhance our communications with the public.

During the year, our examiners began to use an automated system called ALERT that extracts loan information from bank databases and allows examiners to review the loan data offsite. ALERT reduces the amount of time that examiners spend transcribing data, time that they can use more productively in doing analyses. We have trained examiners from 29 state banking departments to use the ALERT system. In cooperation with the Federal Reserve System and the state bank supervisors, we also began developing an automated examination package called GENESYS, which will allow us to draw analytical data from either FDIC or Federal Reserve mainframes in a common form so that all our examiners can use it. We plan to have GENESYS completed and ready for use in the first quarter of 1998.

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Our efforts to enhance communications with the public through technology in 1996 centered on a greatly expanded presence on the Internet. The Division of Research and Statistics at the end of the year began a new service on the FDIC's Web site, an electronic Institution Directory (I.D.). This system provides significant financial information drawn from Call Report data for every insured bank and thrift institution in the country—11,452 as of year-end.

One example of our success in managing the Corporation the way that businesses are managed was the development in 1996 of a new, integrated financial information management system. The new system replaces 100 separate reporting systems and creates a single automated general ledger for all income and expense flows, a ledger that will be used to make more informed, and therefore better, managerial decisions in the future. Few other large government agencies have achieved this level of integration for their financial information systems.

In 1996, the FDIC also completed its transfer of staff and work from the Resolution Trust Corporation—in all, more than 2,000 employees and \$7.7 billion in assets to be liquidated—with no disruptions in our operations at the FDIC.

As part of the new budgeting process, each of our divisions and offices justifies its staffing levels by workload, and 1996 saw continued dramatic reductions in the overall workload of the FDIC. The book value of assets in liquidation at the FDIC peaked in mid-1992 at \$44.4 billion. As of year-end 1996, they stood at \$8.7 billion—only one-fifth of the 1992 levels—despite \$7.7 billion in Resolution Trust Corporation (RTC) assets transferred to the FDIC at the end of 1995, when the RTC sunset occurred. About \$4.4 billion of the assets in liquidation on our books at year-end were those assets transferred from the RTC, with the remaining \$4.3 billion representing assets from FDIC liquidations.

Staffing size correlates closely with expenses at the FDIC. In the aftermath of the banking crisis of the late 1980s and early 1990s, FDIC staffing peaked in mid-1993 at 15,611. It has been difficult, but necessary, to tell many employees who served the FDIC and this country well during the banking crisis that we no longer have jobs for them. We have sought to be as humane as possible in this process by offering generous cash buyouts, direct job placement assistance, and opportunities to compete for the limited number of jobs open in other parts of the Corporation. The FDIC has been and will continue to be exceedingly well served by the professionalism and dedication of its staff.

As of year-end 1996, staffing was down to 9,151, a reduction of 6,460 positions, or 41 percent from the peak, despite the approximately 2,000 RTC employees transferred to the FDIC in connection with the sunset of the RTC at the end of 1995. In 1996 alone, staffing declined by 2,705 or 23 percent. The level of downsizing we have experienced at the FDIC is largely unprecedented in government.

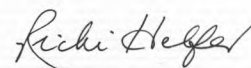
Most of the reduction since 1993 came from the Division of Resolutions and Receiverships (DRR), formerly the Division of Depositor and Asset Services (DAS) and the Division of Resolutions (DOR), before those two divisions were merged in December of 1996. The staff of those two divisions peaked at 6,966 in mid-1993, but their combined total declined to 1,819 as of year-end 1996.

The reduction in workload and staffing levels were accompanied by significant reductions in FDIC expenses, which peaked in 1993 at \$2.003 billion. FDIC

expenses in 1996 were \$1.127 billion, not counting RTC-work related expenses of \$579 million, which are covered by funds appropriated by the Congress.

By the end of the year 2000, we project that \$1.5 billion in assets of failed financial institutions will need to be liquidated and the FDIC will have a total staff of approximately 6,600. None of the reductions in staff will come at the expense of bank safety and soundness. More than half of the staff projected for the year 2000 will be in our Division of Supervision and our Division of Compliance and Consumer Affairs, the FDIC's examination divisions.

The FDIC is stronger today than it has ever been. Its financial resources are greater—and its range of expertise wider—than at any time in its history. In creating the FDIC, our government made a promise to the American people: they would have a haven of security and certainty in the uncertain financial world. We have kept the promise for three generations of Americans. Our parents and grandparents had faith in the Federal Deposit Insurance Corporation. Throughout 1996, we prepared ourselves well—operationally, managerially, and technologically—so that our children will find that they, too, can have faith in the promise of security that the FDIC offers.



Ricki Helfer  
Chairman

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Chairman Helfer left the agency on June 1, 1997. A successor had not been named so Vice Chairman Hove began a third term as Acting Chairman.

**Selected Statistics**

Dollars in millions

For the year ended December 31

	1996	1995	1994
<b>Bank Insurance Fund</b>			
<b>Financial Results</b>			
Revenue	\$ 1,655	\$ 4,089	\$ 6,467
Operating Expenses	505	471	423
Insurance Losses and Expenses	(251)	12	(2,682)
Net Income	1,401	3,606	8,726
Insurance Fund Balance	\$ 26,854	\$ 25,454	\$ 21,848
Fund as a Percentage of Insured Deposits	1.34%	1.30%	1.15%

**Selected Statistics**

Total BIF-Member Institutions*	9,822	10,242	10,759
Problem Institutions	86	151	264
Total Assets of Problem Institutions	\$ 7,000	\$ 20,160	\$ 42,213
Institution Failures	5	6	13
Total Assets of Failed Institutions	\$ 183	\$ 753	\$ 1,392
Number of Active Failed Institution Receiverships	408	590	802

**Savings Association Insurance Fund**

**Financial Results**

Revenue	\$ 5,502	\$ 1,140	\$ 1,215
Operating Expenses	63	40	20
Insurance Losses and Expenses	(92)	(321)	414
Net Income	5,531	1,421	781
Insurance Fund Balance	\$ 8,888	\$ 3,358	\$ 1,937
Fund as a Percentage of Insured Deposits	1.30%	0.47%	0.28%

**Selected Statistics**

Total SAIF-Member Institutions*	1,630	1,728	1,844
Problem Institutions	31	42	54
Total Assets of Problem Institutions	\$ 6,000	\$ 10,862	\$ 30,630
Institution Failures	1	2 <sup>▲</sup>	2 <sup>▲</sup>
Total Assets of Failed Institutions	\$ 35	\$ 456	\$ 137
Number of Active Failed Institution Receiverships	2	1 <sup>▼</sup>	1 <sup>▼</sup>

- Commercial banks and savings institutions. Does not include U.S. branches of foreign banks.
- Savings institutions and commercial banks. Does not include Resolution Trust Corporation (RTC) conservatorships.
- ▲ No SAIF-insured institutions that failed in 1995 or prior were the financial responsibility of the SAIF. The RTC was responsible for the resolution and related costs of SAIF-insured institutions that failed before July 1, 1995. The SAIF became responsible for resolutions thereafter.
- ▼ This represents the receivership for Heartland Federal Savings and Loan Association, Ponca City, Oklahoma, which was closed on October 8, 1993. Although this is a SAIF receivership, any financial burden will be borne by the FSLIC Resolution Fund (FRF). The number of active failed thrift receiverships for the FRF was: 33 in 1996 (excluding 435 former RTC receiverships); 62 in 1995; and 76 in 1994.

**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 (see Pages 14, 43).

**February 6**

The FDIC Board streamlined and simplified audit and reporting requirements for certain sound, well-managed banks. These amendments implemented provisions of a 1994 law promoting regulatory relief as well as the FDIC's own recommendations to eliminate unnecessary requirements (see Page 38).

**February 9**

At an FDIC symposium on derivatives, Chairman Helfer announced new efforts to monitor and assess risk at insured institutions. The efforts are designed to enhance the FDIC's traditional approach to risk assessment allowing the agency to respond more quickly and efficiently to emerging risks. As part of those efforts, the FDIC developed specific guidelines for examiners on how to factor relevant economic and other data into their risk evaluations of specific institutions (see Page 19).

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**March 14**

The FDIC reported that commercial banks earned \$48.8 billion in 1995, surpassing by 9.4 percent the previous record of \$44.6 billion in 1994, according to preliminary data. The jump in earnings resulted primarily from increased interest and fee income. In 1996, bank earnings reached a new record of \$52.4 billion (see Pages 2, 11).

**April 8**

The first results of a new examiner reporting system showed that loan underwriting standards remained stable at a group of 2,001 FDIC-supervised institutions that were examined during the 12-month period ending in February. However, in just over 10 percent of the institutions reviewed, FDIC examiners reported that underwriting standards were characterized by higher-than-normal risk. The FDIC plans to release its evaluation of loan underwriting trends semiannually (see Pages 20-21).

**May 13**

Chairman Helfer announced the agency is taking a series of steps to improve bank and thrift compliance with disclosure guidelines for mutual funds and other uninsured investment products. The action followed a year-long study on the sale of investment products at banks that found a gap exists between regulatory guidelines and actual employee performance for a number of banks (see Pages 29-30).

**June 17**

Continuing its efforts to reduce burdensome regulations for banks and the public, the FDIC took steps to streamline rules and policies in areas such as capital standards and securities registration requirements (see Page 22).

**July 16**

The FDIC's Legal Division issued guidance to help banks and thrifts decide whether the stored-value cards they issue qualify for federal deposit insurance. In a General Counsel opinion letter, the FDIC concluded that in most cases stored-value cards are not protected by deposit insurance. The FDIC separately asked for comment on whether the agency should, by future regulation, determine that stored-value cards are entitled to deposit insurance depending on their general usage (see Page 31).

**August 9**

The first institution insured by the Savings Association Insurance Fund (SAIF) failed since the FDIC assumed responsibility from the Resolution Trust Corporation for these institutions on July 1, 1995. No other SAIF-member institution was closed during the year although an "Oakar" institution, one where deposits are insured by both the Bank Insurance Fund (BIF) and the SAIF, was closed on June 14 (see Pages 24, 111).

**September 12**

The FDIC held a public hearing on stored-value cards, Internet banking and other electronic payment systems. Issues discussed included whether stored-value cards should be entitled to federal deposit insurance as they become more widely used; what types of disclosures an institution should provide to consumers; and safety and soundness concerns (see Page 31).

**September 30**

Congress approved legislation supported by the FDIC to put the SAIF on sound footing. The President signed the legislation into law the same day. Under the new law, the thrift industry paid a one-time special assessment of \$4.5 billion to capitalize the SAIF, while banks will bear part of the payments on the Financing Corporation (FICO) bonds sold from 1987 to 1989 to shore up the former Federal Savings and Loan Insurance Corporation. BIF-member institutions will pay one-fifth the rate paid by SAIF members for the first three years or until the funds are merged. After January 1, 2000, BIF and SAIF members will share the FICO payments on a pro-rata basis (see Pages 2, 8, 44).

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**October 8**

Implementing the new SAIF law, the FDIC Board set a special assessment of 65.7 basis points on institutions that pay assessments to the SAIF in order to capitalize the fund at its Designated Reserve Ratio of 1.25 percent of insured deposits effective October 1, 1996. The special assessment was collected electronically on November 27. With the SAIF now capitalized, the Board also proposed to reduce SAIF assessment rates, retroactive to October 1, 1996 (see Page 8).

**October 29**

Responding to the FDIC's declining workload, Deputy to the Chairman and Chief Operating Officer Dennis F. Geer outlined for employees the Corporation's plans for downsizing in 1997 and subsequent years. He also announced a number of measures intended to cushion the impact of staff reductions, such as a new buyout program and expanded outplacement assistance. During the first buyout program—offered to FDIC and Resolution Trust Corporation employees from November 1995 through January 1996—over 900 employees took buyouts (see Pages 4, 34).

**December 8**

To handle the reduced levels of resolutions and liquidation work projected over the next several years more effectively, the FDIC created the new Division of Resolutions and Receiverships (DRR). The new division represents a merger of the Division of Depositor and Asset Services and the Division of Resolutions (see Pages 4, 24, 34).

**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. The service is available on the FDIC's home page at [www.fdic.gov](http://www.fdic.gov) (see Pages 4, 115).

**December 11**

The Board lowered SAIF assessment rates and widened the rate spread in order to avoid collecting more than is needed to maintain the SAIF's capitalization at 1.25 percent of insured deposits and to improve the effectiveness of the risk-based assessment system. SAIF-insured institutions will pay the same rate for deposit insurance as BIF-insured institutions (see Page 10).

The Board also approved the Corporation's 1997 budget of \$1.62 billion, down \$221 million or 13.6 percent from the \$1.84 billion authorized in 1996. The budget reduction reflected the continued impact of the Corporation's downsizing efforts.

**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. A sixth component was added to the previous "CAMEL" rating system—"S" for sensitivity to market risk. Also, the FDIC in October became the first federal banking agency to disclose individual component ratings to banks (see Pages 3, 20).

## Condition of the FDIC's Funds

The FDIC administers two deposit insurance funds—the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The FDIC also manages a third fund, the FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC). The FRF assumed responsibility for the Resolution Trust Corporation's (RTC) assets and obligations on January 1, 1996. For more information about the three funds, see Pages 49 through 93.

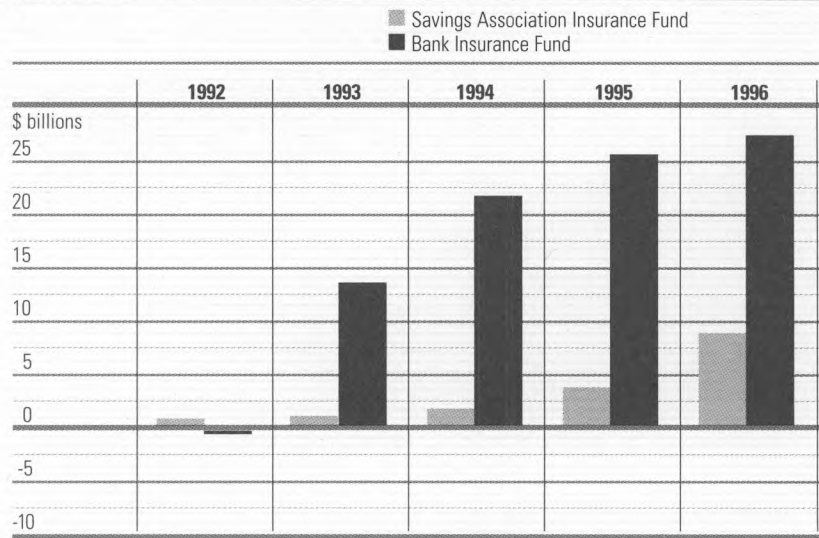
The major development of the year was the passage of legislation to put the SAIF on sound footing, as described below.

### Deposit Insurance Funds Act of 1996

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 Financing Corporation (FICO) 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, 1996. The 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 (DRR) of 1.25 percent of insured deposits. The FDIC Board

### Fund Balance 1992-1996 (year-end)



Note:  
More details appear in the tables in the back of this *Annual Report*.

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.

The DIFA also eliminated the \$1,000 minimum semiannual assessment and separated the FICO assessment from the SAIF assessment. The amount that the FICO assesses on the deposits of individual institutions is now added to the amount institutions pay for deposit insurance according to the FDIC's risk-related assessment rate schedules. At the same time, the new law expanded the FICO assessment base to include all FDIC-insured institutions, beginning January 1, 1997. The DIFA specified that the FICO rate for BIF-assessable deposits be one-fifth the rate for SAIF-assessable deposits until the insurance funds are merged, or the end of 1999, whichever occurs first. The FICO assessment will then be shared pro rata by all insured insti-

tutions. The FICO assessment rates for the first semiannual period of 1997 were approved by the FDIC Board on December 11, 1996, at an annual rate of 1.30 cents per \$100 of BIF-assessable deposits and 6.48 cents per \$100 of SAIF-assessable deposits. For more information about the new law, see Page 44.

### Bank Insurance Fund

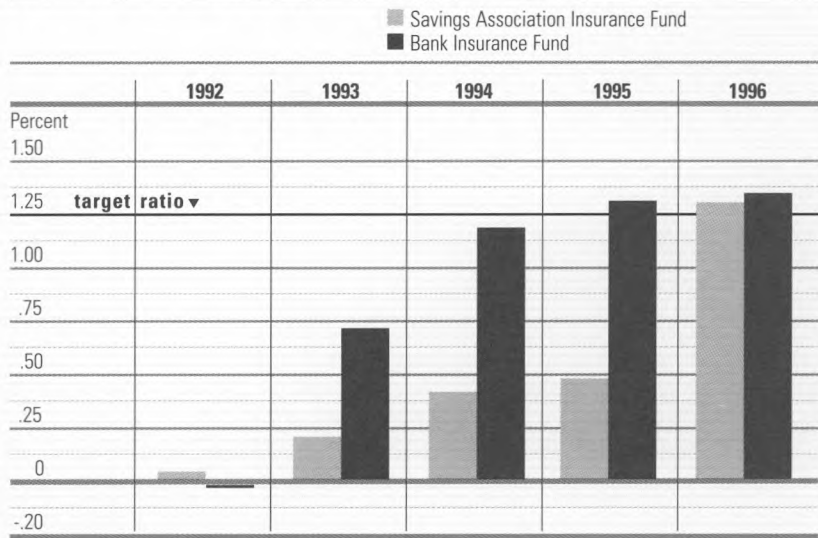
With banks experiencing another record-breaking year of profitability and only a handful of bank failures, 1996 was another positive year for the BIF. These favorable conditions enabled the FDIC Board to set the lowest average assessment rate in the history of FDIC insurance, with the average 1996 annual BIF assessment

rate being 0.2 cents per \$100 of assessable deposits, down from 12 cents per \$100 in 1995. In recent years, the BIF has climbed steadily from a negative balance of \$7 billion in 1991 to \$26.9 billion in 1996, its third consecutive record year-end high. The 1996 year-end balance represents a 5.5 percent increase over the 1995 balance of \$25.5 billion. The reserve ratio increased from 1.30 to 1.34 percent of insured deposits during 1996.

BIF-insured deposits grew by 2.8 percent in 1996. In the first half of the year, deposits increased by less than 1 percent (annualized), but jumped by 5.1 percent (annualized) during the second half. About half of the growth in the second half of the year was due to a provision of the DIFA concerning certain "Oakar" institutions (institutions that are members of one insurance fund, but hold deposits insured by the other fund). The new law caused some SAIF-assessable deposits held by these institutions to become BIF-assessable deposits. The strong deposit growth in the second half of 1996 slowed the increase in the reserve ratio for the year.

For the first semiannual assessment period of 1996, the Board lowered the rates from a range of four to 31 cents annually per \$100 of assessable deposits, to a range of 0 to 27 cents per \$100. With this drop in the rate schedule, the highest-rated institutions (93.4 percent of BIF-insured institutions) paid only the \$1,000 minimum assessment for the first semiannual assessment period of 1996. Depending on their risk classification, other institutions paid between three and 27 cents per \$100 of assessable deposits. The

### Insurance Fund Reserve Ratios 1992-1996 (year-end) Percent of Insured Deposits



Note:  
Insured deposit amounts are estimates. More details appear in the tables in the back of this Annual Report.

Board approved the same rate schedule for the second semiannual period of 1996, when 94.4 percent of BIF-insured institutions were in the lowest-risk category. The FDIC collected the fourth-quarter assessment before the DIFA eliminated the minimum assessment. As a result, the FDIC refunded \$4.4 million of revenue collected, plus interest.

For the first time since 1986, interest on U.S. Treasury obligations (\$1.3 billion) surpassed assessment revenue (\$73 million) as the primary source of revenue fueling the BIF's growth. This was a direct result of the lowered assessment rate schedule and the concentration of institutions in the lowest-risk category. Interest income was 77 percent of total BIF revenue, while assessment revenue was only four percent.

Bank failures continued to be minimal, with only five BIF-insured failures in 1996 and failed-bank assets totaling \$183 million. One failure was an Oakar institution, which had a portion of its deposits insured by the SAIF. In 1995, six BIF-insured banks with \$753 million in assets failed. Estimated insurance losses in 1996 were \$43 million, the lowest since 1980 when 11 banks failed with insurance losses totaling \$31 million. Estimated losses from 1995 BIF failures were \$104 million.

Investments in U.S. Treasury obligations continued to be the main components of the BIF's total assets, at 81 percent, rising slightly from 79 percent during

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the previous year. The BIF's financial position continued to improve as cash and investments at year-end were 53 times the BIF's total liabilities, up from 30 times the BIF's total liabilities in 1995.

### **Savings Association Insurance Fund**

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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 165 percent rise over the \$3.4 billion balance at year-end 1995. The SAIF's reserve ratio grew from .47 percent to 1.30 percent of insured deposits during 1996. Insured deposits shrank by 4.0 percent during 1996; without the Oakar provision in the DIFA noted previously, insured deposits would only have shrunk by 0.7 percent.

With the SAIF fully capitalized, the Board voted on December 11 to lower the fund's annual assessment rates from a range of 23 to 31 cents per \$100 of assessable deposits, to a range of 0 to 27 cents per \$100. Based on year-end 1996 deposit data, this insurance premium reduction is expected to save the industry more than \$1.6 billion a year. Because the SAIF became fully capitalized on October 1, 1996, the FDIC refunded the fourth quarter payments that had been made under the

old rate schedule, less the amounts payable to FICO and needed to maintain the risk-based assessment system. To that end, the Board established a dual set of rates for the final quarter of 1996. The Board set an interim rate schedule of 18 to 27 cents per \$100 of assessable deposits for SAIF-member savings associations in the fourth quarter. The SAIF-assessable deposits of "Sasser" institutions (savings associations that converted to a bank charter, but remained members of the SAIF) and BIF-member Oakar institutions were not subject to the FICO assessment during 1996. Accordingly, the Board applied the new 1997 rates to these institutions from October 1, 1996, forward. These rates ranged from 0 to 27 cents per \$100 of assessable deposits.

Apart from the special assessment, the SAIF realized \$727 million in net assessment income in 1996. Interest income for 1996 was only \$254 million (five percent of total revenue), but is likely to rise significantly as the SAIF earns interest on its newly capitalized fund balance. As in 1995, failures continued to be a minimal expense in 1996. Only one SAIF-insured institution failed, with an estimated loss to the SAIF of \$14 million.

### **FSLIC Resolution Fund**

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The FRF was established by law in 1989 to assume the remaining assets and obligations of the former FSLIC arising from thrift failures before January 1, 1989. Congress placed this new fund under the management of the FDIC when it abolished the FSLIC on August 9, 1989.

Congress authorized \$827 million in appropriations to the FRF in fiscal year 1995, of which \$636 million was still available at calendar year-end 1996. The FRF only uses appropriated funds when other sources of funds are insufficient. During 1996, funds generated from asset collections and interest income provided sufficient funding so that appropriated funds were not needed.

The FRF assumed responsibility for all RTC assets and obligations on January 1, 1996. As the FRF's manager, the FDIC will sell the remaining assets and settle the obligations of the RTC as it has done for the FSLIC. RTC assets in liquidation totaled \$4.4 billion at year-end 1996, down from \$7.7 billion at year-end 1995. The FRF also manages the reserves set aside to support the sale of securities collateralized by RTC assets. These "credit enhancement reserves" dropped from \$6.8 billion in 1995 to \$5.8 billion. Borrowings from the Federal Financing Bank declined from \$10.5 billion to \$4.6 billion as of year-end 1996.

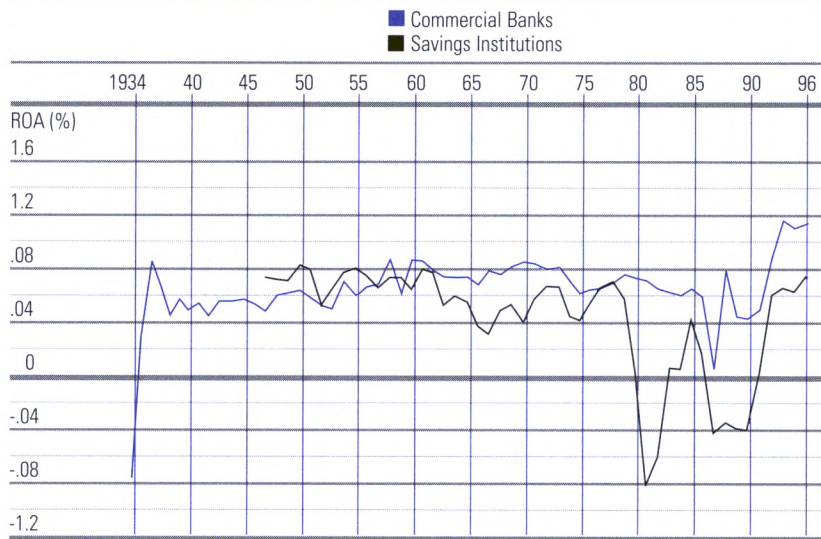


Insured commercial banks and savings institutions enjoyed strong earnings during 1996. Commercial bank profits reached record levels for the fifth consecutive year. Thrift industry earnings would have set a new record, if not for a one-time special assessment to capitalize the Savings Association Insurance Fund (SAIF). Loan growth continued to show strength at banks and thrifts, helping to increase net interest income. Both industries also increased average capitalization levels in 1996. Savings institutions continued to benefit from lower levels of troubled loans, while the asset quality picture was mixed for commercial banks. Only five insured commercial banks and one savings institution failed during the year, the lowest number of failures since 1972. The following is an overview of conditions in these two industries.

## Commercial Banks

Commercial banks reported record net income of \$52.4 billion in 1996, an increase of \$3.6 billion, or 7.5 percent, over the previous record in 1995. Banks registered three of their four highest quarterly earnings totals ever during 1996. The industry's return on assets (ROA)—a basic yardstick of industry performance—was 1.19 percent. This is up from 1.17 percent in 1995, and just below the all-time high of 1.20 percent set in 1993. This also marks the fourth consecutive year that industry ROA has exceeded one percent. Prior to 1993, insured commercial banks' ROA had never reached the one-percent benchmark. Earnings strength was widespread, with more than two-thirds of all commercial banks (69 percent) registering ROAs of one percent or higher in 1996.

**Annual Return on Assets (ROA)  
FDIC-Insured Institutions 1934-1996**



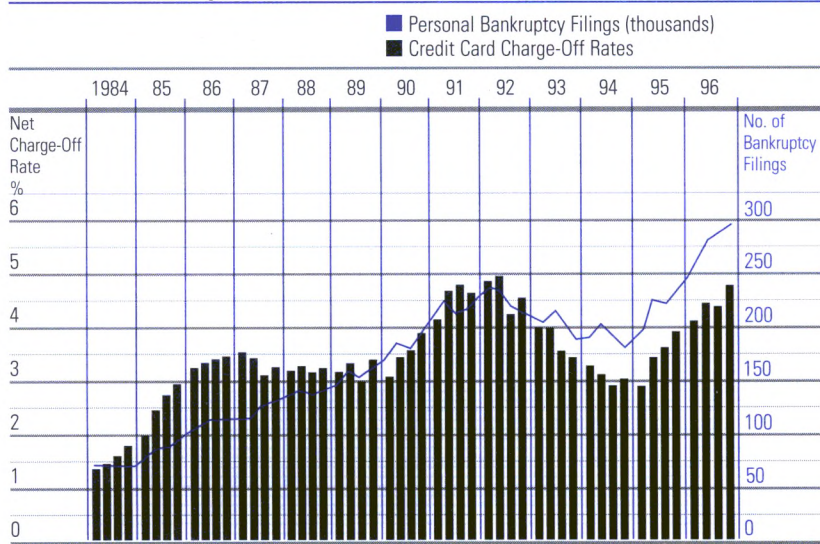
Note:  
Savings institution data not available prior to 1947.

Net interest margins narrowed slightly for the fourth consecutive year, but remained wide by historical standards. Earnings also received a boost from higher noninterest income (such as fees and service charges). The largest contribution to the improvement in industry earnings, in fact, was non-interest income, which was \$11.1 billion higher than in 1995. Net interest income was \$8.6 billion higher, and gains from sales of securities were up by \$573 million. Together, these improvements outweighed the \$3.6 billion increase in loan-loss provisions and an \$11.0 billion rise in overhead

expenses. Lower deposit insurance premiums helped limit the rise in overhead costs. Commercial banks paid approximately \$3 billion less for deposit insurance coverage in 1996 than in 1995, and roughly \$5.5 billion less than in 1994. These savings were offset somewhat by a one-time special assessment on deposits insured by the SAIF as required by the SAIF capitalization law. Commercial banks' share of this assessment totaled approximately \$1 billion, which meant a \$650 million reduction in after-tax net income.

Banks continued to increase the share of loans in their asset portfolios, as the overall rate of asset growth slowed for the second consecutive year. Total assets of commercial banks increased by 6.2 percent (\$266 billion) in 1996, after increasing by 7.5 percent in 1995 and 8.2 percent in 1994. At the end of 1996, net loans and leases accounted for 60.2 percent of total assets, up from 59.1 percent at the end of 1995.

## Credit Card Losses and Personal Bankruptcy Filings 1984-1996 (by quarter)



Sources: Bankruptcies-Administrative Office of the United States Courts; Charge-Off Rates-Commercial Bank Call Reports

Commercial and industrial loans increased by \$48.5 billion (7.3 percent) in 1996, while credit card loans grew by \$15.6 billion (7.2 percent). Loans for real estate construction and development increased by \$7.7 billion (11.2 percent). In contrast to the growth in loans, banks' securities holdings declined by \$10.2 billion (1.3 percent) in 1996.

Asset quality indicators presented a mixed picture in 1996. Noncurrent loans—those that were 90 days or more past due on scheduled payments or in nonaccrual status—declined by \$874 million during the year due to a \$3.3 billion increase in net loan charge-offs. At the same time, delinquent loans—with scheduled payments 30 to 89 days past due—increased by 15.1 percent. Consumer loans remained a focal point for asset quality

concerns. Net charge-offs of credit-card loans totaled \$9.5 billion in 1996, accounting for 61.1 percent of all loan charge-offs. In contrast to most other loan categories, noncurrent consumer loans increased by \$1.1 billion during the year.

The industry's reserve coverage ratio rose to a record level of 1.82 in reserves for every dollar of noncurrent loans at year-end. At the same time, the ratio of reserves to total loans declined for the fourth consecutive year, to 1.91 percent. This is the lowest level for this ratio since the first quarter of 1987. Total equity capital of commercial banks increased by \$25.7 billion in 1996, to 8.20 percent of total assets

at year-end. Retained earnings contributed \$13.6 billion of the increase in equity, as banks paid out 74 percent of their earnings in dividends to stockholders in 1996.

The number of commercial banks reporting financial results fell to 9,528 at year-end, reflecting a net decline of 412 institutions during 1996. Mergers absorbed 554 commercial banks in 1996, while 146 new commercial banks were chartered. The number of commercial banks on the FDIC's "problem list" fell from 144 to 82 during the year, and assets of "problem" banks declined from \$16.8 billion to \$5.1 billion.

### Savings Institutions

Savings institutions insured by the FDIC earned just over \$7 billion in 1996, for an annual ROA of 0.70 percent. This was \$611 million less than the record earnings of \$7.6 billion registered in 1995, when the industry's ROA was 0.77 percent. Earnings for 1996 were lower than in 1995 at almost three out of every four savings institutions (72.6 percent). The decline in earnings can be traced to the special assessment on SAIF deposits, which cost thrifts \$3.5 billion, or \$2.2 billion in after-tax earnings. This one-time cost helped raise the industry's total noninterest expenses to \$25.7 billion, an increase of \$3.9 billion over 1995. Absent the special SAIF assessment, thrift industry earnings would have set a new record in 1996.

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Net interest margins widened at savings institutions in 1996, after declining in each of the previous two years. This improvement in margins contributed to the rise in net interest income, which was \$1.6 billion higher than in 1995. Total assets of insured savings institutions increased by only \$2.5 billion (0.2 percent) in 1996, as charter conversions and acquisitions by commercial banks resulted in the transfer of more than \$43 billion in assets from the thrift industry to the banking industry. Sales of securities produced gains of \$901 million in 1996, almost twice the \$463 million reported in 1995. Noninterest income was \$388 million (5.5 percent) higher. These revenue improvements were outweighed by the \$3.9 billion rise in noninterest expenses. In addition, loan-loss provisions at insured savings institutions rose by \$385 million.

Despite the lack of overall growth in thrift assets, total loans increased by \$33.6 billion (5.1 percent). This increase was mirrored by a \$26.2 billion decline in securities holdings and a \$5.3 billion decline in other assets. Most of the increase in loans occurred in residential mortgage loans, although consumer loans and commercial and industrial loans also registered strong percentage increases. On the liability side, thrifts reduced their deposits by \$13.9 billion, and increased their non-deposit borrowings by \$18.4 billion.

At the end of 1996, there were 1,924 savings institutions, a net decline of 106 thrifts during the year. This marks the first time since 1937 that there have been fewer than 2,000 insured thrifts. Only one insured savings institution failed in 1996, the smallest number since 1962. The number of savings institutions on the FDIC's "problem list" declined from 49 to 35 during 1996. Assets of "problem" thrifts fell from \$14 billion to \$7 billion. For more information about problem institutions by fund membership, not by financial institution type, see Page 5.

### **Ricki Helfer**

Ms. Helfer became the 16th Chairman of the Federal Deposit Insurance Corporation on October 7, 1994, and the first woman ever to head a federal banking agency. Before her appointment by President Clinton, Ms. Helfer was a partner in the Washington office of the law firm of Gibson, Dunn & Crutcher, specializing in banking and finance.

Ms. Helfer has held positions in all branches of the federal government. From 1985 to 1992, she was the chief international lawyer for the Board of Governors of the Federal Reserve System. Prior to working at the Federal Reserve Board, she served nearly two years as Senior Counsel for international finance at the U.S. Treasury Department. From 1978 to 1979, she was Counsel to the Judiciary Committee of the U.S. Senate. She also clerked for U.S. Court of Appeals Judge John Minor Wisdom.

Born in North Carolina and raised in Tennessee, Ms. Helfer graduated magna cum laude from Vanderbilt University with a B.A. and from the University of North Carolina with an M.A. She graduated with honors from the University of Chicago Law School and served as Associate Editor of the Law Review. Ms. Helfer is a member of the American Law Institute, the Council on Foreign Relations, and the Visiting Committee of the University of Chicago Law School. She is past Chairman of the Committee on International Banking and Finance of the American Bar Association. Ms. Helfer's various civic activities include serving as a member of the board of directors of the Girl Scouts of the USA.

On March 14, 1997, Chairman Helfer announced her intention to leave the agency on June 1. A successor had not been appointed by that date, and Vice Chairman Hove began a third term as Acting Chairman.

### **Andrew C. Hove, Jr.**

Mr. Hove was appointed to a second term as Vice Chairman of the FDIC in 1994. He served as Acting Chairman from August 1992 until the confirmation of Ricki Helfer as the Chairman in October 1994. Prior to his first appointment as Vice Chairman in 1990, Mr. Hove was Chairman and Chief Executive Officer of the Minden Exchange Bank & Trust Company, Minden, Nebraska, where he served in every department during his 30 years with the bank.

Also involved in local government, Mr. Hove was elected Mayor of Minden from 1974 until 1982 and was Minden's Treasurer from 1962 until 1974.

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

Mr. Hove earned his B.S. degree at the University of Nebraska-Lincoln. He also is a graduate of the University of Wisconsin-Madison Graduate School of Banking. After serving as a U.S. naval officer and naval aviator from 1956 to 1960, Mr. Hove was in the Nebraska National Guard until 1963.

### **Joseph H. Neely**

Mr. Neely served as Mississippi's banking commissioner before being sworn in as a member of the FDIC Board on January 29, 1996. His appointment, which followed nomination by President Clinton on July 12, 1995, and Senate confirmation later that year on December 22, brought the Board to its full membership of five directors for the first time since August 1992.

Mr. Neely's banking experience began in 1977 with the Grenada Sunburst Banking System in Grenada, Mississippi, where he worked in the lending area. In 1980, he continued his community banking service at Merchants National Bank of Vicksburg, Mississippi, where he ultimately served as Senior Vice President before being named Commissioner of the Department of Banking and Consumer Finance for the State of Mississippi in 1992. As Commissioner, Mr. Neely was the primary regulator and supervisor of state-chartered bank and thrift institutions, as well as state-chartered credit unions and consumer finance companies.

Throughout his career, Mr. Neely has been active in community affairs and has held a number of civic leadership positions.

A native of Grenada, Mississippi, Mr. Neely received his B.S. and M.B.A. degrees from the University of Southern Mississippi. He also is a graduate of the Stonier Graduate School of Banking, Rutgers University; The School of Bank Marketing, University of Colorado; and the School of Bank Management and Strategic Planning, University of Georgia. Mr. Neely also served on the faculty of the Mississippi School of Banking.

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### **Eugene A. Ludwig**

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

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

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

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### **Nicolas P. Retsinas**

Mr. Retsinas was appointed Director of the Office of Thrift Supervision (OTS) by President Clinton on October 10, 1996, following the resignation of Acting Director Jonathan L. Fiechter. As OTS Director, Mr. Retsinas is also an FDIC Board member.

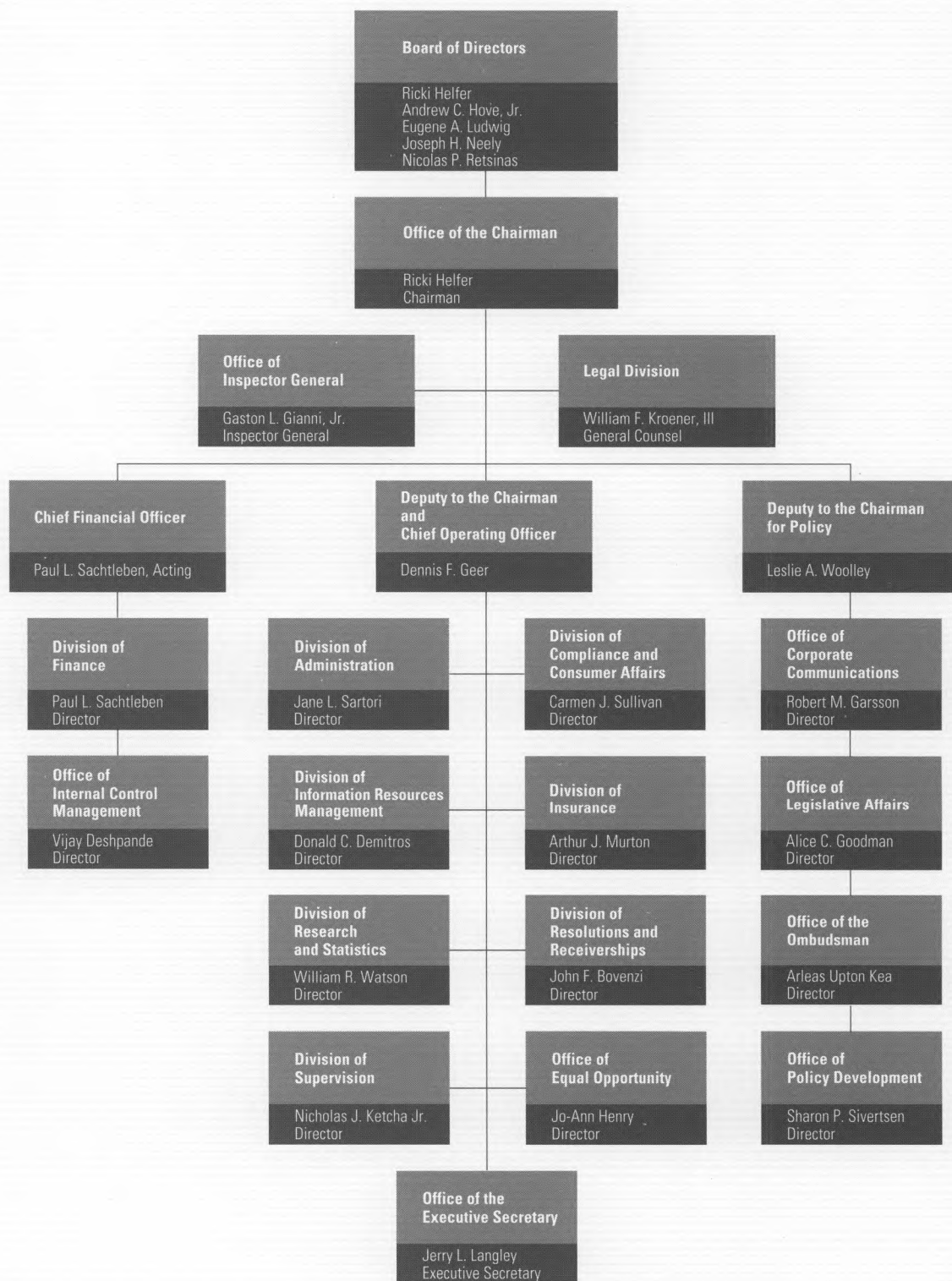
While with OTS, Mr. Retsinas continues to serve as Assistant Secretary for Housing-Federal Housing Commissioner at the U.S. Department of Housing and Urban Development (HUD). He was appointed to the HUD post in 1993 following his nomination by President Clinton and confirmation by the Senate. He also serves on the Federal Housing Finance Board, the Board of the Neighborhood Reinvestment Corporation, and the Advisory Board of the Community Development Financial Institutions Fund.

Mr. Retsinas was Executive Director of the Rhode Island Housing and Mortgage Finance Corporation from 1987 to 1993, and in 1991 also served as Director of Policy for the Governor of Rhode Island. He also was an Adjunct Assistant Professor in Urban Studies at Brown University. Mr. Retsinas received a B.A. in economics from New York University and an M.A. in city planning from Harvard University.



# Organization Chart

as of December 31, 1996





**Operations of the Corporation**

The FDIC at year-end 1996 was the primary federal regulator of 5,785 state-chartered banks that are not members of the Federal Reserve System and 590 state-chartered savings banks. The FDIC also has back-up supervisory responsibility for insurance purposes over the remaining 5,077 federally insured banks and savings associations. The Division of Supervision (DOS) leads the FDIC's supervisory efforts in conjunction with other divisions and offices. This is accomplished by examining institutions, developing regulations and issuing enforcement actions. The examination and supervision of institutions also includes on-site examinations and off-site analyses to detect poor risk management or excessive risk-taking by institutions before problems occur.

Given the continued good health of the banking industry in 1996, the FDIC took the opportunity to initiate a number of projects to enhance the supervisory process and reduce the regulatory burden on the industry.

### Supervisory Initiatives

The FDIC continued to develop a more dynamic supervisory approach that combines traditional examination methods with new initiatives. In 1996, DOS reorganized its operations, continued automating its examination

function, developed new examination procedures and supervisory policies for emerging technologies, and focused on interest rate risk.

Consolidation in the banking industry is changing the geographic composition of the industry. In response, DOS is making changes in its field structure and its approach to examinations. Of particular interest is the start of a case manager approach to supervision, first announced in 1995. Under this approach, case managers will oversee all the risk analysis and examination functions for an entire bank or banking company, regardless of the number of regions where its subsidiary banks and branches operate. Previously, supervision of multi-state banking organizations was broken down by geographic region, with the possibility of more than one FDIC regional office responsible for oversight of the organization. The new approach makes monitoring of banks and their affiliates more effective and efficient, and provides institutions and other regulators with a single point of contact when dealing with the FDIC. The case manager will be assisted by a core group of "specialists" with expertise in six areas: information systems, trusts, capital markets, accounting, fraud and investigations, and training.

As part of the preparation for interstate banking, the FDIC continued to participate in a State-Federal Working Group on Interstate Supervision. Other members of the group include the Federal Reserve System and state regulators, under the sponsorship of the Conference of State Bank Supervisors. The working group's purpose is to minimize conflicts and duplication among state and federal regulators in the supervision of state-chartered banks that operate in more than one state. The group is working toward shared technologies and common application forms. Also in 1996, the FDIC and Federal Reserve signed an agreement with all the state banking departments concerning federal-state cooperation and coordination.

In addition to the challenges and opportunities of consolidation and interstate banking, the industry is becoming more global. In response, DOS created an international branch that consolidates into one unit the FDIC's functions and expertise involving foreign banks. The branch will intensify the FDIC's focus on international bank supervisory matters while enabling better coordination with other agencies and greater involvement in the international Basle Committee on Banking Supervision. The branch will monitor the activities of foreign banks operating in the U.S. and the activities of U.S. banks operating abroad. Foreign banks operating in the U.S. are a significant presence and monitoring these institutions is a key responsibility of the branch. At year-end 1996, foreign banking organizations operating in this country had more than \$1 trillion in assets, almost one-fifth of the total assets in the U.S. banking industry.



W.W.Reid



## FDIC Examinations 1994-1996

	1996	1995	1994
Safety and Soundness:			
State Nonmember Banks	2,789	3,218	3,931
Savings Banks	297	294	386
National Banks	11	6	11
State Member Banks	2	4	3
Savings Associations	7	6	9
<b>Subtotal</b>	<b>3,106</b>	<b>3,528</b>	<b>4,340</b>
Consumer and Civil Rights	2,033	3,148	3,528
Trust Departments	637	657	684
Data Processing Facilities	1,681	1,671	1,882
<b>Total</b>	<b>7,457</b>	<b>9,004</b>	<b>10,434</b>

DOS continued development of automation tools that will enable examiners to conduct a significant amount of analysis off-site, thereby minimizing examiner time spent in a financial institution. The Automated Loan Examination Review Tool (ALERT), a software package in use since May after being field tested in late 1995, gives examiners the ability to collect loan data from institutions electronically, load the information into an application and select loans for on-site review. While ALERT enhances the review of a bank's loan portfolio, the FDIC is developing the General Examination System (GENESYS) to automate the preparation of the entire examination report. As now envisioned, the GENESYS software package would allow examiners to access electronically financial information and prior examination reports of an institution for use in the current examination report, automate certain loan review functions, provide earnings analysis and forecasting, and automate securities pricing. It also will provide examiners with enhanced "dial-in" capability to access the FDIC mainframe computer and

the Internet, enabling staff to communicate more readily and to access information not previously available. The GENESYS system is expected to be in use in early 1998.

In addition to automating portions of the review process, the FDIC has taken a number of steps to improve the quality and efficiency of examinations. The FDIC now provides a minimum two-week notice of an upcoming safety and soundness examination to bankers and savings association executives. This advance notice gives bankers more time to prepare for an examination and to respond to pre-examination requests for information from the FDIC. Also, certain traditionally on-site examination procedures (such as the review of written policies and procedures, the reconciliation of major asset and liability categories and the verification of key financial data) are now being conducted off-site. In 1996, about 30 percent of the total examination hours were spent outside of banks, compared to 12 percent two years ago. The FDIC also is minimizing the rotation of examiners to other jobs during the examination of an institution, thereby reducing the disruptions to institutions during an on-site examination.

In 1996, the FDIC and the other federal banking agencies issued a joint policy statement providing guidance on managing interest rate risk. The policy statement emphasizes each institution's responsibility to develop and refine management practices that are appropriate and effective for its exposure to changes in interest rates. The agencies elected not to pursue a standardized measure and explicit capital charge for interest rate risk due to concerns about the burden, accuracy and complexity of that kind of approach. However, in conjunction with the joint policy statement, the FDIC issued new procedures for examining interest rate risk. These procedures will more clearly focus supervisory attention on institutions with higher potential risk profiles and, for the majority of small institutions, shift a significant portion of the interest rate risk examination off-site.

DOS also continued creating "decision flow charts" for examiners to use when reviewing other major risk areas, such as loans, securities, earnings performance, funds management and management performance. The new examination guidelines provide specific management and control standards that financial institutions are expected to maintain. The decision flow charts are designed so that an examiner can work through a core analysis to determine the presence of significant risks or deficiencies. If the examiner determines that risks are not adequately managed, then the scope of the examination would be expanded. This format focuses examiners on key aspects of risk assessment and provides standard procedures for efficiency and consistency.

## Risk-Related Premiums

The following tables show the number and percentage of institutions insured by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), according to their risk classification as of December 31, 1996. Each institution is categorized based on its capitalization and a supervisory subgroup rating (A, B, or C), which is generally determined by on-site examinations. Assessment rates are basis points, cents per \$100 of assessable deposits, per year.

### BIF Supervisory Subgroups\*

	A	B	C
<b>Well Capitalized:</b>			
Assessment Rate	0	3	17
Number of Institutions	9,362 (95.0%)	304 (3.1%)	57 (0.6%)
<b>Adequately Capitalized:</b>			
Assessment Rate	3	10	24
Number of Institutions	84 (0.9%)	17 (0.2%)	15 (0.2%)
<b>Undercapitalized:</b>			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	2 (0.0%)	11 (0.1%)

### SAIF Supervisory Subgroups\*

	A	B	C
<b>Well Capitalized:</b>			
Assessment Rate	23	26	29
Number of Institutions	1,466 (89.9%)	113 (6.9%)	19 (1.2%)
<b>Adequately Capitalized:</b>			
Assessment Rate	26	29	30
Number of Institutions	9 (0.6%)	10 (0.6%)	9 (0.6%)
<b>Undercapitalized:</b>			
Assessment Rate	29	30	31
Number of Institutions	0 (0.0%)	2 (0.1%)	2 (0.1%)

- BIF data exclude 88 SAIF-member "Oakar" institutions that hold BIF-insured deposits. The assessment rate reflects the rate for BIF-assessable deposits, which remained the same throughout 1996. For the first three quarters of 1996, a minimum quarterly payment of \$500 was collected from institutions classified as "1A." This requirement was rescinded for the fourth quarter.
- SAIF data exclude 779 BIF-member Oakar institutions that hold SAIF-insured deposits. The assessment rate reflects the rate paid by SAIF members on SAIF-assessable deposits through September 30, 1996. A special one-time assessment was collected for the purpose of capitalizing the SAIF as of October 1. BIF-member Oakers and "Sassers" were subject to an annual rate schedule of 0-27 basis points as of October 1, while SAIF members were not subject to this schedule until January 1, 1997. Due to FICO funding requirements, SAIF members paid on an interim schedule of 18-27 basis points for the fourth quarter of 1996.

DOS has taken steps to identify and monitor risk associated with emerging technologies, such as Internet banking, electronic cash and stored-value card systems. New examination procedures on electronic banking were developed in 1996 and implemented in May 1997 after examiner training on pertinent risks and issues. Since 1995, the FDIC has sponsored an interagency working group that shares information and ideas on supervisory issues relating to electronic banking.

The FDIC and the other banking regulators in December approved a change to the Uniform Financial Institution Rating System (UFIRS), commonly referred to as the CAMEL system, used to rate the condition of banks. CAMEL originally was comprised of five components—capital, asset quality, management, earnings and liquidity. The revision adds a sixth component—"S" for sensitivity to market risks. This change marks the first major revision to the rating system since it was adopted in 1979.

In October, the FDIC became the first of the federal banking regulators to disclose to a bank its rating for each CAMEL component. Previously, only the overall or composite rating for the entire institution was disclosed to the institution's board of directors. Starting in 1997, the FDIC also will begin to reveal the new "S" component to FDIC-supervised institutions. The other regulators plan to disclose the individual components to their institutions as well.

Throughout 1996, DOS stepped up efforts to gather and analyze information about loan underwriting practices by having FDIC examiners complete a special questionnaire after each examination. This process, started in 1995, is designed to help the FDIC monitor emerging risks in the banking system, identify troublesome underwriting trends across the country and

## FDIC Applications 1994-1996

	1996	1995	1994
<b>Deposit Insurance</b>	<b>192</b>	<b>146</b>	<b>106</b>
Approved	192	145	103
Denied	0	1	3
<b>New Branches</b>	<b>2,054</b>	<b>2,135</b>	<b>1,715</b>
Approved	2,054	2,135	1,713
Branches	1,352	1,224	1,017
Remote Service Facilities	702	911	696
Denied	0	0	2
<b>Mergers</b>	<b>392</b>	<b>419</b>	<b>451</b>
Approved	392	419	451
Denied	0	0	0
<b>Requests for Consent to Serve*</b>	<b>873</b>	<b>1,092</b>	<b>1,364</b>
Approved	873	1,086	1,357
Section 19	77	86	127
Section 32	796	1,000	1,230
Denied	0	6	7
Section 19	0	2	1
Section 32	0	4	6
<b>Notices of Change in Control</b>	<b>46</b>	<b>46</b>	<b>50</b>
Letters of Intent Not to Disapprove	46	45	50
Disapproved	0	1	0
<b>Conversions of Insurance Coverage<sup>■</sup></b>	<b>0</b>	<b>3</b>	<b>10</b>
Approved	0	3	10
Denied	0	0	0
<b>Brokered Deposit Waivers</b>	<b>15</b>	<b>30</b>	<b>42</b>
Approved	15	29	42
Denied	0	1	0
<b>Savings Association Activities</b>	<b>2</b>	<b>0</b>	<b>7</b>
Approved	2	0	7
Denied	0	0	0
<b>State Bank Activities/Investments<sup>▲</sup></b>	<b>167</b>	<b>367</b>	<b>118</b>
Approved	164	366	118
Denied	3	1	0
<b>Conversions of Mutual Institutions</b>	<b>26</b>	<b>24</b>	<b>14</b>
Non-Objection	26	24	9
Objection	0	0	5

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

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

▲ Section 24 of the FDI Act in general precludes an insured state bank from engaging in an activity not permissible for a national bank and requires notices be filed with the FDIC.

direct supervisory efforts. The results of the questionnaires are expected to be released twice a year. Few problems were noted in 1996. DOS is actively monitoring potential problem areas.

The FDIC published in May an Advance Notice of Proposed Rulemaking seeking industry opinion on restructuring and streamlining banking agency regulations for securities transactions. Several actions resulted. For example, the FDIC and the other banking agencies issued a proposed rule in December that would require bank employees who sell securities to take the same qualification examination as other brokers. The FDIC also began field testing new examination procedures for reviewing whether proper disclosures about nondeposit investment products are being given to customers. For more information on the sale of mutual funds at banks, see Pages 29 through 30.

DOS also has developed a partnership with the Division of Insurance (DOI), which was created by the Board in 1995 to analyze risks to the deposit insurance funds from a more comprehensive perspective than in the past. DOI identifies and monitors emerging and existing risks by drawing on a wide variety of sources of information, including other FDIC divisions, other bank regulatory agencies, other government economic statistics and analyses, and data from the private sector. DOI then works with DOS to translate the results into guidance for FDIC examiners. Under the agency's risk-related premium system, managed by DOI, the CAMEL ratings assigned by DOS are an important component for determining the premium rates paid by insured institutions.



In addition, the FDIC's Division of Research and Statistics (DRS), in cooperation with other divisions and offices, continued a major study of the 1980s and early 1990s that focuses on the causes of bank failures. The study, expected to be issued in late 1997, analyzes the effectiveness of regulatory tools designed to prevent bank failures and limit insurance losses. (The study was the subject of an FDIC-sponsored symposium on January 16, 1997, with academic and other participants.) Using data and information developed for the study, DRS is assisting DOS in developing new warning systems and new modeling tools for predicting problem institutions and failures.

### **Reduced Regulatory Burden**

The Riegle Community Development and Regulatory Improvement Act of 1994 (CDRI) requires an interagency effort to reduce the cost and burden of regulations on the banking industry. As part of that effort, the FDIC reviewed 120 rules and policy statements to determine whether they are necessary to ensure a safe and sound banking system or to protect consumers. Under

the leadership of FDIC Board member Joseph H. Neely, the Office of Policy Development and the Office of the Executive Secretary, the FDIC's regulatory review during 1995 and 1996 resulted in staff recommendations to rescind or revise 71 percent of the 120 internal and interagency regulations and policy statements. Specific recommendations from 1996 included:

- Establishing procedures to ensure that regulations undergo a rigorous cost/benefit analysis before they are issued;
- Proposing simplification of the deposit insurance regulations;
- Coordinating and streamlining the FDIC's regulatory applications procedures;
- Proposing simplification of deposit insurance assessments;
- Proposing revision of the FDIC's fair housing regulations;
- Proposing revision of regulations regarding securities of state-chartered nonmember insured banks;

- Proposing to remove inconsistencies in how regulators assign risk-based capital requirements to certain assets;
- Revising auditing program regulations and policies; and
- Rescinding outmoded or obsolete statements of policy.

The FDIC expects to complete its recommendations on the remainder of the regulations and policy statements by September of 1997. The FDIC, along with the Federal Reserve Board, the Office of the Comptroller of the Currency and the Office of Thrift Supervision, submitted a Joint Report to Congress in September 1996 detailing the progress made in the review effort. For more information on regulatory action taken in 1996, see Pages 38 through 43.

## Compliance, Enforcement and Other Related Legal Actions 1994-1996

	1996	1995	1994
<b>Total Number of Actions Initiated by the FDIC</b>	<b>186</b>	<b>146</b>	<b>161</b>
<b>Termination of Insurance</b>			
<b>Involuntary Termination</b>			
Sec. 8a For Violations, Unsafe/Unsound Practices or Condition	1	0	3
<b>Voluntary Termination</b>			
Sec.8a By Order Upon Request	0	7	2
Sec.8p No Deposits	3	1	2
Sec.8q Deposits Assumed	17	16	9
<b>Sec. 8b Cease-and-Desist Actions</b>			
Notices of Charges Issued	3	2	1
Consent Orders	16	27 <sup>•</sup>	41
<b>Sec. 8e Removal/Prohibition of Director or Officer</b>			
Notices of Intention to Remove/Prohibit	7	7	17
Consent Orders	60	35	33
<b>Sec. 8g Suspension/Removal When Charged With Crime</b>			
	1	1	0
<b>Civil Money Penalties Issued</b>			
Sec.7a Call Report Penalties	19	20	17
Sec.8i Civil Money Penalties	19	9	10
<b>Sec. 10c Orders of Investigation</b>			
	11	8	9
<b>Sec. 19 Denials of Service After Criminal Conviction</b>			
	1	2	1
<b>Sec. 32 Notices Disapproving Officer or Director</b>			
	0	4	5
<b>Truth in Lending Act Reimbursement Actions</b>			
Denials of Requests for Relief	6	5	3
Grants of Relief	0	0	0
Banks Making Reimbursement <sup>▪</sup>	162	320	258
<b>Criminal Referrals Involving Open Institutions<sup>▪</sup></b>			
	<b>8,201</b>	<b>19,503</b>	<b>14,132</b>
<b>Other Actions Not Listed</b>			
	<b>22</b>	<b>2</b>	<b>8</b>

• One action included a Section 8c Temporary Order.

▪ These actions do not constitute the initiation of a formal enforcement action and, therefore, are not included in the total number of actions initiated.

## Enforcement

DOS works closely with the Legal Division to initiate supervisory enforcement actions against FDIC-supervised institutions and their employees. The number of enforcement actions initiated by the FDIC in 1996 totaled 186, about half the 356 actions initiated just five years ago. This is indicative of continued improvement in the banking industry. Another sign of the improved conditions in the banking industry is that, for the second straight year, no "prompt corrective actions" (such as early intervention when an insured institution's capital condition is eroding) were initiated by the FDIC.

## Failed Institutions

The FDIC has the unique mission of protecting depositors of insured banks and savings associations. No depositor within the insured limit of \$100,000 has ever experienced a loss in an FDIC-insured institution due to a failure. The FDIC protects depositors by managing the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF).

On July 1, 1995, the FDIC was given the responsibility for handling SAIF-insured institutions that close. Previously, the Resolution Trust Corporation (RTC) performed this function, which it took over from the former Federal Savings and Loan Insurance Corporation (FSLIC) on August 9, 1989. The FDIC also manages the remaining assets and liabilities of the former FSLIC and the former RTC.

In most cases, a depository institution is closed by its chartering authority when it fails to meet prescribed capital requirements or is insolvent. The state is the chartering authority for state banks and savings associations, the Office of the Comptroller of the Currency for national banks, and the Office of Thrift Supervision for federal savings associations. The FDIC works closely with all chartering authorities when dealing with institutions in danger of failing.

The FDIC is responsible for resolving a failing bank or savings association by using the least-costly method. Staff gathers data about the failing institution, estimates the potential loss from a liquidation, solicits and evaluates bids from potential acquirers, and recommends the least-costly resolution to the FDIC's Board of Directors.

### Failed Institutions 1995-1996

	1996	1995
<b>BIF-Insured:</b>		
California	1	4
Connecticut	1	1
Hawaii	0	1
Pennsylvania	1	0
Texas	2	0
<b>Total</b>	<b>5</b>	<b>6</b>
<b>SAIF-Insured: •</b>		
California	1	0
<b>Total</b>	<b>1</b>	<b>0</b>

- The FDIC became responsible for failed SAIF-insured institutions on July 1, 1995.

To handle the reduced levels of resolutions and liquidation activity projected for the near term more efficiently, the FDIC in December combined the two divisions that handle the bulk of failed bank and thrift activity. The new Division of Resolutions and Receiverships (DRR) will handle the responsibilities of the former Division of Resolutions and the Division of Depositor and Asset Services. For more information on this new division, see Page 34.

### Protecting Depositors

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, also had a portion of its deposits insured by the SAIF (this is known as an "Oakar" institution). The five BIF-insured failures, with combined assets of \$183 million, were the fewest bank failures since 1974 when there were four. The one SAIF-insured institution that closed, with total assets of \$35 million, was the first SAIF-insured

failure since the FDIC took over that responsibility from the RTC. In the approximately six years the RTC was in operation, it resolved 747 failed SAIF-insured savings associations.

"Purchase-and-assumption" (P&A) transactions were used to resolve all six failures in 1996. In a P&A transaction, some of the assets of the failed bank or thrift are acquired by another institution along with all deposits, or just those within the \$100,000 insurance limit. In two of the six failures, all deposits were assumed. In the remaining four, the acquiring institution assumed only the insured deposits; depositors with balances above the \$100,000 insurance limit will receive a proportionate share of the proceeds from the liquidation of the failed institution's assets. (If a buyer for a failing institution is not found, the FDIC is responsible for making payments to the insured depositors of the failed institution. Payments are often made as soon as the next business day.)

To ease the burden on uninsured depositors, the FDIC may authorize advance dividends soon after an institution fails. The advance dividend is based on the estimated value of the

receivership. The FDIC made advance-dividend payments of \$4 million to uninsured depositors in two of the four failures in 1996 in which uninsured deposits were not assumed. This represented approximately 60 percent of the uninsured deposits in those cases. Generally, an advance dividend is not paid in cases in which the value of the failed institution cannot be reasonably determined.

When appropriate, as assets are liquidated, DRR makes subsequent dividend payments to uninsured depositors and general creditors of failed banks, including payments to the FDIC as a creditor for advancing funds for the payment of insured deposits at the time of an institution's failure. Total dividend payments during 1996 totaled \$10.2 billion, which includes payments to creditors of institutions that failed in prior years. For more information about the resolution of the six failures of 1996, see the table on Page 111.

DRR in 1996 unveiled the Standard Asset Valuation Estimation (SAVE) project, which provides consistent asset valuation methodology in the resolution and liquidation process by employing standard discounted cash flow models and valuation assumptions to the valuation of assets. SAVE methodology was 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.

### Asset Disposition

Assets remaining after resolution are liquidated by DRR in an orderly manner and the proceeds are used to pay, to the extent possible, uninsured depositors and any remaining creditors.

### Liquidation Highlights 1994-1996

Dollars in billions

	1996	1995	1994
Total Failed Banks	5	6	13
Assets of Failed Banks	\$ 0.2	\$ 0.8	\$ 1.4
Total Failed Savings Associations	1	3*	64*
Assets of Failed Savings Associations	\$ 0.0 <sup>■</sup>	\$ 6.3	\$ 14.9
Net Collections <sup>▲</sup>	\$ 6.6	\$ 16.6	\$ 25.6
Total Assets in Liquidation (year-end) <sup>▲</sup>	\$ 8.7	\$ 18.0	\$ 39.6

- The FDIC assumed responsibility for resolving failed savings associations from the Resolution Trust Corporation (RTC) on July 1, 1995. All savings association failures in 1994 and 1995 were resolved by the RTC.
- Only one SAIF-insured institution failed in 1996, with assets totaling \$35 million.
- ▲ Also includes assets from thrifts resolved by the former Federal Savings and Loan Insurance Corporation (FSLIC) and the RTC. These assets are serviced by the FDIC as well as by asset management contractors and national servicers.

The FDIC's ability to provide incentives for healthy institutions to assume deposits and purchase assets of failed banks and savings associations allows a portion of assets to be returned to the private sector immediately. The remaining assets are retained by the FDIC for later sale, loan workouts or other disposition. As a result of this effort, approximately 36 percent (\$78 million out of \$218 million) of the six failed institutions' assets were sold at the time of closing.

In an effort to make the resolution process more efficient, the FDIC developed the Joint Asset Marketing (JAM) project. The goal of JAM is to increase competition in the resolution process by inviting parties not bidding on a failing institution's deposits to purchase assets of the bank or savings association at the time of resolution. This is expected to increase sales of assets at resolution, lowering the ultimate cost of the resolution.

In 1996, DRR also began providing for-sale information on assets retained from failures on the FDIC's Internet home page ([www.fdic.gov](http://www.fdic.gov)). The information includes: dates when loans and real estate will be offered for sale; lists of available real estate; and individual assets that have been sold.

DRR successfully settled, sold or otherwise resolved a significant portion of its asset inventory from failed institutions during the year as follows:

- The FDIC reduced the book value of the combined FDIC/RTC assets in liquidation by 51.7 percent, to \$8.7 billion from \$18.0 billion. Net collections for all funds totaled about \$6.6 billion.
- 2,045 real estate properties, which were sold for a total of \$352.8 million, yielded a recovery of 94.7 percent of the average appraised value.
- 17,112 loans and other assets, totaling \$4.1 billion in book value, were sold in sealed-bid offerings and other sales initiatives.
- The FDIC reduced the number of receiverships managed by DRR by 249 to 879 (715 active and 164 in termination status).

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At year-end 1996, DRR was managing 30 assistance agreements and two of the former RTC's asset management and disposition agreements (AMDAs). The FDIC sometimes uses assistance agreements to resolve troubled or failing institutions. Although not used in 1996, assistance is generally either a one-time cash payment of capital or on-going payments over a period of time to cover losses incurred by the assuming bank on certain assets it took from the failing institution. Of these 32 agreements, five involved open bank assistance, 11 involved loss-sharing agreements, five comprised other types of assistance, two were AMDA limited partnership agreements and nine were Interim Capital Assistance Agreements the RTC entered into with minority institutions. DRR also monitored the general partner's compliance with terms of 22 Judgment, Deficiency and Charge-off (JDC) partnerships, in which the FDIC is the limited partner and the general partner is from the private sector. The JDC partnership program places hard-to-collect assets in the private sector where they can be worked to maximize 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 combined program was revised in 1996 to meet standards for asset disposition set forth in the FDIC Improvement Act of 1991. The revised program includes: a 90-day period during which all single and multifamily properties designated as affordable

housing are 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 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, monitor 38,567 rental units for low- and very low-income households to ensure that purchasers are 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.

### **FSLIC Resolution Fund**

The FDIC, through the FSLIC Resolution Fund (FRF), is responsible for managing and monitoring assistance agreements the former FSLIC entered into prior to August 9, 1989. The FRF also is responsible for disposing of all remaining assets and liabilities of the former RTC, which were transferred to the FDIC on January 1, 1996. The FRF, as successor to the FSLIC, receives federally appropriated funds. In 1994, the FRF was allocated \$827 million, which is available until expended. Of that amount, \$636 million was still available.

DRR, which is responsible for managing the assets and liabilities of the FRF, reduced the number of former FSLIC open cases to four from seven. The assistance agreements of the three closed cases were terminated before the contracted expiration dates. Other "early terminations" are expected to be closed out before the contracted expiration dates. These early terminations are expected to yield a cost savings of \$1.1 million. Covered assets from the former FSLIC (those for which acquirers were guaranteed against loss and/or guaranteed a certain yield) at year-end 1996 were reduced to \$261,000 from \$108 million through sales and other adjustments. In addition, DRR is responsible for administering 24 terminated FRF agreements from the former FSLIC that have outstanding issues and 42 agreements that require monitoring and collecting tax benefits still due to the FRF. About \$39.7 million in tax benefits were realized by the FRF in 1996.

Besides covered assets owned by others, the FDIC is responsible for liquidating FRF assets and liabilities that have been transferred to the FDIC. At year-end 1996, the FRF portfolio of assets in liquidation from the former FSLIC had a book value of \$476 million, down from \$1.5 billion at the end of 1995, despite the purchase of \$534 million in assets during 1996 related to the early terminations. FRF net liquidation collections totaled \$571 million for the former FSLIC in 1996.



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The FRF also is responsible for disposing of the assets remaining from failed thrift institutions of the former RTC, managing the reserves (credit enhancements reserves) set aside to support the sale of securities collateralized by RTC assets, and repaying the RTC's debt from the Federal Financing Bank (FFB). At year-end 1996, the FRF portfolio of assets in liquidation from the former RTC had a book value of \$4.4 billion, down from \$7.7 billion at the end of 1995. During the same time period, reserves dropped from \$6.8 billion to \$5.8 billion, and FFB borrowings were reduced from \$10.5 billion to \$4.6 billion. The FDIC expects to recover sufficient funds from the RTC's receivership assets to cover the approximately \$5 billion in RTC-corporate liabilities remaining at year-end.

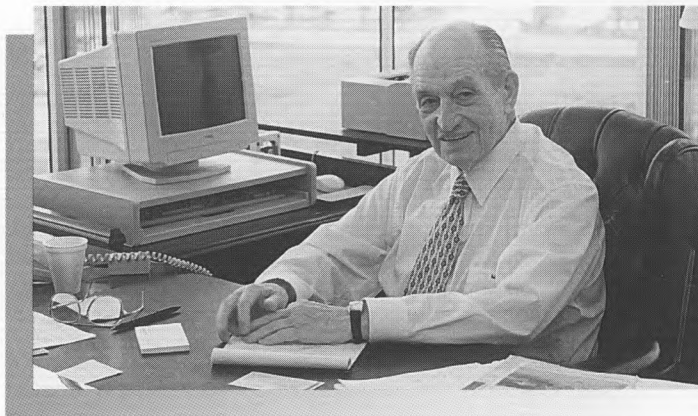
The FRF will continue until all of its assets are sold or liquidated and all of its liabilities are satisfied. Any remaining funds will revert to the Department of the Treasury.

### **Professional Liability Recoveries**

The FDIC's Legal Division and DRR work together to identify claims against directors and officers, accountants, appraisers, attorneys and other professionals who may have contributed to the failure of an insured financial institution. The Corporation investigates the circumstances surrounding the failure of every institution and, when

appropriate, sends suspicious activity reports (SARs) to the Department of Justice. During 1996, a total of 93 new SARs were generated. In addition, the FDIC collected \$25.5 million in criminal restitution.

Also during 1996, the Legal Division and DRR recovered \$154.7 million from professional liability settlements or judgments. The FDIC's caseload at the end of the year included investigations, lawsuits and settlement collections involving 244 institutions. This caseload includes RTC cases the FDIC assumed on January 1, 1996.



Charles Parsons



Gail Padgett

Along with promoting the safety and soundness of FDIC-insured institutions, the FDIC has a strong consumer protection role. The agency protects depositors of failed institutions, as described in the previous chapter. Also, primarily through its Division of Compliance and Consumer Affairs (DCA), the FDIC enforces regulations implementing consumer protection and civil rights laws, such as:

- The Community Reinvestment Act (CRA), which encourages federally insured lenders to help meet the credit needs of their communities;
- The Truth in Lending Act, which requires accurate disclosures of interest rates and finance charges so that loan applicants can comparison-shop for a mortgage or other consumer loan;
- The Equal Credit Opportunity Act, which promotes the equal availability of credit to all credit-worthy applicants, regardless of such factors as race, color or religion;
- The Home Mortgage Disclosure Act, which requires that regulated lenders report annually on their mortgage-related activity as a way to detect possible lending discrimination;

- The Truth in Savings Act, which requires institutions to disclose fees, interest rates and other account terms so that consumers can compare deposit accounts offered by different institutions; and
- The Fair Credit Reporting Act, which establishes procedures for correcting mistakes on a consumer's credit file and requires that a credit file only be provided for legitimate business purposes.

The FDIC also helps educate bankers and consumers in areas that include fair lending, community reinvestment and deposit insurance.

### Community Reinvestment Act Reform

The FDIC continued working with the other federal bank and thrift regulatory agencies to implement an April 1995 final rule amending a regulation relating to the Community Reinvestment Act.

The revised CRA regulation emphasizes evaluations of an institution based on actual lending, investment, and service. In general, the regulation establishes different performance tests for different types of institutions — large institutions, small institutions, and wholesale and limited-purpose institutions. Small institutions began to be evaluated

under the new streamlined standards on January 1, 1996. Large institutions began gathering data for the new performance tests on January 1, 1996, but their first reports of the data were not due until March 1, 1997. The new performance evaluations for large institutions will begin in July 1997. Institutions received free computer software from the FDIC to assist them in collecting the CRA loan data.

To educate bankers about the new rule, DCA staff in 1996 conducted 24 training sessions, attended by more than 1,500 bankers. Staff reached another 2,000 bankers through 35 speaking engagements.

In October, the FDIC distributed to FDIC-supervised institutions an interagency guide on the revised CRA regulations. The publication, *Interagency Questions and Answers Regarding Community Reinvestment*, answers questions on CRA implementation that regulators have been asked most frequently by bankers, and consolidates other related information available to the public.

### Compliance Examinations

DCA's role includes examining FDIC-supervised banks for compliance with consumer protection laws. DCA conducted 2,033 such examinations in 1996. As a result of these or previous examinations, 162 banks reimbursed nearly \$1.6 million to 6,387 consumers during 1996 for violations of the Truth in Lending Act regarding incorrect disclosures.

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DCA began new examination procedures designed to streamline the examination process. For example, the division developed an off-site "pre-examination planning" program to reduce the amount of time examiners spend on-site at an institution. This effort involves examiners gathering material, analyzing the information, and developing the scope of the exam before beginning the on-site examination. Since the pre-examination planning program was put in place, about 25 percent of the examination hours have been spent outside of the financial institutions.

To monitor the new examination procedures' effectiveness, a follow-up examination questionnaire was developed for banks examined under the new guidelines. The banks' comments are reviewed quarterly to highlight areas where DCA can reinforce or redirect its examination or training efforts. Many banker responses have noted improvement in DCA's examinations, including better communication and more notice of upcoming examinations (up to two months before the start of the examination).

DCA issued in August the revised *FDIC Compliance Examination Manual*, which includes descriptions of the many modifications in examination procedures and regulatory changes such as CRA. The manual also is available through the Internet on the FDIC home page ([www.fdic.gov](http://www.fdic.gov)).

DCA in 1996 also implemented new "mapping" software to help examiners review banks' fair lending and CRA lending performances. This software gives examiners easy access to current census, Home Mortgage Disclosure Act and other demographic data.

### **Community Outreach**

The FDIC frequently meets with community and consumer groups, bankers, citizens and government officials to exchange information about CRA and fair lending issues. FDIC community outreach activities in 1996 included a forum held in California to identify roadblocks to community development lending, and a focus group in Georgia to promote communication between community representatives and bankers following claims of lending discrimination.

Other outreach efforts encouraged community development in low- and moderate-income areas and lending for minority-owned small businesses. One example was a series of meetings between bankers and representatives of the Cheyenne River Sioux tribe that was co-sponsored by the FDIC and the South Dakota Bankers Association.

### **Deposit Insurance Training**

The staff of an insured institution generally is a customer's first source of information about FDIC deposit insurance. In 1996, DCA and the FDIC's Legal Division hosted a number of seminars aimed at teaching bank employees about what deposit insurance does and does not cover, and how to explain coverage to consumers accurately and clearly. The seminar "textbook," *The Financial Institution Employee's Guide to Deposit Insurance*,

was revised in late 1996 in response to feedback from seminar participants and other users. The guide contains material for institution staff to conduct their own deposit insurance training, including a draft script and sample tests on both deposit insurance and nondeposit investment products, which are not covered by FDIC deposit insurance. The guide, which is available on the Internet, was distributed to all FDIC-insured financial institutions in November 1996.

Many financial institutions recently began offering their customers a range of nondeposit investment products such as mutual funds, annuities and securities. Sales activities for nondeposit investment products should ensure that customers are clearly and fully informed of the nature and risks of the products. In May 1996, the FDIC released the results of a year-long study on the marketing and sales practices used by insured institutions to sell nondeposit investment products. The study examined whether the disclosure requirements for these products were being followed as outlined in the *Interagency Statement on Retail Sales of Nondeposit Investment Products*, issued in 1994 by the four federal bank and thrift regulatory agencies. The study found that, for a number of banks, a gap exists between regulatory guidelines and actual employee performance. More than one-fourth of the 1,194 FDIC-insured banks surveyed failed to make basic disclosures as required under the *Interagency Statement*.

Largely as a result of the survey findings, the FDIC has undertaken a series of projects concerning the sale of non-deposit investment products by FDIC-insured financial institutions, including:

- Establishing regulatory standards for bank securities representatives that are consistent with the professional qualification requirements for broker/dealers and registered representatives,
- Designing training packages for bank employees involved in the sale of nondeposit investment products,
- Improving the process for handling consumer complaints about non-deposit investment products,
- Expanding examination guidance to better assess bank compliance with regulations and guidelines concerning these products, and
- Creating a training program for bank examiners to prepare them to implement the new examination procedures.

While many related projects are in their formative stages, the FDIC completed several important objectives in 1996. For example, DCA employees who respond to inquiries from the public through the FDIC's Consumer Call Center were trained to handle consumer complaints about nondeposit investment products. DCA also drafted and field-tested examination guidance. In addition, the FDIC drafted two proposed rules—one on recordkeeping and confirmation requirements for certain securities transactions (see Page 43) and the other on testing and licensing requirements for bank employees involved in the retail sales of nondeposit investment products (see Page 43). Finally, DCA prepared a pamphlet informing consumers about the information they should receive before purchasing a nondeposit investment product from a financial institution. The pamphlet, which is expected to be published in 1997, elaborates on guidance about nondeposit investment products published in the 1994 FDIC brochure *Insured or Not Insured*.

### Responses to Complaints and Inquiries

DCA maintains a toll-free telephone number for its Consumer Call Center (800-934-3342 or 202-942-3100), which handles inquiries from consumers and bankers about deposit insurance and consumer protection laws. The Call Center also accommodates TTY systems for the deaf (800-925-4618

or 202-942-3147). Nearly 80,000 calls were handled by the Call Center in 1996 consisting of over 40,200 calls to the automated recording of information, and another 39,100 calls answered directly by staff in DCA's Washington and eight regional offices. While most of the calls were inquiries on deposit insurance coverage, a large number concerned bank compliance with consumer protection laws. If consumers believed their banks had violated a consumer protection law, DCA instructed them on how and where to file a formal complaint.

DCA also answered 6,381 written complaints and inquiries from consumers and bank personnel. Most written inquiries from consumers and bankers dealt with deposit insurance coverage. Of the consumer inquiries that related to consumer protection laws, most concerned the Fair Credit Reporting Act. As for written complaints, nearly half from consumers involved credit cards, with the most common involving the bank's reason for denial, billing disputes and customer service problems. A significant number of complaints for deposit account-related issues and compliance with the Equal Credit Opportunity Act also were received from consumers.

While DCA assists consumers with specific questions about deposit insurance and consumer protection laws and complaints against FDIC-insured institutions, the Office of the Ombudsman provides guidance to consumers on where to get information throughout the agency, and acts as an impartial third party to assist consumers and bankers who have had problems working with the agency. The year-old Ombudsman's office is independent of other FDIC program areas and is a neutral and confidential source of assistance for consumers, bankers and FDIC employees with questions or concerns about the Corporation.



Sally Kearney

The Ombudsman office's marketing and outreach efforts in 1996 emphasized its accessibility and advocacy for a fair process. Banker outreach was conducted through mailings, brochures, conferences and articles explaining the office's role. Ombudsman staff attended about 110 events, including state and national banking conferences and FDIC-sponsored meetings. The office also participated in more than 15 annual conferences, such as the National Consumers' Week event, sponsored by the U.S. Office of Consumer Affairs, and consumer-related groups and associations.

The FDIC Office of Legislative Affairs also coordinated with other divisions and offices in responding to 1,663 written inquiries from members of Congress in 1996. Many of these inquiries dealt with constituent problems in areas such as truth in lending, fair credit, and bank compliance with consumer protection laws.

### **On-Line Consumer Information**

The FDIC continued its outreach efforts through its Internet home page, providing the public with ready access to FDIC consumer information, press releases, statistics on banking and other public material. New information is continually added to the home page as it becomes available. Links to other federal agencies and other sources of information have been included on the home page to enhance its usefulness. Listings of banks examined by the FDIC for CRA compliance and schedules of future CRA examinations are also now available. Frequently requested brochures on topics such as equal credit opportunity and fair credit reporting are scheduled to be added in 1997.



Separately or through the FDIC home page, the public can also send messages to DCA requesting answers to specific questions about deposit insurance, fair lending rules and other consumer protections. The consumer mailbox address is [consumer@fdic.gov](mailto:consumer@fdic.gov).

### **Electronic Banking**

Financial institutions are increasingly expanding into electronic banking activities. Examples include stored-value cards, Internet banking, and electronic cash systems. The FDIC is working to stay abreast of these emerging technologies, as well as their implications for the industry and consumers.

In 1996, the FDIC received both formal and informal requests for guidance on whether funds represented by stored-value cards constituted "deposits" within the meaning of the Federal Deposit Insurance Act. A stored-value card contains financial information electronically stored on a magnetic strip or computer chip and can be used to buy goods and services. In response to those requests, the FDIC Board of Directors on July 16 approved *General Counsel Opinion No. 8*. The General Counsel concluded that in most cases 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. However, a banking institution could design a stored-value card in such a way that the underlying funds would be insured if the program met certain statutory requirements. For example, systems in which the funds underlying the stored value remain credited to a customer's account until the payee makes a claim on the funds would appear to be deposits under the law.

The FDIC Board also decided to seek public comment on stored-value cards and a variety of electronic payment issues, including concerns raised by Internet banking and the use of electronic cash. The agency held a day-long public hearing on September 12 that drew a wide spectrum of participants, including representatives from the banking and technology industries, community groups, and other regulatory agencies. Topics discussed ranged from expanding technologies being tested or in use in other countries, to concerns on security and privacy issues. Separately, the Board received written comments on whether the agency should, by future regulation, determine that stored-value cards are entitled to deposit insurance.

The FDIC's wide-ranging legal activities include matters relating to the supervision of FDIC-insured institutions, the resolution of failed banks and savings associations, the liquidation of assets, and the pursuit of liability claims against failed institution officers, directors and professionals. The Legal Division, working closely with other divisions and offices, was involved in several noteworthy court cases in 1996. Most involved failed institutions and "standards of care" that the FDIC uses when pursuing professional liability claims against officers and directors of failed institutions.

### **Goodwill**

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In the early 1980s, many savings associations had "regulatory goodwill" on their books as a result of taking over troubled thrifts from the Federal Home Loan Bank Board (FHLBB), the predecessor to the Office of Thrift Supervision (OTS). The FHLBB granted the use of goodwill in lieu of providing money as an incentive for healthy thrifts to take over troubled institutions. The goodwill, carried as an asset on the books of the surviving institution, lessened the impact of the merger with a troubled thrift. The FHLBB allowed savings associations to keep this regulatory goodwill on the books for up to 40 years. However, when Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), it reduced that period to five years. Many open thrifts and investors in failed thrifts with goodwill on their books responded by suing the government for breach of contract.

One of the cases made it to the U.S. Supreme Court in 1996. In July, the Court decided in *Winstar v. United States* that changes in the methods of calculating regulatory capital, including restrictions on the use of goodwill, resulted in a breach of contract, making the institution eligible for recoveries from the United States Government. As a result, more than 120 cases pending against the U.S. in the Court of Federal Claims were eligible for recoveries, including approximately 50 cases involving failed institutions. The Court of Federal Claims announced plans to begin hearing cases involving goodwill claims in the spring of 1997.

In November of 1996, the FDIC petitioned the Court of Federal Claims to allow the agency to intervene and be substituted as plaintiff in 45 of the cases involving 38 failed institutions, based on the FDIC's assertion that it owned the vast majority of the claims and that it is the real party entitled to pursue any recovery. In the summer, the FDIC had successfully joined as plaintiff in two other goodwill cases.

(In February 1997, the Court of Federal Claims ruled that the FDIC may intervene in the 45 cases, but it could not substitute for, or replace, the other plaintiffs.)

### **Entitlement to Deposit Insurance**

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In 1993, recipients of a new bank charter in Michigan filed an application with the FDIC for deposit insurance. On June 21, 1994, and two subsequent occasions, the FDIC Board of Directors denied the group's application for deposit insurance because of concerns about one of the proposed directors and officers. In a previous banking position, the individual mixed the bank's assets with his personal assets, and demonstrated a continuing inability to identify and understand conflicts of interest. In November 1996, in

the case of *Anderson v. FDIC*, the U.S. District Court for the Eastern District of Michigan granted the FDIC's request for a summary judgment and dismissed the case. At year-end, the organizers filed an appeal with the U.S. Court of Appeals for the Sixth Circuit in Cincinnati, Ohio.

The case is of importance because it raises issues concerning the FDIC's discretion to grant or deny applications for deposit insurance.

### **D'Oench Duhme**

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In 1942, the Supreme Court in *D'Oench, Duhme & Co. v. FDIC* established a broad rule protecting the FDIC against any arrangements, including oral or secret agreements, that are likely to mislead bank examiners in their review of a bank's records. Then, in 1950, Congress established strict approval and recording requirements that, if not met, barred any claim attempting to diminish the interest of the FDIC in assets acquired from a failed bank.

Between 1950 and 1989, the courts applied both *D'Oench* and the statute in tandem, with the federal common-law rule from *D'Oench* barring claims even where the statute might not. After enactment of FIRREA in 1989, however, the District of Columbia Circuit in *FDIC v. Murphy* and the U.S. Court of Appeals for the Eighth Circuit in *St. Louis, Missouri, in FDIC v. DiVall* concluded that FIRREA displaced the federal common-law rule, and that FIRREA provided the FDIC all the protections to which it is entitled in this area.

In May 1996, the U.S. Court of Appeals for the Eleventh Circuit in Atlanta in *Motorcity of Jacksonville, Ltd. v. FDIC* disagreed with the Murphy and DiVall decisions and barred claims under the broad rule established in *D'Oench*, which the court found survived the enactment of FIRREA.

In July 1996, the plaintiff in *Motorcity* asked the Supreme Court to resolve this apparent disagreement among the circuits. The FDIC opposed review by the Supreme Court. It argued that the issue of FIRREA's impact on the *D'Oench* doctrine need not be resolved because the alleged agreement to mislead the FDIC examiners was entered into before FIRREA was enacted.

(On January 21, 1997, the Supreme Court sent the case back to the Eleventh Circuit for reconsideration in light of its January 14, 1997, opinion in *Atherton v. FDIC*, an RTC professional liability suit involving related, but distinguishable, federal common-law issues.)

### **Brandt v. FDIC**

In March 1991, Southeast Bank Corporation (SBC), the holding company that owns all of the stock of Southeast Bank, N.A. and Southeast Bank of West Florida, agreed to make the banks' financial information available to First Union National Bank to evaluate a possible merger.

The agreement also prohibited First Union from publicly disclosing the financial information and the negotiations taking place. Although the agreement specifically provided that this prohibition did not apply to "federally assisted transactions," the trustee for

SBC sued First Union for alleged breaches of contract and tortious actions that occurred in the six months before the two Southeast banks were closed. The trustee also alleged that First Union violated the terms of the agreement by having discussions with the FDIC and other federal regulators. The trustee also alleged that these acts ultimately caused Southeast to be placed into receivership. The FDIC, in its corporate capacity, intervened because the resolution of this action could limit the FDIC's ability to administer properly its insurance program.

In April 1995, the U.S. District Court in Miami dismissed the trustee's claims. The court found that the claims were premised on alleged harm to the two Southeast banks, not the holding company, and therefore it was the FDIC, not the trustee, who owned the claims. The district court also concluded that all of First Union's communications with the federal regulators were permitted under the "federally assisted regulatory transactions" provision of the confidentiality agreement.

The Eleventh Circuit affirmed the dismissal on September 3, 1996, holding that the alleged actions of First Union were not the proximate cause of the banks' failure. In addition, the Eleventh Circuit held that federal regulators were entitled to the information allegedly given to them by First Union. (The trustee filed a petition appealing the case to the Supreme Court on February 7, 1997.)



Building on the groundwork laid in the previous year, the FDIC in 1996 continued to focus on organizational and operational efficiency, making significant strides in preparing for the Corporation's future. A strong banking industry and the projected continued decline in the FDIC's workload dictated a realignment of key functional areas and further staff reductions throughout the Corporation.

### **Focus on Planning and Efficiency**

Over the past two years, the Corporation has established a comprehensive, corporate-wide planning process to guide its major decisions and activities. The Board of Directors in 1995 approved a five-year strategic plan—the first in the Corporation's history—that provides the foundation for this new corporate planning process. The plan provides a clear strategic vision for the FDIC, emphasizing its responsibility to identify and address potential problems within the financial industry that might cause losses to the insurance funds. An annual Corporate Operating Plan also was instituted in 1995 for senior management to define and monitor specific projects that contribute to the strategic plan. During the past two years, 189 Corporate Operating Plan projects were initiated (including 36 new projects in 1996),

and 85 were completed. Among them were the design and implementation of new systems to increase the efficiency of the examination process (see Page 19) and approval of a procedure to ensure that proposed regulations undergo a thorough cost-benefit analysis before they are issued (see Page 22).

To complete the planning process, an annual Business Plan was initiated in April 1996. Together, the Business Plan and the Corporate Operating Plan provide the framework for the FDIC to carry out its mission, pursue its goals and objectives, and measure performance. A quarterly reporting mechanism will begin in 1997 to provide regular feedback to senior management on the Corporation's performance against measurable performance indicators. During 1996, each FDIC division and office also developed annual plans for achieving division and office objectives, and the 1997 budget process for the first time was integrated with the business planning process.

### **Downsizing and Consolidation**

The Corporation continued to shrink the size of its workforce substantially during 1996 because of reduced workload. Total FDIC staffing was reduced by approximately 23 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 highly successful 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.

On October 29, 1996, the Corporation announced plans for further downsizing, with a target of reducing total staffing to between 6,500 and 6,600 employees by December 31, 2000. This announcement was the culmination of a comprehensive six-month review that projected resolutions and asset liquidation workload will remain at historically low levels for at least the next several years. One related action was the Board's decision in December of 1996 to merge the Division of Depositor and Asset Services and the Division of Resolutions and Receiverships (DRR), and to consolidate DRR field operations by the end of 1999. DRR and related legal and other support activities in nine regional and field offices will be consolidated into the FDIC's Dallas office over the next three years. DRR staffing nationwide will be reduced from 1,819 at year-end 1996 to approximately 500 by December 31, 2000. Legal Division staffing is also expected to decline dramatically, from 1,306 at year-end 1996 to about 600 by December 31, 2000.

Also, a new buyout program was offered to about 2,500 employees in November 1996 to minimize the number of employees who would have to be involuntarily separated as a result of staffing reductions in DRR, the Legal Division, and other divisions and offices. The new buyout program was specifically targeted to those



## Number of Officials and Employees of the FDIC 1995-1996 (year-end)

	Total		Washington		Regional/Field	
	1996	1995	1996	1995	1996	1995
Executive Offices*	137	96	137	96	0	0
Division of Supervision	2,572	3,055	154	149	2,418	2,906
Division of Compliance and Consumer Affairs	588	463	51	40	537	423
Division of Depositor and Asset Services*	N/A	2,623	N/A	129	N/A	2,494
Division of Resolutions*	N/A	233	N/A	81	N/A	152
Division of Resolutions and Receiverships*	1,819	N/A	211	N/A	1,608	N/A
Legal Division	1,306	1,298	518	435	788	863
Division of Finance	726	629	328	279	398	350
Division of Information Resources Management	552	499	434	352	118	147
Office of Research and Statistics	85	51	85	51	0	0
Division of Insurance <sup>▲</sup>	41	1	28	1	13	0
Division of Administration	895	592	477	386	418	206
Office of Inspector General <sup>▼</sup>	285	173	192	156	93	17
Office of Equal Opportunity	64	34	51	28	13	6
Office of the Ombudsman	65	66	23	3	42	63
Office of Internal Control Management	16	N/A	16	N/A	0	N/A
<b>Subtotal-FDIC*</b>	<b>9,151</b>	<b>9,813</b>	<b>2,705</b>	<b>2,186</b>	<b>6,446</b>	<b>7,627</b>
Resolution Trust Corporation <sup>◊</sup>	N/A	2,043	N/A	1,065	N/A	978
<b>Total</b>	<b>9,151</b>	<b>11,856</b>	<b>2,705</b>	<b>3,251</b>	<b>6,446</b>	<b>8,605</b>

- Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Financial Officer, Chief Operating Officer, Deputy to the Chairman for Policy, Executive Secretary, Corporate Communications, Legislative Affairs, and Policy Development.
- In December 1996, the Division of Depositor and Asset Services and the Division of Resolutions were merged to create the new Division of Resolutions and Receiverships.
- ▲ The only employee in the Division of Insurance in 1995 was its director, named on October 30.
- ▼ Year-end staffing for 1995 has been revised from the figures shown in the 1995 Annual Report.
- ◊ The year-end 1995 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.

organizations, occupations, and locations within the Corporation that are projected to have excess staffing. (The buyout application period closed on February 28, 1997, and more than 400 participating employees are expected to leave the Corporation over the ensuing six months). For more information on downsizing, see Page 4.

The Corporation also initiated in late 1996 a number of job placement and training initiatives designed to cushion the impact of the DRR field consolidations. For example, a training program was established to help employees become bank examiners in the Division

of Supervision or compliance examiners in the Division of Compliance and Consumer Affairs. The Corporation's Career Transition and Outplacement Program was also expanded to include individualized job search assistance to help eligible employees find employment outside of the FDIC.

### **Audits, Investigations and Reviews**

The Office of Inspector General (OIG) continued to perform independent audits, investigations and other activities related to corporate and receivership programs and operations. The OIG's mission is to promote economy and efficiency and to detect and prevent fraud and abuse.

The FDIC's first Presidentially appointed Inspector General, Gaston L. Gianni, Jr., took office in April 1996. The Inspector General Act, as amended by the RTC Completion Act of 1993, requires that the Inspector General be appointed by the President and confirmed by the Senate. The Inspector General keeps the FDIC Board of Directors and the Congress apprised of fraud and serious problems in corporate programs and operations.

For the 12-month period ending September 30, 1996 (the OIG's reporting period to Congress), the office issued 153 audit and evaluation reports with questioned costs totaling more than \$59 million and with various recommendations to improve corporate programs and operations. OIG investigative activities nationwide resulted in nearly \$10 million in fines, restitutions and recoveries. Indictments or criminal charges were brought against 51 individuals, while 29 individuals were convicted and 25 individuals or entities were sentenced.

The OIG continued its program of contractor reviews—a joint initiative with FDIC management to properly close out contracts in a timely manner. Under the Inspector General Act, as amended, the OIG also implemented procedures to review all draft corporate directives, policies and procedural manuals, and proposed legislation and regulations before they are issued.

In May, the FDIC established the Office of Internal Control Management (OICM) to focus more closely on internal controls and audit resolution activities. This initiative supports the

strategic goal of maintaining a strong, effective internal control program. OICM works with each division and office to ensure that internal control matters receive appropriate attention at the corporate level. The office is the Corporation's liaison with the U.S. General Accounting Office, the OIG, and a new Audit Committee, which the Board of Directors established in 1996 to assist with oversight of the Corporation's financial reporting, internal control and audit processes.

### **Using Technology to Improve Communication**

The Corporation's commitment to using technology to improve communication inside and outside the agency was evidenced by the Internet's widespread use during 1996. Customers of FDIC Internet offerings included bankers, regulators, financial analysts, journalists, stockbrokers, scholars, consumers and others who want quick and easy access to the FDIC's public information. The range of FDIC publications accessible through the Internet ([www.fdic.gov](http://www.fdic.gov)) expanded considerably during 1996 to include FDIC "financial institution letters" (notices to the industry about proposed or new

rules and procedures), press releases, speeches by the FDIC Chairman, congressional testimony, manuals, descriptions of banking laws, lists of asset information, and banking statistics.

### **FDIC/RTC Transition**

Following the sunset of the RTC at the end of 1995, the FDIC in 1996 absorbed the remaining assets and other workload of the RTC, and made substantial progress in these areas. The FDIC disposed of approximately \$3.3 billion (book value) of the \$7.7 billion (book value) in RTC assets that were transferred to the FDIC. Over 2,000 RTC employees were also successfully integrated into the FDIC workforce. In addition, the FDIC largely completed implementing 50 RTC "best practices," 21 RTC management goals and reforms, and 49 RTC automated systems, as recommended by an FDIC/RTC Transition Task Force that identified operational differences between the two agencies. The remaining recommendations will be implemented in 1997.

Also based on the recommendations of the Task Force, the Corporation completed the development of a new automated general ledger system, the Financial Information Management System. This new system, implemented on January 1, 1997, consolidates the general ledgers of the FDIC and the RTC, and greatly improves the Corporation's financial management and analysis capabilities.





**Regulations and Legislation**

## Regulations Adopted and Proposed

The "published" date refers to the day published in the *Federal Register*.

### Final Rules

#### Foreign Banks

The FDIC amended Part 346 of its regulations governing the operation of state-licensed U.S. branches of foreign banks. The amendments, required by Section 107 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, are intended to ensure that foreign banks do not receive an unfair competitive advantage over U.S. banks in domestic retail deposit taking. This final rule amends the regulations to restrict the amount and types of initial deposits to less than \$100,000 that can be accepted by an uninsured state-licensed branch of a foreign bank.

Approved: February 6, 1996  
Published: February 14, 1996

#### Executive Benefits

The FDIC amended Parts 303 and 359 of its regulations to prohibit troubled holding companies, banks and thrifts from making "golden parachute" payments, with certain exceptions. Golden parachutes typically are large cash payments to executives who resign just before an institution is closed or sold. The purpose of this rule is to prevent the improper disposition of an institution's assets and to protect the safety and soundness of institutions and the federal deposit insurance funds.

Approved: February 6, 1996  
Published: February 15, 1996

#### Annual Audit and Reporting Requirements

The FDIC amended Part 363 of its regulations to implement various provisions of the Riegle Community Development and Regulatory Improvement Act of 1994 and otherwise provide relief from audit and reporting requirements for certain sound and well-managed banks. The purpose of this rule is to eliminate duplicative reporting requirements, and to streamline and reformat specific procedures that independent accountants must perform to help regulators determine compliance with designated laws.

Approved: February 6, 1996  
Published: February 21, 1996

#### Suspicious Activity Reports

The FDIC amended Part 353 of its regulations on the reporting of known or suspected criminal and suspicious activities by insured state nonmember banks. The rule requires the use of the uniform interagency Suspicious Activity Report (SAR) to report potential violations of federal criminal law as well as suspicious transactions related to money laundering offenses and violations of the Bank Secrecy Act. The new SAR substantially reduces the reporting burden of financial institutions by significantly increasing the reporting thresholds for offenses by non-bank employees. There also is a \$5,000 threshold for reporting suspicious transactions related to money laundering and violations of the Bank Secrecy Act. Additionally, criminal referrals will be submitted to the Financial Crimes Enforcement Network of the Department of the Treasury rather than to multiple federal agencies. The other financial regulatory agencies and the Department of Treasury issued similar rules.

Approved: February 6, 1996  
Published: February 16, 1996

#### Contractor Conflicts of Interest

The FDIC, with concurrence of the U.S. Office of Government Ethics, amended Part 366 of its regulations by adopting an interim rule governing contractor conflicts of interest. The interim rule implements provisions of the Resolution Trust Corporation Completion Act of 1993 requiring the FDIC to prescribe regulations to ensure that contractors meet minimum standards. The rules also prohibit contracts with certain entities.

Approved: February 27, 1996  
Published: March 11, 1996

#### Administrative Procedures

The FDIC amended Part 308 of its regulations regarding Uniform Rules of Practice and Procedure. The purpose of the final rule is to clarify certain provisions and to increase the efficiency and fairness of administrative hearings. The bank and thrift regulatory agencies are required by Section 916 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to develop uniform rules and procedures for administrative hearings. The areas affected by this rulemaking are largely administrative, such as service of papers, construction of time limits and amended pleadings.

Approved: April 3, 1996  
Published: May 6, 1996

## Final Rules

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### **Community Reinvestment Act**

The FDIC, with the other bank and thrift regulatory agencies, amended Part 345 of its regulations to make technical corrections to certain portions of the joint final rule regarding the Community Reinvestment Act (CRA), which promotes efforts by financial institutions to help meet the credit needs of their entire communities. This rule corrects a cross reference to Small Business Administration regulations, which were recently amended. This rule makes no substantive change to the existing regulation.

**Approved: April 3, 1996**

**Published: May 10, 1996**

### **Standards for FDIC Employment**

The FDIC amended Part 336 of its regulations concerning employee responsibilities and conduct. This rule implements requirements contained in Section 19 of the Resolution Trust Corporation Completion Act of 1993, which prohibits certain persons from being employed by or providing services to the FDIC.

**Approved: May 14, 1996**

**Published: June 6, 1996**

### **Agricultural Loan Loss Amortization**

The FDIC, as part of its review of all rules and policy statements, removed its regulation governing agricultural loan loss amortization. This action is needed to eliminate the regulation when it becomes obsolete on January 1, 1999.

**Approved: June 17, 1996**

**Published: July 1, 1996**

### **Securities Purchases by Family Members of FDIC Employees**

The FDIC, with concurrence of the U.S. Office of Government Ethics, amended its standards for employee conduct (5 CFR Part 3201) to allow employees' spouses and minor children to purchase otherwise prohibited securities when they are acquired as part of compensation packages in connection with employment. The amendment was made retroactive to May 25, 1995.

**Approved: July 1, 1996**

**Published: July 9, 1996**

### **Public Observation of Meetings**

The FDIC made technical amendments to Part 311 of its regulations regarding public observation of meetings of its Board of Directors.

**Approved: July 16, 1996**

**Published: July 24, 1996**

### **Management Interlocks**

The FDIC, together with the other bank and thrift regulatory agencies, amended Part 348 of its regulations regarding management interlocks. With certain exceptions, these rules prohibit bank management officials from simultaneously serving in a similar capacity with other financial institutions. The revisions implement statutory changes that were mandated by the Riegle Community Development and Regulatory Improvement Act of 1994 (CDRI), and also streamline and clarify the rules. CDRI removed the agencies' broad authority to exempt otherwise impermissible interlocks and replaced it with the authority to exempt interlocks under more narrow circumstances. The Act also required a depository institution with a "grandfathered" interlock to apply for an extension of the grandfathered period if the organization wanted to keep the interlock in place.

**Approved: July 16, 1996**

**Published: August 2, 1996**

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## Final Rules

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### Privacy Act

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The FDIC made minor and technical amendments to its Privacy Act regulations (Part 310), which relate to the collection, maintenance, use and dissemination of personal information by government agencies. The amendments delete outmoded terms and otherwise update and clarify the regulations.

**Approved: August 13, 1996**

**Published: August 23, 1996**

### Safety and Soundness

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The FDIC, together with the other bank and thrift regulatory agencies, amended Part 364 of its regulations concerning standards for safety and soundness. The guidelines were amended to include asset quality and earnings standards, and were adopted pursuant to the Federal Deposit Insurance Act as amended by the CDRI. The guidelines as amended gave the agencies greater flexibility to use more comprehensive qualitative standards, rather than rigid quantitative standards.

**Approved: August 13, 1996**

**Published: August 27, 1996**

### Loans in Areas Having Special Flood Hazards

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The FDIC, together with the other bank and thrift regulatory agencies, the Farm Credit Administration and the National Credit Union Administration, amended Part 339 of its regulations to expand requirements for loans in areas having special flood hazards. This final rule establishes new escrow requirements for flood insurance premiums, provides authority for lenders to purchase flood insurance on behalf of a borrower who would not purchase the policy when requested (with the cost passed along to the borrower), and makes other changes to implement the National Flood Insurance Reform Act of 1994.

**Approved: August 13, 1996**

**Published: August 29, 1996**

### Market Risk

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The FDIC, together with the Federal Reserve Board and the Office of the Comptroller of the Currency, amended Part 325 of its regulations regarding risk-based capital requirements to incorporate a new measure for market risk. The new measurement covers debt and equity positions in an institution's trading account and foreign exchange and commodity positions wherever located. The effect of the final rule is that any bank or bank holding company regulated by the agencies with significant exposure to market risk must measure that risk using its own internal "value-at-risk" model, subject to parameters contained in the rule, and hold a commensurate amount of capital.

**Approved: August 13, 1996**

**Published: September 6, 1996**

### Applications Regarding Bank Clearing Agencies

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The FDIC, as part of its regulatory relief efforts, deleted its rules pertaining to applications for a stay or review of actions of bank clearing agencies (Part 342) and replaced them with new, more concise regulations (Part 308). The changes are intended to streamline the FDIC's regulations while maintaining uniformity among the other banking agencies and the Securities and Exchange Commission.

**Approved: August 13, 1996**

**Published: September 13, 1996**

### Employee Disclosure Requirements

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The FDIC, with the concurrence of the U.S. Office of Government Ethics (OGE), removed an interim supplemental financial disclosure regulation for FDIC employees. The OGE determined that agencies obtaining its written approval for supplemental financial disclosure forms are not required to have separate regulations.

**Approved: September 10, 1996**

**Published: September 30, 1996**

## Final Rules

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### SAIF Assessments

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The FDIC issued a final rule imposing a special assessment on institutions that pay assessments to the Savings Association Insurance Fund (SAIF), as required by the Deposit Insurance Funds Act of 1996. That Act requires that the assessment, which was calculated to be 65.7 cents for every \$100 of deposits, is to be applied against SAIF-assessable deposits held as of March 31, 1995. This final rule provides for certain discounts and exemptions related to the special assessment, and for the FDIC to establish guidelines for identifying institutions classified as "weak" and thereby exempt from the special assessment. The rule also adjusts the base for computing the regular semiannual assessments paid by certain institutions, in accordance with the law.

**Approved: October 8, 1996**  
**Published: October 16, 1996**

### Civil Money Penalty

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The FDIC, as required by the Debt Collection Improvement Act of 1996, amended Part 308 of its rules and regulations to increase civil money penalties by the rate of inflation using a formula prescribed by the law. Any increase in a penalty will apply only to violations that occur after November 12, 1996.

**Approved: October 29, 1996**  
**Published: November 12, 1996**

### Assessments for "Oakar" Institutions

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The FDIC amended Part 327 of its regulations governing assessments by adopting provisions that pertain to so-called Oakar institutions: institutions that belong to one insurance fund but hold deposits that are treated as insured by the other insurance fund. This rule refines the procedures for determining the amount of deposits acquired and for attributing the deposits to the Bank Insurance Fund (BIF) and the SAIF. In addition, the rule eliminates weaknesses in the FDIC's procedures for attributing deposits to the two funds, and for computing the growth of the amounts.

**Approved: November 26, 1996**  
**Published: December 10, 1996**

### SAIF Premium Rates

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With the capitalization of the SAIF on September 30, 1996, the FDIC lowered the rates on assessments paid to the fund and widened the spread of the rates. The changes are intended to avoid collecting more than needed to maintain the SAIF's capitalization at 1.25 percent of insured deposits, and improve the effectiveness of the risk-based assessment system.

**Approved: December 11, 1996**  
**Published: December 24, 1996**

### Suspension and Exclusion of Contracts

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The FDIC amended Part 367 of its regulations concerning contracts and contractors pursuant to Section 12 of the Federal Deposit Insurance Act. This rule sets procedures for the suspension and/or exclusion of contractors who have violated conflicts of interest regulations or have otherwise acted in an improper manner. The rule also applies to subcontractors, key employees, management officials and affiliated business entities of FDIC contractors.

**Approved: December 11, 1996**  
**Published: December 30, 1996**

### Loans to Examiners

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The FDIC amended its regulations concerning standards of ethical conduct to allow bank examiners to obtain loans from banks in the locations where they work, except for the location of the field office. Previously, it was necessary for examiners to seek credit from banks outside their regions.

**Approved: December 11, 1996**  
**Published: January 27, 1997**



Sally Kearney

## Proposed Rules

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### Government Securities Sales

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The FDIC, with the Federal Reserve Board and the Office of the Comptroller of the Currency, issued for public comment a proposed rule to amend Part 368 of its regulations concerning sales of government securities by bank brokers or dealers. The proposed rule would establish standards concerning recommendations to customers and the conduct of business.

**Approved:** April 4, 1996  
**Published:** April 25, 1996

### Securities Disclosures

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The FDIC issued for public comment a proposed rule to amend Part 335 of its regulations concerning securities of nonmember insured banks. The proposal seeks to incorporate through cross-reference the corresponding regulations of the Securities and Exchange Commission (SEC). This would ensure that the FDIC's regulations remain substantially similar to the SEC's regulations, as required by law.

**Approved:** June 17, 1996  
**Published:** June 28, 1996

### Collateralized Transactions

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The FDIC, together with the other bank and thrift regulatory agencies, issued for public comment a proposed rule to amend Part 325 of its regulations concerning risk-based capital for collateralized transactions. The effect of the proposal would be to allow banks, bank holding companies and savings associations to hold less capital for certain transactions collateralized by cash or qualifying securities. The proposed rule would implement part of Section 303 of the CDRI.

**Approved:** June 17, 1996  
**Published:** August 16, 1996

### Economically Depressed Regions

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The FDIC issued for public comment a proposed rule to amend Part 357 of its regulations that designates certain economically depressed regions. The proposed change would add guidance to allow applicants to evaluate their situations before formally applying for assistance. The proposed rule also would withdraw a previously proposed amendment published in 1992.

**Approved:** July 16, 1996  
**Published:** August 6, 1996

### Activities and Investments of Insured State Banks

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The FDIC issued for public comment a proposed rule to streamline Part 362 of its regulations concerning activities and investments of insured state banks. Currently, insured state banks are required to file an application with the FDIC to engage in activities that are not permissible for national banks. The proposed rule would streamline the approval process for banks meeting certain criteria. Banks that do not meet the criteria would continue to file under the current rules.

**Approved:** August 13, 1996  
**Published:** August 23, 1996

### Fair Housing Advertising and Recordkeeping

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The FDIC issued for public comment a proposed rule amending Part 338 of its regulations by giving insured state nonmember banks more flexibility in using fair housing posters and advertising slogans. It also would remove the FDIC's recordkeeping requirements that serve as a substitute monitoring program permitted by Regulation B of the Federal Reserve Board.

**Approved:** September 10, 1996  
**Published:** September 20, 1996



## Proposed Rules

### **Recordkeeping and Confirmation Requirements for Securities Transactions**

The FDIC proposed an amendment of Part 344 of its regulations concerning recordkeeping and confirmation requirements for securities transactions. The regulations currently in effect were issued in 1979, and the types of securities activities occurring on bank premises have changed significantly. Among other things, the proposed rule would exempt from the FDIC's recordkeeping and confirmation requirements those cases in which the customer has a direct contractual agreement with a broker/dealer whose relationship is fully disclosed to the customer. Also, the proposal would require certain financial institution directors to report personal investment transactions.

**Approved: December 11, 1996**  
**Published: December 24, 1996**

### **Qualification Requirements for Certain Securities Transactions**

The FDIC, together with the Office of the Comptroller of the Currency and the Federal Reserve Board, issued for public comment a proposed rule to amend Part 342 of its regulations concerning the sale of securities. The proposed rule would require banks to file a notice with the appropriate federal banking agency and establish professional qualification requirements for bank employees that are consistent with those for broker/dealers and registered representatives under the Securities Exchange Act and the rules of the securities industry's self-regulatory organizations. The proposed rule would require bank employees to register with the appropriate banking agency, take and pass a proficiency examination to become a bank securities representative and meet continuing education requirements.

**Approved: December 11, 1996**  
**Published: December 30, 1996**

## Advance Notice of Proposed Rulemaking

### **Simplification of Deposit Insurance Rules**

The FDIC asked for public comment on whether and how its deposit insurance rules (Part 330) should be clarified, simplified or streamlined. If the Board finds modifications to be warranted, it will propose specific amendments for further public comment.

**Approved: May 14, 1996**  
**Published: May 22, 1996**



Several bills of significance to the FDIC and insured depository institutions were enacted during 1996. From the FDIC's standpoint, the most significant legislation fully capitalized the Savings Association Insurance Fund (SAIF), one of the two insurance funds administered by the FDIC. This Act and other new laws that impact the FDIC and insured depository institutions are described in this chapter.

### Omnibus Legislation

On September 30, 1996, an omnibus bill (P.L. 104-208) was enacted containing several laws of interest to the FDIC.

The Deposit Insurance Funds Act of 1996:

- Capitalizes the SAIF on October 1, 1996, through a one-time special assessment based on SAIF-assessable deposits held on March 31, 1995, in the amount necessary to achieve the fund's designated reserve ratio of \$1.25 for every \$100 of insured deposits.
- Exempts weak institutions and various other defined institutions from the special assessment and reduces SAIF-assessable deposits at certain institutions for purposes of calculating the special assessment.
- Separates assessments for Financing Corporation (FICO) bonds (those issued by the government corporation created in 1987 to recapitalize the former Federal Savings and Loan Insurance Corporation) from the regular SAIF assessments starting January 1, 1997.

- Requires banks insured by the Bank Insurance Fund (BIF) to begin sharing FICO bond payments. The rate on BIF-assessable deposits will be one-fifth the rate imposed on SAIF-assessable deposits for the first three years beginning on January 1, 1997, unless the last savings association ceases to exist before that date. Thereafter, all FDIC-insured institutions will share the FICO assessment on a pro rata basis, regardless of which fund insures their deposits.
- Directs the FDIC and the other federal banking and thrift agencies to take appropriate actions to prevent insured depository institutions from shifting deposits to evade SAIF assessments.
- Provides for the merger of the BIF and the SAIF on January 1, 1999, if no savings association exists on that date.

The Economic Growth and Regulatory Paperwork Reduction Act of 1996 modified numerous regulatory requirements and procedures affecting federal regulatory agencies, financial institutions and consumers. This law:

- Streamlines application and notice requirements in a number of areas, such as nonbanking acquisitions by well-managed and well-capitalized bank holding companies.
- Allows a 60-day period (with a 30-day extension) for FDIC consideration of completed applications from a state bank or its subsidiary to engage in an activity that is not permissible for a national bank, but does not provide for automatic approval if the FDIC does not act on an application within the time period.
- Raises the threshold for small banks to be examined every 18 months from \$175 million in total assets to as much as \$250 million in total assets.

- Requires the FDIC and other federal bank regulatory agencies to review their regulations periodically and eliminate requirements for unnecessary internal policies.
- Directs each federal banking agency to coordinate examinations and consult with each other, to resolve inconsistencies in recommendations to be given to an institution, and to consider appointing an examiner-in-charge to ensure consultation takes place.
- Provides in cases of coordinated examinations of institutions with state-chartered subsidiaries that the lead agency could be the state chartering agency.
- Requires reports from all banking regulators on actions taken to eliminate duplicative or inconsistent accounting or reporting requirements in statements or reports from regulated institutions.
- Reduces regulatory burden under a number of consumer protection statutes, including the Home Mortgage Disclosure Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Equal Credit Opportunity Act, and Fair Housing Act.
- Amends the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, excluding lenders from liability under certain circumstances.
- Reforms consumer credit reporting laws to provide consumers with additional protections in areas such as protecting privacy and correcting mistakes.

The omnibus legislation includes other miscellaneous provisions also of interest to the FDIC or depository institutions, including authorizing the FSLIC Resolution Fund to reimburse the Department of Justice for various legal expenses.

### **Small Business Regulatory Enforcement Fairness Act of 1996**

The Small Business Regulatory Enforcement Fairness Act of 1996 (P.L. 104-121) was enacted on March 29, 1996, as part of the Contract With America Advancement Act of 1996. Provisions affect government regulation of small businesses, which may in some instances include financial institutions with less than \$100 million in assets. The law also establishes a congressional review process for certain regulations.

The new law requires that agencies produce and make available additional materials to assist small businesses in complying with new regulations promulgated under the Regulatory Flexibility Act. Also, each agency must establish a program for responding to concerns of small businesses,

Each agency that regulates the activities of small businesses must establish a policy or program not later than March 29, 1997, providing for the reduction or waiver of civil penalties for violations of statutory or regulatory requirements, subject to exceptions the agency may establish. The agency may, under appropriate circumstances, consider ability to pay in determining penalties against small businesses.

The law also provides that before certain rules can take effect, the agency promulgating the rule must submit a report to Congress and the Comptroller General including any cost-benefit analysis and actions taken under the Regulatory Flexibility Act. A rule may not take effect or continue in effect if Congress enacts a joint resolution of disapproval and the President signs the resolution.

### **Debt Collection Improvement Act**

Another omnibus bill (P.L. 104-134), enacted on April 26, 1996, contains the Debt Collection Improvement Act of 1996. This law amends a number of statutes related to debt collection and electronic funds transfer of federal payments. In general, the law requires that all "federal payments" ultimately be made by electronic funds transfer unless a waiver is obtained. It also enhances the federal government's ability to collect delinquent debts from people who are owed money by another government agency.

### **FDIC Contractor Regulations**

The Office of Government Ethics Authorization Act of 1996 (P.L. 104-179), enacted on August 8, 1996, extended the operations of the Office of Government Ethics (OGE) for an additional three years. One provision eliminates the statutory requirement for OGE concurrence in FDIC regulations concerning the conduct of independent contractors retained by the FDIC and relating to conflicts of interest, ethical responsibilities, and the use of confidential information.

### **Bank and Thrift Taxation**

The Small Business Job Protection Act of 1996 (P.L. 104-188), enacted on August 20, 1996, contains several changes to the tax code that could affect small businesses, the banking

industry, and bank regulatory programs. One provision allows both spouses to contribute up to \$2,000 to an Individual Retirement Account (IRA), even if one spouse does not work outside the home. Other provisions authorize financial institutions meeting certain criteria to qualify as Subchapter S corporations, create financial asset securitization investment trusts (FASITs), and repeal the reserve method of accounting for bad debts by thrift institutions.

### **Electronic FOIA**

The Electronic Freedom of Information Act Amendments of 1996 (P.L. 104-231), enacted on October 19, 1996, requires the disclosure of agency records in an electronic format, where feasible, when requested under procedures established by the Freedom of Information Act.



Mitchell Crawley



institutions that fail are made insured depositors and represent the receiverships' assets.

for failed banks, engages in a variety of actions to maximize the return on assets and to minimize realized losses. The receiver may also engage in transactions as circumstances warrant. As

\$2.1 billion allowance for losses of receivership assets. The material to the BIF's financial statements are regularly evaluated, but recoveries are because of changing economic conditions. These factors could affect the BIF's and other claimants' actual recoveries from the level currently estimated.

	December 31, 1996	December 31, 1995
<b>from Bank Resolutions, Net</b>		
In Thousands	\$ 142,267	\$ 158,000
	(49,580)	(57,405)
	<b>92,687</b>	<b>100,595</b>
from Open Bank Assistance	23,563,609	25,073,165
Provision for losses (Note 9)	(19,315,142)	(21,030,720)
	<b>4,248,467</b>	<b>4,042,445</b>
	\$ 4,341,154	\$ 4,143,040

**Financials**



## Federal Deposit Insurance Corporation

## Bank Insurance Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1996	December 31, 1995
<b>Assets</b>		
Cash and cash equivalents	\$ 258,132	\$ 531,308
Investments in U.S. Treasury obligations, net (Note 3) (Market value of investments at December 31, 1996 and December 31, 1995 was \$22.1 billion, and \$20.9 billion respectively)	22,083,494	20,762,046
Interest receivable on investments and other assets, net	384,824	406,804
Receivables from bank resolutions, net (Note 4)	4,341,154	4,143,040
Investment in corporate owned assets, net (Note 5)	63,406	180,293
Property and buildings, net (Note 6)	148,400	151,740
<b>Total Assets</b>	<b>\$ 27,279,410</b>	<b>\$ 26,175,231</b>
<b>Liabilities and the Fund Balance</b>		
Accounts payable and other liabilities	\$ 240,185	\$ 224,626
<i>Estimated liabilities for: (Notes 8 and 9)</i>		
Anticipated failure of insured institutions	75,000	279,000
Assistance agreements	50,817	55,941
Asset securitization guarantees	44,279	126,151
Litigation losses	14,750	35,815
<b>Total Liabilities</b>	<b>425,031</b>	<b>721,533</b>
<i>Commitments and contingencies (Notes 13 and 14)</i>		
<b>Fund Balance</b>	<b>26,854,379</b>	<b>25,453,698</b>
<b>Total Liabilities and the Fund Balance</b>	<b>\$ 27,279,410</b>	<b>\$ 26,175,231</b>

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

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**Federal Deposit Insurance Corporation**

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**Bank Insurance Fund Statements of Income and the Fund Balance**

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Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
<b>Revenue</b>		
Assessments (Note 10)	\$ 72,662	\$ 2,906,943
Interest on U.S. Treasury investments	1,267,134	1,068,395
Revenue from corporate owned assets	69,879	58,585
Other Revenue (Note 7)	245,585	55,176
<b>Total Revenue</b>	<b>1,655,260</b>	<b>4,089,099</b>
<b>Expenses and Losses</b>		
Operating expenses	505,299	470,625
Reduction in provision for insurance losses (Note 9)	(325,206)	(33,167)
Corportate owned asset expenses	73,819	73,599
Interest and other insurance expenses	667	(27,874)
<b>Total Expenses and Losses</b>	<b>254,579</b>	<b>483,183</b>
<b>Net Income</b>	<b>1,400,681</b>	<b>3,605,916</b>
<b>Fund Balance - Beginning</b>	<b>25,453,698</b>	<b>21,847,782</b>
<b>Fund Balance - Ending</b>	<b>\$ 26,854,379</b>	<b>\$ 25,453,698</b>

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



**Federal Deposit Insurance Corporation**

**Bank Insurance Fund Statements of Cash Flows**

Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
<b>Cash Flows from Operating Activities</b>		
<b>Cash Provided from:</b>		
Assessments	\$ 73,961	\$ 2,796,114
Interest on U.S. Treasury investments	1,303,629	875,226
Recoveries from bank resolutions	624,502	5,059,751
Recoveries from corporate owned assets	355,913	211,691
Miscellaneous receipts	34,329	36,084
<b>Cash used for:</b>		
Operating expenses	(489,372)	(442,101)
Disbursements for bank resolutions	(632,930)	(1,596,391)
Disbursements for corporate owned assets	(205,775)	(159,299)
Miscellaneous disbursements	(16,810)	(23,929)
<b>Net Cash Provided by Operating Activities (Note 16)</b>	<b>1,047,447</b>	<b>6,757,146</b>
<b>Cash Flows from Investing Activities</b>		
<b>Cash provided from:</b>		
Maturity of U.S. Treasury obligations	7,550,000	3,830,000
<b>Cash used for:</b>		
Purchase of U.S. Treasury obligations	(8,870,623)	(11,675,925)
<b>Net Cash Used by Investing Activities</b>	<b>(1,320,623)</b>	<b>(7,845,925)</b>
<b>Cash Flows from Financing Activities</b>		
<b>Cash used for:</b>		
Repayments of indebtedness incurred from bank resolutions	0	(1,369)
<b>Net Cash Used by Financing Activities</b>	<b>0</b>	<b>(1,369)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(273,176)</b>	<b>(1,090,148)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>531,308</b>	<b>1,621,456</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 258,132</b>	<b>\$ 531,308</b>

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

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## 1. Legislative History and Operations of the Bank Insurance Fund

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### Legislative History

The U.S. Congress created the Federal Deposit Insurance Corporation (FDIC) through enactment of the Banking Act of 1933. The FDIC was created to restore and maintain public confidence in the nation's banking system.

More recently, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF) and the FSLIC Resolution Fund (FRF). It also designated the FDIC as the administrator of these three funds. All three funds are maintained separately to carry out their respective mandates.

The BIF and SAIF are insurance funds responsible for protecting depositors in operating banks and thrift institutions from loss due to failure of the institution. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to FIRREA, an active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of BIF-member institutions are mostly insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve. Deposits of SAIF-member institutions are mostly insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). The Oakar amendment to the Federal Deposit Insurance Act (FDI Act) allows BIF and SAIF members to acquire deposits insured by the other insurance fund without changing insurance fund coverage for the acquired deposits.

Other significant legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 10) and borrowing authority (see "Operations of the BIF" below). The FDICIA also requires the FDIC to: 1) resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain the insurance funds at 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

### Recent Legislation

The Deposit Insurance Funds Act of 1996 (DIFA 1996) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio of 1.25 percent by means of a one-time special

assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the Financing Corporation (FICO) to include all FDIC-insured institutions, i.e., banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate for BIF-assessable deposits that is one-fifth of that paid by SAIF-assessable deposits; 4) the payment of the approximately \$790 million annual FICO interest obligation on a pro rata basis between banks and thrifts on the earlier of December 31, 1999 or the date on which the last savings association ceases to exist; 5) the refund of amounts in the BIF in excess of the designated reserve ratio with such refund not to exceed the previous semi-annual assessment; 6) authorization of BIF assessments only if needed to maintain the fund at the designated reserve ratio; and 7) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date.

The FICO, established under the Competitive Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

### Operations of the BIF

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

The BIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations; 2) BIF assessment premiums; 3) income earned on and funds received from the management and disposition of assets acquired from failed banks; and 4) U.S. Treasury and Federal Financing Bank (FFB) borrowings, if necessary.

The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from \$5 billion to \$30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the BIF, known as the maximum obligation limitation (MOL). At December 31, 1996, the MOL for the BIF was \$49 billion.

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## 2. Summary of Significant Accounting Policies

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### General

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

### Use of Estimates

The preparation of the BIF's financial statements in conformity with GAAP requires FDIC management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

### Cash and Cash Equivalents

The BIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

### U.S. Treasury Obligations

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

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

The BIF records as a receivable the amounts advanced and/or obligations incurred for resolving troubled and failed banks. The BIF also records as an asset the amounts advanced for investment in corporate owned assets. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from assets of assisted or failed banks, net of all estimated liquidation costs.

### Litigation Losses

The BIF accrues, as a charge to current period operations, an estimate of probable losses from litigation. The FDIC's Legal Division recommends these estimates on a case-by-case

basis. The litigation loss estimates related to the BIF in its corporate capacity are included in the "Estimated liabilities for: Litigation losses." The litigation loss estimates related to receiverships are included in the allowance for losses for "Receivables from bank resolutions, net."

### Receivership Operations

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

### Cost Allocations Among Funds

Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The BIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

### Postretirement Benefits Other Than Pensions

The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the BIF, the SAIF and the FRF. The BIF funds its liabilities for these benefits directly to the entity.

### Disclosure about Recent Financial Accounting Standards Board Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in June 1996, effective for transactions occurring after December 31, 1996. The BIF will generally be unaffected by its provisions since most transactions subject to SFAS 125 occur at the receivership level and not at the fund level. To the extent that the BIF may be affected, the FDIC's current accounting practices are consistent with the rules contained in SFAS 125. Other recent pronouncements issued by the FASB have been adopted or are either not applicable or not material to the financial statements.

## BIF

### Depreciation

The FDIC has designated the BIF administrator of buildings owned and used in its operations. Consequently, the BIF includes the cost of these assets in its financial statements and provides the necessary funding for them. The BIF charges other funds a rental fee representing an allocated share of its annual depreciation expense.

The Washington, D.C., office buildings and the L. William Seidman Center in Arlington, Virginia, are depreciated on a straight-line basis over a 50-year estimated life.

The San Francisco condominium offices are depreciated on a straight-line basis over a 35-year estimated life.

### Related Parties

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

### Reclassifications

Reclassifications have been made in the 1995 financial statements to conform to the presentation used in 1996.

## 3. Investment in U.S. Treasury Obligations, Net

All cash received by the BIF is invested in U.S. Treasury obligations with maturities exceeding three months unless the cash is used: 1) to defray operating expenses;

2) for outlays related to assistance to banks and liquidation activities; or 3) for investments in U.S. Treasury one-day special certificates which are cash equivalents.

### U.S. Treasury Obligations at December 31, 1996

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year	6.02%	\$ 5,805,090	\$ 15,032	\$ (6,934)	\$ 5,813,188	\$ 5,800,000
1-3 years	5.62%	8,339,386	8,499	(37,429)	8,310,456	8,320,000
3-5 years	6.10%	4,811,582	21,306	(30,560)	4,802,328	4,770,000
5-10 years	6.51%	3,127,436	38,415	(328)	3,165,523	3,100,000
<b>Total</b>		<b>\$ 22,083,494</b>	<b>\$ 83,252</b>	<b>\$ (75,251)</b>	<b>\$ 22,091,495</b>	<b>\$ 21,990,000</b>

### U.S. Treasury Obligations at December 31, 1995

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year <sup>(a)</sup>	5.53%	\$ 6,750,414	\$ 19,934	\$ (5,262)	\$ 6,765,086	\$ 6,750,000
1-3 years	5.88%	12,318,436	147,762	(24,776)	12,441,422	12,350,000
3-5 years	5.59%	1,693,196	15,613	0	1,708,809	1,690,000
<b>Total</b>		<b>\$ 20,762,046</b>	<b>\$ 183,309</b>	<b>\$ (30,038)</b>	<b>\$ 20,915,317</b>	<b>\$ 20,790,000</b>

(a) Includes a \$400 million Treasury note which matured on Sunday, December 31, 1995. Settlement occurred on the next business day, January 2, 1996.

In 1996, the unamortized discount, net of unamortized premium, was \$93 million. In 1995, the unamortized premium, net of unamortized discount, was \$28 million.

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#### 4. Receivables from Bank Resolutions, Net

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The FDIC resolution process results in different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover the institution's obligation to insured depositors and represent a claim by the BIF against the receiverships' assets.

The FDIC, as receiver for failed banks, engages in a variety of strategies at the time of failure to maximize the return from the sale or disposition of assets and to minimize realized losses. A failed bank acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit and risk related to such assets. The receiver may also engage in other types of transactions as circumstances warrant. As

described in Note 2, an allowance for loss is established against the receivable from bank resolutions.

As of December 31, 1996 and 1995, the BIF, in its receivership capacity, held assets with a book value of \$7 billion and \$10 billion, respectively. These assets represent a significant source of repayment of receivables from bank resolutions. The estimated cash recoveries from the management and disposition of these assets (excluding cash and miscellaneous receivables of \$3.9 billion at December 31, 1996 and \$2.1 billion at December 31, 1995) used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The potential sampling error is not material to the BIF's financial statements. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could affect the BIF's and other claimants' actual recoveries from the level currently estimated.

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#### Receivables from Bank Resolutions, Net

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Dollars in Thousands

	December 31, 1996	December 31, 1995
Assets from Open Bank Assistance	\$ 142,267	\$ 158,000
Allowance for losses (Note 9)	(49,580)	(57,405)
	<b>92,687</b>	<b>100,595</b>
Receivables from Closed Banks	23,563,609	25,073,165
Allowance for losses (Note 9)	(19,315,142)	(21,030,720)
	<b>4,248,467</b>	<b>4,042,445</b>
<b>Total</b>	<b>\$ 4,341,154</b>	<b>\$ 4,143,040</b>

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#### 5. Investment in Corporate Owned Assets, Net

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The BIF acquires assets in certain troubled and failed bank cases by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The majority of corporate owned assets are real estate and mortgage loans.

The methodology used to derive the allowance for losses for corporate owned assets is the same as that for receivables from bank resolutions.

The BIF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

BIF

**Investment in Corporate Owned Assets, Net**

Dollars in Thousands

	December 31, 1996	December 31, 1995
Investment in corporate owned assets	\$ 873,458	\$ 939,756
Allowance for losses (Note 9)	(810,052)	(759,463)
<b>Total</b>	<b>\$ 63,406</b>	<b>\$ 180,293</b>

**6. Property and Buildings, Net**

Dollars in Thousands

	December 31, 1996	December 31, 1995
Land	\$ 29,631	\$ 29,631
Office buildings	151,442	151,442
Accumulated depreciation	(32,673)	(29,333)
<b>Total</b>	<b>\$ 148,400</b>	<b>\$ 151,740</b>

**7. Other Revenue**

Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
Interest on subrogated claims and advances	\$ 230,871	\$ 37,771
Income from assistance transactions	5,980	9,234
Other miscellaneous income	8,734	8,171
<b>Total</b>	<b>\$ 245,585</b>	<b>\$ 55,176</b>

The interest on subrogated claims and advances to financial institutions includes \$205 million in post-insolvency interest. There are a number of BIF receiverships that have residual funds remaining after paying all regular claims. Once those

claims have been paid, the BIF and other claimants are eligible to receive interest on their claims against the receivers on a pro rata basis. Due to the uncertainty of collection, post-insolvency interest is recognized when received.

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## 8. Estimated Liabilities for:

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### Anticipated Failure of Insured Institutions

The BIF records an estimated liability and loss provision for banks that are likely to fail in the foreseeable future (absent some favorable event such as obtaining additional capital or merging). The estimated liability and corresponding reduction in provision for insurance losses are recorded in the period when the liability is deemed probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1996 and 1995, were \$75 million and \$279 million, respectively. The estimated liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable bank failures. Therefore, they are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 4). This could affect the ultimate costs to the BIF from probable bank failures.

There are other banks where the risk of failure is less certain, but still considered reasonably possible. Should these banks fail the BIF would incur additional losses of about \$160 million.

The accuracy of these estimates will largely depend on future economic conditions. In addition, FDIC considers probable losses in setting assessment rates and, as circumstances warrant, may increase assessment rates to recover some or all losses due to anticipated bank failures.

### Assistance Agreements

The estimated liabilities for assistance agreements resulted from several large transactions where problem assets were purchased by an acquiring institution under an agreement that calls for the FDIC to absorb credit losses and to pay related costs for funding and asset administration plus an incentive fee.

### Asset Securitization Guarantee

As part of the FDIC's efforts to maximize the return from the sale or disposition of assets and minimize losses from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the FDIC's BIF provided Limited Guarantees to cover certain losses on the securitized assets up to a specified maximum. In exchange for backing the limited guarantee, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantee. The deals were initially structured so that the BIF would neither profit nor suffer a loss as a result of the limited guarantees.

At December 31, 1996 and 1995, the BIF had an estimated liability under the guarantees of \$44 million and \$126 million, respectively.

During 1996 the BIF returned to receiverships \$91.6 million in cash (including interest of \$8.4 million) received for backing the limited guarantee. The BIF made this refund as a result of lowering the estimate of expected exposure under one of the guarantees. The following chart summarizes the BIF's remaining potential exposure under the guarantees.

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### Asset Securitization Guarantees (cumulative inception-to-date balances)

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Dollars in Thousands

	Maximum Exposure Under the Guarantee Obligations	Guarantee Claims Paid through December 31	Maximum Remaining Potential Obligations at December 31
1996	\$481,313	\$8,651	\$472,662
1995	\$247,748	\$2,406	\$245,342

### Litigation Losses

The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be probable in occurrence and reasonably estimable in amount. In addition to the amount recorded, the FDIC's Legal Division has

determined that losses from unresolved legal cases totaling \$307 million are reasonably possible. This includes \$18 million in losses for the BIF in its corporate capacity and \$289 million in losses for the BIF related to receiverships (see Note 2).

## 9. Analysis of Changes in Allowance for Losses and Estimated Liabilities

The reduction in provision for insurance losses includes the normal, recurring changes in estimates for prior year, current, and anticipated bank resolutions. In the following charts, transfers include reclassifications from "Estimated Liabilities

for: anticipated failure of insured institutions" to "Closed banks." Terminations represent final adjustments to the estimated cost figures for those bank resolutions that were completed.

### Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1996

Dollars in Millions

	Beginning Balance 01/01/96	Provision for Insurance Losses			Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/96
		Current Year	Prior Years	Total			
<b>Allowance for Losses:</b>							
Open bank assistance	\$ 57	\$ 0	\$ (4)	\$ (4)	\$ 0	\$ (3)	\$ 50
Corporate owned assets	759	0	51	51	0	0	810
Closed banks	21,031	(95)	(33)	(128)	0	(1,588)	19,315
<b>Total Allowance for Losses</b>	<b>21,847</b>	<b>(95)</b>	<b>14</b>	<b>(81)</b>	<b>0</b>	<b>(1,591)</b>	<b>20,175</b>
<b>Estimated Liabilities for:</b>							
Anticipated failure of insured institutions	279	(204)	0	(204)	0	0	75
Assistance agreements	56	0	(4)	(4)	(1)	0	51
Asset securitization guarantee	126	(15)	0	(15)	(81)	14	44
Litigation losses	36	0	(21)	(21)	0	0	15
<b>Total Estimated Liabilities</b>	<b>497</b>	<b>(219)</b>	<b>(25)</b>	<b>(244)</b>	<b>(82)</b>	<b>14</b>	<b>185</b>
<b>Reduction in Provision for Insurance Losses</b>		<b>\$ (314)</b>	<b>\$ (11)</b>	<b>\$ (325)</b>			

### Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1995

Dollars in Millions

	Beginning Balance 01/01/95	Provision for Insurance Losses			Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/95
		Current Year	Prior Years	Total			
<b>Allowance for Losses:</b>							
Open bank assistance	\$ 1,156	\$ 0	\$ (140)	\$ (140)	\$ 0	\$ (959)	\$ 57
Corporate owned assets	660	0	99	99	0	0	759
Closed banks	22,354	(52)	464	412	0	(1,735)	21,031
<b>Total Allowance for Losses</b>	<b>24,170</b>	<b>(52)</b>	<b>423</b>	<b>371</b>	<b>0</b>	<b>(2,694)</b>	<b>21,847</b>
<b>Estimated Liabilities for:</b>							
Anticipated failure of insured institutions	875	131	(570)	(439)	0	(157)	279
Assistance agreements	163	0	14	14	(101)	(20)	56
Asset securitization guarantee	128	0	0	0	(2)	0	126
Litigation losses	15	0	21	21	0	0	36
<b>Total Estimated Liabilities</b>	<b>1,181</b>	<b>131</b>	<b>(535)</b>	<b>(404)</b>	<b>(103)</b>	<b>(177)</b>	<b>497</b>
<b>Increase/(Reduction) in Provision for Insurance Losses</b>		<b>\$ 79</b>	<b>\$ (112)</b>	<b>\$ (33)</b>			



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## 10. Assessments

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The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; and 3) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

In May 1995, the BIF reached the FDICIA mandated capitalization level of 1.25 percent of insured deposits.

The DIFA 1996 (see Note 1) provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act, and for the expansion of the assessment base for payments on the interest on obligations issued by FICO to include all FDIC-insured institutions, including banks. Beginning January 1, 1997, banks will start paying a FICO-assessment. The FICO-assessment rate on BIF-assessable deposits will be one-fifth of the rate paid on SAIF-assessable deposits. On the earlier of December 31, 1999, or

the date on which the last savings association ceases to exist, the approximately \$790 million annual FICO interest obligation will be paid on a pro rata basis between banks and thrifts.

The FICO assessment will have no financial effect on the BIF since the FICO claim will be assessed separately from the regular assessment, and the FICO assessment is imposed on banks and not on the BIF. The FDIC as administrator of the BIF is acting solely as an agent for the FICO to collect and remit the FICO assessment to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The FDIC Board of Directors (Board) reviews premium rates semiannually. The average assessment rate for 1996 was 0.24 cents per \$100 of insured deposits.

On November 26, 1996, the FDIC Board of Directors voted to retain the BIF assessment schedule of 0 to 27 cents per \$100 of insured deposits (annual rates) for the first semiannual period of 1997.

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## 11. Pension Benefits, Savings Plans, Postemployment Benefits and Accrued Annual Leave

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Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

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

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

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

Due to a substantial decline in the FDIC's workload, the Corporation developed a staffing reduction program, a component of which is a voluntary separation incentive plan, or buyout. To date, two corporate-wide buyout plans have been offered to eligible employees. The first buyout plan did not have a material financial effect on the BIF, and management believes the second buyout plan will also not have a material financial effect on the fund.

The liability to employees for accrued annual leave is approximately \$38.9 million and \$43.4 million at December 31, 1996 and 1995, respectively.

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**Pension Benefits and Savings Plans Expenses**


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Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
Civil Service Retirement System	\$ 9,113	\$ 9,411
Federal Employee Retirement System (Basic Benefit)	34,989	36,741
FDIC Savings Plan	19,474	20,545
Federal Thrift Savings Plan	12,195	10,264
<b>Total</b>	<b>\$ 75,771</b>	<b>\$ 76,961</b>

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**12. Postretirement Benefits Other than Pensions**


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The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to

direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

The BIF expensed \$6.1 million and \$18.8 million for net periodic postretirement benefit costs for the years ended December 31, 1996 and 1995, respectively. For measurement purposes for 1996, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1996 of 10.75 percent (inclusive of general inflation of 3.00 percent), decreasing to an ultimate rate in 2000 of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.00 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1996, would have increased by 20.4 percent. The effect of this change on the aggregate of service and interest cost for 1996 would be an increase of 26.2 percent.

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**Net Periodic Postretirement Benefit Cost**


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Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
Service cost (benefits attributed to employee service during the year)	\$ 15,575	\$ 22,574
Interest cost on accumulated postretirement benefit obligation	16,258	14,706
Net total of other components	(7,369)	(3,567)
Return on plan assets	(18,402)	(14,907)
<b>Total</b>	<b>\$ 6,062</b>	<b>\$ 18,806</b>

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF,

the SAIF, and the FRF. The BIF funds its liability and these funds are being managed as "plan assets."

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**Accumulated Postretirement Benefit Obligation and Funded Status**


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Dollars in Thousands

	December 31, 1996	December 31, 1995
Retirees	\$ 136,730	\$ 79,370
Fully eligible active plan participants	12,724	22,401
Other active participants	152,993	182,408
<b>Total Obligation</b>	<b>302,447</b>	<b>284,179</b>
Less: Plan assets at fair value (a)	335,439	317,037
<b>(Over) Funded Status</b>	<b>(32,992)</b>	<b>(32,858)</b>
Unrecognized prior service cost	46,136	57,242
Unrecognized net gain	26,846	11,954
<b>Postretirement Benefit Liability Recognized in the Statements of Financial Position</b>	<b>\$ 39,990</b>	<b>\$ 36,338</b>

(a) Invested in U.S. Treasury instruments

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**13. Commitments**


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The BIF's allocated share of FDIC's lease commitments totals \$138.8 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of FDIC's future lease commitments is based upon current relationships of the workloads among BIF, SAIF and FRF. Changes in

the relative workloads among the three funds in future years could change the amount of FDIC's lease payments which will be allocated to BIF. The BIF recognized leased space expense of \$39.9 million and \$42.7 million for the years ended December 31, 1996 and 1995, respectively.

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**Leased Space Fees**


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Dollars in Thousands

1997	1998	1999	2000	2001	2002 and Thereafter
\$38,355	\$25,004	\$19,390	\$16,597	\$15,748	\$23,742

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## 14. Concentration of Credit Risk

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As of December 31, 1996, the BIF had \$23.7 billion and \$873 million in gross receivables from bank resolutions and investment in corporate owned assets, respectively. An allowance for loss of \$19.4 billion and \$810 million,

respectively, has been recorded against these receivables. The receivables arose from bank resolutions. The BIF's maximum exposure to possible accounting loss for these receivables is shown in the table below.

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### Concentration of Credit Risk at December 31, 1996

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Dollars in Millions

	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from bank resolutions, net and investment in corporate owned assets, net	\$ 89	\$ 297	\$ 3,145	\$ 230	\$ 8	\$ 631	\$ 4,400

(a) The net receivable excludes \$2.3 million and \$1.9 million, respectively, of the SAIF's allocated share of maximum credit loss exposure from the resolutions of Olympic National Bank, Los Angeles, CA, and the First National Bank of the Panhandle, Panhandle, TX. There is no risk that the SAIF will not meet these obligations.

#### Insured Deposits

As of December 31, 1996, the total deposits insured by the BIF is approximately \$2 trillion. This would be the accounting

loss if all depository institutions fail and the assets acquired as a result of the resolution process provided no recoveries.

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## 15. Disclosures about the Fair Value of Financial Instruments

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Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, accounts payable and liabilities incurred from bank resolutions approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

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

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets, such receivership valuation is not equivalent to the valuation of

the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

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

The majority of the net investment in corporate owned assets (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed banks. Like receivership assets, corporate owned assets are valued using discount rates which include consideration of market risk. However, corporate owned assets do not involve the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

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**16. Supplementary Information Relating to the Statements of Cash Flows**


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**Reconciliation of Net Income to Net Cash Provided by Operating Activities**


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Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
<b>Net Income</b>	<b>\$ 1,400,681</b>	<b>\$ 3,605,916</b>
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
<b>Income Statement Items:</b>		
Reduction in provision for insurance losses	(325,206)	(33,167)
Amortization of U.S. Treasury securities	(826)	(19,266)
Depreciation on buildings	3,339	3,339
<b>Change in Assets and Liabilities:</b>		
Decrease (Increase) in interest receivable on investments and other assets	21,981	(146,102)
(Increase) Decrease in receivables from bank resolutions	(66,359)	3,659,128
Decrease (Increase) in corporate owned assets	66,298	(37,452)
Increase (Decrease) in accounts payable and other liabilities	15,560	(112,148)
(Decrease) in estimated liabilities for anticipated failure of insured institutions	0	(157,000)
(Decrease) in estimated liabilities for assistance agreements	(721)	(4,048)
(Decrease) in estimated liabilities for asset securitization guarantees	(67,300)	(2,054)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,047,447</b>	<b>\$ 6,757,146</b>

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**17. Subsequent Events**


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In the first quarter of 1997, management negotiated with the National Treasury Employees Union (NTEU) a change in employee health benefits. This change involves a conversion from the FDIC health plan to the Federal Employees Health Benefits (FEHB) plan. This conversion will involve all employees with five or more years until retirement eligibility.

Assuming enabling legislation is also passed, the conversion will also affect all retirees and employees within five years of retirement. Management does not expect the conversion, which will become effective on January 1, 1998, to result in an accounting loss to the BIF.



## Federal Deposit Insurance Corporation

## Savings Association Insurance Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1996	December 31, 1995
<b>Assets</b>		
Cash and cash equivalents (see Note 4 for restrictions)	\$ 387,953	\$ 911,810
Investment in U.S. Treasury obligations, net (Note 3) (Market value of investments at December 31, 1996 and December 31, 1995 was \$8.7 billion and \$2.8 billion, respectively)	8,764,092	2,832,919
Entrance and exit fees receivable, net (Note 4)	3,517	8,821
Interest receivable on investment and other assets	124,534	48,634
Receivables from thrift resolutions, net (Note 5)	19,266	51
<b>Total Assets</b>	<b>\$ 9,299,362</b>	<b>\$ 3,802,235</b>
<b>Liabilities and the Fund Balance</b>		
Accounts payable and other liabilities	\$ 179,367	\$ 117,628
Estimated liability for anticipated failure of insured institutions (Note 6)	4,000	111,000
<b>Total Liabilities</b>	<b>183,367</b>	<b>228,628</b>
<i>Commitments and contingencies (Notes 11 and 12)</i>		
<b>SAIF-Member Exit Fees and Investment Proceeds Held in Escrow (Note 4)</b>	<b>227,574</b>	<b>215,760</b>
<b>Fund Balance</b>	<b>8,888,421</b>	<b>3,357,847</b>
<b>Total Liabilities and the Fund Balance</b>	<b>\$ 9,299,362</b>	<b>\$ 3,802,235</b>

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

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**Federal Deposit Insurance Corporation**

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**Savings Association Insurance Fund Statements of Income and the Fund Balance**

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Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
<b>Revenue</b>		
Assessments (Note 7)	\$ 5,221,560	\$ 970,027
Interest on U.S. Treasury investments	253,868	169,101
Other revenue (Note 8)	26,256	788
<b>Total Revenue</b>	<b>5,501,684</b>	<b>1,139,916</b>
<b>Expenses and Losses</b>		
Operating expenses	62,618	39,777
Reduction in provision for insurance losses	(91,636)	(321,000)
Interest and other insurance expenses	128	7
<b>Total Expenses and Losses</b>	<b>(28,890)</b>	<b>(281,216)</b>
<b>Net Income</b>	<b>5,530,574</b>	<b>1,421,132</b>
<b>Fund Balance - Beginning</b>	<b>3,357,847</b>	<b>1,936,715</b>
<b>Fund Balance - Ending</b>	<b>\$ 8,888,421</b>	<b>\$ 3,357,847</b>

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



**Federal Deposit Insurance Corporation**

**Savings Association Insurance Fund Statements of Cash Flows**

Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
<b>Cash Flows from Operating Activities</b>		
<b>Cash provided from:</b>		
Assessments	\$ 5,293,722	\$ 1,060,829
Interest on U.S. Treasury investments	192,053	152,622
Interest on exit fees	7,739	8,449
Entrance and exit fee collections (Note 4)	6,000	29,757
Recoveries from thrift resolutions	24,478	17,149
Miscellaneous receipts	367	437
<b>Cash used for:</b>		
Operating expenses	(78,726)	(18,487)
Reimbursements to the FSLIC Resolution Fund for thrift resolutions	(33,137)	(15,881)
Disbursements for thrift resolutions	(500)	(1,142)
Miscellaneous disbursements	(49)	1
<b>Net Cash Provided by Operating Activities (Note 14)</b>	<b>5,411,947</b>	<b>1,233,734</b>
<b>Cash Flows from Investing Activities</b>		
<b>Cash provided from:</b>		
Maturity and sale of U.S. Treasury obligations	1,885,000	1,385,000
<b>Cash used for:</b>		
Purchase of U.S. Treasury obligations	(7,820,804)	(1,787,124)
<b>Net Cash Used by Investing Activities</b>	<b>(5,935,804)</b>	<b>(402,124)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(523,857)</b>	<b>831,610</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>911,810</b>	<b>80,200</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 387,953</b>	<b>\$ 911,810</b>

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

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## 1. Legislative History and Operations of the Savings Association Insurance Fund

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### Legislative History

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these three funds. All three funds are maintained separately to carry out their respective mandates.

The SAIF and the BIF are insurance funds responsible for protecting depositors in operating banks and thrift institutions from loss due to failure of the institution. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to the Resolution Trust Corporation Completion Act of 1993 (1993 RTC Act), resolution responsibility transferred from the RTC to the SAIF on July 1, 1995. Prior to that date, thrift resolutions were the responsibility of the RTC (January 1, 1989 through June 30, 1995) or the FSLIC (prior to 1989).

Pursuant to FIRREA, an active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of SAIF-member institutions are mostly insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). Deposits of BIF-member institutions are mostly insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve.

The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. Effective December 12, 1991, as provided by the Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 (1991 RTC Act), the FICO's ability to serve as a financing vehicle for new debt was terminated. Assessments paid on SAIF-insured deposits (excluding "Sasser" and BIF-member "Oakar" banks) are subject to draws by FICO for payment of interest on their outstanding debt through maturity of this debt in 2019. "Sasser" banks are SAIF members that converted to a state bank charter in accordance

with Section 5(d)(2)(G) of the Federal Deposit Insurance Act (FDI Act). "Oakar" banks are described in a following section, "Operations of the SAIF".

Other significant legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 7) and borrowing authority (see "Operations of the SAIF" below). The FDICIA also requires the FDIC to: 1) resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds; and 2) maintain the insurance funds at 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

### Recent Legislation

The Deposit Insurance Funds Act of 1996 (DIFA 1996) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions, i.e., banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate for SAIF-assessable deposits that is five times the rate for BIF-assessable deposits; 4) the payment of the approximately \$790 million annual FICO interest obligation on a pro rata basis between banks and thrifts on the earlier of December 31, 1999 or the date on which the last savings association ceases to exist; 5) authorization of assessments only if needed to maintain the SAIF at the designated reserve ratio; and 6) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date.

Additionally, DIFA provides: 1) exemptions from the special assessment for certain institutions; 2) a 20 percent adjustment of the special assessment for certain Oakar banks and certain other institutions; and 3) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk.

### Operations of the SAIF

The primary purpose of the SAIF is to: 1) insure the deposits and protect the depositors of SAIF-insured institutions; and 2) resolve failed SAIF-insured institutions. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and BIF-member banks designated as Oakar banks.

The Oakar bank provisions are found in Section 5(d)(3) of the FDI Act. The provisions allow, with approval of the appropriate federal regulatory authority, any insured depository institution to merge, consolidate or transfer the assets and liabilities of an acquired institution without changing insurance coverage for the acquired deposits. Such acquired deposits continue to be either SAIF-insured deposits and assessed at the SAIF assessment rate or BIF-insured deposits and assessed at the BIF assessment rate. In addition, any losses resulting from the failure of these institutions are to be allocated between the BIF and the SAIF based on the respective dollar amounts of the institution's BIF-insured and SAIF-insured deposits.

The SAIF is primarily funded from the following sources:

- 1) SAIF assessments from BIF-member Oakar banks;
- 2) other SAIF assessments that are not required for the FICO, including assessments from Sasser banks;
- 3) interest earned on unrestricted investments in U.S. Treasury obligations;
- 4) U.S. Treasury payments not to exceed \$8 billion for losses for fiscal years 1994 through 1998 contingent upon appropriations from the U.S. Treasury;
- 5) U.S. Treasury payments from unused appropriations to the RTC for losses for two years after the date of the RTC termination, December 31, 1995;

and 6) borrowings from Federal Home Loan Banks, the U.S. Treasury and the Federal Financing Bank (FFB).

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

The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the SAIF and the BIF. FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the SAIF and the BIF, from \$5 billion to \$30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). At December 31, 1996, the MOL for the SAIF was \$16.9 billion.

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## 2. Summary of Significant Accounting Policies

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### General

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

### Use of Estimates

The preparation of the SAIF's financial statements in conformity with GAAP require FDIC management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

### Cash and Cash Equivalents

The SAIF considers cash and cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

### U.S. Treasury Obligations

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

### Allowance for Losses on Receivables from Thrift Resolutions

The SAIF records as a receivable the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on the estimates of discounted cash recoveries from assets of assisted or failed thrifts, net of all estimated liquidation costs.

### Litigation Losses

The SAIF accrues, as a charge to current period operations, an estimate of probable losses from litigation. The FDIC's Legal Division recommends these estimates on a case-by-case basis. Any litigation loss estimates related to the SAIF

in its corporate capacity would be included in "Estimated liabilities for: Litigation losses." Any litigation loss estimates related to receiverships would be included in the allowance for losses for "Receivables from thrift resolutions, net."

#### Receivership Operations

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

#### Cost Allocations Among Funds

Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of buildings used in operations in the BIF's financial statements. The BIF charges SAIF a rental fee representing an allocated share of its annual depreciation. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The SAIF expends its share of these allocated costs at the time of acquisition because of their immaterial amounts.

#### Postretirement Benefits Other Than Pensions

The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the SAIF, the BIF and the FRF. The SAIF funds its liabilities for these benefits directly to the entity.

#### Disclosure about Recent Financial Accounting Standards Board Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in June 1996, effective for transactions occurring after December 31, 1996. The SAIF will generally be unaffected by its provisions since most transactions subject to SFAS 125 occur at the receivership level and not at the fund level. To the extent that the SAIF may be affected, the FDIC's current accounting practices are consistent with the rules contained in SFAS 125. Other recent pronouncements issued by the FASB have been adopted or are either not applicable or not material to the financial statements.

#### Related Parties

The nature of related parties and descriptions of related party transactions are disclosed throughout the financial statements and footnotes.

#### Reclassifications

Reclassifications have been made in the 1995 financial statements to conform to the presentation used in 1996.

### 3. Investment in U.S. Treasury Obligations, Net

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

equivalents. In both 1996 and 1995, \$190 million were restricted and invested in U.S. Treasury notes (see Note 4). The related interest earned on these invested funds was also held as restricted funds.

#### U.S. Treasury Obligations at December 31, 1996

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year	5.7%	\$ 1,740,792	\$ 3,276	\$ 0	\$ 1,744,069	\$ 1,740,000
1-3 years	5.9%	3,305,270	6,930	8,326	3,303,873	3,290,000
3-5 years	6.0%	3,718,030	0	21,546	3,696,484	3,670,000
<b>Total</b>		<b>\$ 8,764,092</b>	<b>\$ 10,206</b>	<b>\$ 29,872</b>	<b>\$ 8,744,426</b>	<b>\$ 8,700,000</b>

### U.S. Treasury Obligations at December 31, 1995

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year	5.8%	\$1,785,035	\$ 6,708	\$ 535	\$ 1,791,208	\$ 1,785,000
1-3 years	5.7%	588,968	5,744	0	594,712	590,000
3-5 years	5.4%	458,916	1,584	0	460,500	450,000
<b>Total</b>		<b>\$2,832,919</b>	<b>\$ 14,036</b>	<b>\$ 535</b>	<b>\$ 2,846,420</b>	<b>\$ 2,825,000</b>

In 1996, the unamortized premium, net of unamortized discount, was \$64.1 million. In 1995, the unamortized premium, net of unamortized discount, was \$7.9 million.

### 4. Entrance and Exit Fees Receivable, Net

The SAIF receives entrance and exit fees for conversion transactions when an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). Regulations approved by the FDIC's Board of Directors and published in the Federal Register on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow. The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. Interest on these investments was \$11.1 million and \$9.1 million for 1996 and 1995, respectively. Restricted assets included: \$31 million

in cash and cash equivalents, \$190 million of investments in U.S. Treasury obligations, net, and \$7 million in exit fees and interest receivable. For 1995, restricted assets included: \$12.5 million in cash and cash equivalents, \$190 million of investments in U.S. Treasury obligations, net, and \$13 million in exit fees and interest receivable.

Within specified parameters, the regulations allow an institution to pay its entrance/exit fees interest free, in equal annual installments over a maximum period of not more than five years. When an institution elects such a payment plan, the SAIF records the entrance or exit fee receivable at its present value. The discount rate used to determine the present value of the funds for 1996 and 1995 was 5 percent and 3 percent, respectively.

### Entrance and Exit Fees Receivable, Net - 1996

Dollars in Thousands

	Beginning Balance 01/01/96	New Receivables	Collections	Net Change Unamortized Discount	Ending Balance 12/31/96
Entrance fees	\$ 11	\$ 0	\$ (8)	\$ 0	\$ 3
Exit fees	8,810	442	(5,992)	254	3,514
<b>Total</b>	<b>\$ 8,821</b>	<b>\$ 442</b>	<b>\$ (6,000)</b>	<b>\$ 254</b>	<b>\$ 3,517</b>

**Entrance and Exit Fees Receivable, Net - 1995**

Dollars in Thousands

	Beginning Balance 01/01/95	New Receivables	Collections	Net Change Unamortized Discount	Ending Balance 12/31/95
Entrance fees	\$ 6	\$ 11	\$ (6)	\$ 0	\$ 11
Exit fees	35,686	1,117	(29,751)	1,758	8,810
<b>Total</b>	<b>\$ 35,692</b>	<b>\$ 1,128</b>	<b>\$ (29,757)</b>	<b>\$ 1,758</b>	<b>\$ 8,821</b>

**5. Receivables from Thrift Resolutions, Net**

The FDIC resolution process results in different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover insured depositors' claims and represent a claim against the receiverships' assets. For 1996, one thrift failed, and was resolved in a transaction whereby an acquirer purchased certain assets and assumed the insured deposits of the failed thrift.

The FDIC, as receiver for failed thrifts, engages in a variety of strategies at the time of failure to maximize the return from the management and disposition of assets and to minimize realized losses. A failed thrift acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit and risk related to such assets. The receiver may also engage in other types of transactions as circumstances

warrant. As described in Note 2, the allowance for losses is established against the receivable from thrift resolutions.

As of December 31, 1996 and 1995, the SAIF, in its receivership capacity, held assets with a book value of \$78.2 and \$37.2 million, respectively. These assets represent a significant source of repayment of receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets (excluding cash and miscellaneous receivables of \$42.3 million at December 31, 1996 and \$30.9 million at December 31, 1995) used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The potential sampling error is not material to the SAIF's financial statements. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could affect the SAIF's and other claimants' actual recoveries from the level currently estimated.

**6. Estimated Liabilities for:****Anticipated Failure of Insured Institutions**

The SAIF records an estimated liability and loss provision for thrifts as well as Oakar and Sasser banks that are likely to fail in the foreseeable future (absent some favorable event such as obtaining additional capital or merging). The estimated liability and corresponding reduction in the fund balance are recorded in the period when the liability is deemed probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1996 and 1995, were \$4 million and \$111 million, respectively. The estimated liability is derived in part from estimates of recoveries from the sale of the assets of these probable failures. Therefore, they are

subject to the same uncertainties as those affecting the SAIF's receivables from thrift resolutions (see Note 5). This could affect the ultimate costs to the SAIF from probable failures.

There are other institutions where the risk of failure is less certain, but still considered reasonably possible. Should these institutions fail the SAIF would incur additional losses of about \$20 million.

The accuracy of these estimates will largely depend on future economic conditions. In addition, FDIC considers probable losses in setting assessment rates and, as circumstances warrant, may increase assessment rates to recover some or all losses due to anticipated thrift failures.

**Litigation Losses**

As stated in Note 2, the SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be probable in occurrence and reasonably estimable in amount. For 1996 and 1995, FDIC identified no legal

cases that met the criteria for recognition in the financial statements. The FDIC's Legal Division has determined that losses from unresolved legal cases totaling \$7 million and \$11 million are reasonably possible at December 31, 1996 and 1995, respectively.

**7. Assessments**

1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for SAIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations; 3) required the FDIC to build the reserves in the insurance funds to 1.25 percent of insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

The DIFA 1996 (see Note 1) provided, among other things, for the capitalization of the SAIF to its designated reserve ratio of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. Effective October 1, 1996, SAIF achieved its required capitalization by means of a \$4.5 billion special assessment.

Prior to January 1, 1997, the FICO had priority over the SAIF for receiving and utilizing SAIF assessments to ensure availability of funds for interest on FICO's debt obligations. Accordingly, the SAIF recognized as assessment revenue only that portion of SAIF assessments not required by the FICO. Assessments on the SAIF-insured deposits held by BIF-member Oakar or SAIF-member Sasser institutions prior to January 1, 1997 were not subject to draws by FICO and, thus, were retained in SAIF in their entirety. FICO assessments collected during 1996 and 1995 were \$808 million and \$718 million, respectively.

The DIFA 1996 expanded the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions, (including banks, thrifts, Oakars and Sassers), and made the FICO assessment separate from regular assessments, effective January 1, 1997.

Beginning in 1997, the FICO assessment will have no financial effect on the SAIF since the FICO claim will be assessed separately from the regular assessment, and the FICO assessment is imposed on thrifts and not on the SAIF. The FDIC as administrator of the SAIF is acting solely as an agent for the FICO to collect and remit the FICO assessment to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The FDIC Board of Directors (Board) reviews premium rates semiannually.

From 1993 through 1995, each thrift paid an assessment rate of between 23 and 31 cents per \$100 of domestic deposits, depending on risk classification.

In December, 1996, the Board lowered SAIF assessment rates to a range of 0 to 27 cents per \$100 of insured deposits (annual rates). The new rates, which are identical to those previously approved for BIF members, were effective October 1, 1996 for Sasser and Oakar institutions, and effective on January 1, 1997 for all other SAIF-insured institutions. For calendar year 1996, the assessment rate averaged approximately 20.4 cents per \$100 of domestic deposits. As of December 31, 1996, the SAIF's reserve ratio is 1.30 percent of insured deposits.

The SAIF refunded \$219 million (includes \$2.9 million in interest) to Sasser/Oakar banks during the fourth quarter of 1996. Refunds were necessary because fourth quarter assessment rates were set prior to SAIF's capitalization. Total assessment revenue for 1996 and 1995 was \$5.2 billion and \$970 million, respectively. 1996 assessment revenue includes the one-time special assessment of \$4.5 billion required to capitalize SAIF.

## SAIF

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### 8. Other Revenue

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Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
Interest on subrogated claims	\$ 24,476	\$ 0
Other miscellaneous income	1,780	788
<b>Total</b>	<b>\$ 26,256</b>	<b>\$ 788</b>

The interest on subrogated claims represents post-insolvency interest. There is an Oakar bank receivership that has residual funds remaining after paying all claimants. Once claimants have been paid, the SAIF and other claimants

are eligible to receive interest on their claims against the receivers on a pro rata basis. Due to the uncertainty of collection, post-insolvency interest is recognized when received.

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### 9. Pension Benefits, Savings Plans, Postemployment Benefits and Accrued Annual Leave

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Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

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

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

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

Due to a substantial decline in the FDIC's workload, the Corporation developed a staffing reduction program, a component of which is a voluntary separation incentive plan, or buyout. To date, two corporate-wide buyout plans have been offered to eligible employees. The first buyout plan did not have a material financial effect on the SAIF, and management believes the second buyout plan will also not have a material financial effect on the fund.

The liability to employees for accrued annual leave is approximately \$4,031 million and \$757 thousand at December 31, 1996 and 1995, respectively.



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**Pension Benefits and Savings Plans Expenses**


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Dollars in Thousands

	For the Year Ended December 31, 1995	For the Year Ended December 31, 1995
Civil Service Retirement System	\$ 613	\$ 549
Federal Employee Retirement System (Basic Benefit)	1,821	1,394
FDIC Savings Plan	1,111	895
Federal Thrift Savings Plan	641	486
<b>Total</b>	<b>\$ 4,186</b>	<b>\$ 3,324</b>

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**10. Postretirement Benefits Other than Pensions**


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The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to:

1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to

direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

The SAIF expensed \$168 thousand and \$226 thousand for net periodic postretirement benefit costs for the years ended December 31, 1996 and 1995, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1997 of 9.75 percent, decreasing to an ultimate rate in the year 2000 of 7.75 percent; and 4) an increase in dental costs in 1996 and thereafter of 4 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1996, would have increased by 20.4 percent. The effect of this change on the aggregate of service and interest cost for 1996 would be an increase of 26.2 percent.

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**Net Periodic Postretirement Benefit Cost**


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Dollars in Thousands

	For the Year Ended December 31, 1995	For the Year Ended December 31, 1995
Service cost (benefits attributed to employee service during the year)	\$ 432	\$ 431
Interest cost on accumulated postretirement benefit obligation	457	281
Net total of other components	(204)	(68)
Return on plan assets	(517)	(418)
<b>Total</b>	<b>\$ 168</b>	<b>\$ 226</b>

## SAIF

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the SAIF, the BIF and the FRF. The SAIF funds its liability and these funds are being managed as "plan assets."

### Accumulated Postretirement Benefit Obligation and Funded Status

Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
Retirees	\$ 3,686	\$ 2,230
Fully eligible active plan participants	343	629
Other active participants	4,125	5,124
<b>Total Obligation</b>	<b>8,154</b>	<b>7,983</b>
Less: Plan assets at fair value <sup>(a)</sup>	9,421	8,904
<b>(Over) Funded Status</b>	<b>(1,267)</b>	<b>(921)</b>
Unrecognized prior service cost	1,280	1,305
Unrecognized net gain	745	273
<b>Postretirement Benefit Liability Recognized in the Statements of Financial Position</b>	<b>\$ 758</b>	<b>\$ 657</b>

(a) Invested in U.S. Treasury instruments

### 11. Commitments

The SAIF's allocated share of FDIC's lease commitments totals \$10.1 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of FDIC's future lease commitments is based upon current relationships of the workloads among SAIF, BIF and FRF. Changes in

the relative workloads among the three funds in future years could change the amount of the FDIC's lease payments which will be allocated to SAIF. The SAIF recognized leased space expense of \$2.2 million and \$1.6 million for the years ended December 31, 1996 and 1995, respectively.

### Leased Space Fees

Dollars in Thousands

1997	1998	1999	2000	2001	2002/Thereafter
\$2,862	\$1,982	\$1,468	\$1,225	\$1,119	\$1,492

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## 12. Concentration of Credit Risk

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### Insured Deposits

As of December 31, 1996, the total deposits insured by the SAIF is approximately \$682 billion. This would be the

accounting loss if all the depository institutions fail and the assets acquired as a result of the resolution process provided no recoveries.

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## 13. Disclosures about the Fair Value of Financial Instruments

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Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparison with current interest rates. As explained in Note 4, entrance and exit fees receivable are net of discounts calculated using an interest rate comparable to U.S. Treasury Bill or Government bond/note rates at the time the receivables are accrued.

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

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

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

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**14. Supplementary Information Relating to the Statements of Cash Flows**


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**Reconciliation of Net Income to Net Cash Provided by Operating Activities**


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Dollars in Thousands

	For the Year Ended December 31, 1996	For the Year Ended December 31, 1995
<b>Net Income</b>	<b>\$ 5,530,574</b>	<b>\$ 1,421,132</b>
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
<b>Income Statement Items:</b>		
Provision for insurance losses	(91,636)	(321,000)
Amortization of U.S. Treasury securities (unrestricted)	4,788	(8,114)
<b>Change in Assets and Liabilities:</b>		
(Increase) in amortization of U.S. Treasury securities (restricted)	(157)	(450)
Decrease in entrance and exit fees receivable	5,305	26,871
(Increase) in interest receivable on investments and other assets	(75,900)	(9,771)
(Increase) Decrease in receivables from thrift resolutions	(33,260)	6,841
Increase in accounts payable and other liabilities	60,419	105,198 <sup>(a)</sup>
Increase in exit fees and investment proceeds held in escrow	11,814	13,027
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 5,411,947</b>	<b>\$ 1,233,734</b>

(a) SAIF Transferred \$169 million to the FRF

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**15. Subsequent Events**


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In the first quarter of 1997, management negotiated with the National Treasury Employees Union (NTEU) a change in employee health benefits. This change involves a conversion from the FDIC health plan to the Federal Employees Health Benefits (FEHB) plan. This conversion will involve all employees with five or more years until retirement eligibility.

Assuming enabling legislation is also passed, the conversion will also affect all retirees and employees within five years of retirement. Management does not expect the conversion, which will become effective on January 1, 1998, to result in an accounting loss to the SAIF.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1996	January 1, 1996
<b>Assets</b>		
Cash and cash equivalents	\$ 1,103,921	\$ 1,511,254
Receivables from thrift resolutions, net (Note 3)	4,454,776	12,876,647
Securitization Reserve Fund (Note 14)	5,804,062	0
Investment in corporate owned assets, net (Note 4)	182,827	1,005,147
Other assets, net (Note 5)	6,747	10,366
<b>Total Assets</b>	<b>\$ 11,552,333</b>	<b>\$ 15,403,414</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 154,347	\$ 204,991
Notes payable - Federal Financing Bank borrowings (Note 7)	4,617,147	10,498,042
Liabilities incurred from thrift resolutions (Note 6)	143,725	248,539
<i>Estimated Liabilities for: (Note 8)</i>		
Assistance agreements	16,120	81,340
Litigation losses	39,294	163,636
<b>Total Liabilities</b>	<b>4,970,633</b>	<b>11,196,548</b>
<i>Commitments and contingencies (Notes 14 and 15)</i>		
<b>Resolution Equity (Note 10)</b>		
Contributed capital	135,501,023	135,501,248
Accumulated deficit	(128,919,323)	(131,294,382)
<b>Total Resolution Equity</b>	<b>6,581,700</b>	<b>4,206,866</b>
<b>Total Liabilities and Resolution Equity</b>	<b>\$ 11,552,333</b>	<b>\$ 15,403,414</b>

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

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**Federal Deposit Insurance Corporation**

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**FSLIC Resolution Fund Statement of Income and Accumulated Deficit**

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Dollars in Thousands

**For the Year Ended  
December 31, 1996****Revenue**

Interest on Securitization Reserve Fund	\$	82,103
Interest on U.S. Treasury investments		26,452
Revenue from corporate owned assets		228,274
Limited partnership revenue (Note 11)		54,600
Interest on advances and other revenue		127,117
<b>Total Revenue</b>		<b>518,546</b>

**Expenses and Losses**

Operating expenses		26,074
Interest expense on FFB debt and other notes payable		386,064
Corporate owned asset expenses		128,826
Reduction in provision for losses (Note 9)		(2,400,366)
Other expenses		2,889
<b>Total Expenses and Losses</b>		<b>(1,856,513)</b>

**Net Income****2,375,059****Accumulated Deficit - Beginning****(131,294,382)****Accumulated Deficit - Ending****\$ (128,919,323)**

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

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**Federal Deposit Insurance Corporation**

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**FSLIC Resolution Fund Statement of Cash Flows**

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Dollars in Thousands

**For the Year Ended  
December 31, 1996**

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**Cash Flows from Operating Activities****Cash provided from:**

Interest on U.S. Treasury investments	\$	26,541
Recoveries from thrift resolutions		6,152,927
Recoveries from securitization reserve		95,067
Recoveries from corporate owned assets		608,620
Miscellaneous receipts		12,174

**Cash used for:**

Operating expenses		(42,882)
Interest paid on notes payable		(352,767)
Disbursements for thrift resolutions		(772,301)
Disbursements for corporate owned assets		(169,463)
Miscellaneous disbursements		(19,714)

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**Net Cash Provided by Operating Activities (Note 17)** **5,538,202**

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**Cash Flows from Financing Activities****Cash used for:**

Repayments of Federal Financing Bank borrowings		(5,913,975)
Payments of indebtedness incurred from thrift resolutions		(31,560)

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**Net Cash Used for Financing Activities** **(5,945,535)**

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**Net Decrease in Cash and Cash Equivalents** **(407,333)**

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**Cash and Cash Equivalents - Beginning** **1,511,254**

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**Cash and Cash Equivalents - Ending** **\$ 1,103,921**

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

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## 1. Legislative History and Operations of the FSLIC Resolution Fund

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### Legislative History

The U.S. Congress created the Federal Savings and Loan Insurance Corporation (FSLIC) through the enactment of the National Housing Act of 1934.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF (except those assets and liabilities transferred to the RTC), effective August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

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

The RTC was created to manage and resolve all thrifts previously insured by the FSLIC for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. In order to provide funds to the RTC for use in thrift resolutions, FIRREA established the Resolution Funding Corporation (REFCORP).

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

The RTC Completion Act of 1993 (1993 RTC Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. The FDIC must transfer to the REFCORP the net proceeds from the FRF's sale of RTC assets, once all liabilities of the RTC have been paid. Any such funds

transferred to the REFCORP pay the interest on the REFCORP bonds issued to fund the early RTC resolutions. Any such payments benefit the Treasury, which would otherwise be obligated to pay the interest on the bonds.

### Operations of the FRF

The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon the dissolution of the FRF, any funds remaining (after payments to REFCORP, if any) will be paid to the U.S. Treasury.

The FRF has been primarily funded from the following sources: 1) U.S. Treasury appropriations; 2) amounts borrowed by the RTC from the Federal Financing Bank (FFB); 3) funds received from the management and disposition of assets of the FRF; 4) the FRF's portion of liquidating dividends paid by FRF receiverships; and 5) interest earned on one-day U.S. Treasury investments purchased with proceeds of 3) and 4). If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as are appropriated by Congress, to carry out the objectives of the FRF.

To facilitate efforts to wind up the resolution activity of the FRF, Public Law 103-327 provides \$827 million in funding to be available until expended. The FRF received \$165 million under this appropriation on November 2, 1995. In addition, Public Law 104-208 authorized the use by the Department of Justice of \$26.1 million of the original \$827 million in funding, thus reducing the amount available to be expended to \$635.9 million.

FIRREA established an Inspector General for the RTC and authorized appropriations necessary for the operation of the Office of the Inspector General (OIG). These appropriated funds are used to offset the operating expenses incurred by the OIG, which totalled \$1.6 million during 1996. The appropriation authority expired as of September 30, 1996. The OIG received \$152.3 million of appropriated funds from the U.S. Treasury since it was established.

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## 2. Summary of Significant Accounting Policies

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### General

These financial statements pertain to the financial position, results of operations and cash flows of the FRF and are presented in accordance with generally accepted accounting principles (GAAP). These statements do not include reporting

for assets and liabilities of closed insured thrift institutions for which the FRF acts as receiver or liquidating agent. Periodic and final accountability reports of the FRF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.



The statutorily-mandated merger of the RTC into the FRF as of January 1, 1996 resulted in a significant, one-time transfer of assets and liabilities. For this reason, providing comparative information would be impractical on a fully consistent basis of accounting. Accordingly, we have presented FRF financial statements for 1996 only.

#### **Use of Estimates**

The preparation of the FRF's financial statements in conformity with GAAP requires FDIC management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

#### **Cash and Cash Equivalents**

The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

#### **Allowance for Losses on Receivables from Thrift Resolutions and Investment in Corporate Owned Assets**

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

#### **Estimated Liabilities for Assistance Agreements**

The FRF establishes an estimated liability for probable future assistance payable to acquirers of troubled thrifts under its financial assistance agreements.

#### **Litigation Losses**

The FRF accrues, as a charge to current period operations, an estimate of probable losses from litigation. The FDIC's Legal Division recommends these estimates on a case-by-case basis. The litigation loss estimates related to the FRF in its corporate capacity are included in the "Estimated liability for: Litigation losses." The litigation loss estimates related to receiverships are included in the allowance for losses for "Receivables from thrift resolutions, net."

#### **Receivership Operations**

The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for

separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the FRF on behalf of the receiverships are recovered from those receiverships.

#### **Cost Allocations Among Funds**

Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of buildings used in operations in the BIF's financial statements. The BIF charges the FRF a rental fee representing an allocated share of its annual depreciation. The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three funds under its administration is allocated among these funds on a pro rata basis. The FRF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

#### **Postretirement Benefits Other Than Pensions**

The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the FRF, the BIF, and the SAIF. The FRF funds its liabilities for these benefits directly to the entity.

#### **Disclosure about Recent Financial Accounting Standards Board Pronouncements**

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in June 1996, effective for transactions occurring after December 31, 1996. The FRF will generally be unaffected by its provisions since most transactions subject to SFAS 125 occur at the receivership level and not at the fund level. To the extent that the FRF may be affected, the FDIC's current accounting practices are consistent with the rules contained in SFAS 125. Other recent pronouncements issued by the FASB have been adopted or are either not applicable or not material to the financial statements.

#### **Wholly Owned Subsidiary**

The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until the FADA's litigation is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in "Other assets, net" (Note 6).

**Related Parties**

*National Judgements, Deficiencies, and Charge-offs Joint Venture Program.* The former RTC purchased assets from receiverships, conservatorships, and their subsidiaries to facilitate the sale and/or transfer of selected assets to several Joint Ventures in which the former RTC retained a financial interest.

*Limited Partnership Equity Interests.* Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs which included the National Land Fund, Multiple Investor Fund, N-Series and S-Series programs.

The nature of other related parties and descriptions of other related party transactions are disclosed throughout the financial statements and footnotes.

**3. Receivables from Thrift Resolutions, Net**

As of December 31 and January 1, 1996, the FRF, in its receivership capacity, held assets with a book value of \$7.3 and \$20.5 billion, respectively. These assets represent a significant source of repayment of receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets (excluding cash and miscellaneous receivables of \$2.9 billion at December 31, 1996 and \$12.6 billion at January 1, 1996) used to derive the

allowance for losses are based in part on a statistical sampling of receivership assets. The potential sampling error is not material to the FRF's financial statements. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could affect the FRF's and other claimants' actual recoveries from the level currently estimated.

**Receivables from Thrift Resolutions, Net**

Dollars in Thousands

	December 31, 1996	January 1, 1996
<b>Assets from Open Thrift Assistance:</b>		
Collateralized advances/loans	\$ 45,154	\$ 46,054
Notes receivable	64,790	130,420
Subordinated debt instruments	17,920	14,301
Capital instruments	65,001	65,001
Preferred stock	1,016,186	417,733
Interest receivable	2,851	3,369
Allowance for losses (Note 9)	(444,873)	(446,514)
	<b>767,029</b>	<b>230,364</b>
<b>Receivables from Closed Thrifts:</b>		
Depositor claims paid	73,205,133	86,158,346
Collateralized advances/loans	6,685,111	7,359,370
Other receivables	324,041	371,901
Accrued interest, net	94,801	253,385
Allowance for losses (Note 9)	(76,621,339)	(81,496,719)
	<b>3,687,747</b>	<b>12,646,283</b>
<b>Total</b>	<b>\$ 4,454,776</b>	<b>\$ 12,876,647</b>

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#### 4. Investment in Corporate Owned Assets, Net

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The FRF's investment in corporate owned assets is comprised of amounts that: 1) the former FSLIC and the former RTC paid to purchase assets from troubled or failed thrifts and 2) the FRF pays to acquire receivership assets, terminate receiverships and purchase assets covered under assistance agreements. The majority of these assets are real estate and mortgage loans.

The methodology used to derive the allowance for losses for corporate owned assets is the same as that for receivables from thrift resolutions.

The FRF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

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#### Investment in Corporate Owned Assets, Net

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Dollars in Thousands

	December 31, 1996	January 1, 1996
Investment in corporate owned assets	\$ 3,570,852	\$ 4,240,285
Allowance for losses (Note 9)	(3,388,025)	(3,235,138)
<b>Total</b>	<b>\$ 182,827</b>	<b>\$ 1,005,147</b>

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#### 5. Other Assets, Net

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Dollars in Thousands

	December 31, 1996	January 1, 1996
Investment in FADA (Note 2)	\$ 15,000	\$ 15,000
Allowance for loss (Note 9)	(11,074)	(11,074)
<b>Investment in FADA, Net</b>	<b>3,926</b>	<b>3,926</b>
Accounts receivable	527	5,994
Due from other government entities	2,294	446
<b>Total</b>	<b>\$ 6,747</b>	<b>\$ 10,366</b>

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#### 6. Liabilities Incurred from Thrift Resolutions

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The FSLIC issued promissory notes and entered into assistance agreements to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Under the FIRREA, the FRF assumed

these obligations. Notes payable and obligations for assistance agreement payments incurred but not yet paid are in "Liabilities incurred from thrift resolutions." Estimated future assistance payments are included in "Estimated liabilities for: Assistance agreements" (see Note 8).

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**Liabilities Incurred from Thrift Resolutions**


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Dollars in Thousands

	December 31, 1996	January 1, 1996
Capital instruments	\$ 725	\$ 725
Assistance agreement notes payable	126,240	157,800
Interest payable	1,856	2,600
Other liabilities to thrift institutions	14,904	87,414
<b>Total</b>	<b>\$ 143,725</b>	<b>\$ 248,539</b>

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**Maturities of Liabilities**


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Dollars in Thousands

	1997	1998
	\$ 49,045	\$ 94,680

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**7. Notes Payable - Federal Financing Bank Borrowings**


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Working capital was made available to the RTC under an agreement with the Federal Financing Bank (FFB) to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding note matures on January 1, 2010; however, all or any portion of the outstanding principal amount may be repaid anytime as excess funds become available. The note

payable carries a floating rate of interest which is adjusted quarterly. FFB establishes the interest rate which ranged between 5.5% and 5.18% during 1996. As of December 31 and January 1, 1996, there were \$4.6 billion and \$10.5 billion, respectively, in borrowings and accrued interest outstanding from the FFB. As of December 31, 1995, the RTC's authority to receive additional borrowings from the FFB ceased.

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**8. Estimated Liabilities for:**


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**Assistance Agreements**

The "Estimated liabilities for: Assistance agreements" represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The dollar amount before discounting was \$18 million and \$91 million, as of December 31 and January 1, 1996, respectively. The discount rates applied as of December 31 and January 1, 1996 were 5.6 percent and 5.5 percent, respectively, based on U.S. money rates for federal funds.

The number of assistance agreements outstanding as of December 31 and January 1, 1996 were 36 and 47, respectively. The last agreement is scheduled to expire in July 2000.

**Litigation Losses**

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered to be probable in

occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling \$265 million are reasonably possible. This includes \$12 million in losses for the FRF in its corporate capacity and \$253 million in losses for the FRF related to receiverships (see Note 2).

There exists an additional category of contingencies with respect to FRF that arises from supervisory goodwill and other capital forbearances granted to the acquirers of troubled thrifts by the Federal Home Loan Bank Board in the 1980's. Subsequently, FIRREA imposed minimum capital requirements on thrifts and limited the use of supervisory goodwill and other forbearances to meet these capital requirements. There are currently approximately 120 cases pending which result from the elimination of supervisory goodwill and forbearances.

To date, one of these cases litigated in the district court has resulted in a final judgment of \$6 million against FDIC, which FDIC paid from FRF in accordance with the court's order. There is a second district court case to which FDIC is a party defendant where a judgment of \$26.9 million (plus post judgment interest) has been entered and for which a reserve has been established (the judgment is on appeal to

the court of appeals). The remainder of these cases are pending in the Court of Federal Claims with the United States as the named defendant. FDIC believes that judgments in such cases are properly paid from the Judgment Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304. However, whether and the extent to which FRF will be the source for paying other judgments in such cases is uncertain.

## 9. Analysis of Changes in Allowance for Losses and Estimated Liabilities

In the following charts, transfers primarily include reclassifications from "Estimated liabilities for: Assistance agreements" to "Liabilities incurred from thrift resolutions" for notes

payable and related accrued assistance agreement costs. Terminations represent final adjustments to the estimated cost figures for those thrift resolutions that were completed.

### Analysis of Changes in Allowance for Losses and Estimated Liabilities

Dollars in Millions

	Beginning Balance 01/01/96	Provision for Losses	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/96
<b>Allowance for Losses:</b>					
Open thrift assistance	\$ 446	\$ (745)	\$ 0	\$ 743	\$ 444
Closed thrifts	81,496	(1,633)	0	(3,242)	76,621
Corporate owned assets	3,222	256	0	(89)	3,389
Investment in FADA	11	0	0	0	11
Securitization Credit Reserve	14	(92)	0	580	502
<b>Total Allowance for Losses</b>	<b>85,189</b>	<b>(2,214)</b>	<b>0</b>	<b>(2,008)</b>	<b>80,967</b>
<b>Estimated Liabilities for:</b>					
Assistance agreements	81	(53)	(5)	(7)	16
Litigation losses	164	(124)	0	0	40
<b>Total Estimated Liabilities</b>	<b>\$ 245</b>	<b>\$ (177)</b>	<b>\$ (5)</b>	<b>\$ (7)</b>	<b>\$ 56</b>
<b>Purchase Discount Valuation</b>		<b>(9)</b>			
<b>Provision for Losses</b>		<b>\$ (2,400)</b>			

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## 10. Resolution Equity

Dollars in Thousands

	<b>Beginning Balance 01/01/96</b>	<b>Net Income</b>	<b>Obligated OIG Funds</b>	<b>Ending Balance 12/31/96</b>
Contributed capital	\$ 135,501,248	\$ 0	\$ (225)	\$ 135,501,023
Accumulated deficit	(131,294,382)	2,375,059	0	(128,919,323)
<b>Total</b>	<b>\$ 4,206,866</b>	<b>\$ 2,375,059</b>	<b>\$ (225)</b>	<b>\$ 6,581,700</b>

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## 11. Limited Partnership Revenue

During 1993, in order to achieve a least cost resolution, the FRF secured a limited partnership interest in two partnerships, Mountain AMD and Brazos Partners. The FRF has collected its entire original investment in the partnerships.

However, funds in excess of the original investment continue to be collected by the FRF. As of December 31, 1996, Limited Partnership Revenue is \$54.6 million.

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## 12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

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

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

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management. The liability to employees for accrued annual leave is approximately \$13.7 million and \$26.1 million at December 31 and January 1, 1996, respectively.

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**Pension Benefits and Savings Plans Expenses**


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Dollars in Thousands

	<b>For the Year Ended December 31, 1996</b>
Civil Service Retirement System	\$ 2,534
Federal Employee Retirement System (Basic Benefit)	13,391
FDIC Savings Plan	7,463
Federal Thrift Savings Plan	4,369
<b>Total</b>	<b>\$ 27,757</b>

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**13. Postretirement Benefits Other Than Pensions**


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The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to

direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

The FRF expensed \$3.1 million for net periodic postretirement benefit costs for the year ended December 31, 1996. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1996 of 10.75 percent (inclusive of general inflation of 3.00 percent), decreasing to an ultimate rate in the year 2000 of 7.75 percent; and 4) an increase in dental costs in 1996 and thereafter of 4.00 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1996, would have increased by 20.4 percent. The effect of this change on the aggregate of service and interest cost for 1996 would be an increase of 26.2 percent.

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**Net Periodic Postretirement Benefit Cost**


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Dollars in Thousands

	<b>For the Year Ended December 31, 1996</b>
Service cost (benefits attributed to employee service during the year)	\$ 6,621
Interest cost on accumulated postretirement benefit obligation	3,102
Net total of other components	(3,132)
Return on plan assets	(3,511)
<b>Total</b>	<b>\$ 3,080</b>

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the FRF, the

BIF, and the SAIF. The FRF funds its liability and these funds are being managed as "plan assets."

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**Accumulated Postretirement Benefit Obligation and Funded Status**


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Dollars in Thousands

	<b>December 31, 1996</b>	<b>January 1, 1996</b>
Retirees	\$ 23,602	\$ 15,143
Fully eligible active plan participants	2,196	4,274
Other active participants	26,409	34,801
<b>Total Obligation</b>	<b>52,207</b>	<b>54,218</b>
Less: Plan assets at fair value (a)	64,002	60,491
<b>(Over) Funded Status</b>	<b>(11,795)</b>	<b>(6,273)</b>
Unrecognized prior service cost	19,613	19,396
Unrecognized net gain	11,412	4,051
<b>Postretirement Benefit Liability Recognized in the Statements of Financial Position</b>	<b>\$ 19,230</b>	<b>\$ 17,174</b>

(a) Invested in U.S. Treasury instruments

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**14. Commitments**


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**Securitization Reserve Fund**

In order to maximize the return from the sale or disposition of assets and to minimize the realized loss, RTC engaged in numerous securitization transactions. Through 1996, the RTC sold through its mortgage-backed securities program \$42.4 billion of receivership, conservatorship and Corporate loans to various trusts which issued regular pass-through certificates.

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular

pass-through certificates, and thus the marketability of such certificates, a portion of the proceeds from the sale of the certificates was placed in credit enhancement reserve funds (reserve funds) to cover future credit losses with respect to the loans underlying the certificates. The reserve funds' structure limits the receivership exposure from credit losses on loans sold through the FRF securitization program to the balance of the reserve funds. The initial balances of the reserve funds are reduced for claims paid and recovered reserves.



In October 1996, the reserve funds and related allowance to cover future estimated losses on the reserve were transferred from the receiverships to FRF in its corporate capacity. The \$5.4 billion transferred to FRF was exactly offset by amounts owed by the receiverships to FRF; thus, there was no change in FRF's net assets as a result of this transaction.

Through December 1996, the amount of claims paid was approximately 14% of the initial reserve funds. At December 31 and January 1, 1996, reserve funds related to the RTC securitization program totalled \$6.3 billion and \$6.8 billion, respectively. At December 31 and January 1, 1996, the allowance for estimated future losses which would be paid from the securitization fund totalled \$5.5 billion and \$1.1 billion, respectively.

#### Representations and Warranties

The RTC provided guarantees, representations and warranties on approximately \$114 billion in unpaid principal balance of loans sold and approximately \$157 billion in unpaid principal balance of loans under servicing right contracts which had been sold.

In 1996, the FRF estimated Corporate losses related to the representations and warranties claims as part of the FRF's allowances for losses. The allowance for these losses was \$494 and \$810 million as of December 31, 1996 and January 1, 1996, respectively. Future losses on representations

and warranties could significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as 20 years.

#### Letters of Credit

The RTC had adopted special policies for outstanding conservatorship and receivership collateralized letters of credit. These policies enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were used to guarantee tax exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1996, there were pledged securities as collateral of \$130 million to honor these letters of credit. The corporation established an estimated liability against this pledged collateral of \$25 million.

#### Leases

The FRF's allocated share of FDIC's lease commitments totals \$61.9 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of FDIC's future lease commitments is based upon current relationships of the workloads among FRF, BIF and SAIF. Changes in the relative workloads among the three funds in future years could change the amount of FDIC's lease payments which will be allocated to FRF. The FRF recognized leased space expense of \$32.8 million for the year ended December 31, 1996.

### Leased Space Fees

Dollars in Thousands

1997	1998	1999	2000	2001	2002/Thereafter
\$16,139	\$8,797	\$7,623	\$7,623	\$7,890	\$13,848

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## 15. Concentration of Credit Risk

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As of December 31, 1996, the FRF had \$81.3 and \$3.6 billion in gross receivables from thrift resolutions and investment in corporate owned assets, respectively. An allowance for loss of \$76.9 and \$3.4 billion, respectively, has been recorded against these receivables. Of the total receivables, \$29 billion was attributable to institutions in Texas, \$11.4 billion was attributable to institutions located in California, \$5.7 billion was attributable to institutions located in Florida and

\$5.1 billion was attributable to institutions located in Arizona. The liquidating entities' ability to make repayments to FRF is largely influenced by the economy of the area in which they are located.

Additionally, the FRF had \$13 million in assistance agreement covered assets, net of estimated capital loss.

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## 16. Disclosures about the Fair Value of Financial Instruments

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Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of short-term receivables, accounts payable, liabilities incurred from thrift resolutions and the estimated liabilities for assistance agreements approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

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

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

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

Like the corporate subrogated claim, the securitization credit reserves involve an asset which is unique, not intended for sale to the private sector, and has no established market. There, it is not practicable to estimate the fair market value of the securitization credit reserves. These reserves are carried at their net realizable value which is the book value of the reserves less the related allowance for loss (see Note 14).

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

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**17. Supplementary Information Relating to the Statements of Cash Flows**


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**Reconciliation of Net Income to Net Cash (Used by) Provided by Operating Activities**


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Dollars in Thousands

**For the Year Ended  
December 31, 1996**


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<b>Net Income</b>	<b>\$ 2,375,059</b>
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**Adjustments to Reconcile Net Income to Net Cash (Used by) Provided by Operating Activities**


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**Income Statement Item:**

Increase in accrued interest on notes payable	33,080
Provision for losses	(2,400,365)
OIG income recognized	(225)

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**Change in Assets and Liabilities:**

Decrease in receivables from thrift resolutions	10,055,201
(Increase) in securitization reserve fund	(5,712,446)
Decrease in investment in corporate owned assets	575,502
(Increase) in other assets	(5,403)
(Decrease) in accounts payable and other liabilities	(41,676)
(Decrease) in liabilities incurred from thrift resolutions	(73,253)
Increase in estimated liabilities for assistance agreements	732,728
<b>Net Cash (Used by) Provided by Operating Activities</b>	<b>\$ 5,538,202</b>

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**18. Subsequent Events**


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In the first quarter of 1997, management negotiated with the National Treasury Employees Union (NTEU) a change in employee health benefits. This change involves a conversion from the FDIC health plan to the Federal Employees Health Benefits (FEHB) plan. This conversion will involve all employees with five or more years until retirement eligibility.

Assuming enabling legislation is also passed, the conversion will also affect all retirees and employees within five years of retirement. Management does not expect the conversion, which will become effective on January 1, 1998, to result in an accounting loss to the FRF.



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

Accounting and Information  
Management Division

To the Board of Directors  
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1996 and 1995, of the two deposit insurance funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance, and the statements of cash flows for the years then ended. We have also audited the statements of financial position as of December 31, 1996, and January 1, 1996, of the FSLIC Resolution Fund, which is also administered by FDIC, and the related statement of income and accumulated deficit and the statement of cash flows for the year ended December 31, 1996.

In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), we found

- the financial statements of each fund were reliable in all material respects;
- although certain internal controls should be improved, FDIC management fairly stated that internal controls in place on December 31, 1996, were effective in safeguarding assets from material loss, assuring material compliance with relevant laws and regulations, and assuring that there were no material misstatements in the financial statements of the three funds administered by FDIC; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss our conclusions in more detail. They also discuss (1) the scope of our audits, (2) additional information including recent legislation affecting SAIF and an update on the current status of FRF liquidation activities and funding, (3) FDIC's progress in addressing reportable conditions<sup>1</sup> identified during our 1995 audits, and reportable conditions identified during our 1996 audits, (4) recommendations from our 1996 audits, and (5) the Corporation's comments on a draft of this report and our evaluation.

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

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OPINION ON BANK INSURANCE FUND'S  
FINANCIAL STATEMENTS

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Bank Insurance Fund's financial position as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended.

OPINION ON SAVINGS ASSOCIATION INSURANCE  
FUND'S FINANCIAL STATEMENTS

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Savings Association Insurance Fund's financial position as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended.

OPINION ON FSLIC RESOLUTION FUND'S  
FINANCIAL STATEMENTS

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the FSLIC Resolution Fund's financial position as of December 31, 1996, and January 1, 1996, and the results of its operations and its cash flows for the year ended December 31, 1996.

As discussed in notes 1 and 2 of FRF's financial statements, on January 1, 1996, FRF assumed responsibility for liquidating the assets and satisfying the obligations of the Resolution Trust Corporation (RTC).<sup>2</sup> This statutorily-mandated merger resulted in a significant one-time transfer of assets and liabilities into FRF on January 1, 1996. For this reason, FDIC concluded that providing year-end 1995 comparative information on FRF would not be practical on a fully consistent basis of accounting, and therefore only presented FRF's financial statements for 1996. Additionally, the transfer of RTC's assets and liabilities into FRF required FDIC to make certain adjustments and reclassifications to 1996 opening balances on FRF's statement of financial position to ensure consistent treatment in presentation. For this reason, certain amounts on FRF's January 1, 1996, statement of financial position will not be readily traceable to the combined year-end 1995 balances reported on FRF's and RTC's statements of financial position.

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<sup>2</sup>The Resolution Trust Corporation was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage and resolve all troubled savings associations that were previously insured by FSLIC and for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. This period was extended to September 30, 1993, by the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 and was further extended on December 17, 1993, to a date not earlier than January 1, 1995, nor later than July 1, 1995, by the Resolution Trust Corporation Completion Act of 1993 (RTC Completion Act). The RTC Completion Act stated that the final date would be determined by the Chairperson of the Thrift Depositor Protection Oversight Board. On December 5, 1994, the Chairperson made the determination that RTC would continue to resolve failed thrift institutions through June 30, 1995. Finally, the RTC Completion Act required RTC to terminate its operations no later than December 31, 1995.

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As discussed in note 8 of FRF's financial statements, there are approximately 120 pending lawsuits which stem from legislation that resulted in the elimination of supervisory goodwill and other forbearances from regulatory capital. These lawsuits assert various legal claims including breach of contract or an uncompensated taking of property resulting from the FIRREA provisions regarding minimum capital requirements for thrifts and limitations as to the use of supervisory goodwill to meet minimum capital requirements. One case has resulted in a final judgment of \$6 million against FDIC, which was paid by FRF, and another case to which FDIC is a party defendant and where a judgment of \$26.9 million (plus post judgment interest) has been entered is currently on appeal. FDIC has established a reserve on FRF's financial statements for this second judgment. The remainder of these cases are pending in the Court of Federal Claims with the United States as the named defendant.

On July 1, 1996, the United States Supreme Court concluded that the government is liable for damages in three other cases, consolidated for appeal to the Supreme Court, in which the changes in regulatory treatment required by FIRREA led the government to not honor its contractual obligations. However, because the lower courts had not determined the appropriate measure or amount of damages, the Supreme Court returned the cases to the Court of Federal Claims for further proceedings. As of May 20, 1997 -- the end of our fieldwork -- only one of these three cases had gone to trial, and the trial was still ongoing. Until the amount of damages are determined by the court the amount of additional costs from these three cases is uncertain. Further, with respect to the other pending cases, the outcome of each case and the amount of any possible damages will depend on the facts and circumstances, including the wording of agreements between thrift regulators and acquirers of troubled savings and loan institutions.

As discussed in note 8 of FRF's financial statements, FDIC believes that judgments in such cases are properly paid from the Judgment Fund.<sup>3</sup> The extent to which FRF will be the source for paying other judgments in such cases is uncertain.

OPINION ON FDIC MANAGEMENT'S ASSERTIONS  
ABOUT THE EFFECTIVENESS OF INTERNAL CONTROLS

For the three funds administered by FDIC, we evaluated FDIC management's assertions about the effectiveness of its internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with provisions of selected laws and regulations that have a direct and material effect on the financial statements of the three funds; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

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<sup>3</sup>The Judgment Fund is a permanent, indefinite appropriation established by 31 U.S.C. Sec. 1304, and is administered by the Department of the Treasury.

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FDIC management fairly stated that those controls in place on December 31, 1996, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. FDIC management made this assertion based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FDIC management, in making its assertion, also fairly stated the need to improve certain internal controls.

Our work also identified the need to improve certain internal controls, as described in a later section of this report. These weaknesses in internal controls, although not considered material weaknesses, represent significant deficiencies in the design or operation of internal controls which could have adversely affected FDIC's ability to fully meet the internal control objectives listed above. While these weaknesses did not significantly affect the financial statements of the three funds, misstatements may nevertheless occur in other FDIC-reported financial information on the funds as a result of these internal control weaknesses. These weaknesses are discussed in detail in a later section of this report.

#### COMPLIANCE WITH LAWS AND REGULATIONS

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

FDIC's management is responsible for

- preparing the annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and evaluating the internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are free of material misstatement and presented fairly, in all material respects, in conformity with generally accepted accounting principles and (2) FDIC management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, based upon the criteria established under FMFIA. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information in FDIC's annual financial report.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;

- 
- obtained an understanding of the internal control related to safeguarding assets, compliance with laws and regulations, including the execution of transactions in accordance with management's authority, and financial reporting;
  - tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls; and
  - tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended; the Chief Financial Officers Act of 1990; and the Federal Home Loan Bank Act, as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We conducted our audits between July 1996 and May 1997. Our audits were conducted in accordance with generally accepted government auditing standards.

ADDITIONAL INFORMATION ON  
SAIF'S CAPITALIZATION AND  
FRF'S LIQUIDATION ACTIVITIES

The following sections discuss (1) the affect of 1996 legislation on SAIF's capitalization and (2) FRF's liquidation activities and status of funding at year-end 1996.

1996 Legislation Resulted  
in SAIF's Capitalization

In our 1995 audit report, we noted that a significant differential in premium rates charged by BIF and SAIF developed in 1995 after BIF achieved its designated capitalization level and FDIC lowered premium rates charged to BIF-insured institutions.<sup>4</sup> We reported that, absent a legislative solution, this premium rate differential would likely remain for many years. We noted that, while SAIF's reserves continued to increase during 1995, its ratio of reserves to insured deposits was still substantially below its designated capitalization level. We also noted that such a differential in premium rates could result in further decreases to SAIF's assessment base beyond those already being experienced. We reported that this could jeopardize the stability of the Fund and increase the risk of a default on the thrift industry's obligation to pay the annual

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<sup>4</sup>We had previously reported on the potential for a significant differential in premium rates to develop between BIF and SAIF in 1995, as well as the potential consequences of such a differential, in Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/AIMD-95-84, March 3, 1995).



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interest on 30-year bonds issued by the Financing Corporation (FICO) in an earlier attempt to resolve the thrift crisis of the 1980s.<sup>5</sup>

As discussed in notes 1 and 7 of SAIF's financial statements, on September 30, 1996, the Congress enacted the Deposit Insurance Funds Act of 1996 (DIFA). DIFA included provisions to capitalize SAIF to its designated ratio of reserves to insured deposits. SAIF was fully capitalized through a special assessment totaling \$4.5 billion against SAIF-assessable deposits. The special assessment was sufficient to increase SAIF's reserves to the Fund's designated reserve ratio of \$1.25 for each \$100 of insured deposits effective as of October 1, 1996. DIFA also provided that banks bear part of the cost of the future annual FICO bond interest, which previously had been paid from SAIF-member assessments. The DIFA provisions resulting in the capitalization of SAIF and the spreading of the annual FICO bond interest between banks and thrifts effectively addressed the insurance premium disparity between BIF and SAIF. The legislation also provides for the merger of BIF and SAIF on January 1, 1999, if no thrift institution exists on that date.<sup>6</sup>

Status of FRF's Liquidation  
Activities and Funding

As discussed earlier, on January 1, 1996, FRF assumed responsibility for the assets and liabilities of the former RTC. During 1996, FDIC continued its liquidation activities for FSLIC-related assets and liabilities, as well as those of the former RTC. As shown in table 1, the majority of FRF's losses from liquidation activities have been realized as of December 31, 1996.

Table 1: FRF's Realized and Unrealized Losses as of  
December 31, 1996 (Dollars in billions)

	FRF-RTC	FRF-FSLIC	Total FRF
Realized losses	\$82.5	\$41.5	\$124.0
Unrealized losses	3.9	1.0	4.9
Total realized and unrealized losses	\$86.4	\$42.5	\$128.9

Losses are realized when failed financial institution assets at receiverships are disposed of and the proceeds from the asset dispositions are not sufficient to repay amounts

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<sup>5</sup>FICO was established in 1987 to recapitalize the Federal Savings and Loan Insurance Fund, the former insurance fund for thrifts. FICO was funded mainly through the issuance of public debt offerings which were initially limited to \$10.8 billion but were later effectively capped at \$8.2 billion by the RTC Refinancing, Restructuring, and Improvement Act of 1991. Neither FICO's bond obligations or the interest on these obligations are obligations of the United States nor are they guaranteed by the United States. The annual FICO interest obligation, on average, equals approximately \$780 million.

<sup>6</sup>The Deposit Insurance Funds Act directs the Secretary of the Treasury to conduct a study of issues relevant to developing a common charter for all insured depository institutions and the abolition of separate and distinct charters between banks and savings associations, and to make recommendations with respect to establishing a common charter.

disbursed by FRF to receiverships and are recorded on FRF's financial statements as receivables from thrift resolutions. Losses are also realized when assets FRF purchases from terminating receiverships (investments in corporate-owned assets) are later disposed of for less than the price FRF paid when it purchased the assets from the receiverships. Uncertainties still exist with regard to the unrealized losses, as the amount will not be known with certainty until all remaining assets and liabilities are liquidated.

In total, the Congress made available \$149.2 billion in funding to cover liabilities and losses associated with the former FSLIC and RTC resolution activities, of which \$105 billion was made available to the former RTC.<sup>7</sup> Of the \$105 billion in funding available, \$91.3 billion was received by RTC through December 31, 1995, the date of RTC's termination, to cover losses and expenses associated with failed institutions from its caseload. FRF received \$44.2 billion to cover the liabilities and losses associated with the former FSLIC activities. In total, \$135.5 billion was received to cover liabilities and losses associated with the former FSLIC and RTC resolution activities.

As shown in table 2, after reducing the total amount of funding received by the amount of estimated funds needed, \$6.6 billion in available funds will remain.

Table 2: Estimated Unused Funds After Completion of FRF's Liquidation Activities (Dollars in billions)

	FRF-RTC	FRF-FSLIC	Total FRF
Total funds received	\$91.3	\$44.2	\$135.5
Less: estimated funds needed	86.4	42.5	128.9
Estimated unused funds	\$ 4.9	\$ 1.7	\$ 6.6

The final amount of unused funds will not be known with certainty until all of FRF's remaining assets and liabilities are liquidated. Further, \$13.7 billion in loss funds not received by RTC prior to RTC's termination are available until December 31, 1997, for losses incurred by the SAIF, if the conditions set forth in the Resolution Trust Corporation Completion Act are met.<sup>8</sup> Also, according to the act, unused loss funds will be returned to the general fund of the Treasury.

<sup>7</sup>FIRREA provided an initial \$50 billion to RTC. The Resolution Trust Corporation Funding Act of 1991 provided an additional \$30 billion. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 provided \$25 billion in December 1991, which was only available for obligation until April 1, 1992. In December 1993, the RTC Completion Act removed the April 1, 1992, deadline, thus making the balance of the \$25 billion that was not obligated prior to April 1, 1992, \$18.3 billion, available to RTC for resolution activities.

<sup>8</sup>The RTC Completion Act makes available to SAIF, during the 2-year period beginning on the date of RTC's termination, any of the \$18.3 billion in appropriated funds made available by the RTC Completion Act and not needed by RTC. However, prior to receiving such funds, FDIC must first certify, among other things, that SAIF cannot fund insurance losses through industry premium assessments or Treasury borrowings without adversely affecting the health of its member institutions and causing the government to incur greater losses.

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#### REPORTABLE CONDITIONS

The following sections discuss (1) FDIC's progress in addressing reportable conditions identified during our 1995 audits and (2) reportable conditions found during our 1996 audits.

#### Progress on Weaknesses Identified in Previous Audits

In our 1995 audit report on the three funds administered by FDIC, we identified reportable conditions which affected FDIC's ability to ensure that internal control objectives were achieved.<sup>9</sup> These weaknesses related to FDIC's internal controls designed to ensure that (1) estimated recoveries for failed institution assets were determined in accordance with FDIC's estimation methodology, were supported by asset file information, and incorporated the impact of events through year-end, (2) time and attendance reporting procedures were effective, and (3) electronic data processing controls were effective. During 1996, FDIC's actions addressed the weaknesses we identified in our 1995 audit report.

For example, during our 1995 audits, we identified weaknesses in FDIC's controls to ensure that recovery estimates for assets acquired from failed financial institutions complied with FDIC's revised asset recovery estimation methodology, including being supported by asset file documentation, and weaknesses in the cut-off date for asset recovery information used by FDIC in its year-end allowance for loss estimation process. FDIC's implementation of the Standard Asset Valuation Estimation methodology and related Asset Loss Reserve project in 1996 have addressed our previously identified weaknesses surrounding FDIC's use of noncurrent asset recovery values and the lack of adherence to its asset recovery estimation methodology. Additionally, although we continued to find instances where relevant file documentation was not always used in estimating asset recovery values during our 1996 audits, these problems did not affect the financial statements, and appear to be a result of first-year implementation issues. We will continue to review individual asset recovery estimates during 1997.

During our 1995 audits, we also continued to identify weaknesses in FDIC's time and attendance reporting process. We reported that we had continued to identify deficiencies in adherence to required procedures in preparing time and attendance reports, separation of duties between timekeeping and data entry functions, and reconciliation of payroll reports to time cards. During 1996, FDIC implemented new time and attendance reporting procedures to address these deficiencies. The new procedures were intended to streamline and improve the time and attendance reporting process by focusing accountability for verifying the accuracy of time reports with supervisors, segregating the timekeeping and data entry functions, and redefining post-audit responsibilities for time and attendance reporting. We found that the implementation of these new procedures effectively addressed the internal control issues we identified in the time and attendance reporting process in our prior year audits.

During our 1995 audits, we also identified a weakness related to FDIC's electronic data processing general controls. This weakness, because of its sensitive nature,

<sup>9</sup>Financial Audit: Federal Deposit Insurance Corporation's 1995 and 1994 Financial Statements (GAO/AIMD-96-89, July 15, 1996).

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was communicated in a separate correspondence to FDIC management, along with our recommendations for corrective action. During 1996, FDIC took action which effectively addressed the issue we raised in this separate correspondence. Additionally, in our final audit of the Resolution Trust Corporation's (RTC) 1995 financial statements,<sup>10</sup> we identified weaknesses related to general controls over RTC's computerized information systems which required corrective actions. During our 1996 audits, we found that FDIC took action to address a number of these general control weaknesses. Several other general control related issues had not been fully addressed by FDIC at the time of completion of our 1996 audits. However, we believe the issues are not significant enough to be considered a reportable condition.

Reportable Conditions  
Identified In 1996

The following reportable conditions represent significant deficiencies in FDIC's internal controls and should be corrected by FDIC management.

1. Controls over the integrity of information used to calculate the allowance for losses on receivables from resolution activities and investment in corporate-owned assets need to be improved. Specifically, FDIC did not have effective procedures in place to ensure that data used in the calculation of the year-end allowance for losses was adequately reviewed for accuracy prior to inclusion in the year-end calculation.

FDIC estimates recoveries on assets acquired from failed financial institutions and uses these estimates to calculate the allowance for losses on receivables from resolution activities and investment in corporate-owned assets. FDIC uses multiple data sources to calculate the estimated recoveries from these assets. Much of the data are gathered from decentralized sources and some of the operations performed on the data are handled in a decentralized manner. Consequently, it is critical that procedures be in place to ensure the accuracy and quality of the data and that such procedures clearly require review for accuracy and quality of the data used in the year-end allowance for losses calculation. However, during our 1996 audits, we found deficiencies in FDIC's procedures for reviewing the compiled data and the related calculations. As a result, FDIC management did not consistently have assurance that the estimated recoveries were properly recorded, processed, and reliable.

For example, FDIC personnel made errors in calculating the estimated recoveries for a portfolio of equity investments. The resulting error of about \$97 million was not detected by FDIC. In addition, FDIC made a number of errors in the process of updating the June 30, 1996, estimated recoveries for assets maintained at failed institution receiverships. The estimated recoveries for many of these assets were erroneously changed and some were inadvertently deleted. In addition, FDIC did not always follow its procedures for discounting recovery estimates during its update process, resulting in improper discount rates being used to derive the updated values for a number of assets. Finally, we also found instances where FDIC personnel did not review the integrity of the estimated recoveries on securities assets prior to including these recoveries in the allowance for losses calculations.

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<sup>10</sup>Financial Audit: Resolution Trust Corporation's 1995 and 1994 Financial Statements (GAO/AIMD-96-123, July 2, 1996).

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The nature of these errors was such that, had an effective process been in place for reviewing the compiled data and related calculations, FDIC could have identified and corrected the errors. The errors we identified generally caused estimated asset recoveries to be understated and the related allowance for losses to be overstated at December 31, 1996. While the effect of these misstatements was not material, misstatements in future financial statements could occur if corrective action is not taken.

FDIC has proposed enhanced review procedures for 1997 which, if properly implemented, should reduce the risk of future errors or misstatements. We will assess the effectiveness of these review procedures during our 1997 audits.

2. FDIC's oversight of asset servicers contracted to manage and dispose of failed financial institution assets needs to be strengthened. During our 1996 audits, we found that FDIC had limited assurance that contracted asset servicers properly safeguarded failed institution assets and accurately reported financial information to FDIC because of deficiencies in FDIC's contractor oversight program. Specifically, FDIC's contractor oversight personnel did not always ensure that (1) contracted asset servicers have adequate controls over daily collections and bank reconciliations, (2) servicers' fees and reimbursable expenses are valid, accurate and complete, and (3) servicers' loan system calculations relating to the allocation of principal and interest are accurate.

As of December 31, 1996, approximately \$4.8 billion of the \$8.7 billion (about 55 percent) in FDIC's inventory of failed financial institution assets was serviced by contracted asset servicers. These servicers accounted for over \$3.7 billion of the \$5.9 billion (about 63 percent) in FDIC's collections during 1996 related to asset management and disposition activities. Consequently, it is critical that FDIC maintain an effective contractor oversight program.

FDIC attributes some of the problems noted above to reorganizations and realignments of responsibilities as a result of the merging of RTC activities into FDIC during 1996 coupled with the continued downsizing of the Corporation. Division of Finance (DOF) officials informed us that they intend to implement a full visitation program which will include oversight procedures addressing each of the deficiencies noted above. DOF anticipates having its revised visitation program begin operation in July 1997. Additionally, DOF and the Division of Resolutions and Receiverships (DRR) have established a task force to develop Memorandums of Understanding to more clearly define their oversight roles, with concurrence from the Division of Administration. We will assess the adequacy of FDIC's corrective actions during our 1997 audits.

In addition to the weaknesses discussed above, we noted other less significant matters involving FDIC's system of internal accounting controls and its operations which we will be reporting separately to FDIC.

#### RECOMMENDATIONS

To address weaknesses identified in this year's audits in the process for calculating the allowance for losses on receivables from resolution activities and investment in corporate-owned assets, we recommend that the Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Resolutions and Receiverships and the Division of Finance to implement formal procedures for reviewing data used in the allowance for losses calculations. Such procedures should provide for

- 
- a thorough review of all data elements used in the allowance for loss calculations to ensure that the data are accurate, current, and reliable; and
  - a clear designation and assignment of review responsibilities to ensure that all major sources of data used in the calculations are reviewed and verified.

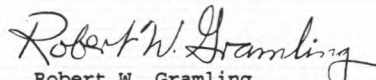
To address weaknesses identified in this year's audits in contracted asset servicer oversight, we recommend that the Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Resolutions and Receiverships and Division of Finance to enhance their contractor oversight program to ensure that their procedures for overseeing contracted asset servicers are followed. Such procedures should ensure

- routine monitoring of contracted asset servicers' controls over daily collections, such as opening mail containing monetary items under dual control, the preparation and maintenance of control totals, and the reconciliation of collections processed and deposited to the control totals;
- routine review of contracted asset servicers' bank reconciliations to ensure no unresolved differences exist between the servicers' reported cash balances and those reflected on the servicers' bank statements, and to ensure that funds collected are remitted to FDIC in accordance with contractual requirements;
- routine verification of the validity, accuracy, and completeness of contracted asset servicers' fees and reimbursable expenses; and
- verification that contracted asset servicers are accurately applying loan payments between principal and interest.

CORPORATION COMMENTS  
AND OUR EVALUATION

In commenting on a draft of this report, FDIC acknowledged the internal control weaknesses cited in the report and commented on initiatives it has underway to address the issues raised regarding the allowance for losses calculation and oversight of contracted asset servicers. We plan to evaluate the adequacy and effectiveness of these corrective actions as part of our 1997 financial audits.

FDIC's comments also discuss the changing environment the Corporation faced during 1996 and continues to face today, the condition of FDIC-insured institutions and the deposit insurance funds, and progress made by the Corporation in addressing internal control weaknesses identified in our 1995 financial audits.

  
Robert W. Gramling  
Director, Corporate Audits  
and Standards

May 20, 1997

Expenses, Bank  
 nning of Operations, Septem  
 Millions)

Total	Income		Investment and Other Sources	Effective Assessment Rate <sup>1</sup>
	Assessment Income	Assessment Credits		
\$74,373.0	\$53,088.0	\$6,709.1	\$27,994.1	0.0024%
1,655.3	72.7	0.0	1,582.6	0.1240%
4,089.1	2,906.9	0.0	876.4	0.2360%
6,467.0	5,590.6	0.0	646.5	0.2440%
	5,784.3	0.0	713.7	0.2300%
	5,878	0.0	629.4	0.2125%
		0.0	955.6	0.1200%
				0.0833%
				0.0833%

Statistical Tables





**Number and Deposits of BIF-Insured Banks Closed  
Because of Financial Difficulties, 1934 through 1996<sup>1</sup>**

(Dollars in Thousands)

Year	Number of Insured Banks			Deposits of Insured Banks			Assets
	Total	Without disbursements by FDIC	With disbursements by FDIC	Total	Without disbursements by FDIC	With disbursements by FDIC	
Total	2,080	19	2,061	\$212,703,931	\$4,298,814	\$208,405,117	\$252,561,431
1996	5	...	5	168,228	...	\$168,228	\$182,502
1995	6	...	6	632,700	...	632,700	753,024
1994	13	1	12	1,236,488	...	1,236,488	1,392,140
1993	41	...	41	3,132,177	...	3,132,177	3,539,373
1992	120	10	110	41,150,898	4,257,667	36,893,231	44,197,009
1991	124	...	124	53,751,763	...	53,751,763	63,119,870
1990	168	...	168	14,473,300	...	14,473,300	15,660,800
1989	206	...	206	24,090,551	...	24,090,551	29,168,596
1988	200	...	200	24,931,302	...	24,931,302	35,697,789
1987	184	...	184	6,281,500	...	6,281,500	6,850,700
1986	138	...	138	6,471,100	...	6,471,100	6,991,600
1985	120	...	120	8,059,441	...	8,059,441	8,741,268
1984	79	...	79	2,883,162	...	2,883,162	3,276,411
1983	48	...	48	5,441,608	...	5,441,608	7,026,923
1982	42	...	42	9,908,379	...	9,908,379	11,632,415
1981	10	...	10	3,826,022	...	3,826,022	4,859,060
1980	10	...	10	216,300	...	216,300	236,164
1979	10	...	10	110,696	...	110,696	132,988
1978	7	...	7	854,154	...	854,154	994,035
1977	6	...	6	205,208	...	205,208	232,612
1976	16	...	16	864,859	...	864,859	1,039,293
1975	13	...	13	339,574	...	339,574	419,950
1974	4	...	4	1,575,832	...	1,575,832	3,822,596
1973	6	...	6	971,296	...	971,296	1,309,675
1972	1	...	1	20,480	...	20,480	22,054
1971	6	...	6	132,058	...	132,058	196,520
1970	7	...	7	54,806	...	54,806	62,147
1969	9	...	9	40,134	...	40,134	43,572
1968	3	...	3	22,524	...	22,524	25,154
1967	4	...	4	10,878	...	10,878	11,993
1966	7	...	7	103,523	...	103,523	120,647
1965	5	...	5	43,861	...	43,861	58,750
1964	7	...	7	23,438	...	23,438	25,849
1963	2	...	2	23,444	...	23,444	26,179
1962	1	1	0	3,011	3,011	0	N/A
1961	5	...	5	8,936	...	8,936	9,820
1960	1	...	1	6,930	...	6,930	7,506
1959	3	...	3	2,593	...	2,593	2,858
1958	4	...	4	8,240	...	8,240	8,905
1957	2	1	1	11,247	10,084	1,163	1,253
1956	2	...	2	11,330	...	11,330	12,914
1955	5	...	5	11,953	...	11,953	11,985
1954	2	...	2	998	...	998	1,138
1953	4	2	2	44,711	26,449	18,262	18,811
1952	3	...	3	3,170	...	3,170	2,388
1951	2	...	2	3,408	...	3,408	3,050
1950	4	...	4	5,513	...	5,513	4,005
1949	5	1	4	6,665	1,190	5,475	4,886
1948	3	...	3	10,674	...	10,674	10,360
1947	5	...	5	7,040	...	7,040	6,798
1946	1	...	1	347	...	347	351
1945	1	...	1	5,695	...	5,695	6,392
1944	2	...	2	1,915	...	1,915	2,098
1943	5	...	5	12,525	...	12,525	14,058
1942	20	...	20	19,185	...	19,185	22,254
1941	15	...	15	29,717	...	29,717	34,804
1940	43	...	43	142,430	...	142,430	161,898
1939	60	...	60	157,772	...	157,772	181,514
1938	74	...	74	59,684	...	59,684	69,513
1937	77	2	75	33,677	328	33,349	40,370
1936	69	...	69	27,508	...	27,508	31,941
1935	26	1	25	13,405	85	13,320	17,242
1934	9	...	9	1,968	...	1,968	2,661

<sup>1</sup> Does not include institutions insured by the Savings Association Insurance Fund (SAIF), which was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

# Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 1996

(Dollars in Thousands)

ALL CASES <sup>1</sup>					
Year	No. of banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	2,132	\$104,408,655	\$63,121,249	\$3,371,389	\$37,916,017
1996	5	169,433	0	126,195	43,238
1995	6	717,799	447,410	144,109	126,280
1994	13	1,224,797	778,456	226,540	219,801
1993	41	1,757,147	863,071	216,948	677,128
1992	122	12,868,690	8,295,907	930,485	3,642,298
1991	127	20,638,267	14,309,415	295,246	6,033,606
1990	169	10,813,349	7,849,353	124,542	2,839,454
1989	207	11,445,179	5,050,868	207,925	6,186,386
1988	221	12,183,656	4,332,871	1,005,553	6,845,232
1987	203	5,037,871	2,995,573	19,429	2,022,869
1986	145	4,717,669	2,983,661	11,255	1,722,753
1985	120	2,920,886	1,701,751	17,552	1,201,583
1984	80	7,696,215	5,506,306	0	2,189,909
1983	48	3,768,020	2,240,432	709	1,526,879
1982	42	2,275,150	829,794	44,902	1,400,454
1981	10	888,999	69,326	0	819,673
1980	11	152,355	114,760	0	37,595
1934-79 <sup>3</sup>	562	5,133,173	4,752,295	0	380,878

Deposit payoff cases <sup>2</sup>					
Year	No. of banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	601	\$14,452,967	\$9,560,337	\$349,741	\$4,542,889
1996	0	\$0	\$0	\$0	\$0
1995	0	0	0	0	0
1994	0	0	0	0	0
1993	5	261,069	152,127	0	108,942
1992	24	1,786,457	1,174,965	102,174	509,318
1991	21	1,468,407	888,506	92,115	487,786
1990	20	2,182,583	1,411,472	29,802	741,309
1989	31	2,116,556	1,227,542	106,496	782,518
1988	36	1,252,160	816,055	6,187	429,918
1987	51	2,103,792	1,390,533	10,044	703,215
1986	40	1,155,981	735,910	2,923	417,148
1985	29	523,789	407,408	0	116,381
1984	16	791,838	670,935	0	120,903
1983	9	148,423	122,484	0	25,939
1982	7	277,240	205,879	0	71,361
1981	2	35,736	34,598	0	1,138
1980	3	13,732	11,515	0	2,217
1934-79 <sup>3</sup>	307	335,204	310,408	0	24,796

Deposit assumption cases					
Year	No. of banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	1,451	\$79,136,013	\$48,826,354	\$2,928,961	\$27,380,698
1996	5	\$169,433	\$0	\$126,195	\$43,238
1995	6	717,799	447,410	144,109	126,280
1994	13	1,224,797	778,456	226,540	219,801
1993	36	1,496,078	710,944	216,948	568,186
1992	96	11,081,031	7,120,742	828,311	3,131,978
1991	103	19,164,135	13,420,363	201,763	5,542,009
1990	148	8,628,265	6,437,799	94,740	2,095,726
1989	175	9,326,075	3,823,266	101,429	5,401,380
1988	164	9,180,495	3,362,590	975,266	4,842,639
1987	133	2,773,202	1,604,327	9,385	1,159,490
1986	98	3,402,840	2,186,319	4,275	1,212,246
1985	87	1,631,365	990,262	0	641,103
1984	62	1,373,198	940,375	0	432,823
1983	36	3,533,179	2,099,741	0	1,433,438
1982	26	418,321	325,165	0	93,156
1981	5	79,208	33,463	0	45,745
1980	7	138,623	103,245	0	35,378
1934-79 <sup>3</sup>	251	4,797,969	4,441,887	0	356,082

Assistance transactions <sup>1</sup>					
Year	No. of banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	80	\$10,819,675	\$4,734,558	\$92,687	\$5,992,430
1996	0	\$0	\$0	\$0	\$0
1995	0	0	0	0	0
1994	0	0	0	0	0
1993	0	0	0	0	0
1992	2	1,202	200	0	1,002
1991	3	5,725	546	1,368	3,811
1990	1	2,501	82	0	2,419
1989	1	2,548	60	0	2,488
1988	21	1,751,001	154,226	24,100	1,572,675
1987	19	160,877	713	0	160,164
1986	7	158,848	61,432	4,057	93,359
1985	4	765,732	304,081	17,552	444,099
1984	2	5,531,179	3,894,996	0	1,636,183
1983	3	86,418	18,207	709	67,502
1982	9	1,579,589	298,750	44,902	1,235,937
1981	3	774,055	1,265	0	772,790
1980	1	N/A	N/A	N/A	N/A
1934-79 <sup>3</sup>	4	0	0	0	0

<sup>1</sup> Totals do not include dollar amounts for five open bank assistance transactions between 1971 and 1980. Excludes eight transactions prior to 1962 that required no disbursements. Also, disbursements, recoveries, and estimated additional recoveries do not include working capital advances to and repayments by receiverships.

<sup>2</sup> Includes insured deposit transfer cases.

<sup>3</sup> For detail of years 1934 through 1979, refer to Table C of the 1994 Annual Report.

**Income and Expenses, Bank Insurance Fund, by Year,  
from Beginning of Operations, September 11, 1933, through December 31, 1996**

(Dollars in Millions)

Year	Income					Expenses and Losses			Net Income/ (Loss)
	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate <sup>1</sup>	Total	Deposit Insurance Losses and Expenses	Administrative and Operating Expenses	
Total	\$74,373.0	\$53,088.0	\$6,709.1	\$27,994.1		\$47,518.6	\$41,771.1	\$5,747.5	\$26,854.4
1996	1,655.3	72.7	0.0	1,582.6	0.0024%	254.6	(250.7)	505.3	1,400.7
1995	4,089.1	2,906.9	0.0	1,182.2	0.1240%	483.2	12.6	470.6	3,605.9
1994	6,467.0	5,590.6	0.0	876.4	0.2360%	(2,259.1)	(2,682.3)	423.2	8,726.1
1993	6,430.8	5,784.3	0.0	646.5	0.2440%	(6,791.4)	(7,179.9)	388.5	13,222.2
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(1,196.6)	570.8	6,927.3
1991	5,789.9	5,160.5	0.0	629.4	0.2125%	16,862.3	16,578.2	284.1	(11,072.4)
1990	3,838.3	2,855.3	0.0	983.0	0.1200%	13,003.3	12,783.7	219.6	(9,165.0)
1989	3,494.6	1,885.0	0.0	1,609.6	0.0833%	4,346.2	4,132.3	213.9	(851.6)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	7,364.5	223.9	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	3,066.0	204.9	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,783.4	180.3	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,778.7	179.2	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,848.0	151.2	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	834.2	135.7	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	869.9	129.9	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	720.9	127.2	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(34.6)	118.2	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(13.1)	106.8	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	45.6	103.3	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	24.3	89.3	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	31.9	180.4	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	29.8	67.7	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	100.0	59.2	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	53.8	54.4	452.8
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	132.1
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	(3.0)

<sup>1</sup> The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed. Beginning in 1993, the effective rate is based on a risk-related premium system under which institutions pay assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25%. As a result, the assessment rate was reduced to 4.4 cents per \$100 of insured deposits and assessment premiums totaling \$1.5 billion were refunded in September 1995.

Insured Deposits and the Bank Insurance Fund, December 31, 1934, through 1996

Year <sup>1</sup>	Insurance Coverage	(Dollars in Millions)				Insurance Fund as a Percentage of	
		Deposits in Insured Banks		Percentage of Insured Deposits	Deposit Insurance Fund	Total Deposits	Insured Deposits
		Total	Insured <sup>2</sup>				
1996	\$100,000	\$2,642,107	\$2,007,447	76.0	\$26,854.4	1.02	1.34
1995	\$100,000	\$2,576,581	\$1,952,543	75.8	\$25,453.7	0.99	1.30
1994	100,000	2,463,813	1,896,060	77.0	21,847.8	0.89	1.15
1993	100,000	2,493,636	1,906,885	76.5	13,121.6	0.53	0.69
1992	100,000	2,512,278	1,945,623	77.4	(100.6)	(0.00)	(0.01)
1991	100,000	2,520,074	1,957,722	77.7	(7,027.9)	(0.28)	(0.36)
1990	100,000	2,540,930	1,929,612	75.9	4,044.5	0.16	0.21
1989	100,000	2,465,922	1,873,837	76.0	13,209.5	0.54	0.70
1988	100,000	2,330,768	1,750,259	75.1	14,061.1	0.60	0.80
1987	100,000	2,201,549	1,658,802	75.3	18,301.8	0.83	1.10
1986	100,000	2,167,596	1,634,302	75.4	18,253.3	0.84	1.12
1985	100,000	1,974,512	1,503,393	76.1	17,956.9	0.91	1.19
1984	100,000	1,806,520	1,389,874	76.9	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.5	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.2	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.4	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934 <sup>3</sup>	5,000	40,060	18,075	45.1	291.7	0.73	1.61

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

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

<sup>3</sup> Initial coverage was \$2,500 from January 1 to June 30, 1934.

**FDIC- Insured Institutions Closed During 1996**

(Dollars in Thousands)

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disbursements	Estimated Loss <sup>1</sup>	Date of Closing or Acquisition	Receiver/ Assuming Bank and Location
<b>Bank Insurance Fund</b>								
<b>Purchase and Assumption - Insured Deposits Only</b>								
Metrobank Philadelphia, PA	N	1,800	\$35,009	\$33,630	\$33,566	\$10,900	03/08/96	Jefferson Bank Haverford, PA
First National Bank of the Panhandle Panhandle, TX	N	7,400	\$62,722	\$57,905	\$59,124	\$17,835 <sup>2</sup>	06/14/96	Sun Bank Sunray, TX The Plains National Bank of West Texas Lubbock, TX
Commonwealth Thrift and Loan Torrance, CA	NM	370	\$12,741	\$10,250	\$10,250	\$1,400	08/16/96	Frontier State Bank Redondo Beach, CA
<b>Purchase and Assumption - All Deposits</b>								
Peoples Bank and Trust Borger, TX	NM	2,600	\$21,134	\$18,788	\$18,803	\$3,300	05/31/96	Boatmen's First National Bank of Amarillo Amarillo, TX
Fairfield First Bank & Trust Company Southport, CT	NM	3,800	\$50,896	\$47,655	\$47,690	\$9,800	07/12/96	Norwalk Savings Society Norwalk, CT
<b>Savings Association Insurance Fund</b>								
<b>Purchase and Assumption - Insured Deposits Only</b>								
Union Federal Bank Los Angeles, CA	FSB	1,000	\$35,140	\$32,189	\$32,172	\$14,000	08/09/96	Dean Witter Trust, Federal Savings Bank Jersey City, NJ

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

<sup>1</sup> Estimated losses are as of 12/31/96. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries.

<sup>2</sup> Excludes \$766,000 in losses allocable to the Savings Association Insurance Fund since this was an Oakar bank.

**Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations, August 9, 1989, through December 31, 1996**

(Dollars in Thousands)

Year	Income				Expenses and Losses				Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
	Total	Assessment Income	Investment and Other Sources	Effective Assessment Rate	Total	Provision for Losses	Interest & Other Ins. Expenses	Administrative and Operating Expenses		
Total	\$9,073,691	\$8,505,185	\$568,506		\$324,768	\$23,064	\$732	\$300,972	\$139,498	\$8,888,421
1996	5,501,684	5,221,560	280,124	0.204%	(28,890)	(91,636)	128	62,618	0	5,530,574
1995	1,139,916	970,027	169,889	0.234%	(281,216)	(321,000)	0	39,784	0	1,421,132
1994	1,215,289	1,132,102	83,187	0.244%	434,303	414,000	0	20,303	0	780,986
1993	923,516	897,692	25,824	0.250%	46,814	16,531	0	30,283	0	876,702
1992	178,643	172,079	6,564	0.230%	28,982	(14,945)	(5)	43,932	35,446	185,107
1991	96,446	93,530	2,916	0.230%	63,085	20,114	609	42,362	42,362	75,723
1990	18,195	18,195	0	0.208%	56,088	0	0	56,088	56,088	18,195
1989	2	0	2	0.208%	5,602	0	0	5,602	5,602	2

**Insured Deposits and the Savings Association Insurance Fund, December 31, 1989, through 1996**

Year <sup>1</sup>	Insurance Coverage	(Dollars in Millions)				Insurance Fund as a Percentage of	
		Deposits in Insured Institutions		Percentage of Insured Deposits	Deposit Insurance Fund	Total Deposits	Insured Deposits
		Total	Insured <sup>2</sup>				
1996	\$100,000	\$708,749	\$683,090	96.4	\$8,888.4	1.25	1.30
1995	\$100,000	\$742,467	\$711,017	95.8	\$3,357.8	0.45	0.47
1994	100,000	720,823	692,626	96.1	1,936.7	0.27	0.28
1993	100,000	726,473	695,158	95.7	1,155.7	0.16	0.17
1992	100,000	760,902	729,458	95.9	279.0	0.04	0.04
1991	100,000	810,664	776,351	95.8	93.9	0.01	0.01
1990	100,000	874,738	830,028	94.9	18.2	0.00	0.00
1989	100,000	948,144	882,920	93.1	0.0	0.00	0.00

<sup>1</sup> Starting in 1990, deposits in insured institutions exclude those deposits held by Savings Association Insurance Fund members that are covered by the Bank Insurance Fund.

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

**Number, Assets, Deposits, and Losses of Insured Thrifts Taken Over or Closed Because of Financial Difficulties, 1989 through 1996<sup>1</sup>**

(Dollars in Thousands)

Year	Total	Assets	Deposits	Estimated Loss
<b>Total</b>	<b>748</b>	<b>\$402,606,260</b>	<b>\$315,472,700</b>	<b>\$90,113,321</b>
1996	1	35,140	32,189	14,000
1995	2	426,291	407,752	65,824
1994	2	128,859	124,531	20,199
1993	9	6,105,039	4,824,789	600,834
1992	59	44,924,135	33,734,454	5,062,374
1991	144	79,033,696	64,845,422	11,040,409
1990	213	130,198,650	98,630,892	21,675,852
1989	318	141,754,450	112,872,671	51,633,829

<sup>1</sup> Prior to July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of thrift closing activity from 1989 through 1995 are now reflected on FRF's books. The Savings Association Insurance Fund (SAIF) became responsible for all thrifts closed after June 30, 1995; there has been only one such failure.



**For More Information**





### Public Information Center

801 17th Street, NW  
Washington, DC 20434

Phone: 800-276-6003  
202-416-6940

Fax: 202-416-2076

Internet: [publicinfo@fdic.gov](mailto:publicinfo@fdic.gov)

FDIC publications, press releases, speeches and Congressional testimony, directives to financial institutions and other documents are available through the Public Information Center. These documents include the *Quarterly Banking Profile*, *Statistics on Banking* and a variety of consumer pamphlets.

### Division of Compliance and Consumer Affairs

550 17th Street, NW  
Washington, DC 20429

Phone: 800-934-3342 or  
202-942-3100

Fax: 202-942-3427 or  
202-942-3098

Internet: [consumer@fdic.gov](mailto:consumer@fdic.gov)

The Division of Compliance and Consumer Affairs responds to questions about deposit insurance and other consumer issues and concerns, and also offers a number of publications geared to consumers.

### Office of the Ombudsman

550 17th Street, NW  
Washington, DC 20429

Phone: 800-250-9286 or  
202-942-3500

Fax: 202-942-3040 or  
202-942-3041

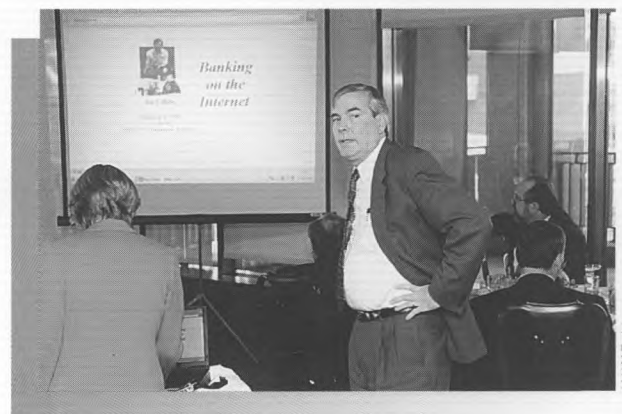
Internet: [ombudsman@fdic.gov](mailto:ombudsman@fdic.gov)

The Office of the Ombudsman responds to inquiries about the FDIC in a fair, impartial, confidential and timely manner. It researches questions and complaints from bankers, the public and FDIC employees. The Office also recommends ways to improve FDIC operations, regulations and customer service.

### Home Page on the Internet

<http://www.fdic.gov>

A wide range of banking, consumer and financial information, including the FDIC's *Quarterly Banking Profile*, *the Institution Directory*, and *Statistics on Banking*, as well as a variety of consumer pamphlets are available on the FDIC's home page on the Internet. Readers can also access FDIC press releases, recently delivered speeches, and other updates on FDIC activities.



## Regional Offices

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### Division of Supervision (DOS) / Division of Compliance and Consumer Affairs (DCA)

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#### Atlanta

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1201 West Peachtree Street, NE  
Suite 1600  
Atlanta, Georgia 30309  
404-817-1300

Alabama	South Carolina
Florida	Virginia
Georgia	West Virginia
North Carolina	

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#### Boston

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200 Lowder Brook Drive  
Suite 3100  
Westwood, Massachusetts 02090  
617-320-1600

Connecticut	New Hampshire
Maine	Rhode Island
Massachusetts	Vermont

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#### Chicago

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500 West Monroe Street  
Suite 3600  
Chicago, Illinois 60661  
312-382-7500

Illinois	Ohio
Indiana	Wisconsin
Michigan	

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#### Dallas

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1910 Pacific Avenue  
Suite 1900  
Dallas, Texas 75201  
214-220-3342

Colorado	Oklahoma
New Mexico	Texas

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#### Kansas City

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2345 Grand Avenue  
Suite 1500  
Kansas City, Missouri 64108  
816-234-8000

Iowa	Nebraska
Kansas	North Dakota
Minnesota	South Dakota
Missouri	

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#### Memphis

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5100 Poplar Avenue  
Suite 1900  
Memphis, Tennessee 38137  
901-685-1603

Arkansas	Mississippi
Kentucky	Tennessee
Louisiana	

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#### New York

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452 Fifth Avenue  
19th Floor  
New York, New York 10018  
212-704-1200

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

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#### San Francisco

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25 Ecker Street  
Suite 2300  
San Francisco, California 94105  
415-546-0160

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

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DOS: Examines and supervises state-chartered banks that are not members of the Federal Reserve System. Provides information about sound banking practices.

DCA: Examines FDIC-supervised banks for compliance with consumer protection laws. Informs bankers and the public about deposit insurance and other consumer protections.

## Major Speeches and Selected Testimony by Chairman Helfer

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Text of these and other statements are available from the Public Information Center listed on Page 115 or on the FDIC's home page on the Internet at [www.fdic.gov](http://www.fdic.gov).

### Speeches

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February 9  
At the FDIC Capital Markets Symposium, on supervisory concerns over the increased use of derivatives, and new initiatives to assess risk in general.

March 12  
To America's Community Bankers, on the problems facing the Savings Association Insurance Fund.

April 2  
To an interagency meeting of federal banking supervisors, on steering a moderate course in bank supervision.

October 5  
To the American Bankers Association, on the state of the banking industry.

October 28  
To America's Community Bankers, on issues related to developing a new banking charter.

### Congressional Testimony

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March 13  
Before the House Committee on Banking and Financial Services, on risk assessment.

March 19  
Before the House Committee on Banking and Financial Services, on the Savings Association Insurance Fund.

April 30  
Before the House Committee on Banking and Financial Services, on realignment of the current federal financial institution regulatory structure.

June 26  
Before the House Committee on Banking and Financial Services' Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises, on the FDIC's survey of bank sales of nondeposit investment products, such as mutual funds and annuities.

September 12  
Before the House Committee on Banking and Financial Services' Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises, on credit card lending and other consumer credit.

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**Notes**







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