FEDERAL DEPOSIT INSURANCE CORPORATION

Annual Report 1997

America Banks on Deposit Insurance

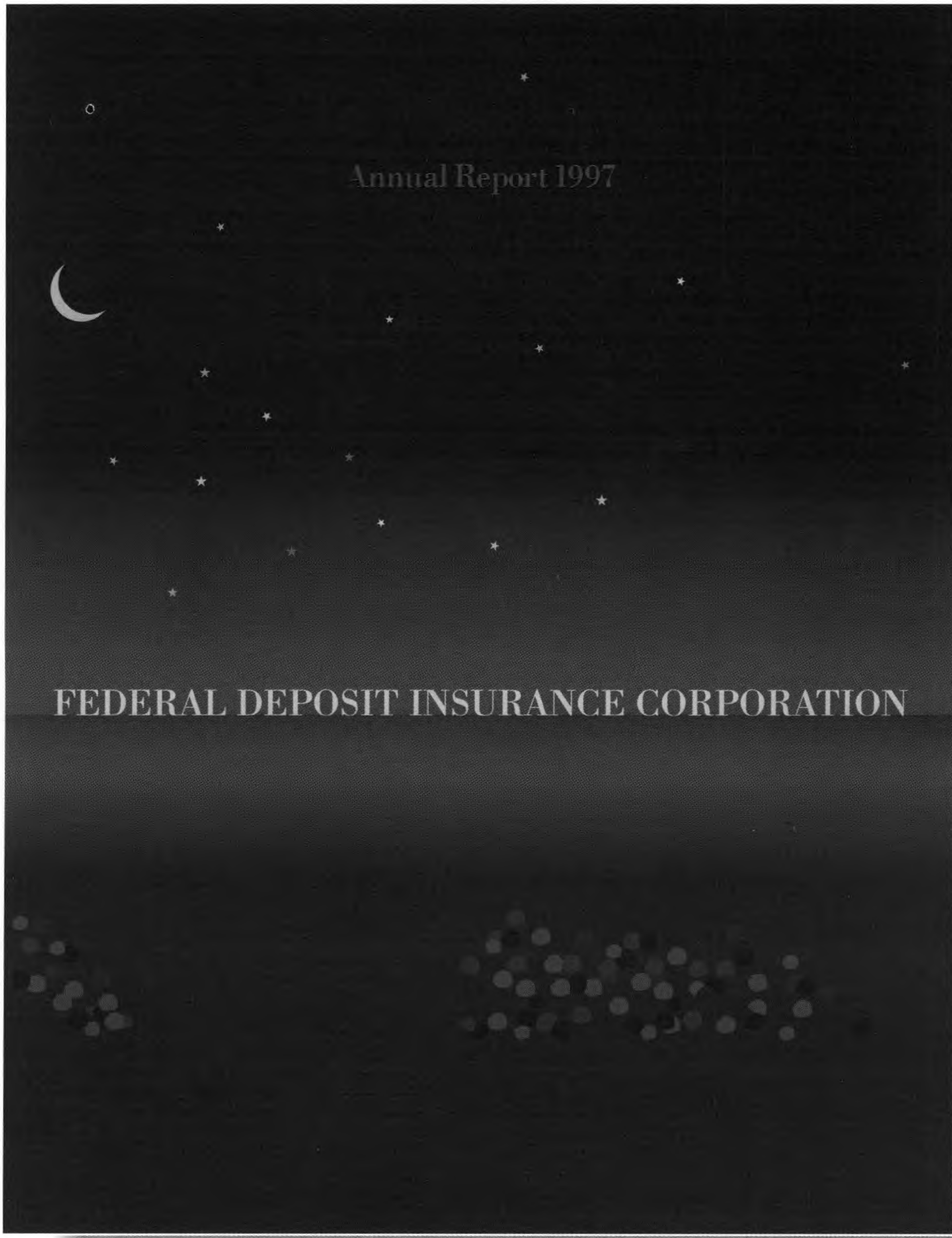
FDIC

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.


Annual Report 1997
FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429

Office of the Chairman

July 31, 1998

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 1997.

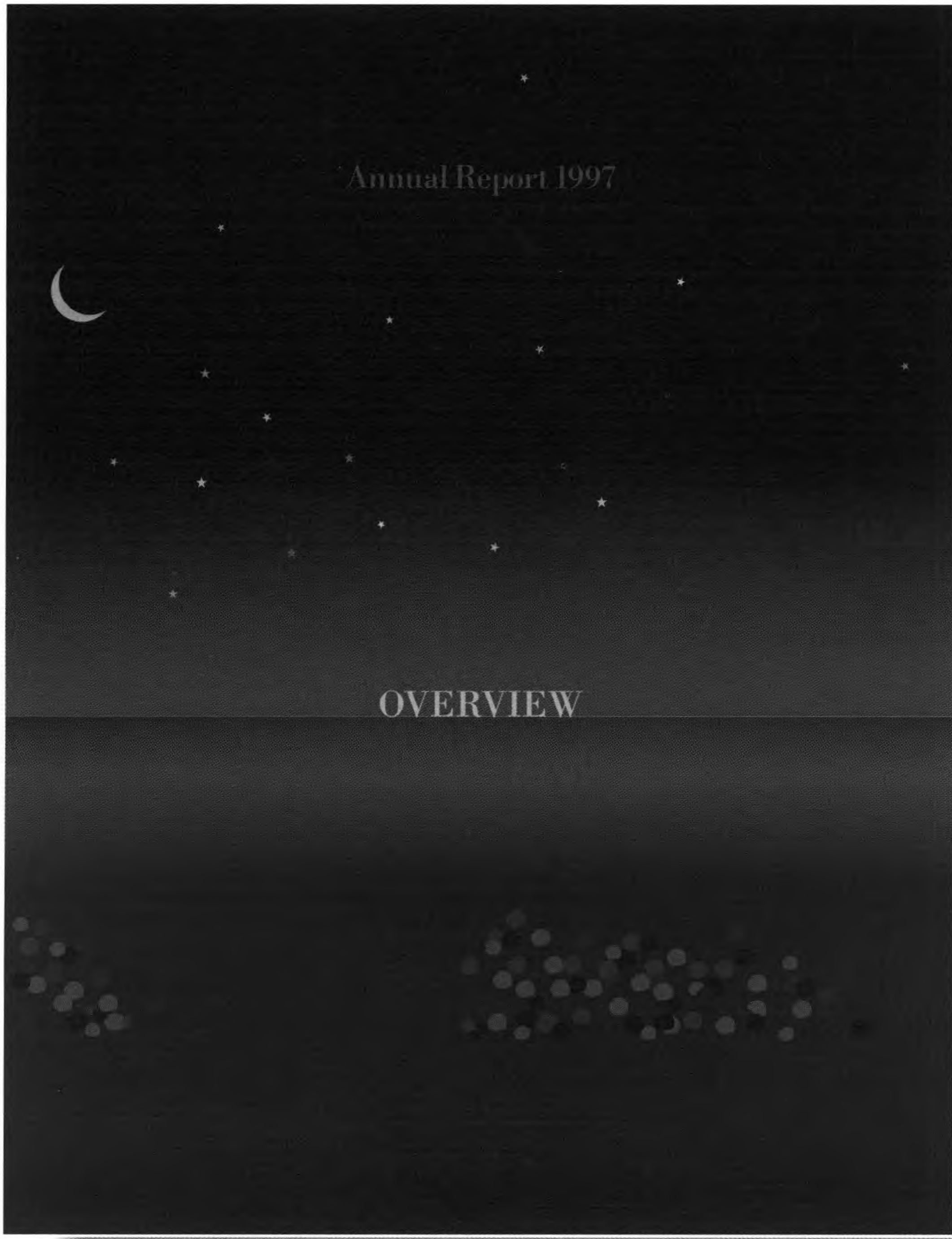
Sincerely,

Donna A. Tanoue

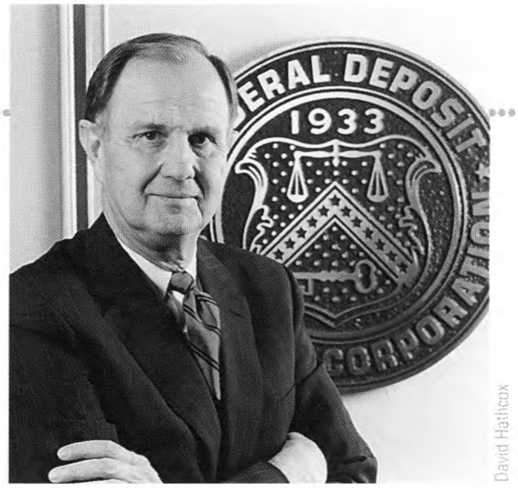
Donna A. Tanoue
Chairman

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

Contents


Annual Report 1997
OVERVIEW

Chairman's Statement



Acting Chairman Andrew C. Hove, Jr.

The Federal Deposit Insurance Corporation spent much of 1997 preparing for a new financial world being shaped by consolidation and technological change. In previous years, as geographic and other barriers fell, it had became increasingly clear that we had to alter many of our ways of doing business if we were to continue to meet our responsibilities as a bank supervisor and the insurer of the public's deposits. By the end of the year, we had achieved a number of important objectives that will enable us to take a more dynamic approach to our mission.

In 1997, the Corporation implemented several programs to improve our risk-assessment capabilities. Our safety and soundness examiners began using the revised Uniform Financial Institutions Rating System, a new system of risk-focused examination modules; and new examination procedures that assess nondeposit investment products and electronic banking.

The revised rating system emphasizes the quality of risk-management practices at an individual institution and explicitly adds "sensitivity to market risk" as a sixth component in rating institutions.

Our new approach to safety and soundness examinations, which was fully implemented in October, refines the examination process by dividing tasks into a series of diagnostic modules that help identify a bank's greatest risks. The approach assists examiners in structuring examinations that are appropriate to the risks the individual institution presents. The approach focuses on a bank's risk-management practices, thus allowing examiners to look beyond the static condition of a bank to how well it can respond to changing market conditions, given its particular risk profile. Concurrently, the Examiner Laptop Visual Information System (ELVIS), software that is an automated version of the diagnostic modules, helps to organize data and comments and to generate examination workpapers. These two developments, in turn, enable the Corporation to automate the preparation of the entire examination report, which will occur in 1998.

Our new procedures for nondeposit investment products enable examiners to evaluate bank sales of products such as mutual funds and annuities to retail customers and to identity any safety and soundness concerns. In conjunction with the new procedures, a new tracking system was developed to capture the results from examinations and to provide analysis of industry trends.

During the year, the Corporation took a leading role in recognizing and responding to electronic banking developments. In 1997, we became the first of the federal bank supervisors to develop and publish electronic banking examination guidelines. These procedures focus on safety and soundness. We also began field-testing more technical work programs that evaluate the safety of various operating systems and firewalls. General distribution and use of these work programs will begin early in 1998.

In April 1997, the Corporation reorganized the structure and risk-assessment programs of its regional offices to accommodate interstate banking and consolidation. A "case manager" program consolidated the supervision of related institutions under one FDIC regional office regardless of where the institutions operate. This new program more closely matches the level of regulatory oversight with the level of risk an organization poses to the deposit insurance fund. It also strengthens the Corporation's enforcement of an institution's compliance with fair lending, community reinvestment and other consumer protection laws.

In parallel with automating safety-and-soundness supervision, the Corporation during the year developed or began developing automated programs for compliance examinations. These programs will help examiners target potential risk areas for a more detailed review. One example is our Community Reinvestment Act Mapping and Analysis System, which integrates demographic, loan and economic information from a variety of sources.

Our freedom to focus on the future was, in large part, a reflection of the extraordinarily healthy state of the banking and thrift industries. Low and stable interest rates and a growing economy gave both industries the opportunity to register record profits in 1997. Commercial bank earnings totaled $59.2 billion in 1997, up more than 13 percent from the previous year. The return on assets (ROA) for the industry was 1.23 percent, the highest annual rate reported in the 64-year history of the Corporation. One commercial bank failed during 1997, the first year with only one commercial bank failure since 1972. Insured savings institutions reported total earnings of $8.8 billion in 1997—the first time industry earnings exceeded $8 billion. The thrift industry's ROA rose to 0.93 percent, the highest annual rate since 1946. No insured savings institutions failed in 1997, the first year without a thrift failure since 1959.

The number of commercial banks on the FDIC's "Problem List" declined from 82 to 71 during the year, while the total of thrifts on the list declined from 35 to 21. At year-end, problem institutions held $7.2 billion in assets.

The extraordinary earnings figures—and the lack of bank failures—enabled the insurance funds to grow. At year-end, the balance in the Bank Insurance Fund was $28.3 billion, a 5.4 percent increase over the year-end 1996 balance of $26.9 billion. (BIF-insured deposits grew 2.4 percent in 1997). As a result of the strength of the industry, 19-out-of-20 BIF-insured institutions paid no insurance premium during 1997. The balance of the Savings Association Insurance Fund at year-end was $9.4 billion, a 5.6 percent increase over 1996 (SAIF-insured deposits grew 1 percent in 1997). About 9-out-of-10 SAIF-insured institutions paid no insurance premium during 1997.

These conditions—in the industry and of the insurance funds—contrast greatly with the conditions at the time I came to the Corporation in 1990. Former Chairman L. William Seidman wrote of that year: "Entering 1990, it was clear to everyone associated with the FDIC that it would be a very difficult year for the agency. We would struggle with mounting problems in the banking industry, particularly in real estate portfolios. We would face the prospect of additional losses to the Bank Insurance Fund. We would have our first full year addressing the savings and loan industry problems through the operation of the Resolution Trust Corporation and as back-up supervisor of savings associations. As the year unfolded, 1990 presented difficulties and challenges far beyond anyone's expectations." The following year, the BIF reported a negative balance.

Things change—but as it has shown again and again, the Corporation can change with them.

On June 1, 1997, I assumed the duties of Acting Chairman again—for the third time—upon the resignation of Ricki Helfer as Chairman. I have always considered heading the agency as an honor and a duty—I would not seek the office, but I did not shirk the responsibility when it came. As a banker for 30 years, I saw how federal deposit insurance provides many people with the only real assurance in the financial markets that they will ever know. Here at the Corporation, I saw the difference that it made in the banking crisis during the early 1990s. I know first-hand that America banks on deposit insurance. The threats to financial stability have changed over time, too, but the FDIC has been there to protect the savings of the public for 64 years. I hope that all the men and women who have worked to achieve this accomplishment are as proud of it as I am, and that they are as confident as I am that the Corporation will be just as successful in the new financial world that consolidation and technology are now creating.

Sincerely,

Andrew C Hove

Andrew C. Hove, Jr.
Acting Chairman
1997

January 16

Experts from around the country gathered at an FDIC-sponsored symposium to examine the banking crisis of the 1980s and early 1990s. At the heart of the discussion was a two-year FDIC research project on the causes of the crisis and its lessons. The study was published later in the year as a two-volume work, *History of the Eighties – Lessons for the Future* (see Page 24).

January 29

The FDIC became the first federal banking agency to issue examination procedures on electronic banking and associated risks to its staff. The FDIC also provided the examination guidance to financial institutions, assisting them in the early development of their electronic banking systems. The guidance was followed by comprehensive training of examiners and technical staff (see Page 16).

March 13

The FDIC announced that commercial banks earned record annual profits for the fifth consecutive year. Earnings reached $52.4 billion in 1996, which surpassed the previous record of $48.8 billion in 1995. Strong growth in non-interest income, such as fees and service charges, was largely credited for the earnings growth. In 1997, bank earnings reached another new record of $59.2 billion, up 13.1 percent from 1996 results (see Page 7).

Selected Statistics

Dollars in millions

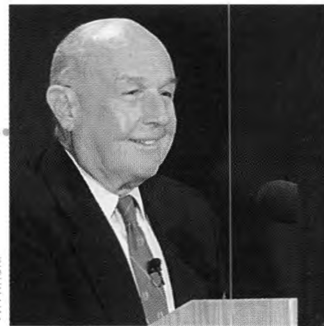
	For the year ended December 31		
	1997	**1996**	**1995**
Bank Insurance Fund			
Financial Results			
Revenue	**$ 1,616**	$ 1,655	$ 4,089
Operating Expenses	**$ 605**	$ 505	$ 471
Insurance Losses and Expenses	**$ (428)**	$ (251)	$ 12
Net Income	**$ 1,438**	$ 1,401	$ 3,606
Insurance Fund Balance	**$ 28,293**	$ 26,854	$ 25,454
Fund as a Percentage of Insured Deposits	**1.38%**	1.34%	1.30%
Selected Statistics			
Total BIF-Member Institutions●	**9,403**	9,822	10,242
Problem Institutions	**73**	86	151
Total Assets of Problem Institutions	**$ 5,000**	$ 7,000	$ 20,160
Institution Failures	**1**	5	6
Total Assets of Failed Institutions	**$ 26**	$ 183	$ 753
Number of Active Failed Institution Receiverships	**302**	408	590
Savings Association Insurance Fund			
Financial Results			
Revenue	**$ 550**	$ 5,502	$ 1,140
Operating Expenses	**$ 72**	$ 63	$ 40
Insurance Losses and Expenses	**$ (2)**	$ (92)	$ (321)
Net Income	**$ 480**	$ 5,531	$ 1,421
Insurance Fund Balance	**$ 9,368**	$ 8,888	$ 3,358
Fund as a Percentage of Insured Deposits	**1.36%**	1.30%	0.47%
Selected Statistics			
Total SAIF-Member Institutions■	**1,519**	1,630	1,728
Problem Institutions	**19**	31	42
Total Assets of Problem Institutions	**$ 2,000**	$ 6,000	$ 10,862
Institution Failures	**0**	1	2▲
Total Assets of Failed Institutions	**$ 0**	$ 35	$ 456
Number of Active Failed Institution Receiverships	**2**	2	1▼

● Commercial banks and savings institutions. Does not include U.S. branches of foreign banks.

■ Savings institutions and commercial banks.

▲ 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).



W.W.Reid

W.W.Reid

April 28

The FDIC announced a series of seminars to educate bankers about its new examination procedures for the sale of nondeposit investment products, such as mutual funds and annuities. The FDIC, the American Bankers Association, America's Community Bankers and the Independent Bankers Association of America collaborated in this educational effort (see Pages 16 and 20).

May 2

In a letter to FDIC-supervised banks, the agency highlighted the basic risks of extending credit to consumers with incomplete or tarnished credit records who are unable to obtain traditional financing. A number of financial institutions involved in "subprime lending" were not properly assessing or controlling the risks and were suffering substantial losses, damaging some institutions' overall financial condition. The FDIC outlined general controls believed necessary to effectively manage those risks (see Page 17).

May 9

The Federal Financial Institutions Examination Council issued guidance on the activities necessary for insured financial institutions to make computer systems capable of recognizing dates in the Year 2000 and beyond. Most computers store dates with only the last two digits and cannot distinguish 2000 from 1900. Unless bank computer systems are corrected, institutions face substantial risks from faulty accounting and recordkeeping to system shutdowns (see Pages 18-19).

June 1

Andrew C. Hove, Jr., became Acting Chairman of the FDIC for the third time, succeeding Ricki Helfer, who left the Corporation after more than two and a half years in the agency's top job (see Page 10).

July 30

Acting Chairman Hove told Congress that FDIC-supervised banks are generally aware they face serious disruptions if their computer systems are not modified to handle transactions starting January 1, 2000. However, senior management and outside directors may not have the in-depth technical knowledge to appreciate the extent of the risks posed by Year 2000 noncompliance. The FDIC is monitoring the situation closely and will take supervisory action, including enforcement action, if banks do not address the problem, Mr. Hove reported (see Pages 18-19).

August 7

The FDIC and the Office of Thrift Supervision teamed up to provide bank branch data on the Internet. With the new "Bank/Thrift Deposit Inquiry" service, this information is available to the public in one place for the first time (see Page 111).

November 17

The FDIC and the Georgia Department of Banking and Finance jointly issued cease and desist orders against three affiliated Georgia banks in the government's first enforcement actions to address Year 2000 compliance in the banking industry (see Page 19).

November 21

The first BIF-insured institution failed in the U.S. since August 1996. This was the only bank failure in 1997. No SAIF-insured institution failed during the year (see Pages 8 and 22).

December 9

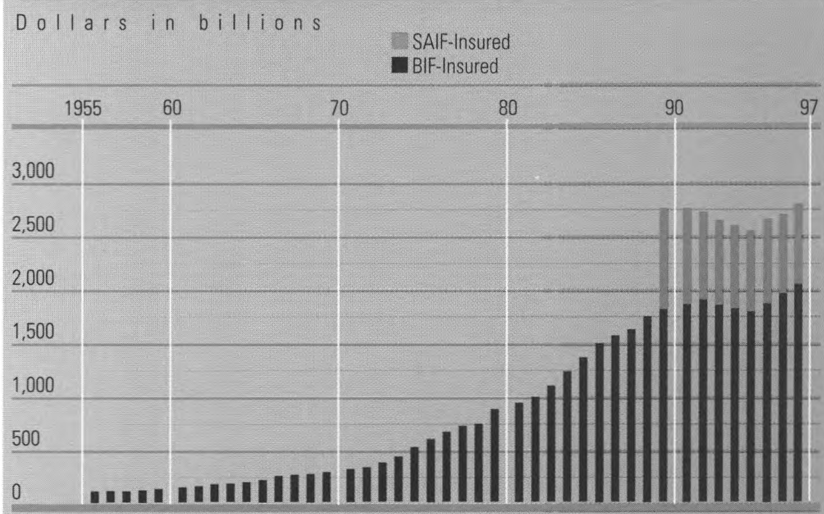
The Board approved a 1998 budget of $1.36 billion for the agency, $255 million (16 percent) less than the amount planned for 1997 (see Page 33).

Top: Former FDIC Chairman L. William Seidman discusses the banking crisis of the 1980s and 1990s at a January 16 FDIC-sponsored symposium.

Bottom: Chairman Ricki Helfer left the agency's top post on June 1.

The FDIC administers two deposit insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The agency also manages a third fund that fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC), called the FSLIC Resolution Fund (FRF). On January 1, 1996, the FRF assumed responsibility for the Resolution Trust Corporation's (RTC) assets and obligations. An overview of the funds' performance during 1997 follows.

FDIC-Insured Deposits



Source: Commercial Bank Call Reports and Thrift Finanial Reports
Note: For more details, see pages 106 (BIF) and 107 (SAIF).

Bank Insurance Fund

With banks experiencing another record-breaking year of profitability and only one bank failure, 1997 was another positive year for the BIF. The BIF has climbed steadily from a negative balance of $7 billion in 1991 to $28.3 billion in 1997. The 1997 year-end fund balance represents a 5.4 percent increase over the 1996 balance of $26.9 billion. BIF-insured deposits grew by 2.4 percent in 1997. The BIF's reserve ratio increased from 1.34 to 1.38 percent of insured deposits during the year.

The law requires the FDIC to establish a risk-based assessment system. For the first semiannual assessment period of 1997, the Board retained the rates approved in the second assessment period of 1996: a range of 0 to 27 cents annually per $100 of assessable deposits. Under the 1996 rate schedule, 94.8 percent of BIF-insured institutions paid no assessments. The Board approved the same rate schedule for the second semiannual assessment period of 1997, when 95.2 percent of BIF-insured institutions were in the lowest-risk category and paid no assessments. The lowest average assessment rate in the history of FDIC deposit insurance resulted, with an average 1997 BIF rate of 0.08 cents per $100 of assessable deposits, down from 0.24 cents per $100 in 1996.

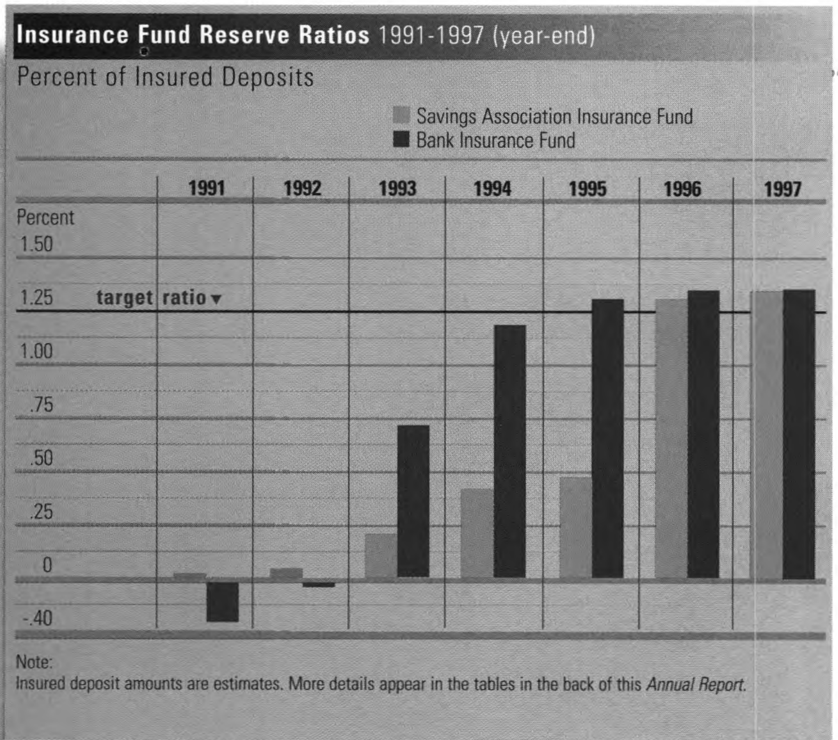
In addition, as a direct result of the continued low assessment rate schedule and the concentration of institutions in the lowest-risk category, interest earned on U.S. Treasury investments ($1.5 billion) in 1997 greatly exceeded assessment revenue ($25 million) as the source of BIF revenue.

The only BIF-insured institution to fail during the year had assets of $25.9 million. In contrast, five BIF-insured banks with assets totaling $183 million failed in 1996. Estimated insurance losses in 1997 were $4 million, compared to $43 million in estimated losses for 1996.

Investments in U.S. Treasury obligations continued to be the main component of the BIF's total assets, at 93 percent, rising from 81 percent during the previous year. The BIF's financial position continued to improve: Cash and investments at year-end were 86 times the BIF's total liabilities, up from 51 times the BIF's total liabilities in 1996.

Savings Association Insurance Fund

The SAIF ended 1997 with a balance of $9.4 billion, a 5.6 percent increase over the 1996 balance of $8.9 billion. Insured deposits increased by 1.0 percent in 1997. During the year, the SAIF's reserve ratio grew from 1.30 of insured deposits to 1.36 percent.



Insurance Fund Reserve Ratios 1991-1997 (year-end)

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

For the first semiannual assessment period of 1997, the Board approved an assessment rate schedule ranging from 0 to 27 cents annually per $100 of assessable deposits. Under this schedule, 90.0 percent of SAIF-insured institutions paid no assessments. The Board approved the same rate schedule for the second semiannual assessment period of 1997, when 90.9 percent of SAIF-insured institutions again were in the lowest-risk category and paid no assessments.

The SAIF recognized $14 million in assessment income in 1997, compared to $535 million in interest income. No SAIF-insured institutions failed in 1997.

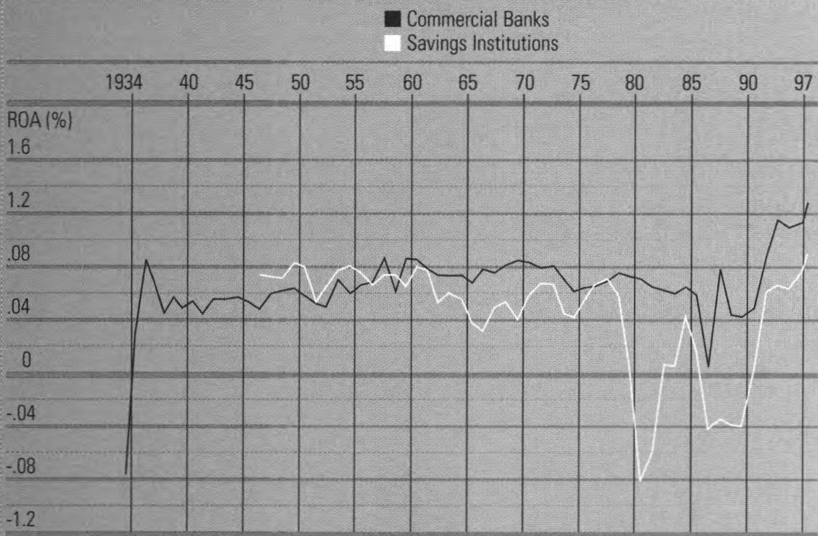
FSLIC Resolution Fund

The FRF was established by law in 1989 to assume the remaining assets and obligations of the former FSLIC resulting from thrift failures before January 1, 1989. Congress placed this new fund under the management of the FDIC on August 9, 1989, when it abolished the FSLIC. On January 1, 1996, the FRF also assumed the RTC's residual assets and obligations.

In 1994, the Congress authorized $827 million in appropriations to be available to the FRF until expended, of which $602 million was still available at year-end 1997. The FRF uses appropriated funds only when other sources of funds are insufficient. Asset collections and interest income provided sufficient funding so that no appropriated funds were needed by the FRF in 1997. However, the U.S. Department of the Treasury in June 1997 used $33 million of this appropriation to pay expenses incurred by the U.S. Department of Justice relating to "regulatory goodwill" litigation.

The FRF continued selling the remaining assets and settling its liabilities in 1997. At year-end, assets in liquidation for the former RTC totaled $2.2 billion, down from $4.4 billion at year-end 1996. The FRF also manages the reserves set aside to support the sale of securities collateralized by RTC assets. These "credit enhancement reserves" dropped from $5.8 billion in 1996 to $4.9 billion. Borrowings from the Federal Financing Bank declined from $4.6 billion to $849 million at year-end 1997. (For more information on the FSLIC Resolution Fund, see Pages 24-25).

Annual Return on Assets (ROA)
FDIC-Insured Institutions 1934-1997



Note:
Savings institution data not available prior to 1947.

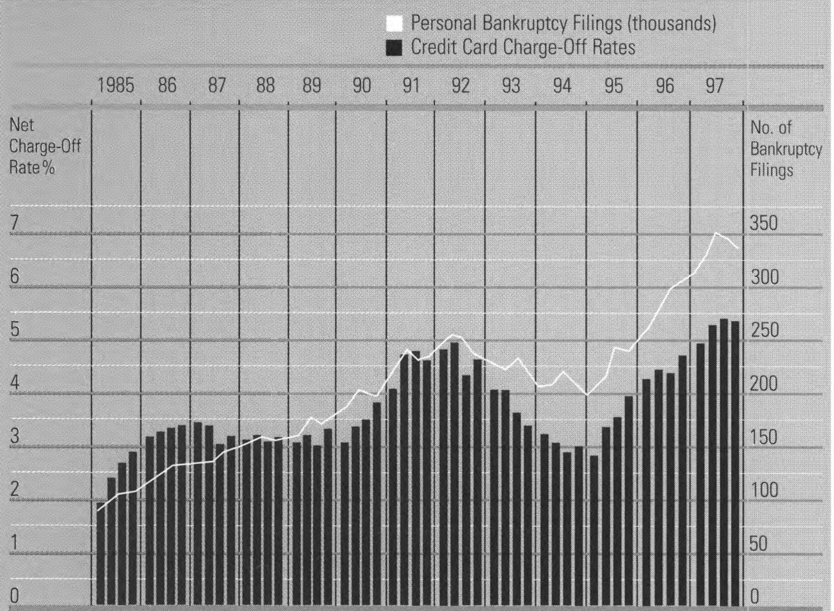
Buoyed by an environment of low and stable interest rates and a growing economy, insured commercial banks and savings institutions registered record profits in 1997. For commercial banks, it was the sixth consecutive year of record earnings. Higher net interest income and strong growth in noninterest income (such as service charges and other fees) helped propel commercial bank earnings in 1997. For the thrift industry, 1997 marked the second time in three years that earnings set a new record. Only one insured commercial bank failed during 1997, and there were no failures of insured savings associations. This was the first year since 1946 that only one federally insured bank or thrift was closed. The following is an overview of conditions in these two industries.

Commercial Banks

Commercial bank earnings totaled a record $59.2 billion in 1997, up $6.9 billion (13.1 percent) from the previous year. Banks set successive earnings records in each quarter of 1997. Earnings were boosted by higher net interest income (up $11.7 billion, or 7.2 percent), which was attributable to strong growth in earning assets as the industry's net interest margin declined for the fifth consecutive year. The increase in non-interest income (up $10.9 billion, or 11.7 percent) reflected higher revenues from trust activities (up $2.4 billion, or 17.8 percent) and growth in other fee income (up $5.2 billion, or 14.0 percent). Higher loan-loss provisions (up $3.5 billion, or 21.5 percent) and noninterest expenses (up $9.2 billion, or 5.8 percent) limited the rise in profits. Commercial banks' return on assets (ROA) reached 1.23 percent in 1997, the highest annual rate reported in the 64 years that the FDIC has been in existence. Industry pros-perity was broad-based; more than two out of every three banks (68.7 percent) reported full-year ROAs of 1.00 percent or higher, and a similar proportion (68.8 percent) reported higher earnings compared to 1996. More than 95 percent of all commercial banks were profitable in 1997.

Assets of insured commercial banks registered their strongest growth in 17 years. Total assets increased by $436.6 billion, or 9.5 percent. This is the highest growth rate for industry assets since 1980, when assets grew by 9.7 percent. Net loans and leases increased by $158.3 billion (5.7 percent), as lending growth slowed for the third consecutive year. High growth rates were evident in leases (up $22.2 billion, or 28.3 percent), real estate construction and development loans (up $11.8 billion, or 15.5 percent), home equity loans (up $12.8 billion, or 15.0 percent) and commercial and industrial loans (up $86.3 billion, or 12.2 percent). Other asset categories that experienced strong growth in 1997 include short-term funds lent as "fed funds" sold and securities purchased under resale agreements, which increased by $97.9 billion (59.7 percent); assets in trading accounts, which were up by $55.8 billion (23.1 percent); and mortgage-backed securities, which grew by $48.3 billion (14.4 percent). At year-end, assets of insured commercial banks surpassed $5 trillion for the first time while the number of banks continued to decline.

Credit Card Losses and Personal Bankruptcy Filings 1985-1997 (by quarter)



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

Deposit growth reached an 11-year high in 1997, as total deposits at commercial banks increased by 7.0 percent ($224.5 billion), the highest annual growth rate since 1986, when they grew by 7.7 percent. Despite the strong growth in deposits, the proportion of industry assets funded by deposits declined for the sixth consecutive year as banks continued to reduce their reliance on deposits to fund assets. Fed funds purchased and securities sold under repurchase agreements increased by $98.8 billion (31.1 percent), trading account liabilities grew by $55.7 billion (37.0 percent), and equity capital rose by $42.6 billion (11.4 percent).

Credit quality remained largely favorable in 1997. The percentage of loans that was noncurrent—90 days or more past due on scheduled payments or in nonaccrual status– declined to 0.96 percent at year-end, the lowest level in the 16 years that noncurrent loan data have been reported. The percentage of loans charged off during 1997 rose to 0.63 percent, from 0.58 percent in 1996. As has been the case since 1995, credit-card loans comprised the majority of total loan charge-offs. Of the $18.3 billion in total loans charged off by commercial banks in 1997, credit-card loans accounted for $11.7 billion (64.0 percent).

The number of insured commercial banks reporting financial results declined by 385 in 1997, from 9,528 to 9,143. Mergers absorbed 599 banks during the year, while 188 new banks were chartered, and one commercial bank failed. This is the first year since 1962 with only one commercial bank failure. (In 1972, only one commercial bank failed but another received assistance from the FDIC to prevent failure.) The number of commercial banks on the FDIC's "Problem List" declined from 82 to 71 during 1997. Assets of "problem" banks at year-end totaled $5.2 billion, up from $5.1 billion at the end of 1996.

Savings Institutions

Insured savings institutions reported total earnings of $8.8 billion in 1997, for an ROA of 0.93 percent. Industry earnings exceeded $8 billion for the first time, surpassing the previous full-year earnings record of $7.6 billion, set in 1995, by $1.2 billion. The 1997 earnings represent an increase of $1.8 billion over the results for 1996, when a special assessment to capitalize the Savings Association Insurance Fund (SAIF) cost SAIF-insured savings institutions $3.5 billion. The thrift industry's ROA rose to 0.93 percent, the highest annual rate since 1946. Savings institutions benefited from lower noninterest expenses and reduced expenses for loan losses. The capitalization of the SAIF in 1996 meant that most thrifts with SAIF-insured deposits enjoyed lower deposit insurance premiums in 1997, producing pre-tax savings of approximately $800 million.

The record profits were made possible by lower noninterest expenses, reduced costs related to credit losses, and higher gains on sales of securities. Total assets of insured savings institutions declined for the first year since 1993, falling by $2.1 billion (0.2 percent). This decrease was caused by the transfer of assets from the thrift industry to the commercial banking industry through mergers and charter conversions. During 1997, the commercial banking industry absorbed 116 savings institutions with $75 billion in assets. This is the largest number of institutions and the largest amount of assets ever transferred in a single year between the two industries.

Notwithstanding the decline in assets, the industry exhibited numerous signs of improved health. Almost nine out of ten savings institutions–89 percent – reported higher earnings in 1997, and more than 96 percent were profitable. Noncurrent loans declined by $1.2 billion (13.4 percent) in 1997, while net charge-offs were $544 million (25.9 percent) lower than in 1996. The industry's equity capital to assets ratio rose to 8.71 percent at year-end, the highest level since 1943.

The number of insured savings institutions reporting financial results declined by 145 institutions during 1997, from 1,924 to 1,779. Mergers absorbed 127 thrifts, and another 39 converted to commercial bank charters. In addition, 12 new institutions were chartered, 11 commercial banks converted to thrift charters, five voluntarily liquidated, two active thrift charters did not file year-end reports, and one noninsured institution became insured. No insured savings institutions failed in 1997. This is the first year since 1959 without a thrift failure. The number of thrifts on the FDIC's "Problem List" declined from 35 to 21 during the year, and the assets of "problem" thrifts declined from $7 billion to $2 billion.

Andrew C. Hove, Jr.

Mr. Hove was appointed to his second term as Vice Chairman of the FDIC in 1994. When Ricki Helfer resigned from the top post in June 1997, Mr. Hove began serving as Acting Chairman for the third time since 1991. 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 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.

Donna A. Tanoue was confirmed as FDIC Chairman on April 30, 1998, by the full Senate. She was sworn in on May 26, 1998, as the 17th Chairman of the FDIC.

FDIC Board of Directors:
(seated) Andrew C. Hove, Jr.,
(standing l-r) Ellen S. Seidman,
Joseph H. Neely, Eugene A. Ludwig

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 has lectured at the Stonier Graduate School of Banking, the Graduate School of Banking at Louisiana State University, and the Alabama and Mississippi Schools of Banking.

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.

In January 1997, Mr. Ludwig was elected Chairman of the Neighborhood Reinvestment Corporation. He also serves as Chairman of the Federal Financial Institutions Examination Council and the federal Consumer Electronic Payments Task Force.

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

Raised in York, Pennsylvania, 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.

Mr. Ludwig's five-year term as Comptroller of the Currency expired on April 4, 1998.

Ellen S. Seidman

Ms. Seidman became Director of the Office of Thrift Supervision (OTS) on October 28, 1997. She succeeded Nicolas P. Retsinas, who had served in dual positions as OTS Director and Assistant Secretary for Housing-Federal Housing Commissioner at the U.S. Department of Housing and Urban Development. As OTS Director, Ms. Seidman is also an FDIC Board member.

Ms. Seidman joined the OTS from the White House, where from 1993 to 1997 she was Special Assistant to President Clinton for economic policy at the White House National Economic Council. She chaired the interagency working group on pensions and dealt with such issues as financial institutions, natural disaster insurance, bankruptcy and home ownership.

From 1987 to 1993, Ms. Seidman served in various positions at Fannie Mae, ending her career there as Senior Vice President for Regulation, Research and Economics. Other prior positions include Special Assistant to the Treasury Under-secretary for Finance from 1986 to 1987, and Deputy Assistant General Counsel at the Department of Transportation from 1979 to 1981. Ms. Seidman also practiced law for three years beginning in 1975 with Caplin & Drysdale, a Washington, DC, law firm specializing in tax, securities and bankruptcy issues.

Ms. Seidman received an A.B. degree in government from Radcliffe College, an M.B.A. from George Washington University and a J.D. from Georgetown University Law Center.

Organization Chart

as of December 31, 1997

Board of Directors
Andrew C. Hove, Jr.
Joseph H. Neely
Eugene A. Ludwig
Ellen S. Seidman

Office of the Chairman
Andrew C. Hove, Jr.
Acting Chairman

Office of Inspector General
Gaston L. Gianni, Jr.
Inspector General

Legal Division
William F. Kroener, III
General Counsel

Chief Financial Officer
Paul L. Sachtleben

Chief Information Officer
Donald C. Demitros

Office of Internal Control Management
Vijay G. Deshpande
Director

Deputy to the Chairman and Chief Operating Officer
Dennis F. Geer

Division of Supervision
Nicholas J. Ketcha Jr.
Director

Division of Compliance and Consumer Affairs
Carmen J. Sullivan
Director

Division of Resolutions and Receiverships
John F. Bovenzi
Director

Division of Insurance
Arthur J. Murton
Director

Division of Finance
Paul L. Sachtleben
Director

Division of Administration
Jane L. Sartori
Director

Division of Information Resources Management
Donald C. Demitros
Director

Division of Research and Statistics
William R. Watson
Director

Office of the Executive Secretary
Robert E. Feldman
Executive Secretary

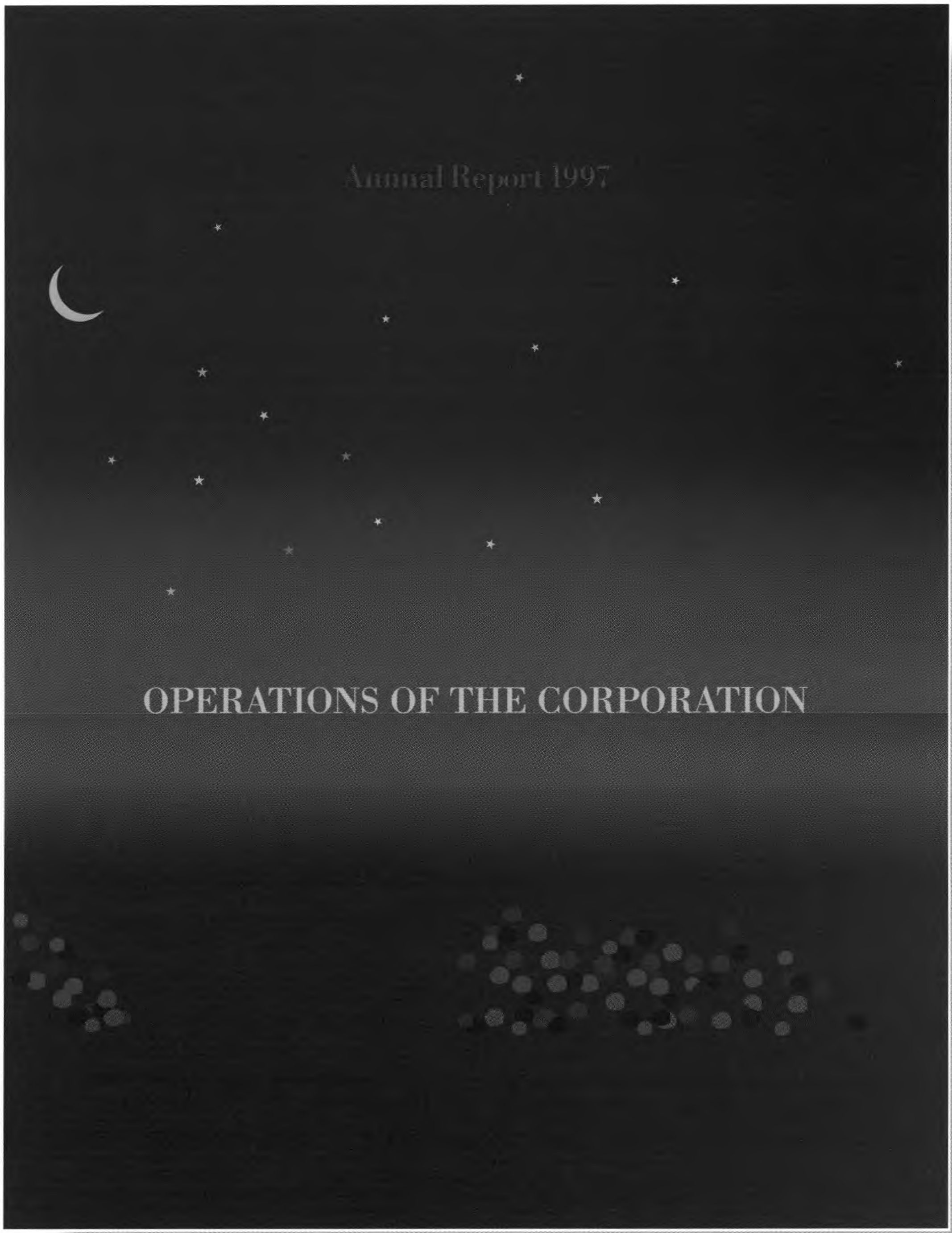
Office of Diversity and Economic Opportunity
Jo-Ann Henry
Director

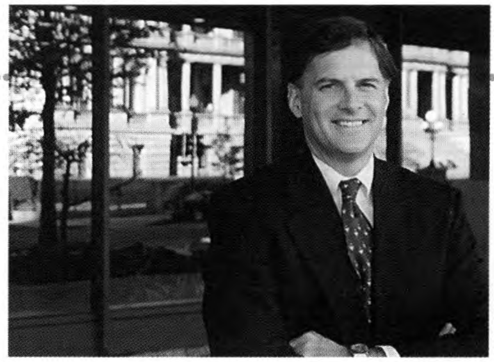
Office of Corporate Communications
James P. Battey
Director

Office of Legislative Affairs
Alice C. Goodman
Director

Office of the Ombudsman
Arleas Upton Kea
Ombudsman

Office of Policy Development
Robert W. Russell
Director


Annual Report 1997
OPERATIONS OF THE CORPORATION


Sally Kearney

At year-end 1997, the FDIC was the primary federal regulator of 5,561 state-chartered banks that are not members of the Federal Reserve System and 565 state-chartered savings banks. The FDIC also had back-up supervisory responsibility over the remaining 4,811 federally insured banks and savings associations.

The Division of Supervision (DOS) leads the FDIC's supervisory efforts through on-site examinations and off-site analyses. When DOS identifies excessive risk-taking, it employs various corrective methods and it works closely with other divisions to develop regulations and issue enforcement actions designed to prevent or curtail imprudent activities that might otherwise result in significant losses to the deposit insurance funds.

Taking the opportunity provided by the continued good health of the banking industry in 1997, the FDIC implemented several initiatives to address changes in the industry and provide a more dynamic supervisory approach to its mission. DOS completed the development and implementation of new examination procedures, improved its off-site monitoring capabilities and information systems, reorganized the supervisory structure of its regional offices, staffed specialty areas to meet the challenges of the future, and created a multi-divisional committee to oversee the Year 2000 remediation process. The agency also initiated outreach programs on several emerging issues for bankers and other regulators. These initiatives illustrated the FDIC's continuing commitment to improve efficiency throughout the organization and reduce regulatory burden on the industry.

Refining Examination and Risk-Assessment Procedures

In 1997, the FDIC implemented several programs intended to improve the agency's risk-assessment capabilities and to streamline examination and other supervisory functions. DOS examiners began using the revised Uniform Financial Institutions Rating System (UFIRS); a new system of risk-focused examination modules; and new examination procedures that assess nondeposit investment products, electronic banking and Year 2000 readiness. The FDIC also devoted considerable resources to analyzing industry and economic trends and the potential impact of these trends on the deposit insurance system.

Revisions to the Federal Financial Institutions Examination Council (FFIEC) Policy Statement on the UFIRS became effective in January 1997. These revisions updated the CAMEL (**c**apital, **a**sset quality, **m**anagement, **e**arnings, and **l**iquidity) rating system to address changes in the financial services industry and in supervisory policies that occurred since the original rating system was adopted in 1979. The revised CAMEL system emphasizes the quality of risk management practices and adds a sixth component-"S," for **s**ensitivity to market risk. The updated rating system also redefines the other five components and highlights risks that may be considered when assigning component ratings.

The FDIC implemented risk-focused examination modules on October 1, 1997. The uniform procedures, developed jointly by the FDIC and the Federal Reserve in conjunction with the Conference of State Bank Supervisors (CSBS), refine the examination process by dividing tasks into a series of diagnostic modules that help identify a bank's greatest risks. The modules employ a tiered approach that assists examiners in establishing an appropriate examination scope and managing examiner resources. This structured risk assessment approach focuses on a bank's risk management practices, thereby allowing examiners to look beyond the static condition of a bank to how well it can respond to changing market conditions given its particular risk profile. The Examiner Laptop Visual Information System (ELVIS), an automated version of the diagnostic modules, was developed concurrently with the new examination procedures. This software application helps to organize data and comments, generates examination workpapers and allows information to be exported into the report of examination.

Assistant Director Chris Spoth of the Division of Supervision helped get the Case Manager Program up and running.

FDIC Examinations 1995-1997

	1997	1996	1995
Safety and Soundness:			
State Nonmember Banks	**2,515**	2,789	3,218
Savings Banks	**224**	297	294
National Banks	**6**	11	6
State Member Banks	**0**	2	4
Savings Associations	**4**	7	6
Subtotal	**2,749**	**3,106**	**3,528**
Consumer and Civil Rights	**1,990**	2,033	3,148
Trust Departments	**552**	637	657
Data Processing Facilities	**1,514**	1,681	1,671
Total	**6,805**	**7,457**	**9,004**

In addition, the FDIC continued to develop and improve other automation tools designed to make examinations more productive, efficient and risk-focused. The Automated Loan Examination Review Tool (ALERT), which debuted in 1996, was greatly improved in 1997. The new version, introduced in June, not only gives examiners the ability to collect loan data from institutions electronically, but also allows for a more refined selection of loans to be reviewed through a sophisticated query function. The FDIC also continued to develop the General Examination System (GENESYS), which will automate the preparation of the entire examination report. When completed in 1998, the GENESYS software package will allow examiners to access and analyze financial information and prior examination report data electronically for use in the current examination report, incorporate data generated by the ALERT and ELVIS programs, and better manage examination resources through automated task assignments. These tools enable examiners to perform a significant portion of their analysis off-site, thereby minimizing time spent in a financial institution. The FDIC has worked closely with the Federal Reserve Board and the CSBS in developing these programs. This cooperation has promoted consistency among the agencies and will further reduce regulatory burden on state banks. (For more information on other automated examination programs, see Page 27.)

New examination procedures for non-deposit investment products were developed and implemented during 1997. These revised procedures enable examiners to evaluate bank sales of products such as mutual funds and annuities to retail customers, to identify any safety and soundness concerns, and to streamline examinations. A new automated tracking system was developed in conjunction with the new procedures to capture the results from examinations and provide a clear analysis of banks' retail investment sales activities.

The FDIC has taken a leading role in recognizing and responding to electronic banking developments, which present new risks and supervisory issues to the financial system. As of year-end 1997, the FDIC had approved two applications for banks that plan to operate solely through the Internet or other electronic means. These applications present a number of complex issues relating to business strategy, system security and geographic market. In 1997, the FDIC became the first federal supervisor to develop and publish electronic banking examination guidelines. These examination procedures focus on safety and soundness functions such as planning, administration, internal controls, and policies and procedures. The procedures are non-technical; they are designed with the flexibility to be applied to a wide range of electronic banking activities. DOS also developed and began field-testing more technical work programs that evaluate the safety of various operating systems and firewalls in 1997; general distribution and use of these work programs will begin early in 1998. (For more information on electronic banking, see Page 27.)

In addition to refining programs that assess risk in individual institutions, the FDIC has also developed several programs to better evaluate risks that affect either the industry or groups of institutions with common geographic or business profiles. The Division of Insurance (DOI) identifies and monitors emerging and existing risks in both the financial services industry and the economy by drawing on a wide variety of internal and external information sources. DOI has worked closely with DOS on several projects to help examiners and case managers assess emerging risk exposure for individual institutions as well as groups of institutions. One of these is the Regional Economic Conditions Report for Examiners (RECON), which will provide timely, comprehensive regional economic data to examiners through the FDIC's Intranet site. RECON, which is scheduled for release in 1998, will serve as a valuable resource for examiners evaluating the potential impact of external risks on an institution.

In 1997, the FDIC monitored a number of significant trends, including the increase in credit card charge-off rates, the rise of bankruptcy filings, the growth of home equity loans, the expansion of the subprime and syndicated lending markets, and the growing concentration of commercial real estate loans in certain markets. In addition, the agency analyzed industry underwriting standards by having field examiners complete a questionnaire at the end of each examination. The questionnaire helps identify material changes in underwriting standards for new loans and the degree of risk in current lending practices. This system, which began in 1995, provides an "early warning" mechanism to identify potential lending problems that could eventually lead to an increase in bank failures. While underwriting practices remained sound overall in 1997, examiners noted a few trends that warrant closer scrutiny in the future, such as an increase in speculative construction loans and a general loosening of credit in some geographic regions.

Reorganizing to Reflect Industry Changes

In April 1997, the FDIC reorganized the structure and risk-assessment programs of its regional offices to accommodate interstate branching and consolidation. The case manager program consolidates under one FDIC regional office the supervision and monitoring responsibilities for a group of related institutions regardless of the number of regions in which subsidiary banks and branches operate (see Page 26). This approach differs from the past, when the risk assessment of banks and their affiliates was broken down by geographic areas, sometimes resulting in more than one FDIC regional office supervising interstate banking organizations. The new program more closely matches the level

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, 1997. 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•

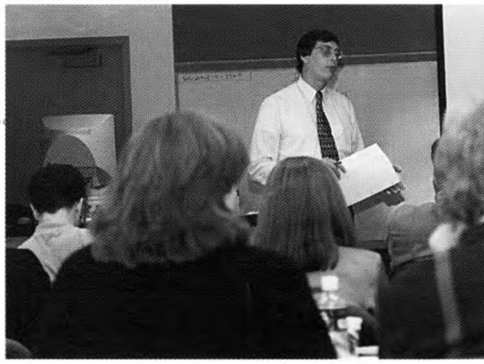
	A	B	C
Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	8,981 (95.2%)	243 (2.6%)	44 (0.5%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	117 (1.2%)	20 (0.2%)	13 (0.1%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	5 (0.1%)	0 (0.0%)	9 (0.1%)

SAIF Supervisory Subgroups▪

	A	B	C
Well Capitalized:			
Assessment Rate	0	3	17
Number of Institutions	1,383 (90.9%)	94 (6.2%)	17 (1.1%)
Adequately Capitalized:			
Assessment Rate	3	10	24
Number of Institutions	12 (0.8%)	7 (0.5%)	6 (0.4%)
Undercapitalized:			
Assessment Rate	10	24	27
Number of Institutions	1 (0.1%)	1 (0.1%)	0 (0.0%)

• BIF data exclude 108 SAIF-member "Oakar" institutions that hold BIF-insured deposits. The assessment rate reflects the rate for BIF-assessable deposits, which remained the same throughout 1997.

▪ SAIF data exclude 770 BIF-member "Oakar" institutions that hold SAIF-insured deposits. The assessment rate reflects the rate for SAIF-assessable deposits, which remained the same throughout 1997.



Sally Kearney

Examiner Michael Fullick from the Division of Supervision's Indianapolis office instructs examiners on Year 2000 issues.

of regulatory oversight with the level of risk an organization poses to the deposit insurance fund. The case manager system helps the FDIC better understand the risks presented by large banking organizations and reduces burden for bankers by designating a single contact person for questions about applications and supervisory issues.

To address the growing complexity of the banking industry, DOS expanded the number and variety of regional office specialists as part of its supervisory reorganization. In addition to case managers, each regional office appointed experts in the areas of capital markets, accounting, trust activities, information systems, fraud detection and prevention, and internal information management.

The FDIC also was faced with the challenge of supervising an increasingly global industry. Foreign banking organizations (FBOs) operating in the U.S. control nearly one-fifth of the U.S. banking industry's asset base. DOS created an international branch, which became operational and fully staffed in 1997, to monitor the activities of U.S. banks operating abroad and foreign banks operating in the U.S. The international branch also completes risk profiles of various countries whose banking systems are of potential interest to the FDIC. DOS personnel are involved in numerous international supervisory working groups, including the Basle Committee on Banking Supervision and the Interagency Country Exposure Review Committee. The FDIC is also working with the U.S. Department of the Treasury on information-sharing initiatives with other industrialized nations as well as training programs for banking supervisors in Asia and Latin America.

Addressing "Year 2000" Computer Challenges

The potential inability of computer systems to accurately perform tasks using dates beyond 1999 (the "Year 2000" problem) is a significant concern for the financial services industry and its regulators. The problem stems from many systems and programs using only two digits to designate the year. Unless these programs are modified, computers may interpret "00" as the year 1900 instead of 2000. Financial institutions are vulnerable to the Year 2000 problem in a number of areas:

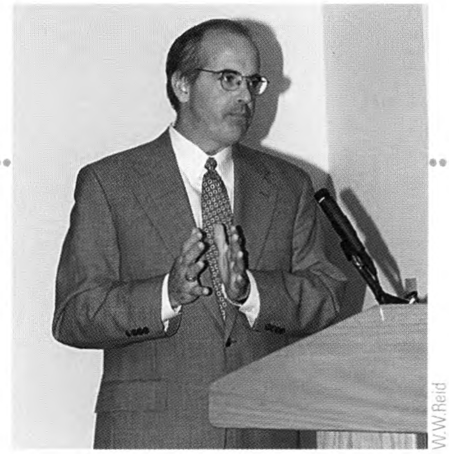
- Data processing systems, including mainframe, network and personal computers, may be unable to record and process financial information accurately.
- Equipment such as automated teller machines, vault locks, security systems, elevators and climate control systems may malfunction.
- Data exchanges with business partners outside the financial institution, such as transactions with correspondent banks, may be disrupted.
- Credit quality issues could arise as borrowers encounter their own Year 2000 vulnerabilities.
- Corrupt data create the potential for fraud against the industry and its customers.

The FDIC is working with the other financial institution regulatory agencies to monitor the potential risk to the insurance funds if institutions fail because of the Year 2000 problem. The FDIC has devoted significant resources to developing and implementing programs designed to ensure that all FDIC-supervised financial institutions deal with the problem. These efforts include industry awareness campaigns, a comprehensive examiner training program, off-site and on-site Year 2000 reviews of all FDIC-supervised institutions, and the creation of a centralized tracking system to manage the large volume of data generated by the Year 2000 reviews.

To improve the industry's awareness, the FDIC, in cooperation with the other federal and state supervisors, has taken steps to highlight the importance of Year 2000 issues. During 1997, the FFIEC issued interagency statements that provided detailed guidance on Year 2000 project management and outlined the responsibilities of an institution's senior management and board of directors in addressing business risks. The FDIC also began developing a public awareness campaign to promote consumer awareness of the Year 2000 issue without creating unnecessary concern. The campaign will encourage consumers to seek answers from their financial institutions regarding potential disruptions to their accounts, while assuring depositors that their accounts remain insured up to statutory limits.

The FDIC in 1997 completed an initial assessment of all the banks it supervises to determine their awareness of the Year 2000 problem and identify any corrective programs initiated. The agency will also conduct on-site Year 2000 reviews of all FDIC-supervised institutions by June 1998; thereafter, the FDIC, in conjunction with state authorities, will follow up with each institution at least twice annually. Institutions that fail to adequately address the business risks posed by the Year 2000 problem will be subject to supervisory action, including formal enforcement action. The FDIC issued three such actions in 1997.

Additional information on Year 2000 issues is available through the FDIC's Internet site.



FDIC Director Joseph H. Neely spearheaded the agency's efforts to reduce regulatory burden.

Reducing Regulatory Burden

The FDIC continued to streamline its regulations and policies as mandated by the Riegle Community Development and Regulatory Improvement Act of 1994 (CDRI). This effort was led by FDIC Board member Joseph Neely and involved more than 300 employees. Throughout 1997, FDIC staff worked diligently to develop and implement recommendations, which called for the rescission or revision of 90 regulations and policy statements.

Perhaps the most important single achievement from these reviews was the proposal to consolidate and simplify the FDIC's application requirements. The revised application procedures would streamline the processing of more than 90 percent of the applications received by allowing most applications filed by well-managed, well-capitalized institutions to be treated as notices. The proposed procedures will result in significantly reduced processing times for all applications.

The FDIC also proposed combining regulations governing activities and investments of insured state nonmember banks and savings associations into a single regulation. The proposed changes will allow institutions to engage in certain activities and make certain investments by filing a notice with the FDIC rather than an application. The proposal should relieve regulatory burden significantly without affecting safety and soundness because the FDIC retains the ability to place restrictions on an activity or prohibit a particular institution from engaging in the activity.

Other significant actions taken in 1997 as a result of the CDRI review included:

- Streamlining the FDIC's securities registration and disclosure rules by cross-referencing the Securities and Exchange Commission's regulations;
- Increasing the flexibility of the FDIC's audit regulations and policies, and streamlining external auditing program procedures;
- Revising disclosure regulations to make information more accessible to the public;
- Simplifying reporting requirements for suspected criminal activity;
- Proposing simplified deposit insurance rules; and
- Proposing consolidation of regulations regarding international and foreign activities.

The FDIC, along with the other federal banking regulators, also worked to simplify other reporting requirements for financial institutions. Effective March 31, 1997, the FFIEC adopted generally accepted accounting principles (GAAP) as the reporting basis for most Reports of Condition and Income (Call Reports), which financial institutions must file quarterly with their primary federal supervisor. The adoption of GAAP as the reporting basis for most Call Report schedules will eliminate the need for some institutions to maintain two sets of books. The FDIC also published guidelines to assist smaller institutions in preparing error-free Call Reports. This publication, along with Call Report forms and instructions, is readily available from the FDIC's Internet site.

FDIC Applications 1995-1997

	1997	1996	1995
Deposit Insurance	**238**	**192**	**146**
Approved	**238**	192	145
Denied	**0**	0	1
New Branches	**1,436**	**2,054**	**2,135**
Approved	**1,435**	2,054	2,135
Branches	**1,435**	1,352	1,224
Remote Service Facilities•	**NA**	702	911
Denied	**1**	0	0
Mergers	**419**	**392**	**419**
Approved	**419**	392	419
Denied	**0**	0	0
Requests for Consent to Serve■	**261**	**873**	**1,092**
Approved	**258**	873	1,086
Section 19	**76**	77	86
Section 32	**182**	796	1,000
Denied	**3**	0	6
Section 19	**2**	0	2
Section 32	**1**	0	4
Notices of Change in Control	**28**	**46**	**46**
Letters of Intent Not to Disapprove	**28**	46	45
Disapproved	**0**	0	1
Conversions of Insurance Coverage▲	**0**	**0**	**3**
Approved	**0**	2	3
Denied	**0**	0	0
Brokered Deposit Waivers	**17**	**15**	**30**
Approved	**17**	15	29
Denied	**0**	0	1
Savings Association Activities	**2**	**2**	**0**
Approved	**2**	2	0
Denied	**0**	0	0
State Bank Activities/Investments▼	**46**	**167**	**367**
Approved	**46**	164	366
Denied	**0**	3	1
Conversions of Mutual Institutions	**15**	**26**	**24**
Non-Objection	**15**	26	24
Objection	**0**	0	0

• Effective September 30, 1996, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) excluded remote service facilities from the definition of a domestic branch under Section 3 (o) of the FDI Act.

■ 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 is not in compliance with capital requirements or is otherwise in 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.

Maintaining Open Communication

The FDIC has worked diligently to establish and maintain open lines of communication regarding supervisory matters with both the financial services industry and other regulators. FDIC representatives routinely attend or participate in events sponsored by trade associations, foreign and domestic regulatory agencies, as well as FDIC-sponsored outreach meetings. The FDIC also serves as a chief source of public information on banking industry supervision through a variety of publications and an extensive Internet site. Communication efforts initiated or expanded in 1997 included:

- Seminars on nondeposit investment products, conducted in collaboration with the Independent Bankers Association of America and the American Bankers Association, held across the country and attended by more than 1,000 bankers;
- The Division of Insurance's quarterly *Regional Outlook* publication, which provides an in-depth discussion of trends that affect the financial services industry from national and regional perspectives; and
- Timely, useful and easily accessible information for bankers and the general public on the FDIC's Internet home page, located at www.fdic.gov.

For more information on the FDIC's outreach efforts, see Pages 28-29.

Enforcement and Applications

DOS works closely with the Legal Division to initiate supervisory enforcement actions against FDIC-supervised institutions and their employees. The FDIC initiated just 127 enforcement actions in 1997, nearly two-thirds of the 186 actions begun in 1996 and almost one-third of the 338 actions initiated just five years ago. This indicates the continued health and stability of the banking industry.

The trends of continued health and further consolidation of the industry also are evident in both the number and types of applications processed by the FDIC. New bank applications increased significantly for the fifth consecutive year, as record profits attracted more entrants to the marketplace. Nevertheless, merger applications continue to outnumber new entrants by nearly two to one as the industry consolidates. Efforts to reduce regulatory burden on the industry are also evident in the significantly lower volume of applications for new branches and notifications of changes in directors and officers. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 eliminated the need for institutions to file branch applications for remote service facilities and narrowed the circumstances under which institutions must notify the FDIC of changes in directors and senior executive officers.

Compliance, Enforcement and Other Related Legal Actions 1995-1997

	1997	1996	1995
Total Number of Actions Initiated by the FDIC	**127**	186	146
Termination of Insurance			
Involuntary Termination			
Sec. 8a For Violations, Unsafe/Unsound Practices or Condition	**0**	1	0
Voluntary Termination			
Sec.8a By Order Upon Request	**0**	0	7
Sec.8p No Deposits	**6**	3	1
Sec.8q Deposits Assumed	**7**	17	16
Sec. 8b Cease-and-Desist Actions			
Notices of Charges Issued	**3**	3	2
Consent Orders	**15**	16	27•
Sec. 8e Removal/Prohibition of Director or Officer			
Notices of Intention to Remove/Prohibit	**11**	7	7
Consent Orders	**33**	60	35
Sec. 8g Suspension/Removal When Charged With Crime	**1**	1	1
Civil Money Penalties Issued			
Sec.7a Call Report Penalties	**24**	19	20
Sec.8i Civil Money Penalties	**10**	19	9
Sec. 10c Orders of Investigation	**6**	11	8
Sec. 19 Denials of Service After Criminal Conviction	**1**	1	2
Sec. 32 Notices Disapproving Officer or Director	**0**	0	4
Truth in Lending Act Reimbursement Actions			
Denials of Requests for Relief	**3**	6	5
Grants of Relief	**0**	0	0
Banks Making Reimbursement ▪	**139**	162	320
Criminal Referrals Involving Open Institutions ▪	**12,689**	8,201	19,503
Other Actions Not Listed	**7**	22	2

• 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.

Rhonda Nelson

The Federal Deposit Insurance Corporation has the unique mission to protect depositors of insured banks and savings associations. No insured depositor 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). The FDIC also manages the remaining assets and liabilities of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC) through the FSLIC Resolution Fund (FRF).

Once an institution is closed by its chartering authority—the state for state-chartered institutions, the Office of the Comptroller of the Currency (OCC) for national banks and the Office of Thrift Supervision (OTS) for federal savings associations—the FDIC is responsible for resolving that failed bank or savings association. The Division of Resolutions and Receiverships (DRR) staff gathers data about the troubled 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.

Protecting Insured Depositors

The FDIC's ability to attract healthy institutions to assume deposits and purchase assets of failed banks and savings associations minimizes the disruption to customers and allows some assets to be returned to the private sector immediately. Assets remaining after resolution are liquidated by DRR in an orderly manner and the proceeds are used to pay creditors, including depositors whose accounts exceeded the insured $100,000 limit.

During 1997, the FDIC resolved only one institution, the fewest in one year since 1962. (In 1972, only one commercial bank failed but another received assistance from the FDIC to prevent failure.) Southwest Bank of Jennings, Louisiana, which was insured by the BIF, was closed by the state banking commissioner on November 21, 1997. It had total deposits of $26.8 million and total assets of $25.9 million. The FDIC was able to find a bank to assume all of the bank's deposits and $20 million of its assets.

As assets of failed institutions are liquidated by the FDIC, DRR makes payments, known as dividends, 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 1997 to all creditors of institutions that failed in prior years were just more than $5.3 billion.

Asset Disposition

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, workout or other disposition. At year-end, the FDIC was managing $4.1 billion in assets in liquidation and $7.9 billion in assets not in liquidation, consisting of cash and securitization reserves.

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 52.8 percent, to $4.1 billion from $8.7 billion. Net collections for all funds totaled about $3.6 billion.
- 1,288 real estate properties, which were sold for a total of $320.6 million, yielded a recovery of 102.4 percent of their average appraised value as determined by independent appraisers.
- 23,207 loans and other assets, which were sold for a total of $845 million, yielded a recovery of 111.3 percent of their average appraised value.

Donald Linker (standing l) and Daniel Bell of the FDIC's Southwest Service Center join Russell Welsh (seated) of the Colorado River Indian Tribes in closing a deal that returned 7,808 acres of California land to the tribes. The deal involved the sale of a company, for which the FDIC was trustee, that held a 65-year lease on the tribal propert

Liquidation Highlights 1995-1997

Dollars in billions

	1997	1996	1995
Total Failed Banks	**1**	5	6
Assets of Failed Banks	**$ 0.0** •	$ 0.2	$ 0.8
Total Failed Savings Associations	**0**	1	3■
Assets of Failed Savings Associations	**$ 0.0** ▲	$ 0.0▲	$ 6.3
Net Collections▼	**$ 3.6**	$ 6.6	$ 16.6
Total Assets in Liquidation (year-end)▼	**$ 4.1**	$ 8.7	$ 18.0

• Only one BIF-insured institution failed in 1997, with assets totaling $25.9 million.

■ The FDIC assumed responsibility for resolving failed savings associations from the Resolution Trust Corporation (RTC) on July 1, 1995. All savings association failures in 1995 were resolved by the RTC.

▲ No SAIF-insured institution failed in 1997, and only one 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.

Several sales strategies are used by DRR to sell assets. These include the use of brokers, auctions and sealed bids. For the one bank failure in 1997, DRR began a Joint Asset Marketing (JAM) program designed to increase competition and speed the sale of assets from failing institutions. In the past, DRR would arrange for the assuming bank to buy as many of the failed bank's assets as possible, leaving the rest for the division to dispose. With JAM, the FDIC sells pools of assets to banks at the time of closing. As a result, in the one failure in 1997, approximately 79 percent of the bank's assets were sold at the time of resolution.

In 1997, the Corporation continued to expand its use of the Internet to provide information on upcoming loan and real estate sales. Investors interested in purchasing real estate acquired from failed institutions can now conduct their own Internet searches by property type, state, city, name, and/or market price. Also added in 1997 was a Web site listing properties with environmental conditions, including those with historical or cultural significance or special resources.

The FDIC is the limited partner in 40 equity transactions entered into by the former RTC. The RTC contributed asset pools (usually sub-performing loans, non-performing loans and real estate) to the partnerships. The general partner invested equity capital and has responsibility for the day-to-day management and disposition of the assets. Partnership distributions are generally split 50-50 between the partners. During 1997, the FDIC received $302 million in distributions, based on several reports.

The FDIC also has limited partnership investments in 29 Judgment, Deficiency, and Charge-Off (JDC) partnerships. The JDC partnerships were created by the RTC in 1993 to place hard-to-collect assets in the private sector, and the FDIC has continued using them. These judgments, deficiencies, charge-offs and small balance assets acquired from failed institutions generally had been written off or determined to be uncollectible by the failed institutions. The RTC contributed these assets to the partnerships in return for the general partner's private sector expertise and willingness to absorb the cost of pursuing collections. Collections typically are shared equally between the general partner and the FDIC as a limited partner. During 1997, the FDIC delivered to the partnerships $449 million of assets, which is carried on the FDIC's books at a small fraction of the original value. Due to declining deliveries, one partnership was terminated in 1997, eight partnerships have initiated termination procedures and 21 still are actively working to collect on assets.

Affordable Housing

During 1997, the FDIC Affordable Housing Disposition Program sold 37 multifamily and 25 single family properties, consisting of 1,755 units, for $9.8 million. Since 1990, the FDIC and RTC affordable housing programs had cumulative sales of more than 125,000 affordable housing units for $1.8 billion.

In addition, 30 state housing agencies and nonprofit organizations, acting under a memorandum of understanding with the FDIC, monitor 93,409 multifamily rental units to ensure that the purchasers are making units available at adjusted rents as specified in the purchase agreements.

Receivership Management Activities

Once the assets of failed institutions have been sold and the proceeds distributed to creditors, the FDIC terminates the receiverships. During 1997, the FDIC terminated 251 receivership operations, or approximately 19 percent of the open receiverships as of

January 1, 1997. Of those, 76 were FRF receiverships commonly referred to as "Southwest Plan" institutions, five were FSLIC institutions, 21 were RTC pass-through receiverships (where assets and liabilities are passed to a newly created institution while certain claims were retained by the RTC as receiver), and the remaining 149 were BIF or FRF/RTC financial institutions. In addition, a total of 197 receiverships entered into the final stages of the termination process and are expected to be terminated in early 1998.

The FDIC has updated its tracking system and centralized the oversight of the receivership program in the Dallas Field Operations Branch in order to terminate receiverships more quickly.

Historical Studies

The FDIC in December 1997 published a two-volume study on the banking crisis of the 1980s and early 1990s. *History of the Eighties—Lessons for the Future* provides a careful examination and analysis of the crisis, and an evaluation of the lessons learned. The two-year study, spearheaded by the Division of Research and Statistics, determined that there was no single cause or short list of causes for the rise in the number of bank failures during the period. Rather, failures resulted from a number of forces—structural, economic, supervisory and legislative—working together at that time. The study is available on the FDIC's Internet home page.

During the year, the FDIC also continued an internal study of the aftermath of bank and thrift failures from 1980 to1994. This study covers the evolution of resolution and closing strategies used by the FDIC and the RTC, with an emphasis on the approaches used for the larger, more complex failures. It includes case analyses of some of the more notable bank and thrift failures. The study also focuses on asset sales techniques, securitization, equity partnerships, and other innovative methods used by the FDIC and RTC to dispose of the substantial volume of assets once held by both agencies. The study will be published in 1998.

FSLIC Resolution Fund

The FDIC, through the FRF, is responsible for managing and monitoring assistance agreements that 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. 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, $602 million was still available at year-end 1997.

The FRF portfolio of FSLIC assets in liquidation had a book value of $169 million at year-end, down from $476 million at the end of 1996. FRF net liquidation collections totaled $291 for the former FSLIC in 1997. At year-end 1997, the FRF portfolio of assets from the former RTC had a book value of $2.2 billion, down from $4.4 billion at the end of 1996. During the same period, securitization credit enhancement reserves dropped from $5.8 billion to $4.9 billion, and the FDIC, through the FRF, was able to repay $3.8 billion of the $4.6 billion in RTC borrowings from the Federal Financing Bank. The FDIC expects to recover sufficient funds from the RTC's receivership assets to cover the approximately $1 billion in RTC- corporate liabilities remaining at year-end.


W.W.Reid

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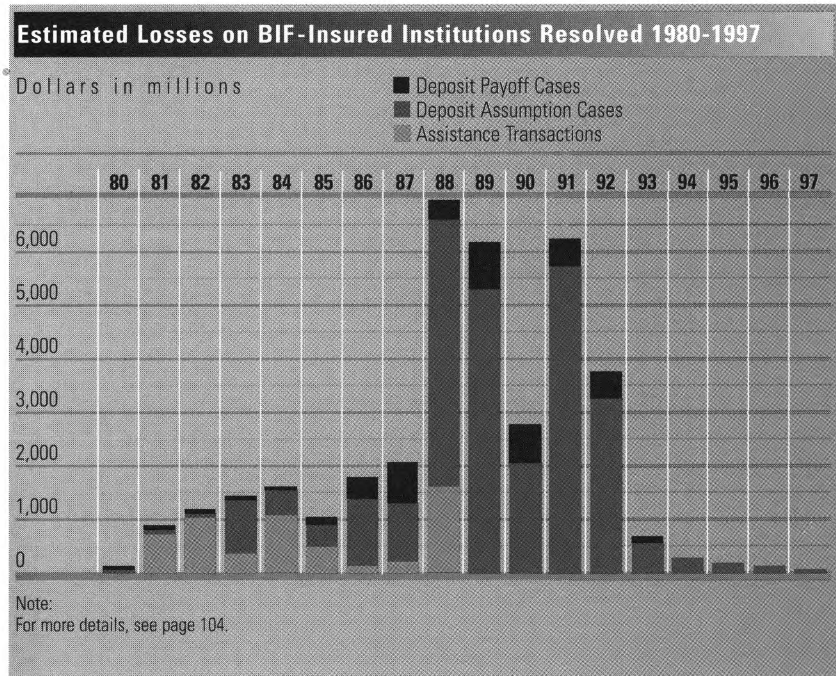
Top: Former FDIC official Robert Miailovich at the *History of the Eighties* symposium on the banking and thrift crisis. Bottom (l-r): FDIC Chairman Ricki Helfer, former FDIC Chairman William Isaac, former Federal Reserve Chairman Paul Volker, and FDIC Vice Chairman Andrew C. Hove, Jr., also at the symposium.

The FRF will continue to exist until all of its assets are sold or liquidated and all of its liabilities are satisfied. Any remaining funds from FRF liquidation activities will revert to the U.S. Department of the Treasury. (For more information on the FRF, see Page 6.)



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 insured financial institutions. During the year, the Corporation recovered nearly $156.8 million from these professional liability suits. In addition, as part of the sentencing process for those convicted of criminal wrongdoing against failed institutions, the court may order a defendant to pay restitution to the receivership. The FDIC, working in conjunction with the U.S. Department of Justice, collected more than $13 million in criminal restitution during the year.

The Corporation also investigates the circumstances surrounding the failure of every institution and, where appropriate, sends suspicious activity reports to the Justice Department. Six such reports were sent during the year. The FDIC's caseload at the end of the year included investigations, lawsuits and ongoing settlement collections involving 182 institutions, down from 244 at the beginning of 1997. This caseload includes RTC cases the FDIC assumed on January 1, 1996.

In addition to promoting the safety and soundness of FDIC-insured institutions, the FDIC plays a strong consumer protection role. The agency enforces compliance with consumer protection laws, including fair lending and community reinvestment. It also educates banks and consumers in areas such as fair lending, community reinvestment and deposit insurance. The FDIC's consumer protection activities are carried out primarily through its Division of Compliance and Consumer Affairs (DCA), with support from other divisions and offices.

Community Reinvestment Act Reform

The FDIC continued working with the other federal bank and thrift regulatory agencies to complete implementing 1995 revisions to rules that implement the Community Reinvestment Act (CRA), a law that encourages federally insured lenders to help meet the credit needs of their communities. The 1995 rules significantly changed the way financial institutions are evaluated for CRA compliance. The new rules emphasize evaluating an institution based on actual lending, investment and service, and they establish different tests for different sizes and types of institutions. The revised CRA rules were phased in over a two-year period that ended on July 1, 1997, when new examination procedures for large financial institutions took effect.

Among the 1997 initiatives by the FDIC and the other regulatory agencies to implement the new CRA rules were: issuing revised CRA examination procedures and sample performance evaluation guidelines for large institutions; updating the interagency *CRA Question and Answer Guide* for financial institutions; and training more than 300 examiners across the country in the new CRA examination procedures for large banks. The agencies have agreed to continue working in 1998 on a project to further promote consistency among the agencies in implementing CRA examination procedures for large banks.

Fair Lending Efforts

The FDIC is strongly committed to ensuring that lenders give equal and fair treatment to all loan applicants. In 1997, the FDIC's continued efforts in fair lending included discussions with the U.S. Department of Justice and the U.S. Department of Housing and Urban Development (HUD) to refine procedures for exchanging information about potential violations of the Fair Housing Act and the Equal Credit Opportunity Act. In June, the federal bank regulatory agencies and the Federal Trade Commission entered into a Memorandum of Understanding with HUD establishing procedures for exchanging fair lending information with the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), two major housing-related government-sponsored enterprises.

Compliance Examinations

DCA examines FDIC-supervised banks for compliance with consumer protection, fair lending, and community reinvestment laws and regulations. During 1997, the FDIC initiated 1,990 such examinations, representing 32 percent of the financial institutions supervised by the FDIC at year-end.

The percentage of institutions that were rated satisfactory or outstanding for compliance with consumer protection laws remained constant over the past two years. At year-end, 95 percent of FDIC-supervised banks were rated satisfactory or outstanding for compliance with consumer protection and fair lending laws, while 99 percent were rated satisfactory or outstanding for compliance with the CRA. These percentages are essentially unchanged from a year earlier.

During 1997, a total of 139 FDIC-supervised banks were required to reimburse nearly $1.6 million to 49,100 consumers for violations of the Truth in Lending Act, which requires accurate disclosures of interest rates and finance charges. The reimbursements ordered in 1997 stem from compliance examinations conducted in 1997 and in previous years.

The FDIC took a number of steps during the year to streamline and refine the compliance examination process. The FDIC instituted a new "case manager" approach to bank supervision (see Page 17), significantly enhancing the examination and enforcement processes. The new approach allows the FDIC to focus on the activities and management of all affiliated institutions in a holding company or affiliate organization, rather than just on one institution. The case manager system will strengthen the FDIC's enforcement of institution compliance with fair lending, community reinvestment and other consumer protection laws.

The FDIC also refined its consumer lending training program for compliance examiners, with increased emphasis on examination techniques and methodology. The core training requirements for compliance examiners now incorporate a new focus on the revised CRA rules and examination policies.

W.W.Reid

FDIC and Federal Reserve employees join in an "on-line conference" on electronic banking and Year 2000 challenges.

In another initiative, the FDIC began developing automated programs that will allow examiners to examine supervised institutions for compliance more comprehensively and effectively. The programs will help examiners target potential risk areas for a more detailed review in a way that is less burdensome to financial institutions. Examples of programs recently developed or under development include the:

- CRA Mapping and Analysis System, which integrates demographic, loan and economic information from a variety of sources;

- Automated Compliance Examination Structure, a joint initiative by the FDIC and the Federal Reserve that will improve examination efficiency and consistency, while minimizing the burden on financial institutions by reducing the time that examiners must spend at the bank; and

- Community Contacts Database, a centralized interagency list of community organizations or other entities involved in community reinvestment activities of banks and thrifts.

For information on other automated examination programs, see Pages 15-16.

Electronic Banking

Financial institutions increasingly are using technology to provide financial products and services. Many recent enhancements involve automated teller machines, "smart cards," video-kiosks, and home banking by phone, computer or interactive television (Web TV). At year-end 1997, a total of 602 FDIC-supervised banks operated home pages on the Internet. Thirty-four were "transactional" sites that provided customers the ability to pay bills, transfer funds and open accounts. The others were "information only" sites that described the bank's products and services. While institutions on the Internet represent a small segment of all financial institutions, acceptance of the new technology by consumers and financial institutions is increasing rapidly.

The advent of electronic banking technology raises significant questions and unique challenges for enforcing consumer protection, fair lending and community reinvestment laws. The regulations implementing these laws generally do not contemplate the electronic delivery of financial products and services. The FDIC has recognized the need to ensure that its examination staff is aware of current developments in electronic banking, and that examination and enforcement policies take into account the increased use of new technology by institutions and consumers. DCA took steps in 1997 to address the impact of electronic banking on enforcement of the consumer protection activities, including:

- Expanding examiner training to incorporate a segment on the impact of electronic banking on the legal and regulatory environment.

- Participating in a Federal Financial Institutions Examination Council working group that focused on electronic banking issues and interagency examination policies on consumer protection and fair lending laws, and advised examiners in these areas.

- Coordinating participation by the regulatory agencies in an Internet conference for financial institutions that responded to 15 major industry questions on electronic banking.

For more information on electronic banking, see Page 16.

Educating Consumers and Bankers

The FDIC offers a wide range of educational information and assistance to tens of thousands of consumers and financial institutions each year. DCA's main vehicle for providing deposit insurance and consumer protection information is its toll-free Call Center (1-800-934-3342 or 1-800-925-4618 for the deaf). During 1997, more than 70,000 consumers and bankers contacted the DCA Call Center with questions about FDIC deposit insurance or consumer protection matters. DCA regional offices received another 15,000 calls.

DCA also responded to 1,522 written inquiries from consumers and 320 written inquiries from financial institutions. Another 555 inquiries were received through the Internet (see Page 111 for the address). Use of the electronic mail to contact the FDIC increased in 1997, with the agency receiving an average of 45 inquiries per month, compared to 10 per month in 1996.

Most consumer inquiries in 1997 concerned deposit insurance coverage, determining if a financial institution is FDIC-insured, requests for FDIC publications, consumers' rights under the consumer protection regulations, and how to file a consumer complaint. Most financial institution inquiries concerned the deposit insurance rules, requests for FDIC publications and consumer brochures, and questions about general banking or regulatory matters, including fair lending, community reinvestment and consumer protection laws.

The FDIC develops and distributes informational brochures on deposit insurance and other topics of interest to consumers. The FDIC's most popular brochure is *Your Insured Deposit,* which explains the rules for insurance coverage of deposit accounts. During 1997, the FDIC issued a new consumer brochure, *Your Investments,* about financial institution investment products, such as mutual funds and annuities, that are not deposits and are not insured by the FDIC.

The FDIC frequently conducts training and outreach activities to promote an understanding of deposit insurance and consumer protection laws. The FDIC conducted several major outreach initiatives locally and nationally in October 1997 in observance of National Consumers Week, such as training sessions for bankers on consumer protection issues, joint outreach efforts with local consumer organizations, and consumer focus groups.

Because the staff of an insured institution generally is a customer's first source of information about deposit insurance, the FDIC conducted 12 insurance seminars for employees of institutions in eight states during 1997. Approximately 430 financial institution employees attended these sessions, which provided an in-depth review of the deposit insurance regulations and interagency guidelines for the sale of nondeposit investment products.

In 1997, DCA continued to expand its use of the Internet to provide information about deposit insurance and consumer protections. DCA began developing an interactive Internet application that will allow consumers to enter information about their accounts and determine whether their funds are fully insured under the FDIC deposit insurance rules. The application is expected to be on the Internet in the third quarter of 1998.

Responses to Consumer Complaints

The FDIC investigates complaints it receives from consumers about FDIC-supervised financial institutions. It also tracks the volume and nature of these complaints to monitor trends and identify emerging issues that may raise consumer protection concerns.

In 1997, DCA received more than 3,600 written consumer complaints against FDIC-supervised banks, most concerning consumer credit card accounts, as has been the trend over the past few years. About half of all complaints involved a small number of specialized credit-card banks that manage large credit-card loan portfolios. The most common complaints typically involved the adverse action notice that financial institutions must provide consumers under the Equal Credit Opportunity Act when denying a credit application; credit card billing errors and disputes with merchants; the advertising of loan products, particularly credit cards; and creditors' requirements for a co-signor as a condition of loan approval.

The FDIC's Office of Legislative Affairs, with the assistance of other divisions and offices, sent 1,385 letters to members of Congress in 1997. Many were in response to constituent complaints about financial institutions' compliance with fair lending and consumer protection laws.

The FDIC's Office of the Ombudsman handled more than 55,000 inquiries and requests for information in 1997. The office 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 Ombudsman's office conducted a number of outreach efforts in 1997 and participated in programs such as National Consumers Week, sponsored by the U.S. Office of Consumer Affairs as well as other consumer-related groups and associations.

Community Outreach

The FDIC frequently meets with community and consumer groups, bankers and government officials to exchange views about community reinvestment and fair lending issues. In 1997, the FDIC participated in 187 such events across the country. More than half were events to educate bankers and others about CRA and fair lending topics. Other events focused on fostering partnerships between financial institutions and community-based organizations. The FDIC reached more than 6,000 bankers through these events.

Other outreach efforts in 1997 included forming a focus group in Georgia to enhance communication between bankers and community representatives after claims of lending discrimination, and organizing roundtable discussions with bankers and a community organization to spur economic development in low- and moderate-income areas of Reno, NV. (For more information on outreach efforts, see Page 20.)

W.W.Reid

Teresa Perez

FDIC employees from Washington (top) and Dallas participate in National Consumers Week outreach and educational efforts.

Communicating Through Technology

The FDIC broadened its use of Internet technology to communicate both inside and outside the agency. Documents published on the FDIC's home page on the World Wide Web 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. Users of FDIC Internet offerings include bankers, regulators, financial analysts, journalists, stockbrokers, academics, consumers and others who want quick and easy access to the FDIC's public information.

Several new features were added to the FDIC's home page in 1997, including an electronic reading room where the public may peruse FDIC publications; an online form to request information from corporate databases; and customized reports with FDIC and banking industry information. Another new feature provides state banking agencies and other regulators secure access to confidential financial, supervisory and policy data. For students in kindergarten through grade 12, the FDIC's home page now offers interesting and useful information about the FDIC and the banking system. (For a general description of FDIC Internet offerings, see Page 111.)

Matters in litigation covered a broad spectrum including issues relating to the supervision of 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 FDIC's litigation caseload declined 23 percent, from about 12,300 matters at year-end 1996 to approximately 9,500 at year-end 1997. The Legal Division and the Division of Resolutions and Receiverships recovered nearly $156.8 million during 1997 from professional liability settlements or judgments. At year-end, the FDIC's professional liability caseload included investigations, lawsuits and settlement collections involving more than 180 institutions. This caseload includes the cases the FDIC assumed from the former Resolution Trust Corporation (RTC) on January 1, 1996. The Legal Division, working closely with other divisions and offices, was involved in several noteworthy court cases in 1997, as described below. (For more information about professional liability settlements and judgments, see Page 25.)

Goodwill

As a result of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Office of Thrift Supervision (OTS) changed the regulations governing the capital requirements for thrift institutions to make them conform to those for commercial banks. Consequently, certain forms of intangible capital, such as supervisory goodwill, were no longer allowed to be counted as part of a thrift's capital. A number of acquirers of thrift institutions sued the government, alleging that they had purchased failed or failing thrifts prior to the passage of FIRREA based on a promise that they could count certain intangibles toward their capital requirements. They said FIRREA's changes resulted in a breach of contract or a taking of their property without just compensation.

Three of the cases were consolidated and heard by the U.S. Supreme Court in a case known as *Winstar Corporation v. United States (Winstar)*. The Court issued a decision in July 1996, finding the United States liable for a breach of contract based on FIRREA's change in capital standards. As a result of that decision, more than 120 of these cases are pending in the U.S. Court of Federal Claims, with the lead case, *Glendale v. United States,* in its seventh month of trial at year-end. A second case was set for trial in April 1998; trial dates have not been set for remaining cases. A small number of the *Winstar* cases, known as the Guarini cases, involve challenges to legislation passed after FIRREA that changed the method for computing certain tax benefits given to acquirers of failed or failing thrifts.

The FDIC as successor to the rights of failed institutions is a co-plaintiff or plaintiff in more than 40 goodwill cases.

Entitlement to Deposit Insurance

In 1993, recipients of a new bank charter in Michigan filed an application with the FDIC for deposit insurance. On June 21, 1994, and on two subsequent occasions, the FDIC Board of Directors denied the group's application for deposit insurance because of concerns about one of the proposed bank officials. In a previous banking position, this person 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. The organizers filed an appeal with the U.S. Court of Appeals for the Sixth Circuit in Cincinnati, Ohio, and a decision upholding the FDIC's action was issued on August 19, 1997. The Appeals Court concluded that the FDIC's concerns were appropriate and that its decisions denying the applications were not arbitrary or capricious. The organizers' petition for rehearing was denied by the Court on November 14, 1997. This case is significant because it upheld the FDIC's discretion to grant or deny applications for deposit insurance.

Removal and Prohibition

An individual who worked for a coin and precious metals business made more than $1 million in cash sales to one customer as part of a money-laundering scheme in 1993. The seller later was convicted of failing to file a Form 8300 (Currency Transaction Report), which a business must file with the Internal Revenue Service (IRS) when it receives more than $10,000 in a cash transaction. He also was convicted of creating a false Form 8300 to deceive IRS compliance auditors. While the criminal proceedings were progressing, however, the local bank where he had been previously employed hired him as its president. In 1996, the FDIC Board removed him from banking due to his conduct at the coin business, citing Section 8(e)(1) of the Federal Deposit Insurance Act.

In a Section 8(e)(1) proceeding, the FDIC must demonstrate misconduct, culpability and effect due to the person's activities at a business or financial institution. In *Hendrickson v. Federal Deposit Insurance Corporation,* the U.S. Court of Appeals for the Seventh Circuit in Chicago, Illinois, affirmed the FDIC's decision to remove the individual from banking. The case is significant to the FDIC because it involved an order of prohibition against a person for misconduct when he was not in banking, and did not involve a bank. The case also is significant because the "benefit" to the individual was not an immediate gain in the form of cash or property, but instead the continued employment by his family's coin business.

Directors' and Officers' Standard of Liability

During the 1980s, even as many financial institutions were failing, a number of states relaxed the traditional negligence standard of director and officer liability. These states provided for liability based on gross negligence or even intentional wrongdoing instead of the simple negligence standard. In addition, many states enacted "insulating statutes" allowing, for example, corporations to eliminate the civil liability of their directors for even gross breaches of the traditional duties of care and diligence. When enacting FIRREA in 1989, Congress included a new statute in the Federal Deposit Insurance Act demonstrating concern about states protecting directors and officers from liability for breach of traditional duties to federally insured depository institutions. The new federal statute, while allowing for "gross negligence" liability in FDIC civil action against directors and officers of failed depository institutions, does not impair FDIC rights "under other applicable law." Litigation immediately ensued over the meaning of this statute.

Lower and appellate courts around the country issued widely conflicting opinions concerning the basic standard of care for which bank and thrift officials may be held personally liable for monetary damages. The U.S. Supreme Court's decision in *Atherton v. FDIC,* issued on January 14,1997, resolved this long-standing conflict. The Court agreed with the FDIC's position that FIRREA's "gross negligence" standard "provides only a floor – a guarantee that officers and directors must meet at least a gross negligence standard. It does not stand in the way of a stricter standard (such as ordinary negligence)."

However, the Court disagreed with the FDIC on whether federal or state law supplied the standard of pre-insolvency and receivership liability for officers of federally chartered institutions. The Court explained that state law applies when the institution is in receivership, although subject to the limitation of FIRREA's gross negligence standard. The lower federal courts have been in considerable disagreement on this issue. Because of this confusion, the Court's decision represents a needed clarification of the law.

The Atherton decision is expected to streamline litigation against bank officers and reduce litigation costs because it removes one of the principal uncertainties of the law. The FDIC will continue to follow its long-standing practice of bringing claims against outside directors where investigation shows them to have been grossly negligent or worse. However, where applicable state law provides an ordinary care standard, the FDIC still will sue outside directors believed to be guilty of gross negligence but will allege only what is required under the law.

D'Oench Duhme

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.

Motorcity of Jacksonville v. Southeast Bank remains one of the most important cases in the FDIC's efforts to preserve the D'Oench doctrine's protection from unwritten agreements or arrangements. On August 20,1997, the U.S. Court of Appeals for the Eleventh Circuit in Atlanta, Georgia, sitting en banc (with all active judges participating), held in *Motorcity* that the *D'Oench* doctrine was intended by Congress to survive the passage of FIRREA and remains a viable protection for the FDIC. However, that decision disagreed with a 1995 opinion by the U.S. Court of Appeals for the District of Columbia.

The plaintiff in *Motorcity* appealed to the U.S. Supreme Court, arguing that the "split" between the two circuits needed to be resolved. Following its decision in *Atherton v. FDIC,* which involved federal common law in a different context, the U.S. Supreme Court instructed the Eleventh Circuit to reconsider its decision and determine whether *Atherton* affected the outcome. The Eleventh Circuit on August 20,1997, held that nothing in *Atherton* altered the outcome of its earlier decision and in an even stronger opinion, reinstated its previous decision that the *D'Oench* doctrine is not limited by a specific asset requirement, that the freestanding tort exception to *D'Oench* does not apply to *Atherton* and that *Motorcity* does not have a viable state law claim. According to the Eleventh Circuit, the *Atherton* decision recognized the continuing availability of federal common law for circumstances involving uniquely federal interests requiring a special rule. The Eleventh Circuit held that *D'Oench* recognized those special needs and that the special rule was still required. In the absence of clear congressional intent to displace the *D'Oench* doctrine, it survives as an effective protection for the FDIC. The *Motorcity* plaintiff filed its second appeal to the U.S. Supreme Court on December 18, 1997.

Enforcement Powers

In December 1997, the Supreme Court issued a favorable decision in a case affecting the FDIC's enforcement powers. In *Hudson v. United States,* the Court decided that criminal prosecution of bank officers after the Office of the Comptroller of the Currency (OCC) had imposed civil money penalties for the same conduct does not violate the Constitution's Double Jeopardy Clause. *Hudson* effectively overruled a 1989 Supreme Court decision that created doubt as to whether the FDIC or any other bank regulator could impose civil penalties in cases that might also give rise to criminal prosecution. *Hudson* holds that only additional criminal penalties are unconstitutional and that the sanctions imposed by the OCC were civil in nature. Although the case arose from OCC actions, the decision imposes the same kind of civil money penalties that could be used by the FDIC. *Hudson* effectively removes the doubt created by the 1989 decision and should result in smoother coordination with the U.S. Department of Justice in cases with the potential for criminal prosecution.

Sally Kearney

The FDIC continued to emphasize improving organizational and operational efficiency in 1997. Key functional areas were realigned and staff size further reduced as the banking industry remained strong and the FDIC's projected workload continued to decline.

Focusing on Planning and Efficiency

The FDIC in 1997 updated its Strategic Plan for submission to Congress and the Office of Management and Budget, as required by the Government Performance and Results Act (GPRA). The plan, originally approved in 1995 by the Board of Directors as a foundation for the agency's corporate planning process, provided a clear strategic vision for the FDIC and focuses on managing risk and minimizing the effect of institution failures.

The GPRA also requires the FDIC to develop an Annual Performance Plan. This plan, which combines the agency's corporate operating and business plans, defines what will be accomplished during the year to achieve strategic goals and objectives. The plan guides the allocation of FDIC resources to its three major programs—insurance; supervision; and policy, regulation and outreach—and identifies annual goals for measuring performance. A quarterly reporting mechanism was instituted during 1997 to provide senior FDIC management with regular feedback on the Corporation's actual performance against the measurable performance targets contained in the Annual Performance Plan. The process allows management to evaluate performance and to adjust strategic goals and resource allocations as needed.

One of the major initiatives for 1998 is to develop an automated system that will assist the FDIC in linking its budget to the Strategic Plan and the Annual Performance Plan, in accordance with GPRA requirements.

Controlling Expenses and Reducing Costs

The FDIC's budget is the culmination of the Corporation's annual planning process. Budget and staffing levels are based upon the Annual Performance Plans for each division and office. In 1997, the FDIC continued to make considerable progress in controlling expenses and reducing costs. Actual expenses for 1997 were $1.38 billion—22 percent less than 1996 spending and 15 percent below the approved 1997 budget. Actual 1997 spending was below budgeted levels primarily due to lower costs for asset liquidation-related contracting and a more rapid pace of staff downsizing.

Employee compensation and benefits were the largest budgeted expenses for 1997, constituting 54 percent of the budget. At the beginning of 1997, a total of 9,151 employees were on the payroll, and targeted staffing for year-end was 8,361. By December 31, 1997, the workforce had shrunk substantially below the authorized level to 7,793, primarily due to the consolidation of field operations. As a result, spending for employee compensation and benefits totaled $752 million—17 percent below the $910 million spent for this purpose in 1996 and 13 percent below the approved 1997 budget of $868 million.

Outside services represented the second largest component of total expenses in 1997. Although the FDIC budgeted $429 million for this category, actual 1997 expenses were $330 million, which is 23 percent less than the budgeted amount and 43 percent below the $581 million spent in 1996.

The continued consolidation of field operations also contributed to reduced expenses for buildings and leased space. For 1997, $123 million was spent for buildings, down significantly from the $129 million spent in 1996.

Downsizing and Consolidation

As noted previously, the Corporation continued to shrink the size of its workforce in 1997 due to a decline in workload. Total FDIC staffing in 1997 fell by approximately 15 percent. Staffing for the Division of Resolutions and Receiverships (DRR), which liquidates the assets of failed institutions, fell by over 40 percent during the year.

DRR staffing reductions were accomplished primarily through the expiration of term and temporary appointments and by consolidating field liquidation operations. DRR operations and related Legal Division and other support activities in San Francisco, New York, Chicago, Atlanta, and Franklin, MA, were consolidated into other offices during the year. This was part of a

Division of Finance employees Joseph Malloy and Gisele Jones helped monitor the "buyout" used to shrink the FDIC workforce.

Number of Officials and Employees of the FDIC 1996-1997 (year-end)

	Total		Washington		Regional/Field	
	1997	**1996**	**1997**	**1996**	**1997**	**1996**
Executive Offices•	**127**	137	**127**	137	**0**	0
Division of Supervision	**2,550**	2,572	**191**	154	**2,359**	2,418
Division of Compliance and Consumer Affairs	**618**	588	**56**	51	**562**	537
Division of Resolutions and Receiverships▪	**1,093**	1,819	**153**	211	**940**	1,608
Legal Division	**1,035**	1,306	**472**	518	**563**	788
Division of Finance	**606**	726	**307**	328	**299**	398
Division of Information Resources Management	**502**	552	**421**	434	**81**	118
Division of Research and Statistics	**94**	85	**94**	85	**0**	0
Division of Insurance	**56**	41	**32**	28	**24**	13
Division of Administration	**758**	895	**429**	477	**329**	418
Office of Inspector General	**216**	285	**147**	192	**69**	93
Office of Diversity and Economic Opportunity	**63**	64	**45**	51	**18**	13
Office of the Ombudsman	**57**	65	**23**	23	**34**	42
Office of Internal Control Management	**18**	16	**18**	16	**0**	0
Total	**7,793**	**9,151**	**2,515**	**2,705**	**5,278**	**6,446**

• Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Executive Secretary, Corporate Communications, Legislative Affairs, and Policy Development. In 1996, also included the Office of the Deputy to the Chairman for Policy (abolished in 1997).

▪ In December 1996, the Division of Depositor and Asset Services and the Division of Resolutions were merged to create the Division of Resolutions and Receiverships.

phased, three-year consolidation plan announced the previous year. DRR field operations are expected to be fully consolidated into a single site in Dallas by year-end 1999. In addition, the Division of Finance's field financial activities were consolidated in Dallas in 1997, and three Division of Supervision (DOS) field offices and a Division of Compliance and Consumer Affairs (DCA) satellite office were closed.

As a result of the buyout programs initiated in 1995 and 1996, a total of 379 employees left the Corporation during 1997. Another 87 permanent employees elected buyouts in 1997 in lieu of being reassigned to other areas of the country. In late 1997, the Corporation announced that new buyout and early retirement opportunities would be available during 1998 for selected employees in overstaffed divisions and offices.

To cushion the impact of the DRR field consolidation, the Corporation continued to provide job placement and training opportunities to affected employees, and was successful in placing many employees affected by downsizing in positions both inside and outside the Corporation. A total of 138 DRR and Legal Division employees accepted positions in the Dallas office, and more than 200 employees (mostly from DRR) were selected for DOS or DCA examiner positions and training. Many employees also took advantage of the FDIC's expanded Career Transition and Outplacement Program in 1997, which provides job search assistance and resources to employees affected by downsizing.

Compensation and Benefit Changes

Major changes to the Corporation's compensation and benefits program for 1997-1999 were negotiated with the National Treasury Employees Union. An agreement signed in February 1997 covered changes in pay, employee benefits, and reimbursement of travel and relocation expenses for bargaining-unit employees. The FDIC later applied these same changes to executives and other nonbargaining-unit employees.

A key program change is the new pay-for-performance system. Beginning in January 1998, the Corporation will move from a 19-step compensation program to an open range salary structure, with a salary minimum and maximum for each grade. In 1999, the Corporation will discontinue across-the-board salary increases and will link merit pay increases to employees' annual performance ratings.

Internal Controls

During 1997, the FDIC strengthened its internal control program for ongoing operations and management processes. Guidelines were issued to define the responsibilities of FDIC employees in audits, surveys and reviews conducted by the Office of Inspector General and the U.S. General Accounting Office (GAO). The FDIC's Office of Internal Control Management also conducted a conference on successful risk management and internal control programs to familiarize FDIC senior management and auditors with current best practices for managing risks in the private sector. Two major internal control activities were completed in 1997—coordination of the GAO audit of the Corporation's financial statements and preparation of the annual Chief Financial Officer's Act Report, which focused on the operations and internal control programs within each FDIC division and office.

W.W.Reid

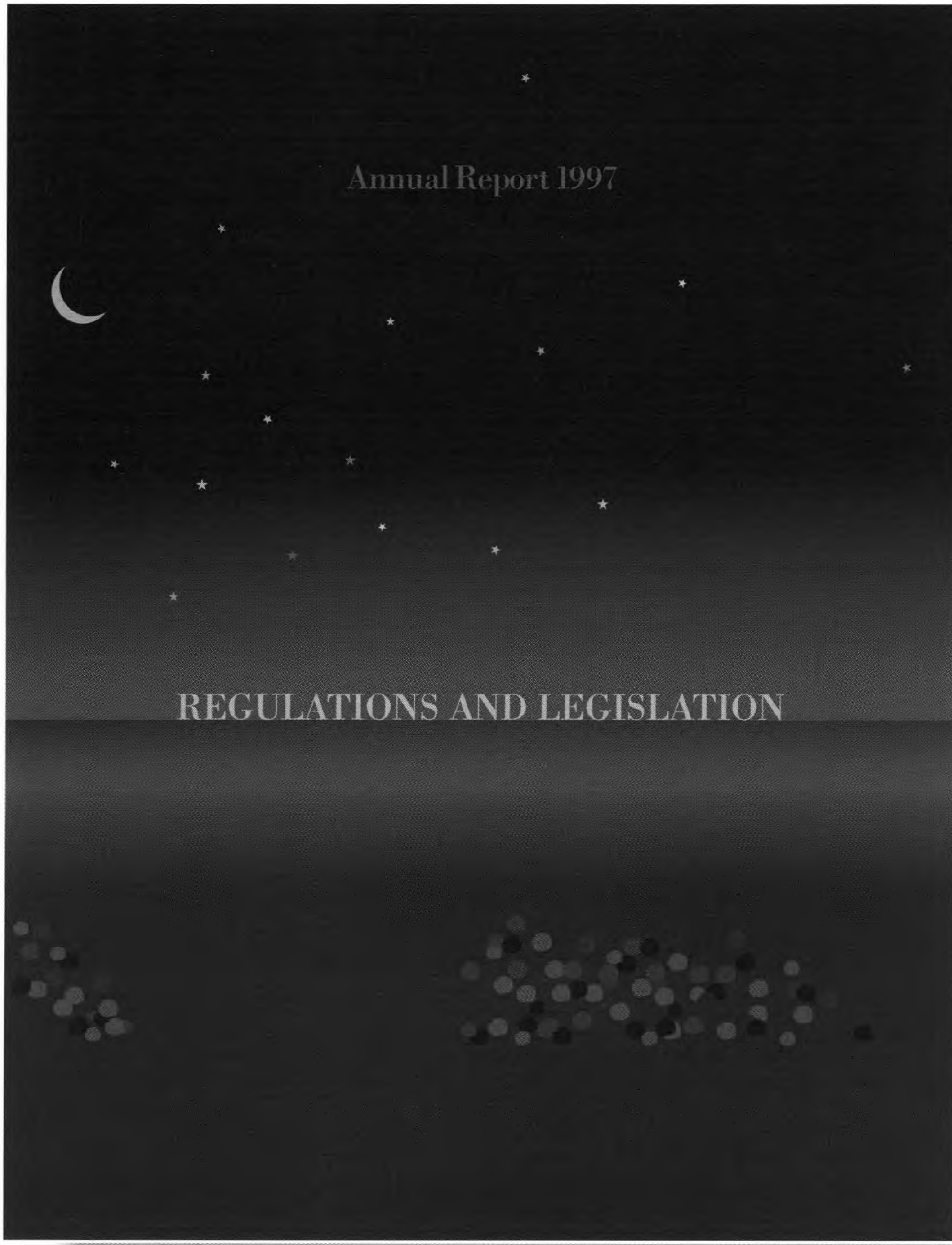
W.W.Reid

Year 2000 Computer Challenges

The FDIC is committed to ensuring that its computer hardware, software and communications infrastructure will continue to function properly in the Year 2000, when many computer systems will have trouble distinguishing the Year 2000 from 1900. To meet this goal, the FDIC is following a proposal by the GAO calling for rigorous program management and a structured approach.

In 1997, the FDIC distributed internal directives with policy and guidance on Year 2000 issues and conducted a number of awareness briefings for its staff. To identify specific areas needing change, the FDIC inventoried and assessed over 500 of its application systems during the year. The agency also undertook an extensive Year 2000 compliance review of commercial software and other products purchased from vendors. (For information about the FDIC's efforts to ensure Year 2000 compliance by banks, see Pages 18-19.)

Kevin Glueckert (top) and Andre Galeano of the Division of Supervision display some of the more than 300 applications they reviewed for the agency's "crossover" training program for examiner positions.


Annual Report 1997
REGULATIONS AND LEGISLATION

Regulations Adopted and Proposed

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

Final Rules

Forms, Instructions and Reports

The FDIC's systematic review of its regulations indicated a need to streamline Part 304 relating to forms, instructions and reports. The existing regulation had been in place since 1948. The FDIC revised the regulation by removing unneeded language while retaining the listing of forms and other information to satisfy the requirements of the Freedom of Information Act and the Federal Deposit Insurance Act.

Approved: January 21, 1997
Published: February 21, 1997

Securities Disclosures

The FDIC amended Part 335 of its regulations regarding securities of nonmember insured banks. The revised rule incorporates by cross-reference the comparable regulations of the Securities and Exchange Commission (SEC), rather than continuing to maintain a separate, but substantially similar, body of rules. The amended regulation ensures that FDIC securities disclosure requirements remain substantially similar to those of the SEC.

Approved: February 4, 1997
Published: February 14, 1997

Bank Disclosure of Financial and Other Information

The FDIC, as part of its systematic review of regulations, amended Part 350 regarding the disclosure of financial and other information by insured nonmember banks. The amendment removes references to the obsolete savings bank Call Report, permits the annual report on annual independent audits and reporting requirements to be used as the annual disclosure statement in certain circumstances, and updates and clarifies certain other references in the rule.

Approved: February 4, 1997
Published: March 6, 1997

Recordkeeping and Confirmation Requirements for Securities Transactions

The FDIC amended Part 344 of its regulations governing recordkeeping and confirmation requirements for securities transactions for customers of an insured state bank or a foreign bank having an insured branch. The amended rule updated, clarified and streamlined the former rule and reduces regulatory burden. The most significant change was to provide a specific exemption from the rule for securities transactions conducted through separate registered broker/dealers when fully disclosed to bank customers and with whom the customer has a direct contractual agreement.

Approved: February 25, 1997
Published: March 5, 1997

Government Securities Sales

The FDIC, together with the other bank and thrift regulatory agencies, adopted regulations regarding sales of government securities by depository institutions. The FDIC's final rule (new Part 368) implements recent statutory changes authorizing the agencies to adopt rules providing consistent treatment for customers who purchase government securities. The new rule also minimizes regulatory burden to the extent feasible.

Approved: March 11, 1997
Published: March 19, 1997

Applications, Requests and Other Notices

The FDIC amended Part 303 of its regulations to streamline the supervision process and simplify communication channels regarding applications, requests, submittals and notices. As a result, the FDIC Division of Supervision and the Division of Compliance and Consumer Affairs will supervise groups of related insured institutions from one FDIC regional office.

Approved: March 25, 1997
Published: April 8, 1997

Insurance Assessments

Given the favorable conditions facing depository institutions and their insurance funds, the FDIC Board of Directors voted to maintain the low premium rates for banks and thrifts for the second half of 1997. Most insured institutions will continue to pay nothing for their deposit insurance coverage in the second half of the year, while the riskiest institutions will pay 27 cents for every $100 of assessable deposits.

Approved: **May 6, 1997**
Published: **May 19, 1997**

Fair Housing

The FDIC amended Part 338 of its regulations to more closely align its fair housing regulations with those of the other federal bank and thrift regulatory agencies. The amended rule reduces the burden on insured state nonmember banks in the areas of fair housing advertising, poster, and record-keeping and reporting requirements.

Approved: **June 24, 1997**
Published: **July 14, 1997**

Prohibition Against Interstate Branches Primarily for Deposit Production

The FDIC, together with the Office of the Comptroller of the Currency and the Federal Reserve Board, amended Part 369 of its regulations to implement section 109 of the Riegle-Neal Interstate Banking and Branching Act of 1994. As required by this law, the new rule prohibits any bank from establishing or acquiring branches outside of its home state primarily for the purpose of deposit production. The final rule also provides guidelines for determining whether a bank is reasonably helping to meet the credit needs of the communities served by these branches.

Approved: **August 26, 1997**
Published: **September 10, 1997**

Transfers of Small Business Loan Obligations With Recourse

The FDIC, together with the Office of the Comptroller of the Currency and the Office of Thrift Supervision, amended Part 325 of its regulations that generally require banks to maintain risk-based capital against the full amount of assets transferred with recourse. Under the new rule, if certain conditions are met, qualifying institutions that sell small business obligations with recourse are required to maintain risk-based capital only against the amount of recourse retained. The new rule also states that the amount of recourse retained by a qualifying institution on transactions receiving this preferential capital treatment cannot exceed 15 percent of the banks total risk-based capital. The new rule essentially makes permanent an interagency rule in effect since 1995.

Approved: **September 18, 1997**
Published: **October 24, 1997**

Longer Examination Cycle for Certain Small Institutions

The FDIC, along with the other bank and thrift regulatory agencies, amended Part 337 of its regulations concerning the examination cycle for certain small insured institutions. The amendment implements provisions of the Riegle Community Development and Regulatory Improvement Act of 1994 and the Economic Growth and Regulatory Paperwork Reduction Act of 1996 authorizing the agencies to raise the asset limit that determines which institutions will be examined every 18 months rather than every 12 months.

Approved: **January 21, 1997**
Published: **February 12, 1997**

Risk-Based Capital for Market Risk

The FDIC adopted an interim rule amending Part 325 of its regulations regarding the risk-based capital rules for insured state nonmember banks with large trading portfolios. The amendment reduces regulatory burden because institutions will not have to develop and maintain two systems—an internal model and a standardized approach—when measuring market risk. The FDIC adopted the amendment jointly with the Federal Reserve Board and the Office of the Comptroller of the Currency, but also requested public comment.

Approved: **December 9, 1997**
Published: **December 30, 1997**

Advertisement of Membership

The FDIC issued for public comment a proposed amendment to Part 328 of its regulations concerning the advertisement of membership. The proposed rule would consolidate the provisions that require FDIC-insured institutions to display official signs; extend to all insured depository institutions the official advertising statement that is currently required only for insured banks; streamline the exceptions to the required use of the official advertising statement; prohibit the use of the official advertising statement in advertisements concerning nondeposit products; and delegate to certain FDIC officials the authority to approve the translation of the official advertising statement into other languages.

Approved: January 21, 1997
Published: February 11, 1997

Resolution and Receivership Rules

The FDIC issued for public comment certain technical revisions to its regulation on resolutions and receiverships contained in Part 360. The FDIC proposed an amendment to correct a typographical error and another to remove an unnecessary section relating to security interests of Federal Home Loan Banks in FDIC-administered receiverships.

Approved: February 4, 1997
Published: February 20, 1997

Uniformity in Risk-Based Capital Standards

The FDIC, along with the other bank and thrift regulatory agencies, issued for public comment amendments to Part 325 of its regulations regarding risk-based capital standards and leverage capital standards. The effect of the proposal would be to have uniform risk-based capital treatments for construction loans on presold residential properties, real estate loans secured by junior liens on 1-to-4 family residential properties, and investments in mutual funds. The proposal would result in uniform and simplified minimum Tier 1 leverage capital standards.

Approved: February 4, 1997
Published: October 27, 1997

Outreach Programs

The FDIC issued for public comment a proposed rule to Part 361 of its regulations that provide that the FDIC certify the eligibility of businesses and law firms for the minority and women's contracting program. The purpose of the proposed amendment would be to replace a self-certification system with a more formal certification program. The proposed rule also would establish an outreach program for individuals with disabilities.

Approved: March 25, 1997
Published: April 14, 1997

Simplification of Deposit Insurance Rules

The FDIC proposed amendments to Part 330 of its regulations to clarify and simplify the deposit insurance regulations. The proposed rule includes many technical changes to the regulations, the most notable being the inclusion of common examples illustrating how the FDIC insures the most basic types of deposit accounts, primarily consumer accounts.

Approved: April 29, 1997
Published: May 14, 1997

Municipal Securities Dealers

The FDIC proposed to rescind Part 343 of its regulations that requires insured state nonmember banks that are municipal securities dealers to report certain information about people who are or seek to be municipal securities principals or municipal securities representatives. The FDIC determined that it is not required by law to issue its own regulations governing the professional qualification of these individuals and that the current regulation is unnecessary and duplicative.

Approved: April 29, 1997
Published: May 16, 1997

Notification of Changes in Insured Status

The FDIC issued for public comment amendments to Part 307 of its regulations to clarify that an insured depository institution must provide the FDIC with a certification of any partial or total assumption of deposits from another insured depository institution, unless the deposits assumed are from an institution in default.

Approved: April 29, 1997

Published: May 14, 1997

International Banking Activities

The FDIC issued for public comment amendments to various parts of its regulations regarding international banking activities. The proposed rules would allow well-managed, state nonmember banks with international operations to undertake a number of activities abroad without filing a formal application. The proposed rules also would clarify existing regulations for state-licensed, insured branches of foreign banks, and simplify regulations on the accounting treatment for foreign lending activities of state nonmember banks.

Approved: June 24, 1997

Published: July 15, 1997

Capital Treatment of Servicing Assets

The FDIC, along with the other bank and thrift regulatory agencies, issued for public comment a proposed amendment to Part 325 of its regulations regarding the regulatory capital treatment of mortgage servicing assets. The proposed rule would ease limits on the volume of mortgage servicing assets that FDIC-supervised banks can recognize in calculating Tier 1 capital. The proposed rule also would align the terminology used in the FDIC's capital standards more closely with that used under generally accepted accounting principals. This proposed rule was developed in response to a Financial Accounting Standards Board ruling that affects servicing assets.

Approved: July 22, 1997

Published: August 4, 1997

Activities and Investments of Insured State Depository Institutions

The FDIC issued for public comment a proposal to consolidate the securities activities regulation and the regulation governing the activities and investments of savings associations into Part 362 of the agency's regulations, which governs activities and investments of insured state banks. The new Part 362 would provide streamlined notice procedures for certain real estate and equity securities activities and investments. The proposed rule would also provide safety and soundness guidelines relating to certain real estate activities and investments, as well as delete provisions, clarify language and promote consistency.

Approved August 26, 1997

Published: September 12, 1997

Capital Standards for Unrealized Gains on Certain Equity Securities

The FDIC, along with the other bank and thrift regulatory agencies, issued for public comment a proposed amendment to Part 325 of its regulations regarding unrealized holding gains on certain equity securities. The proposed amendment would permit institutions to recognize Tier 2 capital limited amounts of unrealized gains on available for sale equity securities with readily determinable fair values.

Approved: September 16, 1997

Published: October 27, 1997

Treatment of Recourse and Direct Credit Substitutes

The FDIC, along with the other bank and thrift regulatory agencies, issued for comment a proposed amendment to Part 325 of its regulations regarding treatment of recourse arrangements and direct credit substitutes. Recourse arrangements arise when an institution retains all or part of the risk of loss on an asset or pool of assets it has sold to another party. A direct credit substitute is an arrangement, such as a guarantee, in which an institution assumes all or part of the risk of loss on an asset or asset pool owned by another party, even though the institution had not owned or sold the asset. The proposal would treat recourse obligations and direct credit substitutes consistently, and would use credit ratings and possibly certain other alternative approaches to match the risk-based capital assessment more closely to a banking organization's relative risk of loss in asset securitizations. The agencies intend that any final rules adopted that result in increased risk-based capital requirements apply only to transactions consummated after the effective date of the final rules.

Approved: September 16, 1997

Published: November 5, 1997

Applications, Requests and Other Notices

The FDIC issued for public comment amendments to Part 303 of its regulations, as well as other related sections of the regulations. The proposed amendments would streamline processing for well-managed and well-capitalized institutions, reduce regulatory burden, remove inconsistencies and outmoded requirements, and present the regulation in a more user-friendly format. The most significant feature of the proposed rule would expedite processing for most filings by well-managed and well-capitalized depository institutions, typically for deposit insurance, mergers, branches, trust powers, stock buy-backs, and certain foreign banking activities. An estimated 90 percent of banks supervised by the FDIC would be eligible.

Approved:	**September 23, 1997**
Published:	**October 9, 1997**

Interest on Deposits

The FDIC issued for comment a proposed amendment to Part 329 of its regulations regarding interest on deposits. The Federal Deposit Insurance Act requires that the FDIC prohibit insured nonmember banks and insured branches of foreign banks from paying interest or dividends on demand deposits. Under the proposed amendment, these institutions automatically would become subject to the exceptions to the prohibition adopted by the Federal Reserve Board for its member banks, regardless of whether the FDIC had issued or authorized the specific exception.

Approved:	**October 6, 1997**
Published:	**October 16, 1997**

Prevention of Deposit Shifting

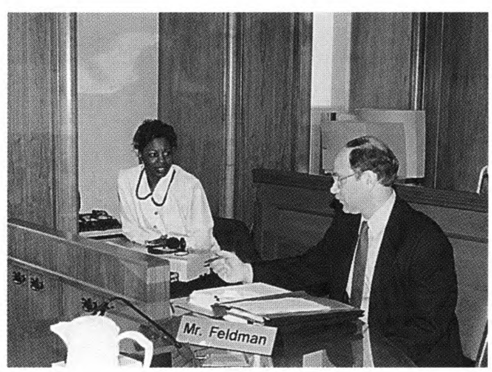
The FDIC withdrew a February 1997 proposal that would have prevented institutions from shifting deposits insured under the Savings Association Insurance Fund (SAIF) to deposits insured under the Bank Insurance Fund (BIF) in order to evade SAIF assessment rates. The FDIC withdrew the proposal for various reasons, including the elimination of the differential between BIF and SAIF assessment rates and the lack of evidence of significant deposit shifting.

Approved:	**July 22, 1997**
Published:	**July 29, 1997**

Activities and Investments of Insured State Banks

The FDIC withdrew a proposed amendment to Part 362 of its regulations that would have substituted a notice for an application for certain activities. At the same time, the FDIC proposed a new amendment to completely revise part 362 (see Page 42).

Approved:	**August 26, 1997**
Published:	**September 12, 1997**



W.W.Reid

Executive Secretary Robert Feldman, shown here with staff member Gwen Alston before a Board of Directors meeting, is in charge of the FDIC's office that manages the regulatory review program.

Legislation Enacted

Although Congress did not enact comprehensive banking legislation in 1997, lawmakers approved measures addressing interstate banking for state-chartered banks and giving federal regulators flexibility in enforcing certain regulations within disaster areas. Congress also approved Fiscal Year 1998 appropriations for the FDIC Office of Inspector General (OIG).

Interstate Branching

The Riegle-Neal Amendments Act of 1997 (Public Law 105-24) was enacted on July 3, 1997. The Act amends the Federal Deposit Insurance Act to change the law applicable to branches of out-of-state state-chartered banks. Prior to the Act, host state law applied. Under the new law, home state law applies to the extent that federal law preempts host state law for branches of out-of-state national banks. The Act also clarifies what law governs permissible activities. A branch of an out-of-state state-chartered bank may conduct in the host state those activities that are permissible either for a bank chartered in the host state, or for a branch of an out-of-state national bank.

Depository Institutions Disaster Relief

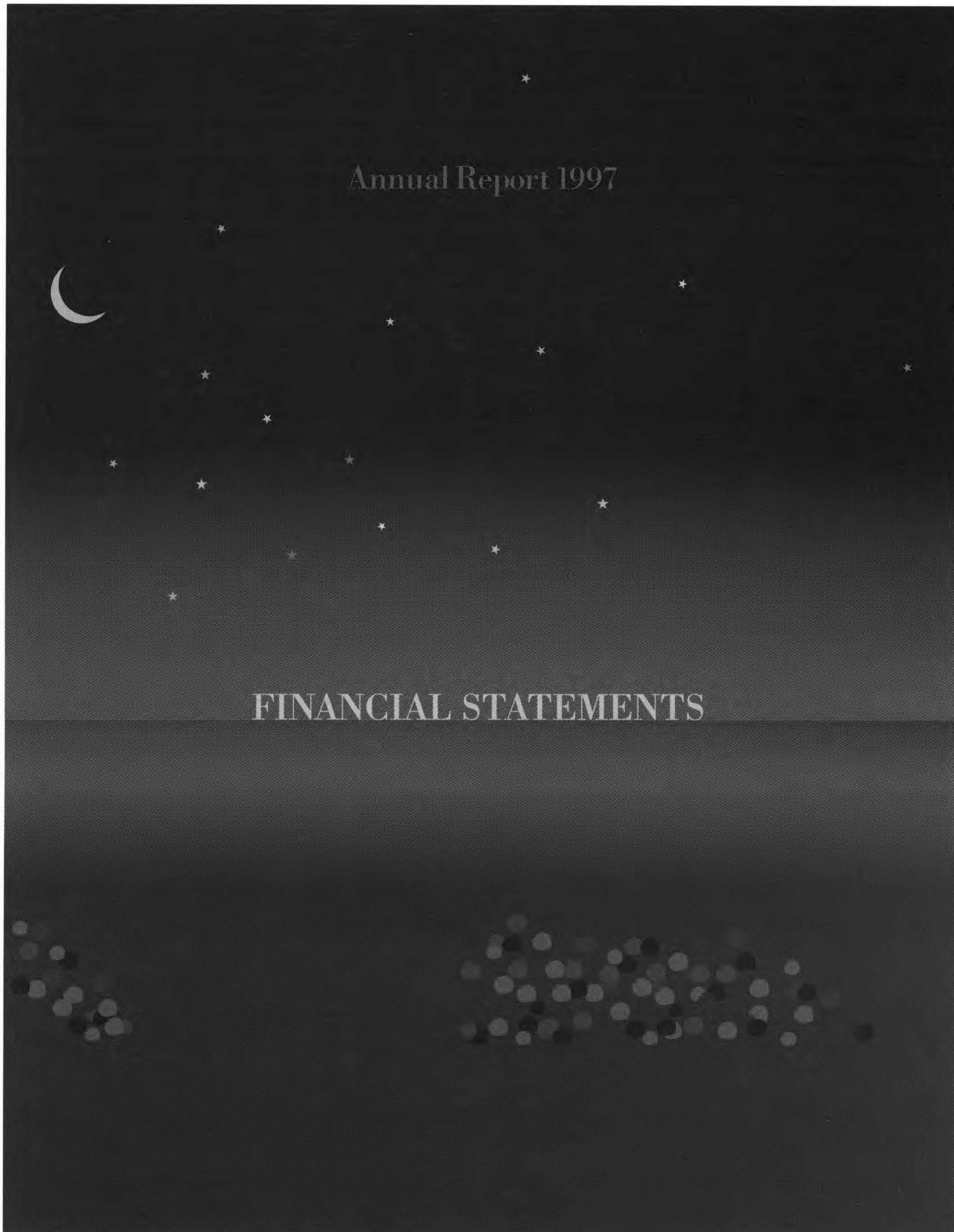
The Depository Institutions Disaster Relief Act of 1997 (Public Law 105-18) was enacted as part of an emergency supplemental appropriations bill on June 12. The Act provides temporary regulatory relief for financial institutions in flooded areas of Minnesota and the Dakotas and in other areas where a major disaster has occurred. The Act gives to federal financial institution regulatory agencies greater flexibility to waive or limit the application of the Truth in Lending Act, the Expedited Funds Availability Act, and certain prompt corrective action provisions of the Federal Deposit Insurance Act. The authority for the temporary provisions ends in either 1998 or 1999.

Linda Hull

Division of Supervision Examiner Glen Bakken wades in front of his Grand Forks, ND, home after record flooding in April. The Depository Institutions Disaster Relief Act of 1997 provides temporary regulatory relief for financial institutions in flooded areas of the Dakotas and other areas where a major disaster has occurred.

Appropriations

Congress appropriated funds for the activities of the FDIC OIG as part of the Fiscal Year 1998 Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of 1998 (Public Law 105-65) enacted October 27,1997. The Act designates nearly $34.4 million from the Bank Insurance Fund, the Savings Association Insurance Fund and the FSLIC Resolution Fund for necessary expenses of the OIG in Fiscal Year 1998.


Annual Report 1997
FINANCIAL STATEMENTS

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1997	December 31, 1996
Assets		
Cash and cash equivalents	$ 219,207	$ 258,132
Investment in U.S. Treasury obligations, net (Note 3) (Market value of investments at December 31, 1997 and December 31, 1996 was $27.1 billion and $22.1 billion, respectively)	26,598,825	22,083,494
Interest receivable on investments and other assets, net	472,818	384,824
Receivables from bank resolutions, net (Note 4)	1,109,035	4,341,154
Assets acquired from assisted banks and terminated receiverships, net (Note 5)	60,724	74,173
Property and buildings, net (Note 6)	145,061	148,400
Total Asset	**$ 28,605,670**	**$ 27,290,177**
Liabilities		
Accounts payable and other liabilities	$ 228,955	$ 250,952
Estimated liabilities for: (Note 7)		
Anticipated failure of insured institutions	11,000	75,000
Assistance agreements	31,952	50,817
Litigation losses	13,500	14,750
Asset securitization guarantees	27,715	44,279
Total Liabilities	**313,122**	**435,798**
Commitments and off-balance-sheet exposure (Note 13)		
Fund Balance		
Accumulated net income	28,292,672	26,854,379
Unrealized loss on available-for-sale securities, net (Note 3)	(124)	0
Total Fund Balance	**28,292,548**	**26,854,379**
Total Liabilities and Fund Balance	**$ 28,605,670**	**$ 27,290,177**

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

Bank Insurance Fund Statements of Income and Fund Balance

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Revenue		
Assessments (Note 9)	$ 24,711	$ 72,662
Interest on U.S. Treasury investments	1,519,276	1,267,134
Revenue from assets acquired from assisted banks and terminated receiverships	38,000	69,879
Other revenue (Note 10)	33,631	245,585
Total Revenue	**1,615,618**	**1,655,260**
Expenses and Losses		
Operating expenses	605,214	505,299
Provision for insurance losses (Note 8)	(503,714)	(325,206)
Expenses for assets acquired from assisted banks and terminated receiverships	74,319	73,819
Interest and other insurance expenses	1,506	667
Total Expenses and Losses	**177,325**	**254,579**
Net Income	**1,438,293**	**1,400,681**
Unrealized loss on available-for-sale securities, net (Note 3)	(124)	0
Comprehensive Income	**1,438,169**	**1,400,681**
Fund Balance - Beginning	**26,854,379**	**25,453,698**
Fund Balance - Ending	**$ 28,292,548**	**$ 26,854,379**

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

Bank Insurance Fund Statements of Cash Flows

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Cash Flows From Operating Activities		
Cash provided from:		
Assessments	$ 22,201	$ 73,961
Interest on U.S. Treasury investments	1,480,060	1,303,629
Recoveries from bank resolutions	3,826,273	624,502
Recoveries from assets acquired from assisted banks and terminated receiverships	141,765	355,913
Miscellaneous receipts	24,951	34,329
Cash used for:		
Operating expenses	(580,515)	(489,372)
Disbursements for bank resolutions	(298,943)	(632,930)
Disbursements for assets acquired from assisted banks and terminated receiverships	(67,231)	(205,775)
Miscellaneous disbursements	(11,771)	(16,810)
Net Cash Provided by Operating Activities (Note 15)	**4,536,790**	**1,047,447**
Cash Flows From Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations, held-to-maturity	6,300,000	7,550,000
Cash used for:		
Purchase of U.S. Treasury obligations, held-to-maturity	(10,373,695)	(8,870,623)
Purchase of U.S. Treasury obligations, available-for-sale	(502,020)	0
Net Cash Used by Investing Activities	**(4,575,715)**	**(1,320,623)**
Net Decrease in Cash and Cash Equivalents	**(38,925)**	**(273,176)**
Cash and Cash Equivalents - Beginning	**258,132**	**531,308**
Cash and Cash Equivalents - Ending	**$ 219,207**	**$ 258,132**

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

1. Legislative History and Operations of the Bank Insurance Fund

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.

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 the 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 generally 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 generally 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. These institutions with deposits insured by both insurance funds are referred to as Oakars or Oakar institutions. "Sasser" banks are SAIF members that have converted to a bank charter in accordance with Section 5(d)(2)(G) of the FDI Act.

Other Significant Legislation

The Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's assessment authority (see Note 9) 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.

The Deposit Insurance Funds Act of 1996 (DIFA) 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 banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on BIF-assessable deposits that is one-fifth of the rate for SAIF-assessable deposits through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 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 BIF assessments only if needed to maintain the fund at the designated reserve ratio; 6) 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; 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.

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, 1997, the MOL for the BIF was $50 billion.

The VA, HUD and Independent Agencies Appropriations Act, 1998, Public Law 105-65, appropriated $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998) for operating expenses incurred by the Office of Inspector General (OIG). The Act mandates that the funds are to be derived from the BIF, the SAIF, and the FRF. In prior years, the OIG funding was not submitted to Congress as part of the appropriation process.

2. Summary of Significant Accounting Policies

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 FDIC acts as receiver or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

Use of Estimates

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

Cash Equivalents

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

Investments in U.S. Treasury Obligations

Investments in U.S. Treasury Obligations are recorded pursuant to the provisions of the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). SFAS 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are intended to be held to maturity and are shown at amortized cost. Amortized cost 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. Beginning in 1997, the BIF designated a portion of its securities as available-for-sale. These securities are shown at fair value with unrealized gains and losses included in the fund balance. Realized gains and losses are included in other revenue when applicable. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method. The BIF does not have any securities classified as trading.

Allowance for Losses on Receivables From Bank Resolutions and Assets Acquired From Assisted Banks and Terminated Receiverships

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 paid for assets acquired from assisted banks and terminated receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed banks, net of all estimated liquidation costs.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the 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 based on percentages developed during the business planning process. 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 similar 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. Each fund pays its liabilities for these benefits directly to the entity. The BIF's remaining net postretirement benefits liability for the plan is recognized in the BIF's Statement of Financial Position.

Disclosure About Recent Financial Accounting Standards Board Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income includes net income as well as certain types of unrealized gain or loss. The only component of SFAS No. 130 that impacts the BIF is unrealized gain or loss on securities classified as avaiable-for-sale which is presented in the BIF's Statement of Financial Position and the Statement of Income and Fund Balance. The FDIC adopted SFAS No. 130 effective on January 1, 1997.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The FDIC intends to adopt SFAS No. 131 effective on January 1, 1998; however, management anticipates that the BIF, as a non-publicly held enterprise, will not be affected by SFAS No. 131.

Other recent pronouncements issued by the FASB are not applicable to the financial statements.

Depreciation

The FDIC has designated the BIF as 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 the 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 1996 financial statements to conform to the presentation used in 1997.

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 that are included in the cash and cash equivalents line item. Prior to 1997, all investments were designated "held-to-maturity" (see Note 2).

U.S. Treasury Obligations at December 31, 1997

Dollars in Thousands

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Held-to-Maturity			
Less than one year	5.58%	$ 5,250,000	$ 5,240,657	$ 5,369	$ (5,650)	$ 5,240,375
1-3 years	5.83%	5,280,000	5,330,281	26,113	(7,413)	5,348,983
3-5 years	6.15%	5,490,000	5,685,279	89,744	(6,895)	5,768,128
5-10 years	6.57%	9,500,000	9,840,712	439,733	0	10,280,445
Total		**$ 25,520,000**	**$ 26,096,929**	**$ 560,959**	**$ (19,958)**	**$ 26,637,931**
			Available-for-Sale			
1-3 years	5.67%	$ 490,000	$ 502,020	$ 19	$ (143)	$ 501,896
			Total Investment in U.S. Treasury Obligations, Net			
Total		**$ 26,010,000**	**$ 26,598,949**	**$ 560,978**	**$ (20,101)**	**$ 27,139,827**

U.S. Treasury Obligations at December 31, 1996

Dollars in Thousands

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

In 1997, the unamortized premium, net of unamortized discount, was $589 million. In 1996, the unamortized premium, net of unamortized discount, was $93 million.

4. Receivables From Bank Resolutions, Net

The FDIC resolution process takes different forms 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. There was only one bank failure in 1997.

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. 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, 1997 and 1996, the FDIC, in its receivership capacity for BIF-insured institutions, held assets with a book value of $2.5 billion and $7.3 billion, respectively (including cash and miscellaneous receivables of $1 billion and $3.9 billion at December 31, 1997 and 1996, respectively). These assets represent a significant source of repayment of the BIF's receivables from bank resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could affect the BIF's and other claimants' actual recoveries from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

	1997	1996
Assets from open bank assistance	$ 140,035	$ 142,267
Allowance for losses	(38,497)	(49,580)
Net Assets From Open Bank Assistance	**101,538**	**92,687**
Receivables from closed banks	23,268,950	28,169,809
Allowance for losses	(22,261,453)	(23,921,342)
Net Receivables From Closed Banks	**1,007,497**	**4,248,467**
Total	**$ 1,109,035**	**$ 4,341,154**

5. Assets Acquired From Assisted Banks and Terminated Receiverships, Net

The BIF acquires assets from certain troubled and failed banks 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 methodology used to derive the allowance for losses for assets acquired from assisted banks and terminated receiverships 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 and commercial loans related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

Assets Acquired From Assisted Banks and Terminated Receiverships, Net at December 31

Dollars in Thousands

	1997	1996
Assets acquired from assisted banks and terminated receiverships	$ 256,237	$ 423,151
Allowance for losses	(195,513)	(348,978)
Assets Acquired From Assisted Banks and Terminated Receiverships, Net	**$ 60,724**	**$ 74,173**

6. Property and Buildings, Net

Property and Buildings, Net at December 31

Dollars in Thousands

	1997	1996
Land	$ 29,631	$ 29,631
Office buildings	151,443	151,442
Accumulated depreciation	(36,013)	(32,673)
Property and Buildings, Net	**$ 145,061**	**$ 148,400**

7. Estimated Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records an estimated liability and a loss provision for banks (including Oakar and Sasser financial institutions) that are likely to fail, absent some favorable event such as obtaining additional capital or merging, in the period when the liability is considered probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1997 and 1996, were $11 million and $75 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 could incur additional estimated losses of about $197 million.

The accuracy of these estimates will largely depend on future economic conditions. The FDIC Board has the statutory authority to consider the estimated liability from anticipated failures of insured institutions when setting assessment rates.

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 pay related costs for funding and asset administration, plus an incentive fee.

Litigation Losses

The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. The estimated liability for litigation losses is $14 million and $15 million at December 31, 1997 and 1996, respectively. In addition to the amount recorded as probable, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $320 million are reasonably possible.

Asset Securitization Guarantees

As part of the FDIC's efforts to maximize the return from the sale or disposition of assets from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the BIF provided limited guarantees to cover certain losses on the securitized assets up to a specified maximum. In exchange for backing the limited guarantees, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantees. At December 31, 1997 and 1996, the BIF had an estimated liability under the guarantees of $28 million and $44 million, respectively.

During 1996, the BIF refined its liability estimation process and returned to receiverships $91.6 million in cash (including interest of $8.4 million) received for backing the limited guarantee. The BIF made this one-time refund as a result of lowering the estimate of expected exposure under one of the guarantees. To determine the maximum exposure under the limited guarantees, please refer to the chart in Note 13.

8. Provision for Insurance Losses

Provision for insurance losses was a negative $504 million and a negative $325 million for 1997 and 1996, respectively. Reductions to various allowance for losses and estimated liabilities account for the negative loss provision. The following chart lists the major components of the reduction in provision for insurance losses.

Provision for Insurance Losses

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Valuation adjustments:		
Open bank assistance	$ (12,180)	$ (3,605)
Closed banks	(356,347)	(128,149)
Assets acquired from assisted banks and terminated receiverships	(55,663)	50,589
Total Valuation Adjustments	**(424,190)**	**(81,165)**
Contingencies:		
Anticipated failure of insured institutions	(59,000)	(204,000)
Assistance agreements	(12,716)	(4,404)
Asset securitization guarantees	(6,558)	(14,572)
Litigation	(1,250)	(21,065)
Total Contingencies	**(79,524)**	**(244,041)**
Reduction in Provision for Insurance Losses	**$ (503,714)**	**$ (325,206)**

9. Assessments

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; 3) required the FDIC to build and maintain 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.

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

The DIFA (see Note 1) provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions (including banks, thrifts, and Oakar and Sasser financial institutions). On January 1, 1997, BIF-insured banks began paying a FICO assessment. The FICO assessment rate on BIF-assessable deposits is one-fifth of the rate for 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 has no financial impact on the BIF since the FICO assessment is separate 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 a collection agent for the FICO. During 1997, $338 million was collected from banks and remitted 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 1997 was 0.08 cents per $100 of assessable deposits.

On November 12, 1997, the Board voted to retain the BIF assessment schedule of 0 to 27 cents per $100 of assessable deposits (annual rates) for the first semiannual period of 1998.

10. Other Revenue

Included in other revenue is interest on subrogated claims and advances to financial institutions. This interest totaled $22 million and $231 million for 1997 and 1996, respectively (including $10 million and $205 million in post-insolvency interest for 1997 and 1996, respectively). Certain BIF receiverships may have residual funds remaining after paying all higher priority claims. Once those claims have been paid, the BIF and other claimants are eligible to receive interest on their claims against the receivers to the extent funds are available. Due to the uncertainty of collection, post-insolvency interest is recognized as income when received.

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

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

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

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 on and accounted for by the U.S. Office of Personnel Management (OPM).

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.

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. Corporate-wide buyout plans have been offered to eligible employees. The buyouts have not had a material effect on the BIF.

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $35.7 million and $38.9 million at December 31, 1997 and 1996, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
CSRS/FERS Disability Fund	$ 488	$ 1,127
Civil Service Retirement System	8,708	9,113
Federal Employee Retirement System (Basic Benefit)	28,661	34,989
FDIC Savings Plan	16,974	19,474
Federal Thrift Savings Plan	10,568	12,195
Total	**$ 65,399**	**$ 76,898**

12. Postretirement Benefits Other than Pensions

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 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 $3.3 million and $6.1 million for net periodic postretirement benefit costs for the years ended December 31, 1997 and 1996, respectively. For measurement purposes for 1997, 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 (inclusive of general inflation of 2.5 percent), decreasing to an ultimate rate in the year 2000 and thereafter of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.5 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, 1997, would have increased by 20.2 percent. The effect of this change on the aggregate of service and interest cost for 1997 would be an increase of 23.5 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Service cost (benefits attributed to employee service during the year)	$ 12,618	$ 15,575
Interest cost on accumulated postretirement benefit obligation	17,564	16,258
Net total of other components	(5,868)	(7,369)
Return on plan assets	(21,009)	(18,402)
Total	**$ 3,305**	**$ 6,062**

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."

Accumulated Postretirement Benefit Obligation and Funded Status at December 31

Dollars in Thousands

	1997	1996
Retirees	$ 190,339	$ 136,730
Fully eligible active plan participants	14,830	12,724
Other active participants	173,058	152,993
Total Obligation	**378,227**	**302,447**
Less: Plan assets at fair value [a]	356,447	335,439
Under/(Over) Funded Status	**21,780**	**(32,992)**
Unrecognized prior service cost	12,870	46,136
Unrecognized net gain	4,581	26,846
Postretirement Benefit Liability Recognized in the Statement of Financial Position	**$ 39,231**	**$ 39,990**

[a] Invested in U.S. Treasury instruments

13. Commitments and Off-Balance Sheet-Exposure

Commitments

Leases

The BIF's allocated share of the FDIC's lease commitments totals $188.5 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the BIF, the SAIF, and the FRF. Changes in the relative workloads among the three funds in future years could change the amount of the FDIC's lease payments that will be allocated to the BIF. The BIF recognized leased space expense of $43.6 million and $39.9 million for the years ended December 31, 1997 and 1996, respectively.

Lease Commitments

Dollars in Thousands

1998	1999	2000	2001	2002	2003 and Thereafter
$42,507	$35,337	$30,550	$23,950	$21,142	$35,029

Asset Securitization Guarantees

As discussed in Note 7, the BIF provided certain limited guarantees to facilitate securitization transactions. The table below gives the maximum off-balance-sheet exposure the BIF has under these guarantees.

Asset Securitization Guarantees at December 31

Dollars in Thousands

	1997	1996
Maximum exposure under the limited guarantees	$ 481,313	$ 481,313
Less: Guarantee claims paid (inception-to-date)	(19,231)	(8,651)
Less: Amount of exposure recognized as an estimated liability (see Note 7)	(27,715)	(44,279)
Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees	**$ 434,367**	**$ 428,383**

Concentration of Credit Risk

As of December 31, 1997, the BIF had $23.4 billion in gross receivables from bank resolutions and $256 million in assets acquired from assisted banks and terminated receiverships. An allowance for loss of $22.3 billion and $195 million, respectively, has been recorded against these assets. The liquidation entities' ability to make repayments to the BIF is largely influenced by the economy of the area in which they are located. The BIF's maximum exposure to possible accounting loss for these assets is shown in the table below.

Concentration of Credit Risk at December 31, 1997

Dollars in Millions

	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from bank resolutions, net and Assets acquired from assisted banks and terminated receiverships, net	$11	$98	$904	$50	$20	$87	$1,170

Other Off-Balance-Sheet Risk

Deposit Insurance

As of December 31, 1997, deposits insured by the BIF totaled approximately $2.1 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

14. Disclosures about the Fair Value of Financial Instruments

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 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 that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the 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 does not necessarily correspond with the timing of collections on receivership assets. Therefore, the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from bank resolutions.

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

15. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Net Income	**$ 1,438,293**	**$ 1,400,681**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Reduction in provision for insurance losses	(503,714)	(325,206)
Amortization of U.S. Treasury securities	60,261	(826)
Depreciation on buildings	3,339	3,339
Change in Assets and Liabilities:		
(Increase) Decrease in interest receivable on investments and other assets	(87,996)	21,981
Decrease (Increase) in receivables from bank resolutions	3,600,646	(66,359)
Decrease in assets acquired from assisted banks and terminated receiverships	69,112	55,531
(Decrease) Increase in accounts payable and other liabilities	(21,997)	26,327
(Decrease) in estimated liabilities for anticipated failure of insured institutions	(5,000)	0
(Decrease) in estimated liabilities for assistance agreements	(6,147)	(721)
(Decrease) in estimated liabilities for asset securitization guarantees	(10,007)	(67,300)
Net Cash Provided by Operating Activities	**$ 4,536,790**	**$ 1,047,447**

16. Year 2000 Compliance Expenses

As part of its operations, the FDIC as administrator of the BIF is assessing, testing, modifying, or replacing as necessary its automated systems to ensure that these systems are Year 2000 compliant. As of December 31, 1997, the BIF has not incurred, nor does management anticipate that the BIF will incur, a material charge to earnings to ensure that its systems are Year 2000 compliant.

The BIF is also subject to a potential loss from banks that may fail if they are unable to become Year 2000 compliant in a timely manner. As of December 31, 1997, the potential liability, if any, is not estimable. During 1998, the FDIC will assess this potential liability.

17. Subsequent Events

Effective on January 4, 1998, all employees with five or more years until retirement were converted from the FDIC health plan to the Federal Employees Health Benefits (FEHB) program. This conversion resulted in a gain to the BIF. Assuming enabling legislation is passed in the future, this conversion will also affect all retirees and employees within five years of retirement.

As part of this conversion, the OPM will become responsible for postretirement health benefits for employees with five or more years until retirement at no cost to the BIF. If retirees and employees within five years of retirement are also converted in the future, the OPM will assume the BIF's obligation for postretirement health benefits for those individuals at a fee to be negotiated between the FDIC and the OPM.

Assuming enabling legislation is passed, management does not expect there will be a material gain or loss upon disposition of the BIF's postretirement health benefits obligation for retirees or employees within five years of retirement.

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1997	December 31, 1996
Assets		
Cash and cash equivalents (See Note 4 for restrictions)	$ 190,144	$ 387,953
Investment in U.S. Treasury obligations, net (Note 3) *(Market value of investments at December 31, 1997 and December 31, 1996 was $9.4 billion and $8.7 billion, respectively)*	9,291,776	8,764,092
Interest receivable on investments and other assets	126,659	124,534
Entrance and exit fees receivable, net (Note 4)	1,425	3,517
Receivables from thrift resolutions, net (Note 5)	5,176	19,266
Total Assets	**$ 9,615,180**	**$ 9,299,362**
Liabilities		
Accounts payable and other liabilities	$ 7,317	$ 179,367
Estimated liability for anticipated failure of insured institutions (Note 6)	0	4,000
SAIF-member exit fees and investment proceeds held in escrow (Note 4)	239,548	227,574
Total Liabilities	**246,865**	**410,941**
Commitments and off-balance-sheet exposure (Note 10)		
Fund Balance		
Accumulated net income	9,368,347	8,888,421
Unrealized loss on available-for-sale securities, net (Note 3)	(32)	0
Total Fund Balance	**9,368,315**	**8,888,421**
Total Liabilities and Fund Balance	**$ 9,615,180**	**$ 9,299,362**

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

Savings Association Insurance Fund Statements of Income and Fund Balance

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Revenue		
Assessments (Note 7)	$ 13,914	$ 5,221,560
Interest on U.S. Treasury investments	535,463	253,868
Other revenue	535	26,256
Total Revenue	**549,912**	**5,501,684**
Expenses and Losses		
Operating expenses	71,865	62,618
Provision for insurance losses	(1,879)	(91,636)
Other insurance expenses	0	128
Total Expenses and Losses	**69,986**	**(28,890)**
Net Income	**479,926**	**5,530,574**
Unrealized loss on available-for-sale securities, net (Note 3)	(32)	0
Comprehensive Income	**479,894**	**5,530,574**
Fund Balance - Beginning	**8,888,421**	**3,357,847**
Fund Balance - Ending	**$ 9,368,315**	**$ 8,888,421**

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

Savings Association Insurance Fund Statements of Cash Flows

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Cash Flows From Operating Activities		
Cash provided from:		
Assessments (Note 7)	$ (146,766)	$ 5,293,722
Interest on U.S. Treasury investments	544,094	192,053
Recoveries from thrift resolutions	14,728	24,478
Entrance and exit fees and interest on exit fees (Note 4)	13,596	13,739
Miscellaneous receipts	(219)	367
Cash used for:		
Operating expenses	(75,298)	(78,726)
Disbursements for Oakar banks	0	(500)
Disbursements for thrift resolutions	(2,693)	(33,137)
Miscellaneous disbursements	(7)	(49)
Net Cash Provided by Operating Activities (Note 12)	**347,435**	**5,411,947**
Cash Flows From Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations, held-to-maturity	1,740,000	1,885,000
Cash used for:		
Purchase of U.S. Treasury obligations, held-to-maturity	(2,133,119)	(7,820,804)
Purchase of U.S. Treasury obligations, available-for-sale	(152,125)	0
Net Cash Used by Investing Activities	**(545,244)**	**(5,935,804)**
Net Decrease in Cash and Cash Equivalents	**(197,809)**	**(523,857)**
Cash and Cash Equivalents - Beginning	**387,953**	**911,810**
Cash and Cash Equivalents - Ending	**$ 190,144**	**$ 387,953**

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

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

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 thrift institutions and banks 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 (RTC Completion 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 generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). Deposits of BIF-member institutions are generally 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.

Other Significant Legislation

The Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) 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.

The Deposit Insurance Funds Act of 1996 (DIFA) 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 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 through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 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 SAIF assessments only if needed to maintain the fund at the designated reserve ratio; 6) the refund of amounts in the SAIF in excess of the designated reserve ratio with such refund not to exceed the previous semiannual assessment; 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.

In addition, DIFA requires the establishment of a Special Reserve of the SAIF. If on January 1, 1999, the reserve ratio of the SAIF exceeds the designated reserve ratio (DRR) of 1.25 percent, the amount that the reserve ratio exceeds the DRR will be placed in the Special Reserve of the SAIF. The Special Reserve will be administered by the FDIC and invested in accordance with provisions outlined in the Federal Deposit Insurance Act (FDI Act).

Also, 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 the approval of the acquiring institution's appropriate federal regulatory authority, any insured institution that belongs to one insurance fund to merge, consolidate with, or acquire the deposit liabilities of an institution that belongs to the other insurance fund without paying entrance and exit fees, under two principal conditions. One condition is that although the acquiring institution continues to belong to its own insurance fund (primary fund), the institution becomes obliged to pay assessments to the fund of which the acquired institution was a member (secondary fund). The secondary fund assessments are keyed to the amount of the deposits so acquired. The other condition is that if the acquiring institution should fail, the losses resulting from the failure are allocated between the two insurance funds according to a formula that is likewise keyed to the amount of the acquired deposits. "Sasser" banks are SAIF members that converted to a bank charter in accordance with Section 5 (d)(2)(G) of the FDI Act.

The SAIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations; 2) SAIF assessment premiums; and 3) borrowings from Federal Home Loan Banks, the U.S. Treasury, and the Federal Financing Bank (FFB), if necessary.

The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the SAIF and the BIF. The 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, 1997, the MOL for the SAIF was $16.9 billion.

The VA, HUD and Independent Agencies Appropriations Act, 1998, Public Law 105-65 appropriated $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998) for operating expenses incurred by the Office of Inspector General (OIG). The Act mandates that the funds are to be derived from the SAIF, the BIF, and the FRF. In prior years, the OIG funding was not submitted to Congress as part of the appropriation process.

2. Summary of Significant Accounting Policies

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 FDIC acts as receiver or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

Use of Estimates

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

Cash Equivalents

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

Investments in U.S. Treasury Obligations

Investments in U.S. Treasury obligations are recorded pursuant to the provisions of the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). SFAS 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are intended to be held to maturity and are shown at amortized cost. Amortized cost 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. Beginning in 1997, the SAIF designated a portion of its securities as available-for-sale. These securities are shown at fair value with unrealized gains and losses included in the fund balance. Realized gains and losses are included in other revenue when applicable. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method. The SAIF does not have any securities classified as trading.

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 the assets of assisted or failed thrifts, net of all estimated liquidation costs.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the 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 based on percentages developed during the business planning process. 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 similar basis. The SAIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts. 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.

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. Each fund pays its liabilities for these benefits directly to the entity. The SAIF's remaining net postretirement benefits liability for the plan is recognized in the SAIF's Statement of Financial Position.

Disclosure About Recent Financial Accounting Standards Board Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income includes net income as well as certain types of unrealized gain or loss. The only component of SFAS No. 130 that impacts the SAIF is unrealized gain or loss on securities classified as available-for-sale, which is presented in the SAIF's Statement of Financial Position and the Statement of Income and Fund Balance. The FDIC adopted SFAS No. 130 effective on January 1, 1997.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The FDIC intends to adopt SFAS No. 131 effective on January 1, 1998; however, management anticipates that the SAIF, as a non-publicly held enterprise, will not be affected by SFAS No. 131. Other recent pronouncements issued by the FASB are not applicable to the financial statements.

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 1996 financial statements to conform to the presentation used in 1997.

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 included in the cash and cash equivalents line item. In 1997 and 1996, $185 million and $190 million, respectively, 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. Prior to 1997, all investments were designated "held-to-maturity" (see Note 2).

U.S. Treasury Obligations at December 31, 1997

Dollars in Thousands

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Held-to-Maturity			
Less than one year	5.91%	$ 1,690,000	$ 1,687,269	$ 2,762	$ (319)	$ 1,689,712
1-3 years	5.87%	3,415,000	3,451,362	16,852	(3,309)	3,464,905
3-5 years	6.03%	2,610,000	2,642,131	27,641	(969)	2,668,803
5-10 years	6.47%	1,310,000	1,358,889	51,327	0	1,410,216
Total		**$ 9,025,000**	**$ 9,139,651**	**$ 98,582**	**$ (4,597)**	**$ 9,233,636**
			Available-for-Sale			
1-3 years	5.67%	$ 150,000	$ 152,157	$ 32	$ (64)	$ 152,125
			Total Investment in U.S. Treasury Obligations, Net			
Total		**$ 9,175,000**	**$ 9,291,808**	**$ 98,614**	**$ (4,661)**	**$ 9,385,761**

U.S. Treasury Obligations at December 31, 1996

Dollars in Thousands

Maturity	Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Less than one year	5.68%	$ 1,740,000	$ 1,740,792	$ 3,276	$ 0	$ 1,744,068
1-3 years	5.86%	3,290,000	3,305,270	6,930	(8,326)	3,303,874
3-5 years	6.01%	3,670,000	3,718,030	0	(21,546)	3,696,484
Total		**$ 8,700,000**	**$ 8,764,092**	**$ 10,206**	**$ (29,872)**	**$ 8,744,426**

In 1997, the unamortized premium, net of unamortized discount, was $116.8 million. In 1996, the unamortized premium, net of unamortized discount, was $64.1 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 $12.1 million and $11.1 million for 1997 and 1996, respectively. For 1997, restricted assets included: $49 million in cash and cash equivalents, $185 million of investments in U.S. Treasury obligations, net, $1.4 million in exit fees receivable and $4 million in interest receivable. For 1996, restricted assets included: $31 million in cash and cash equivalents, $190 million of investments in U.S. Treasury obligations, net, $3.5 million in exit fees and $3.7 million in interest receivable. There were no conversion transactions during 1997 and only one conversion transaction in 1996 that resulted in an exit fee to the SAIF.

5. Receivables From Thrift Resolutions, Net

The FDIC resolution process takes different forms 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 SAIF against the receiverships' assets. There were no thrift failures in 1997.

The FDIC, as receiver for failed thrifts, engages in a variety of strategies at the time of failure to maximize the return from the sale or disposition of assets. 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, an allowance for loss is established against the receivable from thrift resolutions.

As of December 31, 1997 and 1996, the FDIC, in its receivership capacity for SAIF-insured institutions, held assets with a book value of $56.6 million and $78.2 million, respectively (including cash and miscellaneous receivables of $40 million and $42.3 million at December 31, 1997 and 1996, respectively). These assets represent a significant source of repayment of the SAIF's receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could 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 a loss provision for thrifts (including Oakar and Sasser financial institutions) that are likely to fail, absent some favorable event such as obtaining additional capital or merging, in the period when the liability is considered probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1997 and 1996, were zero and $4 million, respectively. The estimated liability is derived in part from estimates of recoveries from the management and disposition 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 thrift failures.

There are other institutions where the risk of failure is less certain, but still considered reasonably possible. Should these institutions fail, the SAIF could incur additional estimated losses of about $50 million.

The accuracy of these estimates will largely depend on future economic conditions. The FDIC Board has the statutory authority to consider the estimated liability from anticipated failures of insured institutions when setting assessment rates.

Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. For 1997 and 1996, 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 are reasonably possible.

7. Assessments

The 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 and maintain 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 (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 on October 1, 1996, the 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 the 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 the FICO and thus, were retained in SAIF in their entirety. FICO assessments collected and remitted during 1996 were $808 million.

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

The FICO assessment has no financial impact on the SAIF since the FICO assessment is separate 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 a collection agent for the FICO. During 1997, $454 million was collected from savings associations and remitted 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. In December 1996, the Board set SAIF assessment rates to a range of 0 to 27 cents per $100 of assessable deposits (annual rates). The new rates, which are identical to those previously approved for BIF members, were effective on October 1, 1996, for Oakar and Sasser financial institutions, and effective on January 1, 1997, for all other SAIF-insured institutions. The assessment rate averaged approximately 0.39 cents and 20.4 cents per $100 of assessable deposits for 1997 and 1996, respectively.

Total assessment revenue for 1997 and 1996 was $13.9 million and $5.2 billion, respectively. Assessment revenue for 1996 included the one-time special assessment of $4.5 billion required to capitalize SAIF. The SAIF refunded a total of $219 million (including $2.9 million in interest) to Oakar and Sasser financial institutions in 1996 and 1997. Refunds were necessary because fourth quarter 1996 assessment rates were set prior to SAIF's capitalization.

On November 12, 1997, the Board voted to retain the SAIF assessment schedule of 0 to 27 cents per $100 of assessable deposits (annual rates) for the first semiannual period of 1998.

8. Pension Benefits, Savings Plans, Postemployment Benefits and Accrued Annual Leave

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

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

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 on and accounted for by the U.S. Office of Personnel Management (OPM).

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.

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. Corporate-wide buyout plans have been offered to eligible employees. The buyouts have not had a material effect on the SAIF.

The SAIF pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $3 million and $4 million at December 31, 1997 and 1996, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
CSRS/FERS Disability Fund	$ 44	$ 121
Civil Service Retirement System	855	613
Federal Employee Retirement System (Basic Benefit)	2,242	1,821
FDIC Savings Plan	1,446	1,111
Federal Thrift Savings Plan	840	641
Total	**$ 5,427**	**$ 4,307**

9. Postretirement Benefits Other Than Pensions

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 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 $451 thousand and $168 thousand for net periodic postretirement benefit costs for the years ended December 31, 1997 and 1996, respectively. For measurement purposes for 1997, 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 (inclusive of general inflation of 2.5 percent), decreasing to an ultimate rate in the year 2000 and thereafter of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.5 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, 1997, would have increased by 20.2 percent. The effect of this change on the aggregate of service and interest cost for 1997 would be an increase of 23.5 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Service cost (benefits attributed to employee service during the year)	$ 1,061	$ 432
Interest cost on accumulated postretirement benefit obligation	473	457
Net total of other components	(493)	(204)
Return on plan assets	(590)	(517)
Total	**$ 451**	**$ 168**

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 at December 31

Dollars in Thousands

	1997	1996
Retirees	$ 4,736	$ 3,686
Fully eligible active plan participants	369	343
Other active participants	4,306	4,125
Total Obligation	**9,411**	**8,154**
Less: Plan assets at fair value [a]	10,011	9,421
(Over) Funded Status	**(600)**	**(1,267)**
Unrecognized prior service cost	1,082	1,280
Unrecognized net gain	385	745
Postretirement Benefit Liability Recognized in the Statements of Financial Position	**$ 867**	**$ 758**

(a) Invested in U.S. Treasury instruments

10. Commitments and Off-Balance-Sheet Exposure

Commitments

Leases

The SAIF's allocated share of the FDIC's lease commitments totals $18.7 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF, the BIF and the FRF. Changes in the relative workloads among the three funds in future years could change the amount of the FDIC's lease payments that will be allocated to the SAIF. The SAIF recognized leased space expense of $3.3 million and $2.2 million for the years ended December 31, 1997 and 1996, respectively.

Lease Commitments

Dollars in Thousands

1998	1999	2000	2001	2002	2003 and Thereafter
$4,218	$3,507	$3,032	$2,377	$2,099	$3,477

Other Off-Balance-Sheet Risk

Deposit Insurance

As of December 31, 1997, deposits insured by the SAIF totaled approximately $690 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

11. Disclosures About the Fair Value of Financial Instruments

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 that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the 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.

12. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Net Income	**$ 479,926**	**$ 5,530,574**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Reduction in provision for insurance losses	(1,879)	(91,636)
Amortization of U.S. Treasury securities (unrestricted)	17,675	4,788
Change in Assets and Liabilities:		
(Increase) in amortization of U.S. Treasury securities (restricted)	(147)	(157)
Decrease in entrance and exit fees receivable	2,092	5,305
(Increase) in interest receivable on investments and other assets	(2,125)	(75,900)
Decrease (Increase) in receivables from thrift resolutions	11,652	(33,260)
(Decrease) Increase in accounts payable and other liabilities	(171,732)	60,419
Increase in exit fees and investment proceeds held in escrow	11,973	11,814
Net Cash Provided by Operating Activities	**$ 347,435**	**$ 5,411,947**

13. Year 2000 Compliance Expenses

As part of its operations, the FDIC as administrator of the SAIF is assessing, testing, modifying or replacing as necessary its automated systems to ensure that these systems are Year 2000 compliant. As of December 31, 1997, the SAIF has not incurred, nor does management anticipate that the SAIF will incur, a material charge to earnings to ensure that its systems are Year 2000 compliant.

The SAIF is also subject to a potential loss from thrifts that may fail if they are unable to become Year 2000 compliant in a timely manner. As of December 31, 1997, the potential liability, if any, is not estimable. During 1998 the FDIC will assess this potential liability.

14. Subsequent Events

Effective on January 4, 1998, all employees with five or more years until retirement were converted from the FDIC health plan to the Federal Employees Health Benefits (FEHB) program. This conversion resulted in a gain to the SAIF. Assuming enabling legislation is passed in the future, this conversion will also affect all retirees and employees within five years of retirement.

As part of this conversion, the OPM will become responsible for postretirement health benefits for employees with five or more years until retirement at no cost to the SAIF. If retirees and employees within five years of retirement are also converted in the future, the OPM will assume the SAIF's obligation for postretirement health benefits for those individuals at a fee to be negotiated between the FDIC and the OPM.

Assuming enabling legislation is passed, management does not expect there will be a material gain or loss upon disposition of the SAIF's postretirement health benefits obligation for retirees or employees within five years of retirement.

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position

Dollars in Thousands

	December 31, 1997	December 31, 1996
Assets		
Cash and cash equivalents	$ 2,107,171	$ 1,103,921
Receivables from thrift resolutions, net (Note 3)	2,570,486	4,454,776
Securitization reserve fund, net (Note 4)	4,890,568	5,804,062
Assets acquired from assisted thrifts and terminated receiverships, net (Note 5)	73,051	202,955
Other assets, net (Note 6)	7,391	6,747
Total Assets	**$ 9,648,667**	**$ 11,572,461**
Liabilities		
Accounts payable and other liabilities	$ 164,401	$ 174,179
Notes payable - Federal Financing Bank borrowings (Note 7)	849,294	4,617,147
Liabilities incurred from thrift resolutions (Note 8)	105,168	143,725
Estimated Liabilities for: (Note 9)		
Assistance agreements	6,328	16,120
Litigation losses	2,634	39,590
Total Liabilities	**1,127,825**	**4,990,761**
Commitments and concentration of credit risks (Note 14)		
Resolution Equity (Note 11)		
Contributed capital	135,493,762	135,501,023
Accumulated deficit	(126,972,920)	(128,919,323)
Total Resolution Equity	**8,520,842**	**6,581,700**
Total Liabilities and Resolution Equity	**$ 9,648,667**	**$ 11,572,461**

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

FSLIC Resolution Fund Statements of Income and Accumulated Deficit

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Revenue		
Interest on securitization reserve fund	$ 299,854	$ 82,103
Interest on U.S. Treasury investments	86,959	26,452
Revenue from assets acquired from assisted thrifts and terminated receiverships	74,286	228,274
Limited partnership revenue (Note 2)	16,600	54,600
Interest on advances to receiverships and other revenue	(22,348)	127,117
Total Revenue	**455,351**	**518,546**
Expenses and Losses		
Operating expenses	16,732	26,074
Interest expense on FFB debt and other notes payable	137,658	386,064
Expenses for assets acquired from assisted thrifts and terminated receiverships	68,226	128,826
Provision for losses (Note 10)	(1,744,690)	(2,400,366)
Other expenses	31,022	2,889
Total Expenses and Losses	**(1,491,052)**	**(1,856,513)**
Net Income	**1,946,403**	**2,375,059**
Accumulated Deficit - Beginning	**(128,919,323)**	**(131,294,382)**
Accumulated Deficit - Ending	**$ (126,972,920)**	**$ (128,919,323)**

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

FSLIC Resolution Fund Statements of Cash Flows

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Cash Flow From Operating Activities		
Cash provided from:		
Interest on U.S. Treasury investments	$ 86,966	$ 26,541
Recoveries from thrift resolutions	3,912,625	6,152,927
Recoveries from securitization reserve	1,078,815	95,067
Recoveries from assets acquired from assisted thrifts and terminated receiverships	483,524	608,620
Miscellaneous receipts	13,962	12,174
Cash used for:		
Operating expenses	(41,268)	(42,882)
Interest paid on notes payable	(173,981)	(352,767)
Disbursements for thrift resolutions	(417,242)	(772,301)
Disbursements for assets acquired from assisted thrifts and terminated receiverships	(176,933)	(169,463)
Disbursements for securitization reserve	(493)	0
Miscellaneous disbursements	(4,420)	(19,714)
Net Cash Provided by Operating Activities (Note 16)	**4,761,555**	**5,538,202**
Cash Flows From Financing Activities		
Cash used for:		
Return of U.S. Treasury payments	(8,053)	0
Repayments of Federal Financing Bank borrowings	(3,718,692)	(5,913,975)
Repayments of indebtedness incurred from thrift resolutions	(31,560)	(31,560)
Net Cash Used by Financing Activities	**(3,758,305)**	**(5,945,535)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,003,250**	**(407,333)**
Cash and Cash Equivalents - Beginning	**1,103,921**	**1,511,254**
Cash and Cash Equivalents - Ending	**$ 2,107,171**	**$ 1,103,921**

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

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History

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

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

FIRREA was enacted to reform, recapitalize, and consolidate the federal deposit insurance system. In addition to the FRF, FIRREA created the 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 these three funds. 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).

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

The RTC Completion Act of 1993 (RTC Completion Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. Today the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC on August 9, 1989 (FRF-FSLIC), and the other composed of the RTC assets and liabilities transferred to the FRF on January 1, 1996 (FRF-RTC).

The RTC Completion Act requires the FDIC to deposit in the general fund of the Treasury any funds transferred to the RTC pursuant to the Completion Act but not needed by the RTC. The RTC Completion Act made available approximately $18 billion worth of additional funding. The RTC actually drew down approximately $4.55 billion.

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

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 repayments of RTC Completion Act appropriations and payments to REFCORP, if any, from the proceeds of the FRF-RTC) 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 and Public Law 105-61 authorized the use by the Department of Justice of $26.1 million and $33.7 million, respectively, of the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million.

Effective on August 9, 1989, FIRREA established an Inspector General for the RTC and authorized appropriations necessary for the operation of the RTC Office of Inspector General (OIG). The RTC's OIG received $152.3 million of appropriated funds from the U.S. Treasury since it was established. The RTC OIG's final appropriation expired on September 30, 1996.

The VA, HUD and Independent Agencies Appropriations Act, 1998, Public Law 105-65 appropriated $34 million for fiscal year 1998 (October 1, 1997, through September 30, 1998) for operating expenses incurred by the OIG. The Act mandates that the funds are to be derived from the FRF, the BIF, and the SAIF.

2. Summary of Significant Accounting Policies

General

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

Use of Estimates

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

Cash Equivalents

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 Assets Acquired From Assisted Thrifts and Terminated Receiverships

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

Receivership Operations

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

Cost Allocations Among Funds

Certain operating expenses (including personnel, administrative, and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated based on percentages developed during the business planning process. 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 similar basis. The FRF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts. 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.

Postretirement Benefits Other Than Pensions

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

Disclosure About Recent Financial Accounting Standards Board Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." Comprehensive income includes net income as well as certain types of unrealized gain or loss. The FRF does not have any items of unrealized gain or loss and, therefore, SFAS No. 130 is not applicable.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The FDIC intends to adopt SFAS No. 131 effective on January 1, 1998; however, management anticipates that the FRF, as a non-publicly held enterprise, will not be affected by SFAS No. 131.

Other recent pronouncements issued by the FASB are not applicable to the financial statements.

Wholly Owned Subsidiary

The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. 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 Judgments, Deficiencies, and Charge-offs Joint Venture Program. The former RTC purchased assets from receiverships, conservatorships, and their subsidiaries to facilitate the sale and/or transfer of selected assets to several joint ventures in which the former RTC retained a financial interest.

Limited Partnership Equity Interests. Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs that included the National Land Fund, Multiple Investor Fund, N-Series, and S-Series programs. In 1997, the majority of the limited partnership equity interests were transferred from the receiverships to the FRF.

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 1996 financial statements to conform to the presentation used in 1997.

3. Receivables From Thrift Resolutions, Net

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

As of December 31, 1997 and 1996, the FDIC, in its receivership capacity for FSLIC-insured institutions, held assets with a book value of $3.6 billion and $7.3 billion, respectively (including cash and miscellaneous receivables of $1.4 billion and $2.9 billion at December 31, 1997 and 1996, respectively). These assets represent a significant source of repayment of the FRF's receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could affect the FRF's and other claimants' actual recoveries from the level currently estimated.

The FRF estimated Corporate losses related to the receiverships' representation and warranties as part of the FRF's allowance for loss valuation. The allowance for these losses was $90 million and $494 million as of December 31, 1997 and 1996, respectively. There are additional amounts of representation and warranty claims that are considered reasonably possible. As of December 31, 1997, the amount is estimated at $298 million. There were no additional amounts deemed reasonably possible as of December 31, 1996. The RTC provided guarantees, representations, and warranties on approximately $114 billion in unpaid principal balance of loans sold and approximately $148 billion in unpaid principal balance of loans under servicing right contracts that had been sold. In general, the guarantees, representations and warranties on loans sold related to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The representations and warranties made in connection with the sale of servicing rights were limited to the responsibilities of acting as a servicer of the loans. Future losses on representations and warranties could significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as 20 years.

The estimated liability for representations and warranties associated with loan sales that involved assets acquired from assisted thrifts and terminated receiverships are included in "Accounts payable and other liabilities" ($18 million and $57 million for 1997 and 1996, respectively).

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

		1997		1996
Assets from open thrift assistance	$	804,217	$	1,211,902
Allowance for losses		(446,064)		(444,873)
Net Assets From Open Thrift Assistance		**358,153**		**767,029**
Receivables from closed thrifts		76,680,026		80,309,086
Allowance for losses		(74,467,693)		(76,621,339)
Net Receivables From Closed Thrifts		**2,212,333**		**3,687,747**
Total	**$**	**2,570,486**	**$**	**4,454,776**

4. Securitization Reserve Fund, Net

In order to maximize the return from the sale or disposition of assets, the RTC engaged in numerous securitization transactions. The RTC sold $42.4 billion of receivership, conservatorship, and corporate loans to various trusts that issued regular pass-through certificates through its mortgage-backed securities program.

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 RTC 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. The $5.4 billion transferred to the FRF was offset by amounts owed by the receiverships to the FRF; thus, there was no change in the FRF's net assets as a result of this transaction.

Through December 1997, the amount of claims paid was approximately 18 percent of the initial reserve funds. At December 31, 1997 and 1996, reserve funds related to the RTC securitization program totaled $5.2 billion and $6.3 billion, respectively. At December 31, 1997 and 1996, the allowance for estimated future losses which would be paid from the securitization fund totaled $0.3 billion and $0.5 billion, respectively.

The FRF earns and receives interest income from the securitization reserve fund.

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

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

The FRF recognizes income and expenses on these assets. Income consists primarily of interest on mortgage loans and proceeds from professional liability claims. Expenses are recognized for administering the management and liquidation of these assets.

Assets Acquired From Assisted Thrifts and Terminated Receiverships, Net at December 31

Dollars in Thousands

	1997	1996
Assets acquired from assisted thrifts and terminated receiverships	$ 277,607	$ 660,802
Allowance for losses	(204,556)	(457,847)
Assets Acquired From Assisted Thrifts and Terminated Receiverships, Net	**$ 73,051**	**$ 202,955**

6. Other Assets, Net

Other Assets, Net at December 31

Dollars in Thousands

	1997	1996
Investment in FADA (Note 2)	$ 15,000	$ 15,000
Allowance for loss	(11,074)	(11,074)
Investment in FADA, Net	**3,926**	**3,926**
Accounts receivable	607	527
Due from other government entities	2,858	2,294
Other Receivables	**3,465**	**2,821**
Total	**$ 7,391**	**$ 6,747**

7. Notes Payable - Federal Financing Bank Borrowings

Working capital was made available to the RTC under an agreement with the FFB to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding note 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 that is adjusted quarterly. The FFB establishes the interest rate and during 1997 these rates ranged between 5.478 percent and 5.187 percent. As of December 31, 1997 and 1996, there were $0.8 billion and $4.6 billion, respectively, in borrowings and accrued interest outstanding. The FFB borrowing authority ceased upon the termination of the RTC.

8. Liabilities Incurred From Thrift Resolutions

The FSLIC issued promissory notes and entered into assistance agreements to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. 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 9).

Liabilities Incurred From Thrift Resolutions at December 31

Dollars in Thousands

	1997	1996
Capital instruments	$ 725	$ 725
Assistance agreement notes payable	94,680	126,240
Interest payable	1,419	1,856
Other liabilities to thrift institutions	8,344	14,904
Total	**$ 105,168**	**$ 143,725**

The total liabilities will mature according to the terms of the assistance agreements on September 23, 1998.

9. Estimated Liabilities for:

Assistance Agreements

The estimated liabilities for assistance agreements is $6 million and $16 million at December 31, 1997 and 1996, respectively. The liability represents an estimate of future assistance payments to acquirers of troubled thrift institutions. Prior to 1997, the balance was discounted based on U.S. money rates or federal funds. The balance as of December 31, 1997, was not discounted because the remaining assistance agreements will terminate within the next three years, and the discount adjustment was deemed to be immaterial. As of December 31, 1996, the nominal amount was $18 million, using a discount rate of 5.6 percent.

The number of assistance agreements outstanding as of December 31, 1997 and 1996, were 33 and 36, 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 probable and reasonably estimable. The estimated liability for litigation losses is $3 million and $40 million at December 31, 1997 and 1996, respectively. In addition to the amount recognized as probable, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $351 million are reasonably possible.

Additional Contingency

An additional contingency arises from the over 120 lawsuits pending in the United States Court of Federal Claims against the United States, generically referred to as the "goodwill" cases, in which certain alleged agreements entered into by the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation are claimed to have been breached when Congress enacted legislation affecting the thrift industry and that legislation was implemented by the Office of Thrift Supervision. Claims against the government are generally paid from the Judgement Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304, and administered by the Department of Treasury. However, the Department of Treasury may determine that payment of a judgment is "otherwise provided for" by another dedicated source of funds.

The FDIC believes that under FIRREA the FRF should not be considered a dedicated source of funds for payment of goodwill judgments against the United States.

However, the Department of Treasury has not yet determined the source of payment of any goodwill judgments and therefore whether the FRF will be responsible for the payment of any goodwill judgments is uncertain.

If it is determined that the FRF can be called upon for payment of possible goodwill judgments, the amount of additional liabilities of the FRF cannot be reasonably estimated. The FDIC is not the defendant in any of the goodwill cases and there has been no final decision in any of them. The Court of Federal Claims has indicated that the dollar damages sought in the goodwill cases are in the "tens of billions of dollars." Damages sought by the plaintiff, Glendale Federal Bank, FSB, in the first of the goodwill cases to be tried in the Court of Federal Claims exceed one billion dollars.

If substantial final judgments were entered against the United States in the goodwill cases and if the FRF were determined by Treasury to be responsible for payment of those judgments, the effect on the FRF's financial condition would be material and adverse. In the event the FRF has insufficient funds to satisfy FRF liabilities, as would likely be the case were Treasury to make such determination, 12 U.S.C. 1821a(c) provides: "the Secretary of the Treasury shall pay to the Fund such amounts as may be necessary, as determined by the [FDIC] and the Secretary, for FSLIC Resolution Fund purposes." Congress would need to appropriate funds to carry out this provision.

10. Provision for Losses

The provision for losses was a negative $1.7 billion and a negative $2.4 billion for 1997 and 1996, respectively. Reductions to various allowance for losses and estimated liabilities account for the negative loss provision. The following chart lists the major components of the reduction in provision for losses.

Provision for Losses

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Valuation adjustments:		
Open thrift assistance	$ (117,026)	$ (744,613)
Closed thrifts	(1,481,702)	(1,633,276)
Assets acquired from assisted thrifts and terminated receiverships	(245,304)	246,837
Securitization credit reserve	134,424	(91,637)
Miscellaneous receivables	(88)	0
Total	**(1,709,696)**	**(2,222,689)**
Contingencies:		
Assistance agreements	1,961	(53,336)
Litigation	(36,955)	(124,341)
Total	**(34,994)**	**(177,677)**
Reduction in Provision for Losses	**$ (1,744,690)**	**$ (2,400,366)**

11. Resolution Equity

Contributed Capital

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

Accumulated Deficit

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

12. Pension Benefits, Savings Plans and Accrued Annual Leave

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

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

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

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.

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $11.2 million and $13.7 million at December 31, 1997 and 1996, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
CSRS/FERS Disability Fund	$ 168	$ 255
Civil Service Retirement System	2,047	2,534
Federal Employee Retirement System (Basic Benefit)	9,473	13,391
FDIC Savings Plan	4,893	7,463
Federal Thrift Savings Plan	3,264	4,369
Total	**$ 19,845**	**$ 28,012**

13. Postretirement Benefits Other Than Pensions

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 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 $1.2 million and $3.1 million for net periodic postretirement benefit costs for the years ended December 31, 1997 and 1996, respectively. For measurement purposes for 1997, 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 (inclusive of general inflation of 2.5 percent), decreasing to an ultimate rate in the year 2000 and thereafter of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.5 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, 1997, would have increased by 20.2 percent. The effect of this change on the aggregate of service and interest cost for 1997 would be an increase of 23.5 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Service cost (benefits attributed to employee service during the year)	$ 3,974	$ 6,621
Interest cost on accumulated postretirement benefit obligation	3,032	3,102
Net total of other components	(1,848)	(3,132)
Return on plan assets	(4,008)	(3,511)
Total	**$ 1,150**	**$ 3,080**

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."

Accumulated Postretirement Benefit Obligation and Funded Status at December 31

Dollars in Thousands

	1997	1996
Retirees	$ 41,072	$ 23,602
Fully eligible active plan participants	3,200	2,196
Other active participants	37,342	26,409
Total Obligation	**81,614**	**52,207**
Less: Plan assets at fair value [a]	68,010	64,002
Under/(Over) Funded Status	**13,604**	**(11,795)**
Unrecognized prior service cost	4,053	19,613
Unrecognized net gain	1,442	11,412
Postretirement Benefit Liability Recognized in the Statements of Financial Position	**$ 19,099**	**$ 19,230**

[a] Invested in U.S. Treasury instruments

14. Commitments and Concentration of Credit Risk

Commitments

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, 1997 and 1996, there were pledged securities as collateral of $17 million and $84 million, respectively, to honor these letters of credit. The FRF estimated Corporate losses related to the receiverships' letters of credit as part of the FRF's allowance for loss valuation. The allowance for these losses was $7 million and $32 million as of December 31, 1997 and 1996, respectively.

Leases

The FRF's allocated share of the FDIC's lease commitments totals $52.7 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC's future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads among the three funds in future years could change the amount of the FDIC's lease payments that will be allocated to the FRF. The FRF recognized leased space expense of $18.2 million and $32.8 million for the years ended December 31, 1997 and 1996, respectively.

Lease Commitments

Dollars in Thousands

1998	1999	2000	2001	2002	2003 and Thereafter
$11,472	$9,528	$8,427	$6,770	$6,099	$10,442

Concentration of Credit Risk

As of December 31, 1997, the FRF had $77 billion in gross receivables from thrift resolutions and $278 million in assets acquired from assisted thrifts and terminated receiverships. An allowance for loss of $75 billion and $205 million, respectively, has been recorded against these assets. The liquidating entities' ability to make repayments to FRF is largely influenced by the economy of the area in which they are located. The FRF's maximum exposure to possible accounting loss for these assets is shown in the table below.

Concentration of Credit Risk at December 31, 1997

Dollars in Millions

	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from thrift resolutions, net and Assets acquired from assisted thrifts and terminated receiverships, net	$395	$392	$579	$164	$236	$877	$2,643

15. Disclosures About the Fair Value of Financial Instruments

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

The net receivable from thrift resolutions primarily involves the FRF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the FRF's allowance for loss against the net 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 that is unique, not intended for sale to the private sector, and has no established market. Therefore, it is not practicable to estimate the fair market value of the securitization credit reserves. These reserves are carried at net realizable value, which is the book value of the reserves less the related allowance for loss (see Note 4.)

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

16. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands

	For the Year Ended December 31, 1997	For the Year Ended December 31, 1996
Net Income	**$ 1,946,403**	**$ 2,375,059**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Interest on Federal Financing Bank borrowings	124,322	378,183
Reduction in provision for losses	(1,744,690)	(2,400,366)
OIG income recognized	792	(225)
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	3,360,072	10,055,201
(Increase) Decrease in securitization reserve fund	779,071	(5,712,446)
Decrease in assets acquired from assisted thrifts and terminated receiverships	335,624	555,375
(Increase) Decrease in other assets	8,480	(5,402)
Increase (Decrease) in accounts payable and other liabilities	20,772	(21,548)
(Decrease) in accrued interest on notes payable	(173,484)	(345,104)
(Decrease) in liabilities incurred from thrift resolutions	(6,998)	(73,253)
Increase in estimated liabilities for assistance agreements	111,191	732,728
Net Cash Provided by Operating Activities	**$ 4,761,555**	**$ 5,538,202**

17. Year 2000 Compliance Expenses

As part of its operations, the FDIC as administrator of the FRF is assessing, testing, modifying or replacing as necessary its automated systems to ensure that these systems are Year 2000 compliant.

As of December 31, 1997, the FRF has not incurred, nor does management anticipate that the FRF will incur, a material charge to earnings to ensure that its systems are Year 2000 compliant.

18. Subsequent Events

Effective on January 4, 1998, all employees with five or more years until retirement were converted from the FDIC health plan to the Federal Employees Health Benefits (FEHB) program. This conversion resulted in a gain to the FRF. Assuming enabling legislation is passed in the future, this conversion will also affect all retirees and employees within five years of retirement.

As part of this conversion, the OPM will become responsible for postretirement health benefits for employees with five or more years until retirement at no cost to the FRF. If retirees and employees within five years of retirement are also converted in the future, the OPM will assume the FRF's obligation for postretirement health benefits for those individuals at a fee to be negotiated between the FDIC and the OPM.

Assuming enabling legislation is passed, management does not expect there will be a material gain or loss upon disposition of the FRF's postretirement health benefits obligation for retirees or employees within five years of retirement.

GAO

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, 1997 and 1996, of the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. 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, 1997, 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 present information on (1) the scope of our audits, (2) the current status of FRF liquidation activities and funding, (3) FDIC's Year 2000 efforts, (4) FDIC's progress in addressing reportable conditions[1] identified during our 1996 audits, and a reportable condition identified during our 1997 audits, (5) recommendations from our 1997 audits, and (6) the Corporation's comments on a draft of this report and our evaluation.

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, 1997 and 1996, and the results of its operations and its cash flows for the years then ended.

At FDIC's request, we provided an audit opinion in March 1998 on the Bank Insurance Fund's financial statements in order to facilitate FDIC's Securities and Exchange Commission (SEC) reporting needs resulting from BIF's 1996 asset securitization transaction.

As discussed in note 7 of BIF's financial statements, FDIC has securitized some BIF receivership assets in two separate securitization deals as part of FDIC's efforts to maximize the return from the sale or disposition of assets. The deals were accomplished through the creation of Real Estate Mortgage Investment Conduit (REMIC) trusts. To facilitate the securitizations, BIF provided limited guarantees to cover certain losses on the securitized assets up to a specified maximum. Because of the limited guarantee provided by BIF, and the

[1]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.

public holding of the securities from the 1996 securitization, the REMIC trust was required to include BIF's audited financial statements as an exhibit in its Form 10-K report for the year ended December 31, 1997.

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, 1997 and 1996, 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, 1997 and 1996, and the results of its operations and its cash flows for the years then ended.

As discussed in note 9 of FRF's financial statements, a contingency exists from the over 120 lawsuits pending against the United States government in the United States Court of Federal Claims. These lawsuits assert that certain agreements were breached when Congress enacted and the Office of Thrift Supervision implemented legislation affecting the thrift industry.

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 the Financial Institutions Reform, Recovery, and Enforcement Act (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. Until the amount of damages is determined by the court, the amount of 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 remain uncertain.

Claims against the federal government are generally paid from the Judgment Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304, and administered by the Department of the Treasury. However, the Department of the Treasury may determine that payment of a judgment is otherwise provided for by another dedicated source of funds. FDIC believes that FRF should not be considered a dedicated source of funds for payment of such judgments against the United States. Because the Department of the Treasury has not yet determined the source of payment for these judgments, the extent to which FRF will be responsible for any payments 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.

FDIC management fairly stated that those controls in place on December 31, 1997, 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. The weakness in internal controls, although not considered a material weakness,[2] represents a significant deficiency 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. The internal control weakness relates to FRF only, and although the weakness did not materially affect FRF's financial statements, misstatements may nevertheless occur in other FDIC-reported financial information for FRF as a result of the internal control weakness. The weakness is 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 controls related to safeguarding assets, compliance with laws and regulations, including the execution of transactions in accordance with management's authority, and financial reporting;

[2] A material weakness is a reportable condition in which the design or operation of the internal control 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.

-- 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 1997 and May 1998. Our audits were conducted in accordance with generally accepted government auditing standards.

FDIC provided comments on a draft of this report. FDIC's comments are discussed and evaluated in a later section of this report.

CURRENT STATUS OF FRF'S LIQUIDATION ACTIVITIES AND FUNDING

FDIC, as administrator of FRF, is responsible for liquidating the assets and liabilities of the former Resolution Trust Corporation (RTC), as well as the former FSLIC's assets and liabilities.[3] As shown in table 1, the majority of FRF's losses from liquidation activities have been realized as of December 31, 1997.

Table 1: FRF's Realized and Unrealized Losses as of December 31, 1997 (Dollars in billions)

	FRF-RTC	FRF-FSLIC	Total FRF
Realized losses	$83.2	$41.4	$124.6
Unrealized losses	1.6	0.8	2.4
Total realized and unrealized losses (accumulated deficit)	**$84.8**	**$42.2**	**$127.0**

The accumulated deficit for FRF includes losses that have already been realized, as well as future estimated losses from assets and liabilities not yet liquidated. Losses are realized when failed financial institution assets in receiverships are disposed of and the proceeds are not sufficient to repay amounts payable to FRF. Losses are also realized if assets that FRF purchases from terminating receiverships are later sold for less than the purchase price. Losses are also realized when certain estimated liabilities associated with FRF's liquidation activities are paid out. Uncertainties still exist with regard to the unrealized losses, and the final amount will not be known with certainty until all remaining assets and liabilities are liquidated.

[3]On January 1, 1996, FRF assumed responsibility for all remaining assets and liabilities of the former RTC.

In total, $135.5 billion was received to cover liabilities and losses associated with the former FSLIC and RTC resolution activities. Of the $135.5 billion total, $91.3 billion[4] 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.

As shown in table 2, after reducing the total amount of funding received by the amount of recorded accumulated deficit, an estimated $8.5 billion in available funds will remain. The RTC Completion Act requires FDIC to deposit in the general fund of the Treasury any funds transferred to RTC pursuant to the Completion Act but not needed for RTC-related losses. Also, after providing for all outstanding RTC liabilities, FDIC must transfer to the Resolution Funding Corporation (REFCORP) the net proceeds from the sale of RTC-related assets. Any such funds transferred to REFCORP pay the interest on REFCORP bonds issued to provide funding for the early RTC resolutions. Any payments to REFCORP benefit the U.S. Treasury, which is otherwise obligated to pay the interest on the bonds. Separately, any FSLIC-related funds remaining are to be deposited to the U.S. Treasury. The final amount of unused funds will not be known with certainty until all of FRF's remaining assets and liabilities are liquidated.

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	$135.5
Less: accumulated deficit	84.8	42.2	127.0
Estimated unused funds	**$ 6.5**	**$ 2.0**	**$ 8.5**

INFORMATION ON FDIC'S YEAR 2000 EFFORTS

The Year 2000 computing crisis is a sweeping and urgent information technology challenge facing public and private organizations.[5] In addition to facing Year 2000 issues with its internal systems, FDIC, as administrator of the deposit insurance funds, faces exposure and potential loss from banks and thrifts that fail to adequately

[4]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, of which $6.7 billion was obligated prior to the April 1, 1992 deadline. In December 1993, the RTC Completion Act removed the April 1, 1992, deadline, thus making the remaining $18.3 billion available to RTC for resolution activities. Prior to RTC's termination on December 31, 1995, RTC drew down $4.6 billion of the $18.3 billion that was made available by the RTC Completion Act.

[5]For the past several decades, information systems have typically used two digits to represent the year, such as "98" for 1998, in order to conserve electronic data storage and reduce operating costs. In this format, however, 2000 is indistinguishable from 1900 because both are represented as "00." As a result, if not modified, computer systems or applications that use dates or perform date- or time-sensitive calculations may generate incorrect results beyond 1999.

address their own Year 2000 system issues. In addition, as regulator, FDIC has responsibility to ensure that the banks it oversees are adequately addressing systems issues related to the Year 2000.

In February 1998, we testified on FDIC's progress in addressing the Year 2000 challenges it faces.[6] In summary, we found that FDIC is taking action to address its Year 2000 risks. With regard to FDIC's efforts to correct its internal systems, we concluded that at the time of our testimony, FDIC was behind in assessing whether its systems were Year 2000 compliant. In response, FDIC has revised its project plan to include earlier completion dates for certain phases of the project and is allocating resources to support the plan. In addition, as discussed in the notes to FDIC's financial statements,[7] FDIC is currently assessing, testing, modifying, or replacing its automated systems in order to ensure that they become Year 2000 compliant.

We also testified that FDIC is devoting considerable effort and resources to ensure that the banks it oversees mitigate their Year 2000 risks. FDIC is also working closely with the other banking regulators to provide guidance and supervision for the banking and savings institution industries as a whole. However, as discussed in the notes to BIF's and SAIF's financial statements, as of December 31, 1997, the potential exposure to the deposit insurance funds resulting from the Year 2000 problem was not estimable. During 1998, FDIC is continuing its monitoring efforts, and is gathering additional data to analyze and estimate potential exposure to the insurance funds from the potential Year 2000 problems of the banks and thrifts it insures. We will evaluate FDIC's analysis of exposure to the insurance funds from banks' and savings institutions' Year 2000 problems during our audits of FDIC's 1998 financial statements.

REPORTABLE CONDITIONS

The following sections discuss (1) FDIC's progress in addressing reportable conditions identified during our 1996 audits and (2) reportable conditions found during our 1997 audits.

Progress on Weaknesses
Identified in Previous Audits

In our 1996 audit report on the three funds administered by FDIC, we identified two reportable conditions which affected FDIC's ability to ensure that internal control objectives were achieved.[8] These weaknesses related to FDIC's internal controls designed to ensure that (1) contracted asset servicers properly safeguarded failed institution assets and accurately reported financial information to FDIC and (2) 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.

First, 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 procedures did not ensure that (1) contracted asset servicers had adequate controls over daily collections and bank reconciliations, (2) servicers' fees and reimbursable expenses were valid, accurate, and complete, and (3) servicers' loan system calculations relating to the allocation of principal and interest were accurate.

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[6] Year 2000 Computing Crisis: Federal Deposit Insurance Corporation's Efforts to Ensure Bank Systems Are Year 2000 Compliant (GAO/T-AIMD-98-73, February 10, 1998).

[7] See the following notes to FDIC's financial statement: number 16 for BIF; number 13 for SAIF; and number 17 for FRF.

[8] Financial Audit: Federal Deposit Insurance Corporation's 1996 and 1995 Financial Statements (GAO/AIMD-97-111, June 30, 1997).

During 1997, FDIC implemented a contracted asset servicer visitation program to address the specific areas of weaknesses noted during our 1996 audits. Also, FDIC completed an interdivisional memorandum of understanding to clarify the roles and responsibilities related to contractor oversight. As a result, we found that FDIC's new procedures ensured that contracted asset servicers had adequate controls over daily collections and bank reconciliations and loan system calculations relating to the allocation of principal and interest. Although we continued to find instances where FDIC oversight personnel did not ensure that servicer fees and expenses were valid and accurate, we concluded that the extent of the problems was not significant to BIF's and FRF's financial statements. We will discuss this matter further in a management letter.

During our 1997 audits, we found that the action FDIC took to address the second reportable condition was not fully effective. Therefore, we are continuing to report the weakness regarding integrity of data used for calculating the allowance for losses as a reportable condition. Additional details are provided below.

<u>Reportable Condition</u>
<u>Identified in 1997</u>

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. Generally, FDIC estimates recoveries on loans, real estate owned, equity in subsidiaries, and other assets (including furniture and fixtures and miscellaneous receivables) using its Standard Asset Valuation Estimation (SAVE) process. FDIC values securities and other types of equity interests outside of its SAVE process.

During our 1996 audits, we found that FDIC did not have effective procedures in place to ensure that recovery estimates received from the various sources were adequately reviewed for accuracy prior to being included in the year-end calculation of the allowance for losses. In response to our finding, FDIC implemented enhanced review procedures intended to mitigate the occurrence of errors and ensure the quality and reasonableness of the recovery estimates. The new procedures required certification that recovery estimates submitted for inclusion in the allowance for loss calculations had been formally reviewed for accuracy.

During our 1997 audits, we continued to note problems with recovery estimates for FRF assets not valued as part of FDIC's SAVE process. For example, we found that significant errors were made in estimating the recoveries for a portfolio of partnership interests, causing the portfolio to be undervalued by $125 million. In addition, we found unsupported recoveries and other errors in the estimated recoveries for another portfolio of debt and equity securities causing the portfolio to be overvalued by $26 million. The estimated recoveries for both the partnership interests and debt and equity securities portfolios described above had been certified and reviewed for accuracy by FDIC personnel. The combined effect of the above valuation errors was an understatement of FRF's estimated recoveries and an overstatement of its allowance for losses on amounts due from receiverships.

FRF assets valued outside of FDIC's SAVE process were valued using various, inconsistent methods with varying degrees of examination of underlying documentation. This situation, combined with ineffective verification and review increases the risk that errors will occur and remain undetected by FDIC.

In addition to the weaknesses described above, we noted other less significant matters involving FDIC's system of internal accounting controls and FDIC's electronic data processing controls which we will be reporting separately to FDIC in two management letters.

<u>RECOMMENDATIONS</u>

In order to address the above weakness, we recommend that the Chairman of FDIC direct the heads of the Division of Resolutions and Receiverships and the Division of Finance to implement an improved process for estimating recoveries for securities and other assets currently being valued outside of its Standard Asset Valuation Estimation process. The process should have the objectives of producing valid and defensible estimates for financial statement purposes. In addition, FDIC should reemphasize the importance of the review and certification procedures for the estimated recoveries on assets valued outside of its standard asset valuation process.

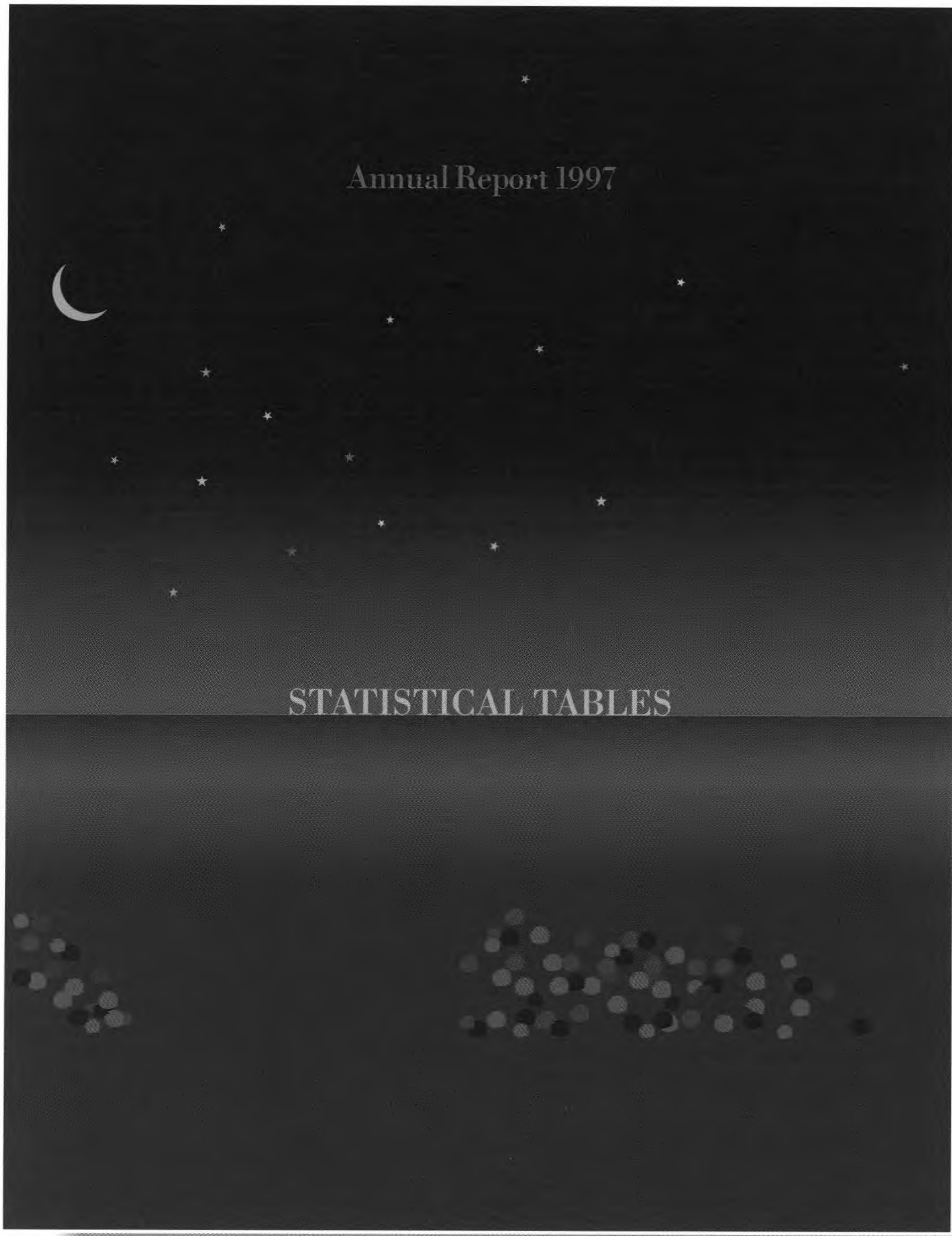
CORPORATION COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, FDIC acknowledged the reportable condition cited in our report and described its planned approach to improve the reliability of estimated recovery value for FRF assets valued outside of the SAVE process. We plan to evaluate the adequacy and effectiveness of these corrective actions as part of our audits of FDIC's 1998 financial statements. FDIC's comments also address the progress made in addressing the reportable condition regarding contractor oversight discussed in our 1996 report.

Robert W. Gramling

Robert W. Gramling
Director, Corporate Audits
and Standards

May 15, 1998


Annual Report 1997
STATISTICAL TABLES

Number and Deposits of BIF-Insured Banks Closed Because of Financial Difficulties, 1934 through 1997[1]

Dollars in Thousands

Year	Number of Insured Banks: Total	Number of Insured Banks: Without disbursements by FDIC	Number of Insured Banks: With disbursements by FDIC	Deposits of Insured Banks: Total	Deposits of Insured Banks: Without disbursements by FDIC	Deposits of Insured Banks: With disbursements by FDIC	Assets
Total	2,081	19	2,062	$212,730,731	$4,298,814	$208,431,917	$252,587,352
1997	1	...	1	$26,800	...	$26,800	$25,921
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

[1] 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 1997

Dollars in Thousands

ALL CASES[1]

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	2,192	$106,560,084	$68,141,200	$1,304,167	$37,114,717
1997	1	25,546	0	22,046	3,500
1996	5	169,397	112,813	12,888	43,696
1995	6	717,799	599,183	25,382	93,234
1994	13	1,224,797	1,005,791	37,389	181,617
1993	41	1,797,297	1,101,836	45,651	649,810
1992	122	14,084,663	10,024,475	303,402	3,756,786
1991	127	21,412,647	14,439,929	723,233	6,249,485
1990	169	10,816,602	7,946,378	83,079	2,787,145
1989	207	11,445,829	5,193,395	42,748	6,209,686
1988	280	12,163,006	5,211,565	2,244	6,949,197
1987	203	5,037,871	3,012,316	2,559	2,022,996
1986	145	4,790,969	3,008,165	1,062	1,781,742
1985	120	2,920,687	1,913,317	218	1,007,152
1984	80	7,696,215	6,054,326	1,734	1,640,155
1983	48	3,807,082	2,429,941	532	1,376,609
1982	42	2,275,150	1,106,579	0	1,168,571
1981	10	888,999	107,221	0	781,778
1980	11	152,355	121,675	0	30,680
1934-79 [3]	562	5,133,173	4,752,295	0	380,878

Deposit payoff cases[2]

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	603	$14,469,299	$9,826,295	$103,451	$4,539,553
1997	0	0	0	0	0
1996	0	0	0	0	0
1995	0	0	0	0	0
1994	0	0	0	0	0
1993	5	261,203	158,803	1,105	101,295
1992	25	1,802,655	1,279,686	28,837	494,132
1991	21	1,468,407	959,828	35,124	473,455
1990	20	2,182,583	1,445,704	0	736,879
1989	32	2,116,556	1,225,685	35,689	855,182
1988	36	1,252,160	822,563	0	429,597
1987	51	2,103,792	1,398,961	2,244	702,587
1986	40	1,155,981	739,423	234	416,324
1985	29	523,789	410,995	218	112,576
1984	16	791,838	699,483	0	92,355
1983	9	148,423	122,484	0	25,939
1982	7	277,240	206,247	0	70,993
1981	2	35,736	34,598	0	1,138
1980	3	13,732	11,427	0	2,305
1934-79 [3]	307	335,204	310,408	0	24,796

Deposit assumption cases

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	1,448	$80,460,429	$52,115,406	$1,198,982	$27,146,041
1997	1	25,546	0	22,046	3,500
1996	5	$169,397	$112,813	$12,888	$43,696
1995	6	717,799	599,183	25,382	93,234
1994	13	1,224,797	1,005,791	37,389	181,617
1993	36	1,536,094	943,033	44,546	548,515
1992	95	12,280,522	8,744,493	274,565	3,261,464
1991	103	19,938,123	13,479,889	688,109	5,770,125
1990	148	8,629,084	6,500,535	83,079	2,045,470
1989	174	9,326,725	3,967,650	7,059	5,352,016
1988	164	9,180,495	4,221,383	2,244	4,956,868
1987	133	2,773,202	1,612,642	315	1,160,245
1986	98	3,476,140	2,203,253	828	1,272,059
1985	87	1,631,166	1,095,646	0	535,520
1984	62	1,373,198	941,673	0	431,525
1983	35	2,893,969	1,850,351	532	1,043,086
1982	25	268,372	213,578	0	54,794
1981	5	79,208	71,358	0	7,850
1980	7	138,623	110,248	0	28,375
1934-79 [3]	251	4,797,969	4,441,887	0	356,082

Assistance transactions[1]

Year	No. of banks	Disburse-ments	Recoveries	Estimated Additional Recoveries	Estimated Losses
Total	141	$11,630,356	$6,199,499	$1,734	$5,429,123
1997	0	0	0	0	0
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	1,486	296	0	1,190
1991	3	6,117	212	0	5,905
1990	1	4,935	139	0	4,796
1989	1	2,548	60	0	2,488
1988	80	1,730,351	167,619	0	1,562,732
1987	19	160,877	713	0	160,164
1986	7	158,848	65,489	0	93,359
1985	4	765,732	406,676	0	359,056
1984	2	5,531,179	4,413,170	1,734	1,116,275
1983	4	764,690	457,106	0	307,584
1982	10	1,729,538	686,754	0	1,042,784
1981	3	774,055	1,265	0	772,790
1980	1	N/A	N/A	N/A	N/A
1934-79 [3]	4	0	0	0	0

[1] 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.

[2] Includes insured deposit transfer cases.

[3] For detail of years 1934 through 1979, refer to Table C of the 1994 Annual Report.

Income and Expenses, Bank Insurance Fund, from Beginning of Operations, September 11, 1933, through December 31, 1977

Dollars in Millions

	Income					Expenses and Losses				
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate[1]	Total	Provision for Losses	Administrative and Operating Expenses	Interest & Other Ins. Expenses	Net Income/ (Loss)
Total	$75,988.7	$53,112.7	$6,709.1	$29,585.1		$47,695.9	$34,467.7	$6,352.7	$6,875.5	$28,292.8
1997	1,615.6	24.7	0.0	1,590.9	0.0008%	177.3	(503.7)	605.2	75.8	1,438.3
1996	1,655.3	72.7	0.0	1,582.6	0.0024%	254.6	(325.2)	505.3	74.5	1,400.7
1995	4,089.1	2,906.9	0.0	1,182.2	0.1240%	483.2	(33.2)	470.6	45.8	3,605.9
1994	6,467.0	5,590.6	0.0	876.4	0.2360%	(2,259.1)	(2,873.4)	423.2	191.1	8,726.1
1993	6,430.8	5,784.3	0.0	646.5	0.2440%	(6,791.4)	(7,677.4)	388.5	497.5	13,222.2
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(2,259.7)	570.8 [2]	1,063.1	6,927.3
1991	5,790.0	5,160.5	0.0	629.5	0.2125%	16,862.3	15,476.2	284.1	1,102.0	(11,072.3)
1990	3,838.3	2,855.3	0.0	983.0	0.1200%	13,003.3	12,133.1	219.6	650.6	(9,165.0)
1989	3,494.6	1,885.0	0.0	1,609.6	0.0833%	4,346.2	3,811.3	213.9	321.0	(851.6)
1988	3,347.7	1,773.0	0.0	1,574.7	0.0833%	7,588.4	6,298.3	223.9	1,066.2	(4,240.7)
1987	3,319.4	1,696.0	0.0	1,623.4	0.0833%	3,270.9	2,996.9	204.9	69.1	48.5
1986	3,260.1	1,516.9	0.0	1,743.2	0.0833%	2,963.7	2,827.7	180.3	(44.3)	296.4
1985	3,385.4	1,433.4	0.0	1,952.0	0.0833%	1,957.9	1,569.0	179.2	209.7	1,427.5
1984	3,099.5	1,321.5	0.0	1,778.0	0.0800%	1,999.2	1,633.4	151.2	214.6	1,100.3
1983	2,628.1	1,214.9	164.0	1,577.2	0.0714%	969.9	675.1	135.7	159.1	1,658.2
1982	2,524.6	1,108.9	96.2	1,511.9	0.0769%	999.8	126.4	129.9	743.5	1,524.8
1981	2,074.7	1,039.0	117.1	1,152.8	0.0714%	848.1	320.4	127.2	400.5	1,226.6
1980	1,310.4	951.9	521.1	879.6	0.0370%	83.6	(38.1)	118.2	3.5	1,226.8
1979	1,090.4	881.0	524.6	734.0	0.0333%	93.7	(17.2)	106.8	4.1	996.7
1978	952.1	810.1	443.1	585.1	0.0385%	148.9	36.5	103.3	9.1	803.2
1977	837.8	731.3	411.9	518.4	0.0370%	113.6	20.8	89.3	3.5	724.2
1976	764.9	676.1	379.6	468.4	0.0370%	212.3	28.0	180.4 [3]	3.9	552.6
1975	689.3	641.3	362.4	410.4	0.0357%	97.5	27.6	67.7	2.2	591.8
1974	668.1	587.4	285.4	366.1	0.0435%	159.2	97.9	59.2	2.1	508.9
1973	561.0	529.4	283.4	315.0	0.0385%	108.2	52.5	54.4	1.3	452.8
1933-72*	5,793.0	6,332.8	3,120.3	2,580.5		630.4	64.5	559.9 [4]	6.0	5,162.6

1 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 mininum 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.

2 Includes $210 million for the cumulative effect of an accounting change for certain postretirement benefits.

3 Includes $105.6 million net loss on government securities.

4 Includes $80.6 million of interest paid on capital stock between 1933 and 1948.

*For detail of years 1933 through 1972, please refer to the 1996 annual report.

Insured Deposits and the Bank Insurance Fund, December 31, 1934 through 1997

Year[1]	Insurance Coverage	(Dollars in Millions) Deposits in Insured Banks Total	Insured[2]	Percentage of Insured Deposits	Deposit Insurance Fund	Insurance Fund as a Percentage of Total Deposits	Insured Deposits
1997	**$100,000**	$2,785,990	$2,055,874	73.8	**$28,292.5**	1.02	1.38
1996	100,000	2,641,797	2,007,042	76.0	26,854.4	1.02	1.34
1995	100,000	2,478,888	1,951,963	78.7	25,453.7	1.03	1.30
1994	100,000	2,462,650	1,895,258	77.0	21,847.8	0.89	1.15
1993	100,000	2,490,816	1,905,245	76.5	13,121.6	0.53	0.69
1992	100,000	2,512,278	1,945,550	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[3]	5,000	40,060	18,075	45.1	291.7	0.73	1.61

[1] 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.

[2] 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.

[3] Initial coverage was $2,500 from January 1 to June 30, 1934.

Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations, August 9, 1989, through December 31, 1997

Dollars in Thousands

	Income				Expenses and Losses					
Year	Total	Assessment Income	Investment and Other Sources	Effective Assessment Rate	Total	Provision for Losses	Interest & Other Ins. Expenses	Administrative and Operating Expenses	Funding Transfer from the FSLIC Resolution Fund	Net Income/ (Loss)
Total	$9,073,691	$8,505,185	$568,506		$324,768	$23,064	$732	$300,972	$139,498	$8,888,421
1997	549,912	13,914	535,998	0.004%	69,986	(1,879)	0	71,865	0	479,926
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

FDIC-Insured Institutions Closed During 1997

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disburse-ments	Estimated Loss[1]	Date of Closing or Acquisition	Receiver/ Assuming Bank and Location
Bank Insurance Fund								
Purchase and Assumption - All Deposits								
Southwest Bank Jennings, LA	NM	2,000	$25,921	$26,800	$25,551	$3,500	11/21/97	First Southwest Bank Jennings, LA
Savings Association Insurance Fund								
No closings during 1997.								

NM = State-chartered bank that is **not** a member of the Federal Reserve System.

[1] Estimated losses are as of 12/31/97. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries.

Insured Deposits and the Savings Association Insurance Fund, December 31, 1989, through 1997

		(Dollars in Millions)				Insurance Fund as a Percentage of	
		Deposits in Insured Institutions					
Year[1]	Insurance Coverage	Total	Insured[2]	Percentage of Insured Deposits	Deposit Insurance Fund	Total Deposits	Insured Deposits
1997	$100,000	$721,503	$690,132	95.7	$9,368.3	1.30	1.36
1996	100,000	708,631	683,403	96.4	8,888.4	1.25	1.30
1995	100,000	735,298	711,897	96.8	3,357.8	0.46	0.47
1994	100,000	721,515	693,610	96.1	1,936.7	0.27	0.28
1993	100,000	729,164	697,885	95.7	1,155.7	0.16	0.17
1992	100,000	760,902	732,159	96.2	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

[1] 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.

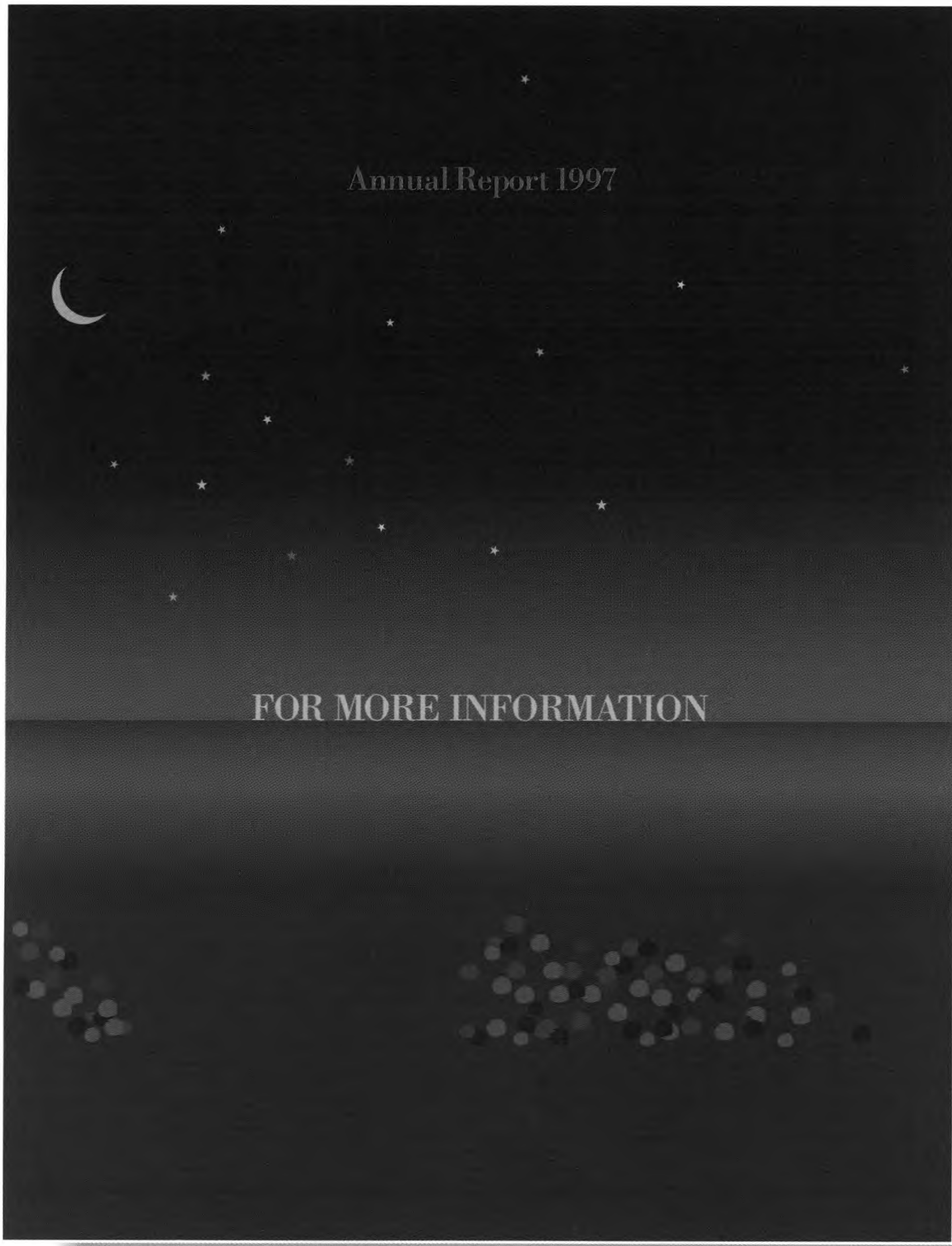
[2] Insured deposits are estimated based on deposit information submitted in the December 31 Call Reports (quarterly Reports of Condition and Income) and Thrift Financial Reports submitted by insured institutions. Before 1991, insured deposits were estimated using percentages determined from the June 30 Call Reports.

Number, Assets, Deposits, and Losses of Insured Thrifts Taken Over or Closed Because of Financial Difficulties, 1989 through 1997[1]

Year	Total	Assets	Deposits	Estimated Loss 2
Total	748	$394,032,728	$317,535,948	$74,833,124
1997	0	0	0	0
1996	1	35,140	32,189	16,483
1995	2	435,133	418,575	38,932
1994	2	136,815	127,508	11,666
1993	9	6,147,962	4,881,461	326,079
1992	59	44,196,946	34,773,224	3,343,268
1991	144	78,898,704	65,173,122	8,724,921
1990	213	129,662,398	98,963,960	16,394,260
1989	318	134,519,630	113,165,909	45,977,515

[1] 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 the 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.

[2] The estimated losses represent the projected loss to receiverships for unreimbursed subrogated claims of the FRF and unpaid advances to receiverships from the FRF.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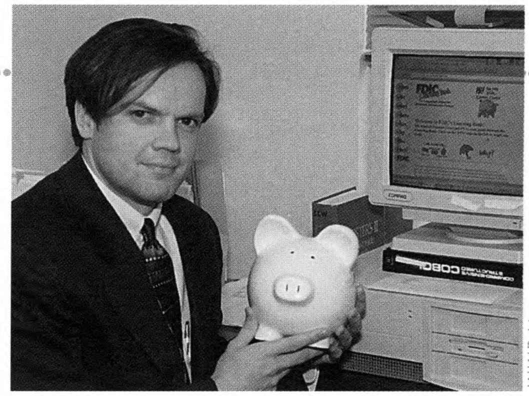

W.W.Reid

Ed Warrick of the Division of Information Resources Management displays "Carmen Cents," the FDIC's symbol for the FDIC's educational Web site for kids.

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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.

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The Division of Compliance and Consumer Affairs responds to questions about deposit insurance and other consumer issues and concerns, and offers a number of publications geared to consumers.

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The Office of the Ombudsman responds to inquiries about the FDIC in a fair, impartial and timely manner. It researches questions and complaints from bankers, the public and FDIC employees on a confidential basis. 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 is available on the FDIC's Internet home page. Data available include the FDIC's *Quarterly Banking Profile,* the *Institution Directory,* and *Statistics on Banking*. Readers also can access a variety of consumer pamphlets, FDIC press releases, speeches and other updates on the agency's activities, as well as corporate databases and customized reports of FDIC and banking industry information. Students in kindergarten through grade 12, teachers and parents can access useful information about the FDIC and the banking system at the FDIC Learning Bank.

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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.

Chairman Helfer

Congressional Testimony

February 13, 1997
Before the House Committee on Banking and Financial Services' Subcommittee on Financial Institutions and Consumer Credit, on financial modernization legislation.

March 5, 1997
Before the House Committee on Banking and Financial Services' Subcommittee on Capital Markets, Securities and Government Sponsored Enterprises, on financial modernization legislation.

Speeches

March 3, 1997
To the Institute of International Bankers, on lessons the FDIC has learned from studying the history of financial institution failures in the 1980s.

March 21, 1997
To the Independent Bankers Association of America, on the value of federal deposit insurance.

May 2, 1997
To the Assembly for Bank Directors, on standards for bank directors.

Acting Chairman Hove

Congressional Testimony

July 17, 1997
Before the House Committee on Commerce's Subcommittee on Finance and Hazardous Materials, on financial modernization legislation.

July 29, 1997
Before the House Committee on Banking and Financial Services, on the FDIC's implementation of the Government Performance and Results Act.

October 8, 1997
Before the House Committee on Banking and Financial Services' Subcommittee on Financial Institutions and Consumer Credit, on the future of bank examination and supervision.

October 21, 1997
Before the Senate Committee on Banking, Housing, and Urban Affairs' Subcommittee on Financial Institutions and Regulatory Relief, on the condition of the banking and thrift industries.

November 4, 1997
Statement submitted to the House Committee on Banking and Financial Services on the Year 2000 problem.

Speeches

October 5, 1997
To the American Bankers Association, announcing the FDIC's symposium on deposit insurance to be held in January 1998.

October 20, 1997
To the Heartland Community Bankers Association, on his goals for the FDIC.

Text of these and other statements are available from the Public Information Center listed on Page 111 or on the FDIC's Internet home page: www.fdic.gov.

Index

Notes

Notes

F D I C

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