



Annual Report 2001



*Security*

*Stability*

*Service*

*Since 1933*

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

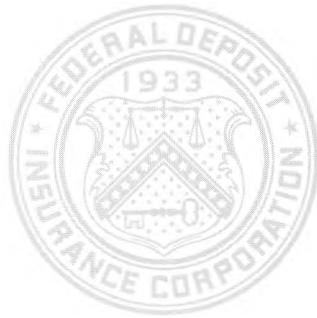
In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other state and federal regulatory agencies, the **FDIC** promotes the safety and soundness of insured depository institutions and the U.S. financial system by identifying, monitoring and addressing risks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



Federal Deposit  
Insurance Corporation



*Security*

*Stability*

*Service*

*Since 1933*



Federal Deposit Insurance Corporation  
Washington, DC 20429-9990

Office of the Chairman

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June 11, 2002

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 2001.

Sincerely,

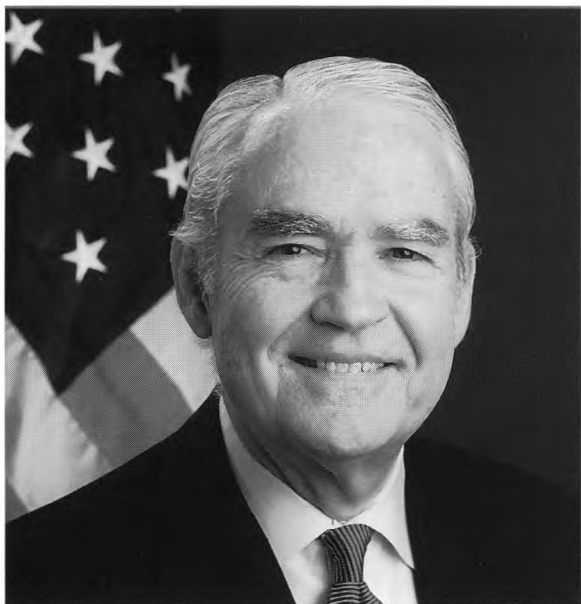
A handwritten signature in black ink, appearing to read "D. Powell", is written over the word "Sincerely,". The signature is stylized with a large loop and a long horizontal stroke extending to the right.

Donald E. Powell  
Chairman

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

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*FDIC Chairman  
Donald E. Powell*

At year-end 2001, the insurance funds under management by the Federal Deposit Insurance Corporation totaled \$41.4 billion. We earned \$2.7 billion in revenue including approximately \$83 million in assessment income from insured institutions. Ninety percent of insured institutions paid nothing for deposit insurance last year.

Three banks and one thrift failed in 2001. Total assets for these failed institutions totaled \$2.2 billion; most of these were the assets of Superior Bank, FSB. These four failures are estimated to cost the funds \$445 million.

The Corporation's total budgeted spending in 2001 was \$1.044 billion. Eighty-six percent of this was spent on "business line" expenses—supervision, consumer protection, insurance, research, resolutions and receiverships. We had 6,167 staff on board at year-end. The staff performed 2,566 safety and soundness examinations and 2,180 compliance examinations.

In 2001, receivership asset sales and collections from assets in liquidation totaled \$256 million. The recovery from asset sales was \$169 million, for a recovery rate of 66 percent. In 2001, our receiverships paid \$462 million in dividends, all but \$16 million of

which went to the insurance funds. Asset sales and collections from the Superior conservatorship totaled \$507 million in 2001. Mortgage loan sales achieved a 98 percent recovery rate and securities sales achieved a 102.7 percent recovery rate.

We were good, we were competent, and we did a fine job—just as the Corporation has done for every year since 1933. But times are changing. Competence today is one thing. We must be ready to meet the challenges of the future and we are not there yet. We will be, though. I have committed my Chairmanship to achieving this goal.

I believe history will see 2001 as a setup year for the FDIC. We spent a lot of time working on initiatives that will bear fruit in 2002 and beyond. I'd like to share few of them.

We began a comprehensive review of the Corporation from top to bottom. We scrutinized our organizational chart, our staffing levels, and our culture—all with an eye toward becoming a more efficient, effective and relevant organization.

We talked a lot about deposit insurance reform. It is our number one external priority and we made our case to anyone who would listen.

We implemented a number of supervision process reforms. These were designed to focus our resources on risks in the banking system and set the stage for more ambitious reforms next year.

We designed and vetted a compliance examination structure that will serve as the management model for a more focused and customer-friendly supervision and consumer affairs division.

We developed a great financial education tool—Money Smart—that will help the least fortunate among us to learn about managing their finances.

We worked on improving our technology platforms—as prelude to modernizing, with our fellow regulators, the way we collect, manage, store and publish institution data.

We did a better job using the Internet—adding a feature to our Web page that allows users to search for unclaimed funds from failed financial institutions and transmitting the Preliminary Bank Earnings Report via satellite Webcast. Many of our asset sales were conducted online.

And in the sad wake of September 11, we began efforts to review and update our business continuity and disaster recovery procedures.

This is no small list of chores. We worked hard on all these priorities. We must continue these efforts and more if we are to become a vital and relevant voice in the banking sector.

Now we have to build on this agenda—and, indeed, we must pursue a more ambitious one—if we are to make the Corporation an effective and efficient agent of change. Here are some things we have to do:

We must continue our efforts to convince the Congress and the banking industry that deposit insurance reform is workable, necessary and in the national interest.

We must succeed with our leadership and management initiatives at the FDIC to ensure we are well positioned to be a relevant and innovative voice on the issues that matter to banks, the Congress, the policymaking community and the depositors of America.

We must succeed to show that government agencies can change, that they can become more efficient, and that they can do more with less.

We must work to ensure our supervision processes are rational, efficient, effective, and clearly communicated. We should do our job well and impose as little burden as possible on the institutions we supervise.

We must ensure our supervision structure going forward breaks down the old cultural barriers between safety and soundness and compliance and that the combined division is both effective and responsive to the needs of the industry and the demands of the economy.

We must expand our financial education initiative beyond Money Smart and commit ourselves to the goal of forming partnerships in all 50 states to ensure more of low- and moderate-income Americans learn from our curriculum and join the financial mainstream.

We must strengthen our technology infrastructure—from security to customer service—to ensure we pass every test we take in the coming year. And we must press on with our data innovations—both at home and in the interagency process.

We must continue our efforts to provide FDIC information and analysis to the public—releasing it as it becomes available, and when it is most relevant.

And, sadly, we must demonstrate our capabilities to move our business operations and carry on at a moment's notice should disaster strike again.

## Chairman's Statement

This is my "to-do" list for the year. But I'm not terribly worried because I am not alone.

Everywhere I go, I tell people that the FDIC is full of wonderful people who work hard, love their families and love their country. That is the truth. I have asked our staff to rise to the challenge, as they did during the banking crisis a decade ago, and help us accomplish these goals. I know they can make us a better and more effective organization.

There will be naysayers. There always are. Some will question our direction. Some will question this or that initiative. And some will question my leadership. I cannot do anything about these folks.

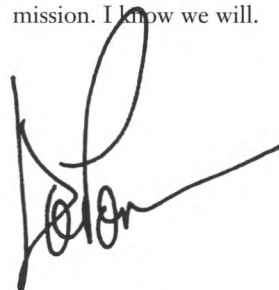
What I *can* do is get up every morning, come to the FDIC, and work hard trying to make this wonderful institution even better than it has ever been.

That is my job. Every day, as I meet our employees, I am learning just what an honor it is to work here.

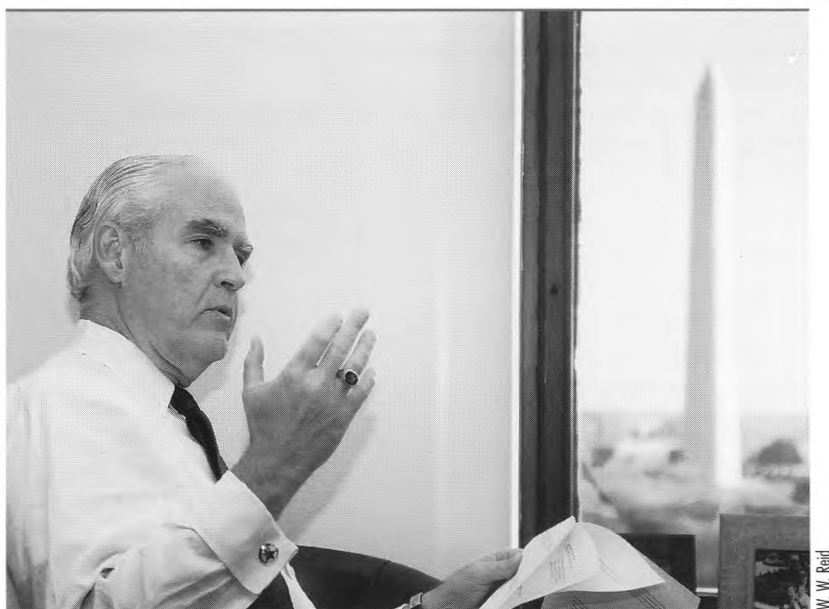
These are our goals. Every day, as we make incremental progress, I am finding we have both the resources and the will to accomplish them.

And this is our challenge. Every day, I hope the employees of the FDIC and every one of our stakeholders—the industry, the Congress, the American people—will scrutinize us and provide guidance so we can lead the pack—and then some.

We are ready to accomplish this mission. I know we will.

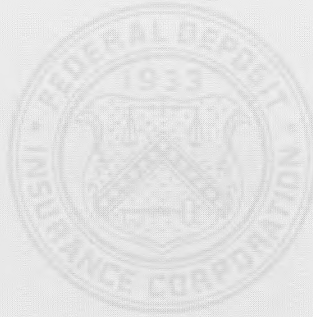


Donald E. Powell  
Chairman



W. W. Reid





## Operations of the Corporation—The Year In Review

In the face of a changing banking and financial services industry, in 2001 the FDIC continued to protect the insurance funds, financial institutions and the banking public. Among the highlights:

- The FDIC's continued work with Congress on legislative proposals for deposit insurance reform;
- New rules and procedures to address risks to institutions;
- Expanded use of the Internet and other technologies to help the FDIC deal more efficiently with open and closed institutions;
- A new Money Smart program to promote financial education for adults outside the financial mainstream; and
- Continued cooperation among U.S. and foreign financial regulators to support financial stability around the world.

An overview of activity of the year follows.

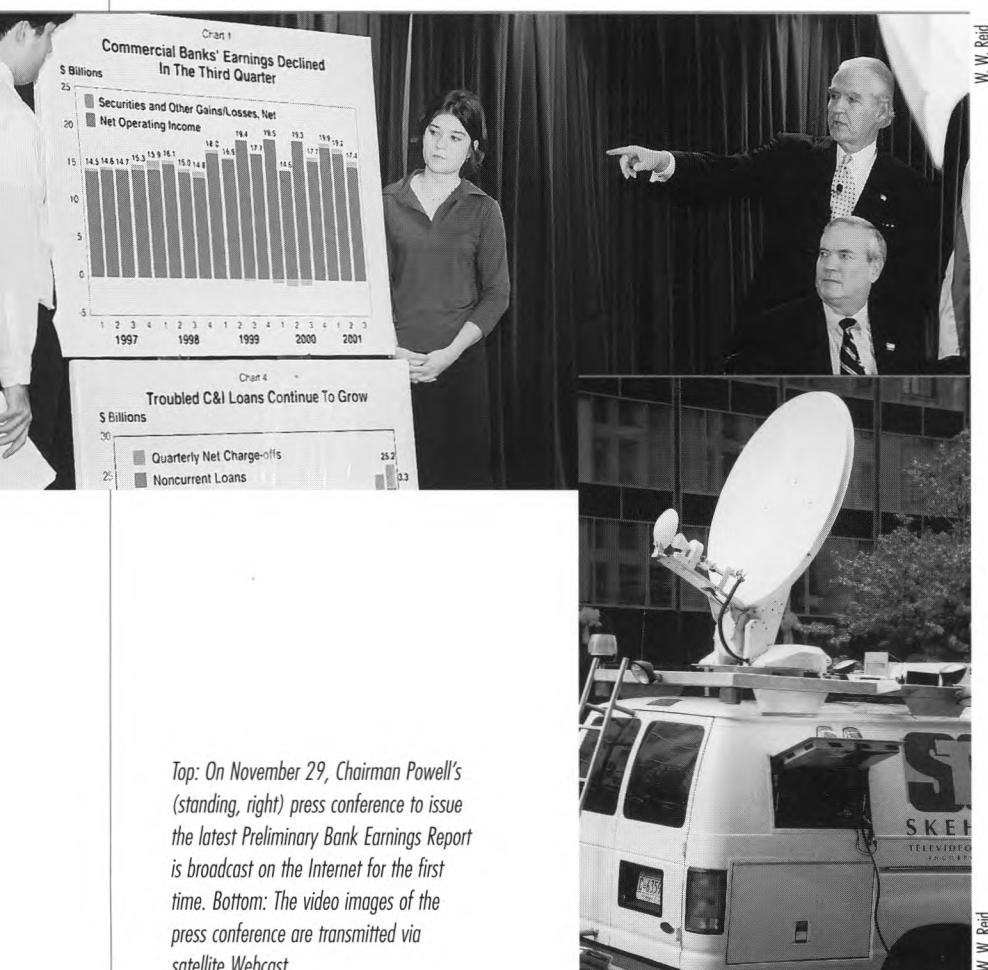
### Deposit Insurance Reform

The FDIC continued its comprehensive review of the deposit insurance system begun in 2000. In April 2001, the FDIC published a paper called *Keeping the Promise: Recommendations for Deposit Insurance Reform*. These recommendations were summarized in the FDIC's 2000 Annual Report. Former Chairman Donna Tanoue testified in favor of the recommendations in 2001 before the House Financial Services Committee's Subcommittee on Financial Institutions and Consumer Credit on May 16 and before the Senate Committee on Banking, Housing and Urban Affairs on June 20.

Chairman Donald Powell also has expressed "full confidence" in the FDIC's recommendations. On October 17, in testimony before the same Subcommittee on Financial Institutions and Consumer Credit, Chairman Powell added his thoughts on the deposit insurance reform recommendations:

First, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) should be merged.

Second, the FDIC Board of Directors needs the flexibility to manage the fund. At present, there are two statutorily mandated methods for managing the size of the fund. One of these methods prohibits the FDIC from charging premiums to well-capitalized, well-rated institutions when a fund's reserve ratio is at or above the 1.25 percent designated reserve ratio.



Top: On November 29, Chairman Powell's (standing, right) press conference to issue the latest Preliminary Bank Earnings Report is broadcast on the Internet for the first time. Bottom: The video images of the press conference are transmitted via satellite Webcast.



## Operations of the Corporation—The Year In Review

This method effectively prevents the FDIC from charging appropriately for risk during good economic times. In 2001, for example, 92 percent of banks and thrifts paid nothing for deposit insurance. The other method can put undue pressure on the industry during an economic downturn because it mandates a minimum of 23 basis point premiums unless the fund's reserve ratio returns to the 1.25 percent designated reserve ratio within one year. Together, the two existing methods of managing the fund can lead to volatile premiums. This makes the system pro-cyclical and could require the FDIC to charge the highest premiums during difficult economic times when the industry can least afford it. To correct these problems, the FDIC in 2001 recommended to Congress that the Board have the discretion to:

- Set the target size for the fund ratio and determine how quickly to bring the fund back toward the target. The current 1.25 percent target would be a reasonable starting point for the target size.
- Price deposit insurance according to risk. Because all banks and thrifts pose some risk, all should pay premiums, regardless of the fund's level. Adjustments to the FDIC's current assessment system would be needed to allow the FDIC to properly differentiate for risk. Whenever possible, the FDIC

would use objective factors to distinguish institutions and price for risk.

- Give assessment credits or cash rebates, if the fund grows too large, and levy surcharges in a crisis. Chairman Powell expressed reluctance to mandate an initial cash payment out of the fund, given the uncertain economic environment. He recommended, instead, giving banks a credit toward future assessments. These credits should be based on past contributions to the fund, not on the current assessment base. This would avoid artificial incentives for growth and provide the largest credits to those institutions that built the funds to where they stand today. Going forward, newer institutions and fast-growing institutions would also earn a right to share in the assessment credits as they pay into the fund.

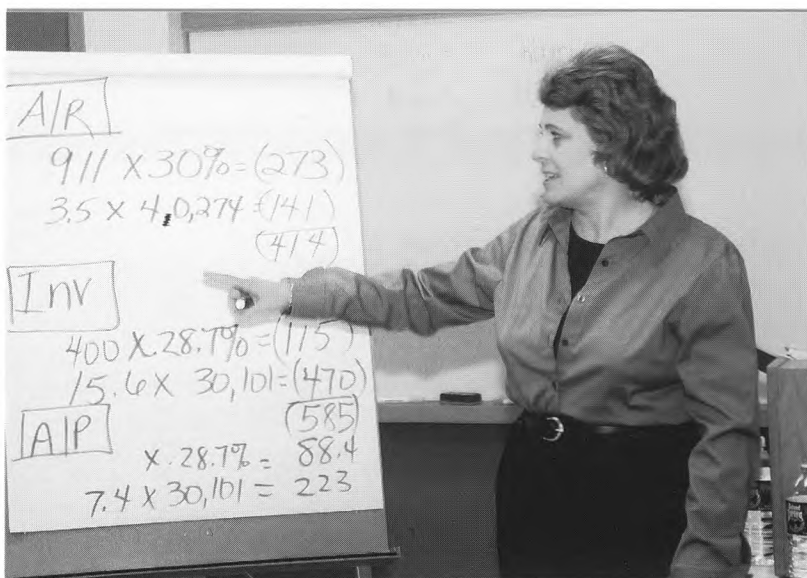
Third, the basic coverage level of \$100,000 need not be raised immediately, but should be indexed to maintain its value. Chairman Powell suggested using the Consumer Price Index and adjusting the limit every five years, beginning January 1, 2005. Adjustments to the level should be in round numbers and the limit should not decline if the price level falls. Congress should also consider raising the insurance limit for Individual Retirement Accounts (IRAs) and Keogh accounts.

The FDIC will continue working with Congress on these deposit insurance reform recommendations.

### Responding to Emerging Risks

The four federal bank and thrift regulators amended the capital standards for recourse arrangements, direct credit substitutes and residual interests in

*Linda Reedy from the Division of Supervision's New York Regional Office was among the more than 200 instructors preparing assistant bank examiners to become commissioned examiners.*



Sally Kearney

## Operations of the Corporation—The Year In Review

asset securitizations. The final rule will ensure that the amount of regulatory capital that institutions must hold against credit enhancements and securitization positions will better match their relative exposure to credit risk. It will also result in more consistent regulatory capital treatment for securitization transactions involving similar risk. Among the rule's highlights is the use of external ratings for setting risk-based capital requirements for most asset-backed and mortgage-backed securities, and the establishment of new standards for residual interests, a subordinated asset class that exposes institutions to a higher level of credit risk than traditional bank assets. Transactions settling on or after January 1, 2002, are subject to the new rule. Institutions have until December 31, 2002, to apply the new rule to transactions that settled before January 1, 2002.

To focus on technology risks that may jeopardize a safe and sound banking environment, the FDIC is realigning its supervisory strategies. During 2001, traditional financial services continued to be altered by advances in Internet banking, online bill payment and presentment, electronic funds transfers and other sophisticated technologies. These advancements have allowed financial institutions to expand and enhance customer service and take advantage of improved operational efficiencies. However, the industry's growing reliance on technologies, particularly the Internet, has changed the risk profile of the banking industry. Banks especially are exposed to risks from technologies being misused by criminals. The rapid growth of technology has dictated a need for improved monitoring and risk assessment by the FDIC. As a result, the agency began several strategic initiatives aimed at improving its approach to

identifying, assessing and monitoring technology risks, such as:

- Developing ongoing risk assessment and monitoring systems to be able to proactively identify technology risks that impact the banking system;
- Expanding mechanisms to effectively communicate technology risk information to the FDIC workforce and to the financial industry; and
- Ensuring that examiners receive advanced training and have state-of-the-art tools for focusing examination efforts on technology risks, as required.

Finally, to improve and streamline the examination process, the FDIC in 2001 initiated a major review of examination and other supervisory methodologies. Five study groups—soliciting input from within the FDIC and from other federal and state bank regulators—evaluated the examination process and policies, and came up with numerous recommendations. One of the most significant recommendations was to revise the report of examination to enhance the presentation of examination findings and focus more on key risk areas. The revisions with implementing instructions were completed in October 2001. A second recommendation was to enhance the General Examination System (GENESYS) software, used in preparing the safety and soundness

### FDIC Examinations 1999-2001

	2001	2000	1999
<b>Safety and Soundness</b>			
State Nonmember Banks	2,300	2,232	2,289
Savings Banks	241	235	241
National Banks	16	17	3
State Member Banks	9	2	7
Savings Associations	0	0	0
<b>Subtotal</b>	<b>2,566</b>	<b>2,486</b>	<b>2,540</b>
Compliance/Community Reinvestment Act	2,180	2,257	2,368
Trust Departments	466	533	452
Data Processing Facilities	1,625	1,585	1,446
<b>Total</b>	<b>6,837</b>	<b>6,861</b>	<b>6,806</b>

## Operations of the Corporation—The Year In Review

report of examination, in order to improve, among other things, data flow and the software's compatibility with other systems. This recommendation was implemented in the second quarter of 2002. Another recommendation under review was to increase delegations of authority to improve workflow through the FDIC's regional offices.

### Using Technology to Operate More Efficiently

In 2001, the FDIC continually looked toward technology advancements to conduct its business more efficiently, primarily in terms of dealing with bank examinations and open and closed institutions.

The FDIC has made significant progress over the past few years improving its offsite monitoring systems to identify evolving risks within the industry and at individual institutions. This progress has been achieved by applying new technology and combining economists' expertise with examiners' experience. Offsite monitoring, for example, uses statistical models and screens to identify "outliers"—institutions with atypically high-risk profiles among those in the best-rated premium category. It allows the FDIC to detect risk early to reduce vulnerabilities to the insurance funds.

The FDIC also uses offsite monitoring and risk data for a number of other supervisory and insurance purposes. For example,

risk data are reviewed by examiners as part of their pre-examination activity. The FDIC's Financial Risk Committee also uses risk data in recommending reserve levels for the funds. To further improve FDIC risk identification, a number of recommendations were made in 2001 including improving and enhancing analysis of risks within large banking organizations and de novo (new) institutions. These systems will also support the agency's goal of improved pricing of deposit insurance premiums, which is included in the FDIC's April 2001 *Keeping the Promise: Recommendations for Deposit Insurance Reform*.

For the first time, the FDIC in 2001 used the Internet to sell the deposits and assets of a failing institution. This process marks a significant departure from the FDIC's normal procedure of selling the assets and deposits of failing institutions by inviting several hundred potential bidders to a meeting near the failing bank, and only those attending would

then obtain the confidential information necessary to complete the bidding process. The Internet was used for all four failures in 2001.

First Alliance Bank and Trust Company, Manchester, New Hampshire, with assets of \$16.8 million, was the first failing bank to be marketed by the FDIC on the Internet. Interested parties were registered and given a unique password to gain access to a secure Web site containing the confidential bidding information and materials. Potential bidders avoided the time and expense of attending the bidders meeting and had immediate and around-the-clock access to information about the failing bank and the bidding process.

The largest failing institution to be sold on the Internet was Superior Bank, FSB, Hinsdale, Illinois, with total assets of \$2.2 billion. Its assets and insured deposits were transferred to a newly chartered savings bank (New Superior) and placed into conservatorship under

### Liquidation Highlights 1999-2001

Dollars in Billions

	2001	2000	1999
Total Failed Banks	3	6	7
Assets of Failed Banks	\$ .05	\$ .38	\$ 1.42
Total Failed Savings Associations	1	1	1
Assets of Failed Savings Associations	\$ 2.18	\$ .03	\$ .06
Net Collections from Assets in Liquidation *	\$ .31	\$ .60	\$ .98
Total Assets in Liquidation *	\$ .57	\$ .54	\$ 1.98
Net Collections from Assets Not in Liquidation *	\$ .08	\$ .16	\$ .21
Total Assets Not in Liquidation *	\$ 1.52	\$ 2.80	\$ 5.20

\* Also includes assets from thrifts resolved by the former Federal Savings and Loan Insurance Corporation and the Resolution Trust Corporation.

## Operations of the Corporation—The Year In Review

FDIC management. After marketing New Superior on a secured Web site, the FDIC approved the sale of the branches and deposits to Charter One Bank, FSB, Cleveland, Ohio. The vast majority of New Superior's assets, however, were retained by the conservator to be marketed later. The FDIC turned to the Internet to sell the bulk of the assets, and as of early spring 2002, only

about \$550 million of loans were left to sell.

With the success of selling failed banks on the Web, the FDIC expanded the use of the Internet to include selling the assets (primarily residential and commercial loans) from existing receiverships. Potential investors are able to download encrypted loan and payment information and then

submit a sealed bid or participate in a live electronic auction where all bidders can see the high bid and who submitted it. The FDIC has been using these improved systems to attract new potential bidders and increase competition, and thereby increase sales prices for deposits and asset. Also, in an attempt to find the owners of abandoned deposits that can accumulate at failed banks, the FDIC created a Web page to allow users to search a database of unclaimed funds from failed financial institutions. This page was launched in late August and in the first six months of operations assisted 84 people in finding \$264,212.

### Consumer Protection

In its role of enforcing bank compliance with consumer protection laws and educating bankers and consumers on banking-related issues, the FDIC took a number of actions this year.

In July, the FDIC unveiled a significant initiative—called Money Smart—to promote and facilitate financial education. The Money Smart curriculum was specifically designed to help adults outside the financial mainstream develop positive relationships with insured depository institutions. The instructor-led program helps explain basic financial terms, products and services. The FDIC developed a partnership with the U.S. Department of Labor to make the Money Smart program available to more than 800

### Compliance, Enforcement and Other Related Legal Actions 1999-2001

	2001	2000	1999
<b>Total Number of Actions Initiated by the FDIC</b>	<b>144</b>	<b>87</b>	<b>110</b>
<b>Termination of Insurance</b>			
<b>Involuntary Termination</b>			
Sec. 8a for Violations, Unsafe/Unsound Practices or Condition	0	1	0
<b>Voluntary Termination</b>			
Sec. 8a By Order Upon Request	0	0	0
Sec. 8p No Deposits	4	6	3
Sec. 8q Deposits Assumed	6	5	9
<b>Sec. 8b Cease-and-Desist Actions</b>			
Notices of Charges Issued	3	4 *	5
Consent Orders	33	26	19
<b>Sec. 8e Removal/Prohibition of Director or Officer</b>			
Notices of Intention to Remove/Prohibit	4	3 *	4
Consent Orders	11	17	22
<b>Sec. 8g Suspension/Removal When Charged With Crime</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>Civil Money Penalties Issued</b>			
Sec. 7a Call Report Penalties	4	3	15
Sec. 8i Civil Money Penalties	71	11	20
<b>Sec. 10c Orders of Investigation</b>	<b>7</b>	<b>7</b>	<b>4</b>
<b>Sec. 19 Denials of Service After Criminal Conviction</b>	<b>0</b>	<b>1</b>	<b>2</b>
<b>Sec. 32 Notices Disapproving Officer/Director's Request for Review</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Truth in Lending Act Reimbursement Actions</b>			
Denials of Requests for Relief	1	0	1
Grants of Relief	0	0	0
Banks Making Reimbursement**	189	127	134
<b>Suspicious Activity Reports (Open and closed institutions) **</b>	<b>28,750</b>	<b>20,720</b>	<b>22,015</b>
<b>Other Actions Not Listed</b>	<b>0</b>	<b>3</b>	<b>2</b>

\* Two actions included Sec. 8 (c) temporary orders.

• One action included a Sec. 8 (e) suspension order.

† One action involved a denial of request to waive 10-year ban under Sec. 19 (a) (2).

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



## Operations of the Corporation—The Year In Review

employment centers, called One Stop Career Centers, and through financial institutions and community-based groups. As of year-end, more than 5,000 orders for the curriculum were filled, including requests from more than 2,000 financial institutions. Money Smart has received outstanding reviews from bankers, consumers and other participants. For instance, one graduate in California who previously experienced serious credit problems said she “won’t make those mistakes again” because of the Money Smart program. “Thank you so much for helping me be money smart, not money stupid.”

The FDIC joined the other federal banking agencies in a full review of Community Reinvestment Act (CRA) regulations to evaluate the effectiveness of major CRA revisions completed in 1995. The agencies want to determine whether the 1995 evaluation standards have effectively emphasized performance over process, promoted consistency in CRA evaluations, and eliminated unnecessary burden. Through an Advance Notice of Proposed Rulemaking in July 2001, the agencies also sought public comment on whether, and to what extent, the CRA regulations should be revised. The FDIC received almost 300 comments, which will be carefully considered in shaping future actions.

New requirements for financial institutions concerning the privacy



W. W. Reid

*Nelson Hernandez joined the FDIC's Division of Compliance and Consumer Affairs to coordinate the agency's national community reinvestment, community development and outreach efforts.*

### Consumer Complaints and Inquiries

The FDIC investigates and responds to consumer complaints of unfair or deceptive acts or practices by financial institutions and allegations that a bank has violated a consumer protection law or regulation. The agency also responds to inquiries from consumers, financial institutions, and other parties about consumer protection and fair lending matters and deposit insurance.

In 2001, the FDIC received 4,141 written consumer complaints against state-chartered nonmember banks. The agency tracks the volume and nature of complaints to monitor trends and identify emerging issues. Nearly 60 percent of these complaints concerned credit card accounts. The most frequent complaints involved billing disputes and account errors, loan denials, credit card fees and service charges, and collection practices.

The FDIC also received 3,024 written inquiries from consumers and 390 written inquiries from bankers regarding FDIC insurance and consumer protection issues. The Corporation received more than 46,000 telephone inquiries related to deposit insurance. The largest percentage of inquiries related to whether specific financial institutions were insured by the FDIC and questions about deposit insurance coverage. Other common inquiries were requests for copies of FDIC consumer publications, questions about banking practices and consumers' rights under federal consumer protection laws, and matters related to obtaining a personal credit report.

## Operations of the Corporation—The Year In Review

of consumer financial information took effect on July 1, 2001. The privacy regulation (Part 332 of FDIC's Rules and Regulations) implements provisions of the Gramm-Leach-Bliley Act of 1999. The regulation requires financial institutions to issue notices to consumers explaining their privacy policies and, in some cases, provide consumers an opportunity to "opt out" or say "no" to certain information-sharing with third parties. The FDIC issued several significant pieces of guidance to foster compliance with the new privacy requirements. For example, the FDIC published the *Privacy Rule Handbook* designed to help state nonmember banks prepare for the July 1 mandatory compliance date; joined the other federal banking regulatory agencies in distributing privacy examination procedures; distributed an

interagency CD-ROM to FDIC-supervised institutions that included multimedia presentations on the privacy rule and other privacy-related resources; and issued "Frequently Asked Questions," an interagency document covering almost every aspect of the regulation.

To help banks and consumers understand their rights and responsibilities under the new privacy regulation, the FDIC engaged in a variety of outreach activities. Throughout the year, FDIC speakers appeared at trade association conferences and meetings to discuss the new regulatory requirements, and participated in interagency seminars for community bankers. The Corporation also participated in an interagency public workshop held December 4 in Washington, DC, discussing effective privacy notices. Articles designed to answer

consumers' questions about privacy policies and opt-out rights appeared in the Winter 2000/2001 and the Summer 2001 issues of the quarterly newsletter *FDIC Consumer News*.

### International Efforts

As a member of the Financial Stability Forum's Working Group on Deposit Insurance, the FDIC contributes to global efforts to establish or improve deposit insurance systems. The Financial Stability Forum was created in 1999 by the finance ministers and other officials of the G-7 industrial nations as a way to promote international financial stability through information exchange and international cooperation. The Working Group, comprising representatives of 12 countries, the International Monetary Fund and The World Bank, was established in 2000 to develop guidance for countries seeking to establish or reform a deposit insurance system. In 2001, the FDIC chaired and provided staff to the research committee, which assisted the Working Group in deliberating and developing guidance. FDIC staff worked with finance ministers, bank regulators and deposit insurance officials from various countries to develop and refine



George Hanc (right), Chair of the Research Committee supporting the Working Group on Deposit Insurance—comprising representatives from 12 countries, the International Monetary Fund and The World Bank—and committee members (l to r) Rose Kushmeider, Christine Blair and Detta Voesar.

Sally Kearney

## Operations of the Corporation—The Year In Review

guidelines that were flexible enough to be useful for countries with different banking and legal systems. The Working Group's final report, *Guidance for Establishing Effective Deposit Insurance Systems*, was presented to the Financial Stability Forum in September 2001, and is available on the FDIC's Web site at [www.fdic.gov](http://www.fdic.gov).

The FDIC, as a member of the Basel Committee on Banking Supervision, is continuing to work with U.S. and foreign supervisors on developing a revised Capital Adequacy Framework for internationally active banks. A revised Basel Capital Accord will be more risk-sensitive in measuring the capital adequacy of internationally active banks in the U.S. and overseas. The FDIC also served as technical advisor to the U.S. Treasury Department on several global initiatives, including developing anti-money-laundering programs. As part of its outreach efforts, the FDIC designed a training program for foreign banking regulators on bank supervision, deposit insurance and problem bank resolution.

The FDIC is taking the lead among the bank regulatory agencies in implementing a new international standard for exchanging financial data called Extensible Business Reporting Language (XBRL). In 2001, the FDIC, as the regulatory chair of the international financial reporting standards body developing XBRL, participated in

three international conferences to design a technical specification that can significantly improve the precision and timeliness of financial reporting. The FDIC is consulting with international

accountancy, regulatory and industry representatives and working to promote understanding about potential uses of this financial data exchange standard.

### FDIC Applications 1999-2001

	2001	2000	1999
<b>Deposit Insurance</b>	<b>133</b>	205	295
Approved	133	205	295
Denied	0	0	0
<b>New Branches</b>	<b>1,010</b>	1,286	1,347
Approved	1,010	1,286	1,347
Denied	0	0	0
<b>Mergers</b>	<b>266</b>	316	341
Approved	266	316	341
Denied	0	0	0
<b>Requests for Consent to Serve *</b>	<b>231</b>	249	210
Approved	231	248	207
Section 19	19	15	41
Section 32	212	233	166
Denied	0	1	3
Section 19	0	1	1
Section 32	0	0	2
<b>Notices of Change in Control</b>	<b>21</b>	28	31
Letters of Intent Not to Disapprove	21	28	31
Disapproved	0	0	0
<b>Brokered Deposit Waivers</b>	<b>21</b>	25	16
Approved	21	25	16
Denied	0	0	0
<b>Savings Association Activities *</b>	<b>76</b>	80	83
Approved	76	80	83
Denied	0	0	0
<b>State Bank Activities/Investments †</b>	<b>29</b>	36	24
Approved	29	36	24
Denied	0	0	0
<b>Conversions of Mutual Institutions</b>	<b>4</b>	8	16
Non-Objection	4	8	15
Objection	0	0	1

\* 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 changes 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.

• Amendments to Part 303 of FDIC Rules and Regulations changed FDIC oversight responsibility in October 1998.

† 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 to be filed with the FDIC.



## Operations of the Corporation—The Year In Review

### The FDIC Reacts to the September 11 Terrorist Attacks

The terrorist attacks against the United States on September 11, 2001, shook the country and the world. Among the fallout, the tragedy jolted business and consumer confidence, impairing economic activity in virtually every region of the country. The banking industry and others near “Ground Zero”—the site of the attacks on the World Trade Center towers in New York—responded with remarkable resiliency to maintain

the continuity of the financial system. What many Americans do not know is how the FDIC and other bank regulatory agencies reacted during the crisis to ensure the continuity of their operations and the stability of the banking system.

With the evacuation of the New York Regional Office, located just six blocks from the World Trade Center, the FDIC faced significant operational challenges, yet contingency planning and interagency coordination enabled the FDIC to resume in a timely manner all of its crucial business in New York from two satellite offices in New Jersey. Interim contact information was posted on the FDIC’s public Web site. The New York Regional Office reopened on September 17.

In the days and weeks following the attacks, the New York staff actively monitored the operational and financial condition of depository institutions in the region. FDIC headquarters staff, along with the other federal banking regulators and the state chartering authorities, monitored the attacks’ impact on the banking system, particularly the payment settlement mechanisms. Immediate concerns about the continued operations of affected institutions were constantly monitored, and senior officials at the regulatory agencies were briefed daily until crucial services for clearing and settling transactions were restored. Liquidity concerns nationwide were monitored through daily conference calls between the various regional offices of each of the agencies until the situation had stabilized and concerns had been mitigated. In conjunction with other bank regulators, the FDIC assessed the long-term impact of these events on the U.S. banking industry. The FDIC also issued supervisory guidance to the industry similar to guidance



*On September 28, Chairman Powell visited the staff of the FDIC’s New York Regional Office in Manhattan to address their concerns following the terrorist attacks on the World Trade Center just a few weeks before.*



## Operations of the Corporation—The Year In Review

normally issued when natural disasters occur, and encouraged FDIC-supervised institutions to cooperate with law enforcement agencies in the investigation of terrorist activity.

Following the terrorist attacks, economists and financial analysts in the eight FDIC regional offices worked with their counterparts in Washington to stay abreast of regional and national economic developments and to evaluate their likely effects on the banking system. FDIC staff delivered a report to the FDIC Board of Directors on October 9 detailing the effects on the banking industry up to that time. A summary of that report was published in the FDIC's fourth quarter *Regional Outlook*. The third quarter 2001 edition of the FDIC's *Quarterly Banking Profile*, which provides a comprehensive analysis of banking industry statistics and trends, included the supplement "How the Banking Industry Has Responded to Crises." This piece chronicled the history of bank performance indicators during previous historical periods of national and international crisis.

To support rebuilding in New York and Washington following the terrorist attacks, the FDIC announced on October 4 that it will give the banks it supervises credit under the Community Reinvestment Act (CRA) when they lend for reconstruction. CRA has always encouraged banks to lend and provide other services to the entire community in which they do business, including low- and moderate-income neighborhoods. The FDIC wanted to make it clear, however, that

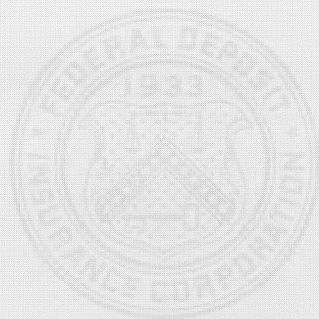
banks that lend and otherwise support this rebuilding can expect to receive favorable consideration for these efforts during CRA examinations.

*Rick Womble, the FDIC's Chief of Disaster Preparedness, at the agency's primary evacuation center, the Virginia Square facility in Arlington, VA.*



*W. W. Reid*







## Overview of the Industry and the Deposit Insurance Funds

Insured commercial banks and savings institutions took advantage of lower interest rates to post record earnings in 2001. The improvement in earnings was limited by rising expenses for loan losses and sluggish growth in noninterest revenues as the U.S. economy slid into recession in the second quarter.

Commercial banks reported \$74.3 billion in net income in 2001, a 4.7 percent increase from the \$71.0 billion they earned in 2000. The record earnings were made possible by \$4.5 billion in gains on sales of securities, as lower interest rates caused the values of banks' fixed-rate securities to appreciate. If these gains and other nonrecurring items are omitted, commercial banks' earnings would have been \$1.1 billion lower than in 2000. The main source of weakness in operating earnings was record expenses for loan losses. Banks set aside \$43.1 billion in provisions for loan losses in 2001, an increase of \$13.1 billion (43.6 percent) from the previous year. The average return on assets (ROA), a fundamental yardstick of earnings performance, declined to 1.16 percent from 1.19 percent in 2000, as the industry registered its ninth consecutive year with an ROA above the benchmark 1 percent level. Fewer than half of all insured commercial banks—44.1 percent—reported higher ROAs in 2001.

As was the case in 2000, commercial and industrial (C&I) loans at large banks remained the focus of asset-quality concerns in 2001. Total loan losses for the year were \$36.5 billion, up \$11.6 billion (47.1 percent) from 2000. Banks

### Selected Statistics 1999-2001

#### Bank Insurance Fund

Dollars in Millions

	For the year ended December 31		
	2001	2000	1999
<b>Financial Results</b>			
Revenue	\$ 1,997	\$ 1,906	\$ 1,816
Operating Expenses	786	773	730
Insurance Losses and Expenses	1,774	(128)	1,192
Net (Loss)/Income	(563)	1,261	(106)
Comprehensive (Loss)/Income *	(536)	1,561	(198)
Insurance Fund Balance	\$ 30,439	\$ 30,975	\$ 29,414
Fund as a Percentage of Insured Deposits	1.26 %	1.35 %	1.36 %
<b>Selected Statistics</b>			
Total BIF-Member Institutions *	8,326	8,572	8,834
Problem Institutions	90	74	66
Total Assets of Problem Institutions	\$ 32,000	\$ 11,000	\$ 4,000
Institution Failures	3	6	7
Total Assets of Current Year Failed Institutions	\$ 54,470	\$ 378	\$ 1,424
Number of Active Failed Institution Receiverships	36	51	101

#### Savings Association Insurance Fund

Dollars in Millions

	For the year ended December 31		
	2001	2000	1999
<b>Financial Results</b>			
Revenue	\$ 733	\$ 664	\$ 601
Operating Expenses	102	111	93
Insurance Losses and Expenses	462	189	31
Net Income	169	364	477
Comprehensive Income *	176	478	441
Insurance Fund Balance	\$ 10,935	\$ 10,759	\$ 10,281
Fund as a Percentage of Insured Deposits	1.36 %	1.43 %	1.45 %
<b>Selected Statistics</b>			
Total SAIF-Member Institutions *	1,287	1,333	1,387
Problem Institutions	24	20	13
Total Assets of Problem Institutions	\$ 8,000	\$ 13,000	\$ 6,000
Institution Failures	1	1	1
Total Assets of Current Year Failed Institutions	\$ 2,180	\$ 30	\$ 63
Number of Active Failed Institution Receiverships	3	3	3

\* Comprehensive Income added to conform with SFAS No. 130, "Comprehensive Income."

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

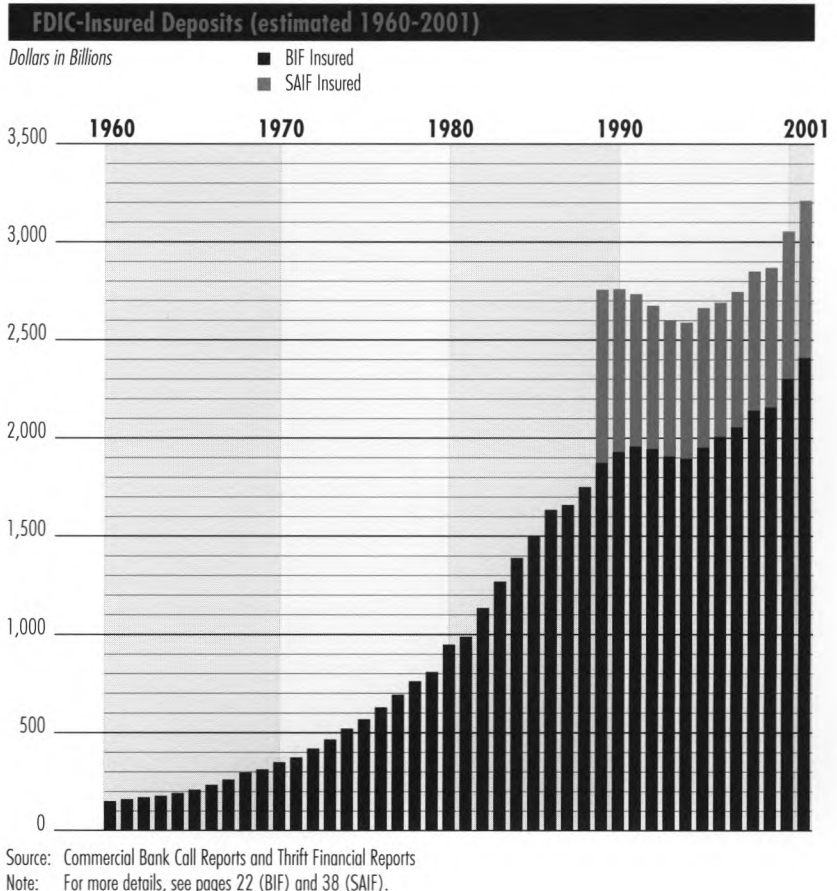
\* Savings institutions and commercial banks.

## Overview of the Industry and the Deposit Insurance Funds

charged off \$14.6 billion in C&I loans during 2001, an increase of \$6.4 billion (77.6 percent) from the previous year's total.

Insured savings institutions also benefited from lower interest rates in 2001. Net income rose to a record \$13.3 billion, from \$10.7 billion in 2000. Sales of securities yielded gains of \$4.2 billion, a \$3.4 billion improvement over the previous year. The widening spread between short-term and longer-term interest rates helped boost the industry's net interest margin to 3.23 percent, from 2.96 percent in 2000. Lower interest rates also stimulated mortgage refinancing activity in 2001, helping thrifts grow their assets by 6.7 percent. As a result, net interest income increased by \$4.8 billion (15.2 percent) in 2001. The industry's ROA of 1.08 percent was the highest since 1946. The improvement in earnings was limited by slow growth in noninterest income, which was only 3 percent higher than in 2000, by a 12.5 percent (\$3.3 billion) increase in noninterest expenses, and by a \$770 million (37.9 percent) jump in loan-loss provisions. The performance gap between large and small savings institutions persisted in 2001. The average ROA at savings institutions with less than \$100 million in assets was only 0.64 percent, and one out of every six of these small thrifts posted a net loss for the year.

The FDIC administers two deposit insurance funds—the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF)—and manages the



FSLIC Resolution Fund (FRF), which fulfills the obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC) and the former Resolution Trust Corporation (RTC). The following summarizes the condition of the FDIC's insurance funds.

Deposit insurance assessment rates remained unchanged from 2000 for both the BIF and the SAIF, ranging from 0 to 27 cents annually per \$100 of assessable deposits. Under the assessment rate schedule, 92.3 percent of BIF-member institutions and 90.3 percent of

SAIF-member institutions were in the lowest risk-assessment category and paid no deposit insurance assessments for the first semiannual period of 2002.

Deposits insured by the FDIC moved past \$3.2 trillion in 2001, as the number of insured institutions fell below the 9,700 mark for the first time. Insured deposits rose by 1 percent during the fourth quarter bringing the growth rate for the full year to 5.1 percent. This was slower than the 6.5 percent increase for 2000; however, the

## Overview of the Industry and the Deposit Insurance Funds

annual growth rate for 2001 was still the second-fastest in the past 15 years. Insured deposits of the 9,631 FDIC member institutions rose by \$156 billion in 2001, including a \$40 billion increase (24 percent) in insured brokered deposits. About 30 percent of the increase in insured deposits was attributable to institutions whose brokerage affiliates sweep cash management account balances into FDIC-insured deposit accounts.

During 2001, deposits insured by BIF increased 4.7 percent, to \$2.4 trillion. The BIF balance was \$30.4 billion at year-end 2001, or 1.26 percent of estimated insured deposits. This was down from the year-end 2000 reserve ratio of 1.35 percent as deposits insured by BIF increased by \$108 billion and the BIF fund balance decreased by \$536 million.

The reserve ratio of SAIF was 1.36 percent at year-end 2001, down from 1.43 percent at year-end 2000. The balance of the SAIF was \$10.9 billion on December 31, 2001. SAIF-insured deposits were \$802 billion at year-end 2001, having grown 6.2 percent for the year. This was the highest growth rate of insured deposits since the inception of SAIF in 1989.

Despite the relatively rapid growth of insured deposits, insured institutions continued to rely increasingly on other funding alternatives. Insured deposits as a percentage of domestic liabilities continued a steady, ten-year decline, falling to 50.9 percent at the end of 2001, compared to 51.7 percent at the end of 2000. At year-end 2001 the ratio was 46

### 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 risk classifications effective for the first semiannual assessment period of 2002. Each institution is categorized based on its capitalization and a supervisory subgroup rating (A, B, or C), which is generally determined by on-site examinations. Assessment rates are basis points, cents per \$100 of assessable deposits, per year.

#### BIF Supervisory Subgroups \*

	A	B	C
<b>Well Capitalized:</b>			
Assessment Rate	0	3	17
Number of Institutions	7,722 (92.5%)	387 (4.6%)	62 (0.7%)
<b>Adequately Capitalized:</b>			
Assessment Rate	3	10	24
Number of Institutions	134 (1.6%)	17 (0.2%)	11 (0.1%)
<b>Undercapitalized:</b>			
Assessment Rate	10	24	27
Number of Institutions	3 (0.0%)	1 (0.0%)	7 (0.1%)

#### SAIF Supervisory Subgroups \*

	A	B	C
<b>Well Capitalized:</b>			
Assessment Rate	0	3	17
Number of Institutions	1,163 (90.4%)	80 (6.2%)	18 (1.4%)
<b>Adequately Capitalized:</b>			
Assessment Rate	3	10	24
Number of Institutions	11 (0.9%)	9 (0.7%)	3 (0.2%)
<b>Undercapitalized:</b>			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	1 (0.1%)	2 (0.2%)

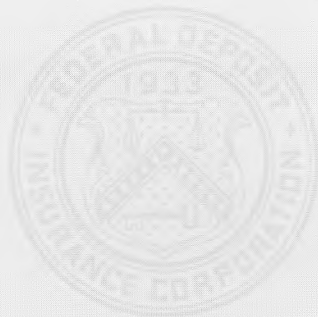
\* BIF data exclude SAIF-member "Oskar" institutions that hold BIF-insured deposits. The assessment rate reflects the rate for BIF-assessable deposits, which remained the same through 2001.

\* SAIF data exclude BIF-member "Oskar" institutions that hold SAIF-insured deposits. The assessment rate reflects the rate for SAIF-assessable deposits, which remained the same through 2001.

percent for institutions with total assets greater than \$1 billion, and 73 percent for smaller institutions.

During 2001, four FDIC-insured institutions failed. Three of those institutions, with combined assets of \$54 million, were insured by the BIF. The other institution, with assets of \$2.2 billion, was insured by the SAIF. Losses for the four failures are estimated at \$445

million. In 2000, there were seven failures of insured institutions, with total assets of \$408 million and estimated losses of \$40 million. The contingent liability for anticipated failures of BIF- and SAIF-insured institutions as of December 31, 2001, was \$1.9 billion and \$233 million, respectively.





## Bank Insurance Fund

Federal Deposit Insurance Corporation

### Bank Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$ 1,436,613	\$ 156,396
<i>Investment in U.S. Treasury obligations, net: (Note 3)</i>		
Held-to-maturity securities	20,477,568	22,510,892
Available-for-sale securities	9,685,367	7,421,597
Interest receivable on investments and other assets, net	547,101	564,398
Receivables from bank resolutions, net (Note 4)	79,155	349,589
Property and equipment, net (Note 5)	303,969	303,438
<b>Total Assets</b>	<b>\$ 32,529,773</b>	<b>\$ 31,306,310</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 134,990	\$ 165,972
<i>Contingent liabilities for: (Note 6)</i>		
Anticipated failure of insured institutions	1,911,000	141,355
Litigation losses	37,123	21,922
Other contingencies	7,835	1,839
<b>Total Liabilities</b>	<b>2,090,948</b>	<b>331,088</b>
<i>Commitments and off-balance-sheet exposure (Note 10)</i>		
<b>Fund Balance</b>		
Accumulated net income	30,192,903	30,755,569
Unrealized gain on available-for-sale securities, net (Note 3)	245,922	219,653
<b>Total Fund Balance</b>	<b>30,438,825</b>	<b>30,975,222</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 32,529,773</b>	<b>\$ 31,306,310</b>

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



Federal Deposit Insurance Corporation

**Bank Insurance Fund Statements of Income and Fund Balance for the Years Ended December 31***Dollars in Thousands*

	2001	2000
<b>Revenue</b>		
Interest on U.S. Treasury obligations	\$ 1,834,768	\$ 1,827,404
Assessments (Note 7)	47,777	45,091
Realized gain on sale of U.S. Treasury obligations	78,227	0
Other revenue	35,964	33,369
<b>Total Revenue</b>	<b>1,996,736</b>	<b>1,905,864</b>
<b>Expenses and Losses</b>		
Operating expenses	785,855	772,918
Provision for insurance losses (Note 8)	1,756,321	(152,962)
Interest and other insurance expenses	17,226	25,289
<b>Total Expenses and Losses</b>	<b>2,559,402</b>	<b>645,245</b>
<b>Net (Loss)/Income</b>	<b>(562,666)</b>	<b>1,260,619</b>
Unrealized gain on available-for-sale securities, net (Note 3)	26,269	300,420
<b>Comprehensive (Loss)/Income</b>	<b>(536,397)</b>	<b>1,561,039</b>
<b>Fund Balance - Beginning</b>	<b>30,975,222</b>	<b>29,414,183</b>
<b>Fund Balance - Ending</b>	<b>\$ 30,438,825</b>	<b>\$ 30,975,222</b>

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

## Bank Insurance Fund

Federal Deposit Insurance Corporation

### Bank Insurance Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2001	2000
<b>Cash Flows From Operating Activities</b>		
<b>Cash provided by:</b>		
Interest on U.S. Treasury obligations	\$ 1,913,936	\$ 1,775,552
Recoveries from bank resolutions	368,603	755,936
Assessments	47,075	48,518
Miscellaneous receipts	38,422	58,349
<b>Cash used by:</b>		
Operating expenses	(729,635)	(742,733)
Disbursements for bank resolutions	(84,651)	(388,276)
Miscellaneous disbursements	(21,696)	(24,968)
<b>Net Cash Provided by Operating Activities (Note 13)</b>	<b>1,532,054</b>	<b>1,482,378</b>
<b>Cash Flows From Investing Activities</b>		
<b>Cash provided by:</b>		
Maturity of U.S. Treasury obligations, held-to-maturity	3,320,000	2,560,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	2,398,572	430,000
<b>Cash used by:</b>		
Purchase of property and equipment	(61,189)	(60,761)
Purchase of U.S. Treasury obligations, held-to-maturity	(1,418,875)	(1,239,157)
Purchase of U.S. Treasury obligations, available-for-sale	(4,490,345)	(3,180,519)
<b>Net Cash Used by Investing Activities</b>	<b>(251,837)</b>	<b>(1,490,437)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,280,217</b>	<b>(8,059)</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>156,396</b>	<b>164,455</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 1,436,613</b>	<b>\$ 156,396</b>

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 funds. All three funds are maintained separately to carry out their respective mandates.

The BIF and the SAIF are insurance funds responsible for protecting insured bank and thrift depositors from loss due to institution failures. 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 Board. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision.

In addition to traditional banks and thrifts, several other categories of institutions exist. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

### 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), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds Act of 1996 (DIFA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing 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 estimated insured deposits or a higher percentage as circumstances warrant.

The Gramm-Leach-Bliley Act (GLBA) was enacted on November 12, 1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial services providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

### RECENT LEGISLATIVE INITIATIVES

Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The legislative proposals include merging BIF and SAIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. These provisions may have a significant impact on the BIF and the SAIF, if enacted into law. FDIC management cannot predict which provisions, if any, will ultimately be enacted.

### OPERATIONS OF THE BIF

The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured institutions and 2) resolve failed institutions, including managing and disposing of 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.

The BIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are 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 established a limitation on obligations that can be incurred by the BIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2001 and December 31, 2000, the MOL for the BIF was \$55.4 billion and \$53.2 billion, respectively.

### RECEIVERSHIP OPERATIONS

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from BIF assets and liabilities to ensure that receivership 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. Expenses paid by the BIF on behalf of the receiverships are recovered from those receiverships.

## **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. Periodic and final accountability reports of the FDIC's activities as receiver 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

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

#### INVESTMENTS IN U.S. TREASURY OBLIGATIONS

BIF investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity 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, except for callable U.S. Treasury securities, which are amortized, to the first anticipated call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statements of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method.

#### ALLOWANCE FOR LOSSES ON RECEIVABLES FROM BANK RESOLUTIONS

The BIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed banks. 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 applicable estimated liquidation costs.

#### COST ALLOCATIONS AMONG FUNDS

Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

#### DISCLOSURE ABOUT RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements as presented.

#### DEPRECIATION

The FDIC has designated the BIF as administrator of property and equipment 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 usage fees representing an allocated share of its annual depreciation expense. These usage fees are recorded as cost recoveries, which reduce operating expenses.

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. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

#### RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

#### RECLASSIFICATIONS

Reclassifications have been made in the 2000 financial statements to conform to the presentation used in 2001.

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

Cash not required to meet the liquidity needs of the BIF is invested in U.S. Treasury obligations with maturities exceeding three months. As of December 31, 2001 and December 31, 2000, the book value of investments in U.S. Treasury obligations, net, was \$30.2 billion and \$29.9 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities. As of December 31, 2001, the FDIC held \$5.5 billion of Treasury inflation-indexed securities (TIIS) for the BIF. These securities are indexed to increases or decreases in the Consumer Price Index (CPI).

During 2001, FDIC purchased \$1.1 billion of callable U.S. Treasury securities for the BIF. These securities are designated as either held-to-maturity or available-for-sale, with the premiums being amortized to the first call date. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice. On February 15, 2002, \$525 million of these securities were called at par, with no loss to the BIF.

In 2001, the BIF reported a gross realized gain of \$78 million on the sale of securities designated as available-for-sale. Proceeds from the sales were \$1.5 billion. Specific identification was used to determine cost of the securities sold in computing the realized gain.



**U.S. Treasury Obligations at December 31, 2001***Dollars in Thousands*

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
Within 1 year	5.77%	\$ 3,625,000	\$ 3,666,801	\$ 71,147	\$ (25)	\$ 3,737,923
After 1 year through 5 years	6.40%	10,345,000	10,516,640	752,345	(2,193)	11,266,792
After 5 years through 10 years	5.24%	6,101,008	6,294,127	208,045	0	6,502,172
<b>Total</b>		<b>\$20,071,008</b>	<b>\$ 20,477,568</b>	<b>\$1,031,537</b>	<b>\$ (2,218)</b>	<b>\$21,506,887</b>
<b>Available-for-Sale</b>						
Within 1 year	4.57%	\$ 1,050,000	\$ 1,056,197	\$ 10,721	\$ 0	\$ 1,066,918
After 1 year through 5 years	5.54%	3,385,000	3,454,666	156,271	0	3,610,937
After 5 years through 10 years	3.78%	4,911,545	4,928,582	103,950	(25,020)	5,007,512
<b>Total</b>		<b>\$ 9,346,545</b>	<b>\$ 9,439,445</b>	<b>\$ 270,942</b>	<b>\$ (25,020)</b>	<b>\$ 9,685,367</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$29,417,553</b>	<b>\$ 29,917,013</b>	<b>\$1,302,479</b>	<b>\$ (27,238)</b>	<b>\$31,192,254</b>

(a) For TIPS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIPS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

**U.S. Treasury Obligations at December 31, 2000***Dollars in Thousands*

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
Within 1 year	5.73%	\$ 3,320,000 <sup>(b)</sup>	\$ 3,324,498	\$ 8,686	\$ (598)	\$ 3,332,586
After 1 year through 5 years	6.37%	10,620,000	10,898,837	367,352	(169)	11,266,020
After 5 years through 10 years	5.64%	8,068,506	8,287,557	266,541	(26,826)	8,527,272
<b>Total</b>		<b>\$22,008,506</b>	<b>\$ 22,510,892</b>	<b>\$ 642,579</b>	<b>\$ (27,593)</b>	<b>\$23,125,878</b>
<b>Available-for-Sale</b>						
Within 1 year	5.73%	\$ 925,000	\$ 925,962	\$ 1,493	\$ (1,053)	\$ 926,402
After 1 year through 5 years	6.35%	2,125,000	2,126,357	67,223	0	2,193,580
After 5 years through 10 years	4.80%	4,254,527	4,149,625	151,990	0	4,301,615
<b>Total</b>		<b>\$ 7,304,527</b>	<b>\$ 7,201,944</b>	<b>\$ 220,706</b>	<b>\$ (1,053)</b>	<b>\$ 7,421,597</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$29,313,033</b>	<b>\$ 29,712,836</b>	<b>\$ 863,285</b>	<b>\$ (28,646)</b>	<b>\$ 30,547,475</b>

(a) For TIPS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIPS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

(b) Includes one Treasury note totaling \$200 million which matured on Sunday, December 31, 2000. Settlement occurred on the next business day, January 2, 2001.

As of December 31, 2001 and 2000, the unamortized premium, net of the unamortized discount, was \$499 million and \$400 million, respectively.

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

The bank resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the BIF against the receiverships' assets. There were three bank failures in 2001 and six in 2000, with assets at failure of \$54 million and \$378 million, respectively, and BIF outlays of \$49.5 million and \$301.7 million, respectively.

Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. As of December 31, 2001 and 2000, BIF receiverships held assets with a book value of \$154.6 million and \$510.9 million, respectively (including cash and miscellaneous receivables of \$71.9 million and \$337 million at December 31, 2001 and 2000, respectively). 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. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the BIF's and other claimants' actual recoveries to vary from the level currently estimated.

**Receivables from Bank Resolutions, Net at December 31**

*Dollars in Thousands*

	2001	2000
Receivables from closed banks	\$ 5,368,970	\$ 9,083,357
Allowance for losses	(5,289,815)	(8,733,768)
<b>Total</b>	<b>\$ 79,155</b>	<b>\$ 349,589</b>

**5. Property and Equipment, Net****Property and Equipment, Net at December 31**

*Dollars in Thousands*

	2001	2000
Land	\$ 29,631	\$ 29,631
Buildings	175,265	168,996
Application software (includes work-in-process)	131,104	109,975
Furniture, fixtures, and equipment	93,593	76,729
Accumulated depreciation	(125,624)	(81,893)
<b>Total</b>	<b>\$ 303,969</b>	<b>\$ 303,438</b>

The depreciation expense was \$44.7 million and \$28.8 million for 2001 and 2000, respectively.



## 6. Contingent Liabilities for:

### ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The BIF records a contingent liability and a loss provision for banks (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and historical loss rates to groups of institutions with certain shared characteristics. In addition, institution-specific analysis is performed on those banks where failure is imminent absent institution management resolution of existing problems. As of December 31, 2001 and 2000, the contingent liabilities for anticipated failure of insured institutions were \$1.9 billion and \$141 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified increasing risk in the financial services industry that could result in a material loss to the BIF should the potentially vulnerable financial institutions ultimately fail. This risk is evidenced by higher levels of problem bank assets, deteriorating credit quality, weaker supervisory ratings, and the increased presence of various new banking business models that have not been tested in a recession.

Due to increased risk in the industry and uncertainty surrounding future economic and financial conditions, there are other banks for which the risk of failure is less certain, but still considered reasonably possible. Should these banks fail, the BIF could incur additional estimated losses up to \$5.1 billion.

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

### LITIGATION LOSSES

The BIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable the FDIC has determined that losses totaling \$74 million from unresolved legal cases are reasonably possible.

Additionally, two cases are currently pending before the U.S. Court of Federal Claims against the United States for actions taken by the FDIC in supervising two BIF-insured, state chartered mutual savings banks. These cases allege that the FDIC's conduct in supervising these institutions breached agreements, which in turn caused state regulators to close these institutions. Although the court has yet to rule on whether any agreements were breached, the BIF has conservatively recorded a small probable loss for one of the cases. At this time, it is not possible to estimate a potential loss to the BIF from the second case.

### OTHER CONTINGENCIES

#### *Representations and Warranties*

As part of the FDIC's efforts to maximize the return from the sale of assets from bank resolutions, representations and warranties, and guarantees were offered on loan sales. The total amount of loans sold subject to representations and warranties, and guarantees were \$5.1 billion as of December 31, 2001. The estimated losses for the contingent liability from all

outstanding claims asserted in connection with representations and warranties was \$1.5 million at December 31, 2001.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 20 years. Consequently, the FDIC believes it is possible that additional losses may be incurred by the BIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the BIF from outstanding contracts with unasserted representation and warranty claims.

## **7. 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 estimated 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 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 assessment rate averaged approximately 0.14 cents per \$100 of assessable deposits for both 2001 and 2000. On October 23, 2001, the Board voted to retain the BIF assessment schedule at the annual rate of 0 to 0.27 cents per \$100 of assessable deposits for the first semiannual period of 2002. The Board reviews premium rates semiannually.

As stated above, the FDICIA requires the FDIC to maintain the insurance funds at a designated reserve ratio (DRR) of 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warrant). As of December 31, 2001, the BIF was 1.26 percent of estimated insured deposits. The FDICIA authorizes and mandates BIF assessments if needed to maintain the fund at the DRR or to return the fund to the DRR if it falls below the DRR. The FDIC is required to set semiannual assessment rates that are sufficient to increase the reserve ratio to the DRR not later than one year after such rates are set, or in accordance with a recapitalization schedule of fifteen years or less.

The DIFA 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), and it made the FICO assessment separate from regular assessments, effective on January 1, 1997.

BIF-insured banks began paying a FICO assessment on January 1, 1997. From January 1, 1997, through December 31, 1999, the FICO assessment rate on BIF-assessable deposits was one-

fifth the rate for SAIF-assessable deposits. Beginning on January 1, 2000, the annual FICO interest obligations of approximately \$790 million are paid on a pro rata basis using the same rate for banks and thrifts.

The FICO assessment has no financial impact on the BIF. The FICO assessment is separate from the regular assessments and is imposed on banks and thrifts, not on the insurance funds. The FDIC, as administrator of the BIF and the SAIF, is acting solely as a collection agent for the FICO. During 2001 and 2000, \$627 million and \$635 million, respectively, was collected from banks and remitted to the FICO.

### 8. Provision for Insurance Losses

Provision for insurance losses was \$1.8 billion for 2001 and negative \$153 million for 2000. The following chart lists the major components of the provision for insurance losses.

#### Provision for Insurance Losses for the Years Ended December 31

*Dollars in Thousands*

	2001	2000
<b>Valuation Adjustments:</b>		
Open bank assistance	\$ (856)	\$ (2,956)
Closed banks	(41,106)	(20,098)
Other assets	(72)	336
<b>Total Valuation Adjustments</b>	<b>(42,034)</b>	<b>(22,718)</b>
<b>Contingent Liabilities Adjustments:</b>		
Anticipated failure of insured institutions	1,776,645	(133,645)
Litigation losses	16,095	3,964
Other contingencies	5,615	(563)
<b>Total Contingent Liabilities Adjustments</b>	<b>1,798,355</b>	<b>(130,244)</b>
<b>Total</b>	<b>\$ 1,756,321</b>	<b>\$ (152,962)</b>

### 9. Employee Benefits

#### PENSION BENEFITS AND SAVINGS PLANS

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees 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.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

## Pension Benefits and Savings Plans Expenses for the Years Ended December 31

*Dollars in Thousands*

	2001	2000
Civil Service Retirement System	\$ 11,205	\$ 11,503
Federal Employees Retirement System (Basic Benefit)	29,562	30,454
FDIC Savings Plan	18,254	19,202
Federal Thrift Savings Plan	11,871	12,154
<b>Total</b>	<b>\$ 70,892</b>	<b>\$ 73,313</b>

### ACCRUED ANNUAL LEAVE

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately \$35.3 million and \$36.0 million at December 31, 2001 and 2000, respectively.

### POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The FDIC provides certain dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for 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 life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity and at no cost to retirees. At December 31, 2001 and 2000, the BIF's prepaid postretirement benefit cost recognized in the "Interest receivable on investments and other assets, net" line item in the Statements of Financial Position was \$3.6 million.

## 10. Commitments and Off-Balance-Sheet Exposure

### COMMITMENTS:

#### Leases

The BIF's allocated share of the FDIC's lease commitments totals \$132 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 could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of \$38.5 million and \$38.1 million for the years ended December 31, 2001 and 2000, respectively.



**Lease Commitments***Dollars in Thousands*

<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007/Thereafter</b>
\$38,250	\$29,322	\$20,451	\$15,012	\$13,172	\$15,749

**OFF-BALANCE-SHEET EXPOSURE:*****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. 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*

	<b>2001</b>	<b>2000</b>
Maximum exposure under the limited guarantees	\$ 330,936	\$ 406,690
Less: Guarantee claims paid (inception-to-date)	(34,756)	(33,730)
Less: Amount of exposure recognized as a contingent liability	(3,966)	(1,605)
<b>Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees</b>	<b>\$ 292,214</b>	<b>\$ 371,355</b>

***Deposit Insurance***

As of December 31, 2001, deposits insured by the BIF totaled approximately \$2.4 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

**11. Concentration of Credit Risk**

Financial instruments that potentially subject the BIF to credit risk consist primarily of gross receivables from bank resolutions totaling \$5.4 billion. The receivables from bank resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the BIF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. An allowance for loss of \$5.3 billion, or 99% of the gross receivable, was recorded as of December 31, 2001. Of the remaining one percent of the gross receivable, the amount of credit risk is limited since 59% of the receivership assets consist of cash and cash equivalents.

## 12. 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, due to their short maturities and/or comparability with current interest rates.

The net receivables from bank resolutions primarily include 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 receivables 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 (see Note 4), 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.



## 13. Supplementary Information Relating to the Statements of Cash Flows

## Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

	2001	2000
<b>Net (Loss)/Income</b>	<b>\$ (562,666)</b>	<b>\$ 1,260,619</b>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations	160,763	128,875
TIIS inflation adjustment	(96,064)	(93,204)
Gain on sale of U.S. Treasury obligations	(78,227)	0
Depreciation on property and equipment	44,723	28,799
Retirement of capitalized equipment	1,568	1,152
Change in Assets and Liabilities:		
Decrease (Increase) in interest receivable on investments and other assets	17,273	(77,258)
Decrease in receivables from bank resolutions	270,434	393,422
(Decrease) Increase in accounts payable and other liabilities	(16,591)	5,244
Increase (Decrease) in contingent liabilities for anticipated failure of insured institutions	1,769,645	(165,645)
Increase (Decrease) in other contingencies	5,995	(11,548)
Increase in contingent liabilities for litigation losses	15,201	11,922
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,532,054</b>	<b>\$ 1,482,378</b>

## Savings Association Insurance Fund

Federal Deposit Insurance Corporation

### Savings Association Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$ 276,507	\$ 149,988
Cash and other assets: Restricted for SAIF-member exit fees (Note 3)		
(Includes cash and cash equivalents of \$71.9 million and \$40.2 million at December 31, 2001 and December 31, 2000, respectively)	299,374	283,780
Investment in U.S. Treasury obligations, net: (Note 4)		
Held-to-maturity securities	6,718,418	7,950,849
Available-for-sale securities	2,745,476	2,708,965
Interest receivable on investments and other assets, net	156,126	188,473
Receivables from thrift resolutions, net (Note 5)	1,285,150	4,147
<b>Total Assets</b>	<b>\$ 11,481,051</b>	<b>\$ 11,286,202</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 8,111	\$ 7,748
Contingent liabilities for: (Note 6)		
Anticipated failure of insured institutions	233,000	234,083
Litigation losses	5,642	1,943
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	299,374	283,780
<b>Total Liabilities</b>	<b>546,127</b>	<b>527,554</b>
Commitments and off-balance-sheet exposure (Note 10)		
<b>Fund Balance</b>		
Accumulated net income	10,845,515	10,676,477
Unrealized gain on available-for-sale securities, net (Note 4)	89,409	82,171
<b>Total Fund Balance</b>	<b>10,934,924</b>	<b>10,758,648</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 11,481,051</b>	<b>\$ 11,286,202</b>

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

Federal Deposit Insurance Corporation

**Savings Association Insurance Fund Statements of Income and Fund Balance for the Years Ended December 31***Dollars in Thousands*

	2001	2000
<b>Revenue</b>		
Interest on U.S. Treasury obligations	\$ 633,725	\$ 644,222
Assessments (Note 7)	35,402	19,237
Realized gain on sale of U.S. Treasury obligations	51,630	0
Other revenue	12,364	621
<b>Total Revenue</b>	<b>733,121</b>	<b>664,080</b>
<b>Expenses and Losses</b>		
Operating expenses	101,591	110,920
Provision for insurance losses (Note 8)	443,103	180,805
Other insurance expenses	19,389	8,293
<b>Total Expenses and Losses</b>	<b>564,083</b>	<b>300,018</b>
<b>Net Income</b>	<b>169,038</b>	<b>364,062</b>
Unrealized gain on available-for-sale securities, net (Note 4)	7,238	113,914
<b>Comprehensive Income</b>	<b>176,276</b>	<b>477,976</b>
<b>Fund Balance - Beginning</b>	<b>10,758,648</b>	<b>10,280,672</b>
<b>Fund Balance - Ending</b>	<b>\$ 10,934,924</b>	<b>\$ 10,758,648</b>

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

SAIF



## Savings Association Insurance Fund

Federal Deposit Insurance Corporation

### Savings Association Insurance Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2001	2000
<b>Cash Flows From Operating Activities</b>		
<b>Cash provided by:</b>		
Interest on U.S. Treasury obligations	\$ 674,636	\$ 606,521
Assessments	35,554	19,829
Entrance and exit fees, including interest on exit fees (Note 3)	3,984	14,414
Recoveries from thrift resolutions	246,535	88,451
Miscellaneous receipts	2,615	60
<b>Cash used by:</b>		
Operating expenses	(102,429)	(107,137)
Disbursements for thrift resolutions	(1,976,964)	(39,753)
Miscellaneous disbursements	(352)	(17)
<b>Net Cash (Used by) Provided by Operating Activities (Note 13)</b>	<b>(1,116,421)</b>	<b>582,368</b>
<b>Cash Flows From Investing Activities</b>		
<b>Cash provided by:</b>		
Maturity of U.S. Treasury obligations, held-to-maturity	2,049,512	1,630,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	875,245	150,000
<b>Cash used by:</b>		
Purchase of U.S. Treasury obligations, held-to-maturity	(826,788)	(1,522,399)
Purchase of U.S. Treasury obligations, available-for-sale	(823,265)	(819,316)
<b>Net Cash Provided by (Used by) Investing Activities</b>	<b>1,274,704</b>	<b>(561,715)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>158,283</b>	<b>20,653</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>190,141</b>	<b>169,488</b>
<b>Unrestricted Cash and Cash Equivalents - Ending</b>	<b>276,507</b>	<b>149,988</b>
<b>Restricted Cash and Cash Equivalents - Ending</b>	<b>71,917</b>	<b>40,153</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 348,424</b>	<b>\$ 190,141</b>

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 funds. All three funds are maintained separately to carry out their respective mandates.

The SAIF and the BIF are insurance funds responsible for protecting insured thrift and bank depositors from loss due to institution failures. 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 Board.

In addition to traditional thrifts and banks, several other categories of institutions exist. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oaker financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

### 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), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds Act of 1996 (DIFA) made changes to the FDIC's assessment authority (see Note 7) and



borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing 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 estimated insured deposits or a higher percentage as circumstances warrant.

The Gramm Leach Bliley Act (GLBA) was enacted on November 12, 1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial service providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

### RECENT LEGISLATIVE INITIATIVES

Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The legislative proposals include merging SAIF and BIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. These provisions may have a significant impact on the SAIF and the BIF, if enacted into law. FDIC management cannot predict which provisions, if any, will ultimately be enacted.

### 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 institutions, including disposing of their assets. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and by BIF-member banks designated as Oaker financial institutions.

The SAIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are borrowings from the U.S. Treasury, the Federal Financing Bank (FFB), and the Federal Home Loan Banks, 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 established a limitation on obligations that can be incurred by the SAIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2001 and December 31, 2000, the MOL for the SAIF was \$18.8 billion and \$18.4 billion, respectively.

### RECEIVERSHIP OPERATIONS

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from SAIF assets and liabilities to ensure that receivership 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. Expenses paid by the SAIF on behalf of the receiverships are recovered from those receiverships.

## 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. Periodic and final accountability reports of the FDIC's activities as receiver 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

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

### INVESTMENTS IN U.S. TREASURY OBLIGATIONS

SAIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity 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. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statements of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method.

### ALLOWANCE FOR LOSSES ON RECEIVABLES FROM THRIFT RESOLUTIONS

The SAIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing 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 estimates of discounted cash recoveries from the assets of assisted or failed thrifts, net of all applicable estimated liquidation costs.

### COST ALLOCATIONS AMONG FUNDS

Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

### DISCLOSURE ABOUT RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements as presented.



RELATED PARTIES

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

**3. Cash and Other Assets: Restricted for SAIF-Member Exit Fees**

The SAIF collects 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 (Board) 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. There were no conversion transactions during 2001 and 2000 that resulted in an exit fee to the SAIF.

**Cash and Other Assets: Restricted for SAIF-Member Exit Fees at December 31**

*Dollars in Thousands*

	2001	2000
Cash and cash equivalents	\$ 71,917	\$ 40,154
Investment in U.S. Treasury obligations, net	223,213	239,088
Interest receivable on U.S. Treasury obligations	4,244	4,535
Exit fees receivable	0	3
<b>Total</b>	<b>\$ 299,374</b>	<b>\$ 283,780</b>



**U.S. Treasury Obligations at December 31, 2001 (Restricted for SAIF-Member Exit Fees)***Dollars in Thousands*

Maturity	Yield at Purchase	Face Value	Held-to-Maturity	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Net Carrying Amount			
Within 1 year	5.95%	\$ 100,000	\$ 100,027	\$ 2,364	\$ 0	\$ 102,391
After 1 year through 5 years	6.10%	75,000	76,764	3,814	0	80,578
After 5 years through 10 years	5.03%	44,000	46,422	893	0	47,315
<b>Total</b>		<b>\$ 219,000</b>	<b>\$ 223,213</b>	<b>\$ 7,071</b>	<b>\$ 0</b>	<b>\$ 230,284</b>

**U.S. Treasury Obligations at December 31, 2000 (Restricted for SAIF-Member Exit Fees)***Dollars in Thousands*

Maturity	Yield at Purchase	Face Value	Held-to-Maturity	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Net Carrying Amount			
Within 1 year	5.52%	\$ 15,000	\$ 15,093	\$ 0	\$ (20)	\$ 15,073
After 1 year through 5 years	6.07%	155,000	156,020	2,467	0	158,487
After 5 years through 10 years	5.20%	64,000	67,975	454	(373)	68,056
<b>Total</b>		<b>\$ 234,000</b>	<b>\$ 239,088</b>	<b>\$ 2,921</b>	<b>\$ (393)</b>	<b>\$ 241,616</b>

The unamortized premium, net of the unamortized discount, was \$4.2 million and \$5.1 million at December 31, 2001 and 2000, respectively.

**4. Investment in U.S. Treasury Obligations, Net**

Cash not required to meet the liquidity needs of the SAIF is invested in U.S. Treasury obligations with maturities exceeding three months. As of December 31, 2001 and December 31, 2000, the book value of investments in U.S. Treasury Obligations, net, was \$9.5 billion and \$10.7 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities. In 2001, the FDIC held \$1.9 billion of Treasury inflation-indexed securities (TIIS) for the SAIF. These securities are indexed to increases or decreases in the Consumer Price Index (CPI).

In 2001, the SAIF reported a gross realized gain of \$52 million on the sale of securities designated as available-for-sale. Proceeds from the sales were \$795 million. Specific identification was used to determine cost of the securities sold in computing the realized gain.

## Savings Association Insurance Fund

### U.S. Treasury Obligations at December 31, 2001 (Unrestricted)

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Held-to-Maturity	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Net Carrying Amount			
Within 1 year	5.91%	\$ 970,000	\$ 973,251	\$ 15,735	\$ 0	\$ 988,986
After 1 year through 5 years	6.17%	2,540,000	2,592,612	162,155	0	2,754,767
After 5 years through 10 years	5.53%	3,125,012	3,152,554	142,863	0	3,295,417
<b>Total</b>		<b>\$ 6,635,012</b>	<b>\$ 6,718,417</b>	<b>\$ 320,753</b>	<b>\$ 0</b>	<b>\$ 7,039,170</b>
<b>Available-for-Sale</b>						
Within 1 year	6.44%	\$ 75,000	\$ 74,412	\$ 3,213	\$ 0	\$ 77,625
After 1 year through 5 years	6.18%	930,000	942,449	55,065	0	997,514
After 5 years through 10 years	3.84%	1,642,564	1,639,207	36,592	(5,461)	1,670,338
<b>Total</b>		<b>\$ 2,647,564</b>	<b>\$ 2,656,068</b>	<b>\$ 94,870</b>	<b>\$ (5,461)</b>	<b>\$ 2,745,477</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$ 9,282,576</b>	<b>\$ 9,374,485</b>	<b>\$ 415,623</b>	<b>\$ (5,461)</b>	<b>\$ 9,784,647</b>

(a) For TIPS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIPS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

### U.S. Treasury Obligations, Net at December 31, 2000 (Unrestricted)

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Held-to-Maturity	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
			Net Carrying Amount			
Within 1 year	6.00%	\$ 2,034,500 <sup>(b)</sup>	\$ 2,036,981	\$ 3,172	\$ (52)	\$ 2,040,101
After 1 year through 5 years	6.25%	2,435,000	2,473,164	70,074	0	2,543,238
After 5 years through 10 years	5.64%	3,380,394	3,440,704	117,935	(5,768)	3,552,871
<b>Total</b>		<b>\$ 7,849,894</b>	<b>\$ 7,950,849</b>	<b>\$ 191,181</b>	<b>\$ (5,820)</b>	<b>\$ 8,136,210</b>
<b>Available-for-Sale</b>						
Within 1 year	5.17%	\$ 80,000	\$ 80,269	\$ 0	\$ (181)	\$ 80,088
After 1 year through 5 years	6.29%	1,255,000	1,275,120	44,860	0	1,319,980
After 5 years through 10 years	4.43%	1,288,270	1,271,405	37,492	0	1,308,897
<b>Total</b>		<b>\$ 2,623,270</b>	<b>\$ 2,626,794</b>	<b>\$ 82,352</b>	<b>\$ (181)</b>	<b>\$ 2,708,965</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$10,473,164</b>	<b>\$ 10,577,643</b>	<b>\$ 273,533</b>	<b>\$ (6,001)</b>	<b>\$10,845,175</b>

(a) For TIPS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIPS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

(b) Includes two Treasury notes totaling \$150 million which matured on Sunday, December 31, 2000. Settlement occurred on the next business day, January 2, 2001.

As of December 31, 2001 and 2000, the unamortized premium, net of the unamortized discount, was \$91.9 million and \$104.5 million, respectively.



## 5. Receivables from Thrift Resolutions, Net

The thrift resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the SAIF against the receiverships' assets. There was one thrift failure in both 2001 and 2000, with assets at failure of \$2.2 billion and \$30 million, respectively, and SAIF outlays of \$1 billion and \$29 million, respectively. In addition, as part of the FDIC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on loan sales. The total amount of loans sold subject to representations and warranties, and guarantees were \$373 million as of December 31, 2001.

Receivables from thrift resolutions increased by \$1.281 billion due to the failure of Superior Bank, FSB, Hinsdale, Illinois. On July 27, 2001, the FDIC was named receiver of this failed institution and conservator of a newly chartered, full-service mutual savings bank. The Superior resolution represented a new liquidation approach for the SAIF by establishing a conservatorship to enhance franchise value and to liquidate assets as a going concern. When the majority of the assets are sold, the conservatorship will terminate and the proceeds will transfer back to the Superior receivership.

As part of this transaction, the FDIC extended a \$1.5 billion line of credit to the conservatorship for liquidity purposes. As of December 31, 2001, the conservatorship had drawn \$1.0 billion from this line of credit and repaid \$859 million, leaving \$163 million of the line of credit unpaid. The FDIC estimated a loss of \$440 million to the SAIF for this institution as of year end 2001.

Assets held by the FDIC in its receivership capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from closed thrifts. As of December 31, 2001 and 2000, SAIF receiverships held assets with a book value of \$210 million and \$56.1 million, respectively (including cash and miscellaneous receivables of \$16 million and \$48.2 million at December 31, 2001, and 2000, respectively). Generally, 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. For recent and significant failures, such as Superior, a separate evaluation is performed on the majority of assets within the conservatorship and receivership to determine an appropriate allowance for loss estimate to the SAIF. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the SAIF's and other claimants' actual recoveries to vary from the level currently estimated.

## 6. Contingent Liabilities for:

### ANTICIPATED FAILURE OF INSURED INSTITUTIONS

The SAIF records a contingent liability and a loss provision for thrifts (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and historical loss rates to groups of institutions with certain shared characteristics. In addition, institution-specific analysis is performed on those thrifts where failure is imminent absent institution management resolution of existing problems. As of December 31, 2001 and 2000, the contingent liabilities for anticipated failure of insured institutions were \$233 million and \$234 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified increasing risk in the financial services industry that could result in a material loss to the SAIF should the potentially vulnerable financial institutions ultimately fail. This risk is evidenced by higher levels of problem thrift assets, deteriorating credit quality, weaker supervisory ratings, and the increased presence of various new thrift business models that have not been tested in a recession.

Due to increased risk in the industry and uncertainty surrounding future economic and financial conditions, there are other thrifts for which the risk of failure is less certain, but still considered reasonably possible. Should these thrifts fail, the SAIF could incur additional estimated losses up to \$1.8 billion.

The accuracy of these estimates will largely depend on future economic conditions. The FDIC's Board of Directors has the statutory authority to consider the contingent 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. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling \$921 thousand are reasonably possible.

In addition, two cases are currently pending in the U.S. District Court against the FDIC alleging that the FDIC's calculation of a special assessment exceeded the amounts due pursuant to the Deposit Insurance Funds Act of 1996 (DIFA). The DIFA authorized the FDIC to make a one-time special assessment for the purpose of fully capitalizing the SAIF to its designated reserve ratio (DRR) of 1.25%. The plaintiffs seek refunds of special assessment overpayments and interest from the date of the overpayments. The FDIC believes the probability of refunds is remote and therefore no estimate of loss is recorded or disclosed.

## **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 estimated 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 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 assessment rate averaged approximately 0.41 cents and 0.24 cents per \$100 of assessable deposits for 2001 and 2000, respectively. On October 23, 2001, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 0.27 cents per \$100 of assessable deposits for the first semiannual period of 2002. The Board reviews premium rates semiannually.

The DIFA provided, among other things, for the capitalization of the SAIF to its DRR of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. The SAIF achieved its required capitalization by means of a \$4.5 billion special assessment effective October 1, 1996. Since October 1996, the SAIF has maintained a capitalization level at or higher than the DRR of 1.25 percent of insured deposits. As of December 31, 2001, the capitalization level for the SAIF is 1.36 percent of estimated insured deposits.

The DIFA provided 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 thrifts, banks, and Oaker and Sasser financial institutions), and it made the FICO assessment separate from regular assessments, effective on January 1, 1997.

The FICO assessment has no financial impact on the SAIF. The FICO assessment is separate from the regular assessments and is imposed on thrifts and banks, not on the insurance funds. The FDIC, as administrator of the SAIF and the BIF, is acting solely as a collection agent for the FICO. During 2001 and 2000, \$164 million and \$158 million, respectively, was collected from SAIF-member institutions and remitted to the FICO.

## 8. Provision for Insurance Losses

Provision for insurance losses was \$443.1 million and \$180.8 million for December 31, 2001 and December 31, 2000, respectively. The following chart lists the major components of the provision for insurance losses.

### Provision for Insurance Losses for the Years Ended December 31

*Dollars in Thousands*

	2001	2000
<b>Valuation Adjustments:</b>		
Closed thrifts	\$ 440,487	\$ (7,221)
<b>Total Valuation Adjustments</b>	<b>440,487</b>	<b>(7,221)</b>
<b>Contingent Liabilities Adjustments:</b>		
Anticipated failure of insured institutions	(1,083)	186,083
Litigation losses	3,699	1,943
<b>Total Contingent Liabilities Adjustments</b>	<b>2,616</b>	<b>188,026</b>
<b>Total</b>	<b>\$ 443,103</b>	<b>\$ 180,805</b>

## 9. Employee Benefits

### PENSION BENEFITS AND SAVINGS PLAN

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees 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.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

### **Pension Benefits and Savings Plans Expenses for the Years Ended December 31**

*Dollars in Thousands*

	2001	2000
Civil Service Retirement System	\$ 1,561	\$ 1,603
Federal Employees Retirement System (Basic Benefit)	4,043	4,092
FDIC Savings Plan	2,508	2,594
Federal Thrift Savings Plan	1,622	1,631
<b>Total</b>	<b>\$ 9,734</b>	<b>\$ 9,920</b>

### ACCRUED ANNUAL LEAVE

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately \$4.6 million and \$5.0 million at December 31, 2001 and 2000, respectively.

### POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The FDIC provides certain dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for 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 life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity and at no cost to retirees. At December 31, 2001 and 2000, the SAIF's prepaid postretirement benefit cost recognized in the "Interest receivable on investment and other assets, net" line item in the Statements of Financial Position was \$148 thousand and \$101 thousand, respectively.

## 10. Commitments and Off-Balance-Sheet Exposure

### COMMITMENTS:

#### *Leases*

The SAIF's allocated share of the FDIC's lease commitments totals \$17.1 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of 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 could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of \$5.8 million and \$5.7 million at December 31, 2001 and 2000, respectively.

Lease Commitments					
<i>Dollars in Thousands</i>					
2002	2003	2004	2005	2006	2007/Thereafter
\$4,965	\$3,806	\$2,654	\$1,948	\$1,710	\$2,044

### OFF-BALANCE-SHEET EXPOSURE:

#### *Deposit Insurance*

As of December 31, 2001, deposits insured by the SAIF totaled approximately \$802 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

#### *Asset Putbacks*

Certain asset sales from the Superior conservatorship have been sold with agreement that specific assets may be resold, or "putback," to the receivership. The values and time limits for these assets to be putback are defined within each agreement. It is possible that the SAIF could be called upon to fund the purchase of any or all of the "unexpired putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under existing agreements is \$488 million. The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the purchaser initiates the asset putback procedures. The FDIC projects that a total of \$5.5 million in book value of assets will be putback.



## **11. Concentration of Credit Risk**

Financial instruments that potentially subject the SAIF to credit risk consist primarily of gross receivables from bank resolutions totaling \$1.7 billion. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships/conservatorships to provide working capital, and receivables for expenses paid by the SAIF on behalf of receiverships. Assets held by the FDIC in its receivership or conservatorship capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from resolutions. Most of the gross receivable and related allowance for loss of \$446 million is attributable to the failure of Superior Bank. The credit risk related to the Superior resolution is limited because most of the net receivable is expected to be paid in the second quarter of 2002.

## **12. 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 Notes 3 and 4 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, due to their short maturities and/or comparability with current interest rates.

The net receivables from thrift resolutions primarily include 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 receivables 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 (see Note 5), 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 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 thrift resolutions.



## 13. Supplementary Information Relating to the Statements of Cash Flows

## Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

SAIF

	2001	2000
<b>Net Income</b>	<b>\$ 169,038</b>	<b>\$ 364,062</b>
<b>Adjustments to Reconcile Net Income to Net Cash (Used by) Provided by Operating Activities</b>		
<b>Income Statement Items:</b>		
Amortization of U.S. Treasury obligations (unrestricted)	32,503	32,317
TIIS inflation adjustment	(37,407)	(36,930)
Gain on sale of U.S. Treasury obligations	(51,630)	0
<b>Change in Assets and Liabilities:</b>		
Decrease in amortization of U.S. Treasury obligations (restricted)	863	887
Decrease (Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	32,641	(34,240)
(Increase) Decrease in receivables from thrift resolutions	(1,281,002)	58,096
Increase in accounts payable and other liabilities	362	2,860
(Decrease) Increase in contingent liability for anticipated failure of insured institutions	(1,083)	178,083
Increase in contingent liability for litigation losses	3,699	1,943
Increase in exit fees and investment proceeds held in escrow	15,595	15,290
<b>Net Cash (Used by) Provided by Operating Activities</b>	<b>\$ (1,116,421)</b>	<b>\$ 582,368</b>

## FSLIC Resolution Fund

Federal Deposit Insurance Corporation

### FSLIC Resolution Fund Statements of Financial Position at December 31

Dollars in Thousands

	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$ 3,490,396	\$ 3,514,541
Receivables from thrift resolutions, net (Note 3)	286,455	416,376
Investment in securitization-related assets acquired from receiverships (Note 4)	1,087,102	1,811,442
Other assets, net (Note 5)	29,697	50,741
<b>Total Assets</b>	<b>\$ 4,893,650</b>	<b>\$ 5,793,100</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 14,787	\$ 41,088
Liabilities from thrift resolutions (Note 6)	0	74,872
Contingent liabilities for litigation losses and other (Note 7)	5,304	4,575
<b>Total Liabilities</b>	<b>20,091</b>	<b>120,535</b>
<i>Commitments and concentration of credit risk (Note 12 and Note 13)</i>		
<b>Resolution Equity (Note 10)</b>		
Contributed capital	128,073,030	129,484,926
Accumulated deficit	(123,505,818)	(124,267,778)
Unrealized gain on available-for-sale securities, net (Note 4)	306,347	455,417
Accumulated deficit, net	(123,199,471)	(123,812,361)
<b>Total Resolution Equity</b>	<b>4,873,559</b>	<b>5,672,565</b>
<b>Total Liabilities and Resolution Equity</b>	<b>\$ 4,893,650</b>	<b>\$ 5,793,100</b>

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



Federal Deposit Insurance Corporation

**FSLIC Resolution Fund Statements of Income and Accumulated Deficit for the Years Ended December 31***Dollars in Thousands*

	2001	2000
<b>Revenue</b>		
Interest on securitization-related assets acquired from receiverships	\$ 32,758	\$ 85,511
Interest on U.S. Treasury obligations	99,488	145,063
Interest on advances and subrogated claims (Note 8)	18,447	158,865
Realized gain on investment in securitization-related assets acquired from receiverships (Note 4)	352,179	91,487
Other revenue	78,166	41,247
<b>Total Revenue</b>	<b>581,038</b>	<b>522,173</b>
<b>Expenses and Losses</b>		
Operating expenses	74,683	74,102
Provision for losses (Note 9)	(368,987)	(438,642)
Expenses for goodwill settlements and litigation (Note 1)	60,380	94,159
Interest expense on notes payable and other expenses	29,461	23,247
Realized loss on investment in securitization-related assets acquired from receiverships (Note 4)	23,541	37,485
<b>Total Expenses and Losses</b>	<b>(180,922)</b>	<b>(209,649)</b>
<b>Net Income</b>	<b>761,960</b>	<b>731,822</b>
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)	(149,070)	75,247
<b>Comprehensive Income</b>	<b>612,890</b>	<b>807,069</b>
<b>Accumulated Deficit - Beginning</b>	<b>(123,812,361)</b>	<b>(124,619,430)</b>
<b>Accumulated Deficit - Ending</b>	<b>\$ (123,199,471)</b>	<b>\$ (123,812,361)</b>

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

## FSLIC Resolution Fund

Federal Deposit Insurance Corporation

### FSLIC Resolution Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2001	2000
<b>Cash Flows From Operating Activities</b>		
Cash provided by:		
Interest on U.S. Treasury obligations	\$ 99,488	\$ 145,063
Interest on securitization-related assets acquired from receiverships	36,148	89,417
Recoveries from thrift resolutions	476,678	1,392,486
Miscellaneous receipts	53,351	87,530
Cash used by:		
Operating expenses	(83,342)	(78,978)
Disbursements for thrift resolutions	(27,315)	(121,176)
Disbursements for goodwill settlements and litigation expenses	(60,380)	(94,159)
Miscellaneous disbursements	(9,279)	(38,198)
<b>Net Cash Provided by Operating Activities (Note 15)</b>	<b>485,349</b>	<b>1,381,985</b>
<b>Cash Flows From Investing Activities</b>		
Cash provided by:		
Investment in securitization-related assets acquired from receiverships	902,402	1,027,943
<b>Net Cash Provided by Investing Activities</b>	<b>902,402</b>	<b>1,027,943</b>
<b>Cash Flows From Financing Activities</b>		
Cash provided by:		
U.S. Treasury payments for goodwill settlements	0	25
Cash used for:		
Return of U.S. Treasury payments (Note 10)	(5,300)	(394,593)
Payments to Resolution Funding Corporation (Note 10)	(1,406,596)	(1,448,957)
<b>Net Cash Used by Financing Activities</b>	<b>(1,411,896)</b>	<b>(1,843,525)</b>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(24,145)</b>	<b>566,403</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>3,514,541</b>	<b>2,948,138</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 3,490,396</b>	<b>\$ 3,514,541</b>

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.

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

The FIRREA also created the RTC 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. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions. Additionally, funds were appropriated for RTC resolutions pursuant to FIRREA; the RTC Funding Act of 1991; the RTC Refinancing, Restructuring and Improvement Act of 1991; and the RTC Completion Act of 1993.

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 assets of one pool are not available to satisfy obligations of the other.

The RTC Completion Act also made available approximately \$18 billion worth of additional funding to the RTC, of which the RTC actually drew down \$4.6 billion. The RTC Completion Act requires the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by the RTC. This appropriation was fully repaid in 2000.

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. During 2001, the FRF-RTC transferred \$1.4 billion to the REFCORP.

#### OPERATIONS OF THE FRF

The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay the interest on the REFCORP bonds.

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) amounts received from the issuance of capital certificates to REFCORP; 4) funds received from the management and disposition of assets of the FRF; 5) the FRF's portion of liquidating dividends paid by FRF receiverships; and 6) interest earned on Special U.S. Treasury Certificates purchased with proceeds of 4) and 5). 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 appropriated by Congress, to carry out the objectives of the FRF.

Public Law 103-327 provided \$827 million in funding to be available until expended to facilitate efforts to wind up the resolution activity of the FRF-FSLIC. 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 U.S. Department of Justice (DOJ) of \$26.1 million and \$33.7 million, respectively, from the original \$827 million in funding, thus reducing the amount available to be expended to \$602.2 million. The funding made available to DOJ covers the reimbursement of reasonable expenses of litigation incurred in the defense of claims against the United States arising from the goodwill litigation cases.

Additional goodwill litigation expenses incurred by DOJ are paid directly from the FRF-FSLIC based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid \$66.8 million and \$96.9 million to DOJ for fiscal years 2002 and 2001, respectively. DOJ returns any unused fiscal year funding to the FRF unless special circumstances warrant these funds be carried over and applied against current fiscal year charges. At September 30, 2001, DOJ had \$39.6 million in unused FY 2001 funds that were applied against FY 2002 charges of \$106.4 million. Separate funding for goodwill judgments and settlements is available through Public Law 106-113 (see Note 7).

#### RECEIVERSHIP OPERATIONS

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from FRF assets and liabilities to ensure that receivership 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. Expenses paid by the FRF on behalf of the receiverships are recovered from those receiverships.

## **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 thrift institutions for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver 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

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist of Special U.S. Treasury Certificates.

#### INVESTMENT IN SECURITIZATION-RELATED ASSETS ACQUIRED FROM RECEIVERSHIPS

The investment in securitization-related assets acquired from receiverships is classified as available-for-sale and is shown at fair value with unrealized gains and losses included in Resolution Equity. Realized gains and losses are included in the Statements of Income and Accumulated Deficit as components of Net Income.

#### ALLOWANCE FOR LOSSES ON RECEIVABLES FROM THRIFT RESOLUTIONS

The FRF records a receivable for 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 estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all applicable estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

#### COST ALLOCATIONS AMONG FUNDS

Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

#### DISCLOSURE ABOUT RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements as presented.

#### RELATED PARTIES

*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; S-Series; and Judgements, Deficiencies, and Charge-offs programs. The majority of the limited partnership equity interests have been transferred from the receiverships to the FRF. These assets are included in the "Other assets, net" line item in the FRF's Statements of Financial Position.

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.



## RECLASSIFICATIONS

Reclassifications have been made in the 2000 financial statements to conform to the presentation used in 2001.

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

The thrift resolution process took different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that failed were made to cover obligations to insured depositors and represent claims by the FRF against the receiverships' assets. Payments to prevent a failure were made to operating institutions when cost and other criteria were met.

Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2001 and 2000, FRF receiverships held assets with a book value of \$448 million and \$712 million, respectively (including cash and miscellaneous receivables of \$264 million and \$493 million at December 31, 2001 and 2000 respectively). For the year ending December 2000, the estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based on a statistical sampling of the receivership assets. Due to the significant reduction of the receivership asset portfolio, non-statistical sampling was used to estimate cash recoveries for the year ending December, 2001. This non-statistical sample, based primarily on asset book values, provided 94% coverage of the entire portfolio's book value. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the FRF's and other claimants' actual recoveries to vary from the level currently estimated.

**Receivables From Thrift Resolutions, Net at December 31**

*Dollars in Thousands*

	2001	2000
Assets from open thrift assistance	\$ 384,885	\$ 384,882
Allowance for losses	(374,885)	(371,557)
<b>Net Assets From Open Thrift Assistance</b>	<b>10,000</b>	<b>13,325</b>
Receivables from closed thrifts	32,534,350	37,883,574
Allowance for losses	(32,257,895)	(37,480,523)
<b>Net Receivables From Closed Thrifts</b>	<b>276,455</b>	<b>403,051</b>
<b>Total</b>	<b>\$ 286,455</b>	<b>\$ 416,376</b>

**4. Investment in Securitization-Related Assets Acquired from Receiverships**

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.

A portion of the proceeds from the sale of the certificates was placed in credit enhancement reserves (escrow accounts) to cover future credit losses with respect to the loans underlying the certificates. In addition, the escrow accounts were established to increase the likelihood of full and timely distributions of interest and principal to the certificate holders and thus increase the marketability of the certificates. The FRF's exposure from credit losses on loans sold through the program is limited to the balance of the escrow accounts. The FRF is entitled to any proceeds remaining in the escrow accounts at termination of the securitization transactions. The FRF also receives periodic returns of portions of the escrow account balances during the life of the transactions, if the trustee deems the funds held to be excessive. In certain Pooling and Servicing Agreements (PSA), there is a clause stipulating that losses experienced by the escrow accounts over the life of the transactions would be reimbursed from proceeds expected from the residual certificates. At the end of 2001, seven deals were structured with PSA clauses stipulating reimbursement from the proceeds of the residual certificates.

As part of the securitization transactions, the receiverships received a participation in the residual pass-through certificates (residual certificates) issued through its mortgage-backed securities program. The residual certificates entitle the holder to any cash flow from the sale of collateral remaining in the trust after the regular pass-through certificates and actual termination expenses are paid.

In 1996 and 1998, the escrow accounts and residual certificates were transferred from the receiverships to the FRF for \$5.7 billion and \$1.4 billion, respectively. Both transfers were offset by amounts owed by the receiverships to the FRF.

The FRF received \$851 million in proceeds from terminations during 2001 and \$413 million during 2000. Realized gains and losses are recorded based upon the difference between the proceeds at termination of the deal and the book value of the investment. Realized gains and losses are calculated on both the escrow account and the related residual certificate. Additionally, realized losses are recognized on the credit enhancement reserve for a decline in fair value that is judged to be an other-than-temporary impairment. Unrealized gains and losses are computed on a quarterly basis using a cash flow model that calculates the estimated fair value of the assets at termination. This model is updated with current data supplied by the trustees, which includes prepayment speed, delinquency rates, and market pricing. Additionally, the FRF earned interest income on the credit enhancement reserve of \$32.8 million during 2001 and \$85.5 million during 2000.



**Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2001**
*Dollars in Thousands*

	<b>Cost</b>	<b>Unrealized Holding Gains</b>	<b>Unrealized Holding Losses</b>	<b>Fair Value</b>
Credit enhancement reserve	\$ 553,673	\$ 153,567	\$ (20,686)	\$ 686,554
Residual certificates	227,082	173,466	0	400,548
<b>Total</b>	<b>\$ 780,755</b>	<b>\$ 327,033</b>	<b>\$ (20,686)</b>	<b>\$ 1,087,102</b>

**Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2000**
*Dollars in Thousands*

	<b>Cost</b>	<b>Unrealized Holding Gains</b>	<b>Unrealized Holding Losses</b>	<b>Fair Value</b>
Credit enhancement reserve	\$ 799,518	\$ 248,731	\$ (43,645)	\$ 1,004,604
Residual certificates	556,507	252,419	(2,088)	806,838
<b>Total</b>	<b>\$ 1,356,025</b>	<b>\$ 501,150</b>	<b>\$ (45,733)</b>	<b>\$ 1,811,442</b>

**5. Other Assets, Net**
**Other Assets, Net at December 31**
*Dollars in Thousands*

	<b>2001</b>	<b>2000</b>
Accounts receivable, net	\$ 1,555	\$ 4,815
Due from FDIC funds	500	309
Assets acquired by the Corporation, net	\$ 21,784	\$ 34,616
Limited partnership equity interests	5,858	11,001
<b>Total</b>	<b>\$ 29,697</b>	<b>\$ 50,741</b>

**6. Liabilities from Thrift Resolutions**

In 2001, liabilities from thrift resolutions decreased by \$75 million primarily as a result of settling a litigation matter in connection with a 1988 FSLIC assistance agreement. Under the terms of the settlement and termination agreement, which was entered into on October 12, 2001, the FRF received a net cash payment of \$41.5 million that represented the difference between the settlement amount less amounts owed to, or otherwise withheld from, the acquiring institution.



## 7. Contingent Liabilities for:

### LITIGATION LOSSES

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling \$13 million are reasonably possible.

### ADDITIONAL CONTINGENCY

In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the Federal Home Loan Bank Board to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. To date, approximately 120 lawsuits have been filed against the United States based on alleged breaches of these agreements (Goodwill Litigation).

On July 23, 1998, the U.S. Treasury determined, based on an opinion of the DOJ's Office of Legal Counsel (OLC) dated July 22, 1998, that the FRF is legally available to satisfy all judgments and settlements in the Goodwill Litigation involving supervisory action or assistance agreements. The U.S. Treasury further determined that the FRF is the appropriate source of funds for payments of any such judgments and settlements.

The OLC opinion concluded that the nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. Under the analysis set forth in the OLC opinion, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements or judgments arising out of the Goodwill Litigation.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On January 25, 2002, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the aggregate loss to the FRF from the *Winstar*-related cases." This uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of judgments and settlements in the Goodwill Litigation. However, based on the response from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the Goodwill Litigation, or determine whether any such loss would have a material effect on the financial condition of the FRF-FSLIC.

Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) provides to the FRF-FSLIC such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill Litigation, to remain available until expended. Because an appropriation is available to pay such

FRF

judgments and settlements, any liabilities for the Goodwill Litigation should have no material impact on the financial condition of the FRF-FSLIC.

Paralleling the goodwill cases are eight similar cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. These agreements contained the promise of tax deductions for losses incurred on the sale of certain thrift assets purchased by plaintiffs, from the FSLIC, even though the FSLIC provided them with tax-exempt reimbursement. A provision in the Omnibus Budget Reconciliation Act of 1993 (popularly referred to as the "Guarini legislation") eliminated the tax deductions for these losses.

To date, there have been liability determinations in three of the "Guarini cases". Decisions on liability have not yet been made in the other five.

The FDIC believes that it is possible that substantial amounts may be paid from the FRF-FSLIC as a result of the judgments and settlements from the "Guarini litigation". However, because of the uncertainty surrounding the method of computing damages, the amount of the damages is not estimable at this time.

#### REPRESENTATIONS AND WARRANTIES

As part of the RTC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on loan sales. The total amount of the loans sold subject to representations and warranties, and guarantees were \$176.3 billion as of December 31, 2001. The estimated losses for the contingent liability from all outstanding claims asserted in connection with representations and warranties were \$ 2.3 million and \$ 1.6 million for 2001 and 2000, respectively.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 23 years. Consequently, the FDIC believes it is possible that additional losses may be incurred by the FRF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the FRF from outstanding contracts with unasserted representation and warranty claims.

### **8. Interest on Advances and Subrogated Claims**

During 2001, the FRF received \$108.4 million in cash from RTC receiverships for interest on claims owed RTC arising out of thrift failures, of which \$90 million was recognized as accrued interest at year end 2000. Accrual of interest on the Corporate claim is recognized when the receiverships' ability to pay is probable. At year end 2001, no accrual of interest on the corporate claim was recognized.

### **9. Provision for Losses**

The provision for losses was a negative \$369 million and a negative \$439 million for 2001 and 2000, respectively. In 2001, the negative provision was primarily due to: 1) recoveries of \$163 million of net tax benefits sharing from assistance agreements and 2) recoveries of \$120 million



from receiverships with positive equity where the FRF-FSLIC is entitled to the positive value of the receivership to reduce the overall cost of resolving the institutions. The negative provision in 2000 resulted primarily from: 1) the elimination of the reserve for the estimated future costs associated with liquidating the assets of failed thrifts of \$223.5 million and 2) cash recoveries from assistance agreements of \$86 million for net tax benefits sharing collections and \$36 million for the redemption of stock warrants.

### Provision for Losses for the Years Ended December 31

Dollars in Thousands

	2001	2000
<b>Valuation Adjustments:</b>		
Open thrift assistance	\$ (23,652)	\$ (38,049)
Tax benefits sharing recoveries	(163,111)	(86,001)
Closed thrifts	(93,710)	(14,585)
Estimated cost associated with liquidating assets	0	(223,500)
Miscellaneous receivables	(88,758)	(70,893)
<b>Total Valuation Adjustments</b>	<b>(369,231)</b>	<b>(433,028)</b>
<b>Contingent Liabilities Adjustments:</b>		
Litigation losses	(2,015)	(7,139)
Representations and warranties	2,259	1,525
<b>Total Contingent Liabilities Adjustments</b>	<b>244</b>	<b>(5,614)</b>
<b>Total</b>	<b>\$ (368,987)</b>	<b>\$ (438,642)</b>

## 10. Resolution Equity

As stated in the Legislative History section of Note 1, the FRF is comprised of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.



**Resolution Equity at December 31, 2001**
*Dollars in Thousands*

	<b>FRF-FSLIC</b>	<b>FRF-RTC</b>	<b>FRF Consolidated</b>
Contributed capital - beginning	\$ 44,157,025	\$ 85,327,901	\$ 129,484,926
Less: U.S. Treasury repayments	0	(5,300)	(5,300)
Less: REFCORP payments	0	(1,406,596)	(1,406,596)
<b>Contributed capital — ending</b>	<b>44,157,025</b>	<b>83,916,005</b>	<b>128,073,030</b>
Accumulated deficit	(41,372,610)	(82,133,208)	(123,505,818)
Less: Unrealized gain on available-for-sale securities	0	306,347	306,347
<b>Accumulated deficit, net</b>	<b>(41,372,610)</b>	<b>(81,826,861)</b>	<b>(123,199,471)</b>
<b>Total</b>	<b>\$ 2,784,415</b>	<b>\$ 2,089,144</b>	<b>\$ 4,873,559</b>

**Resolution Equity at December 31, 2000**
*Dollars in Thousands*

	<b>FRF-FSLIC</b>	<b>FRF-RTC</b>	<b>FRF Consolidated</b>
Contributed capital - beginning	\$ 44,157,000	\$ 87,171,499	\$ 131,328,499
Miscellaneous payments/adjustments	25	(48)	(23)
Less: U.S. Treasury repayments	0	(394,593)	(394,593)
Less: REFCORP payments	0	(1,448,957)	(1,448,957)
<b>Contributed capital — ending</b>	<b>44,157,025</b>	<b>85,327,901</b>	<b>129,484,926</b>
Accumulated deficit	(41,738,151)	(82,529,627)	(124,267,778)
Less: Unrealized gain on available-for-sale securities	0	455,417	455,417
<b>Accumulated deficit, net</b>	<b>(41,738,151)</b>	<b>(82,074,210)</b>	<b>(123,812,361)</b>
<b>Total</b>	<b>\$ 2,418,874</b>	<b>\$ 3,253,691</b>	<b>\$ 5,672,565</b>

**CONTRIBUTED CAPITAL**

To date, the FRF-FSLIC and the former RTC received \$43.5 billion and \$60.1 billion from the U.S. Treasury, respectively. These payments were used to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued \$670 million in capital certificates to the FICO and the RTC issued \$31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2001, as described in Note 1, the FRF-RTC has returned \$4.556 billion to the U.S. Treasury and made payments of \$2.856 billion to the REFCORP. These actions serve to reduce contributed capital.

**ACCUMULATED DEFICIT**

The accumulated deficit represents the cumulative excess of expenses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately \$29.7 billion and \$87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by \$11.6 billion, whereas the FRF-RTC accumulated deficit has decreased by \$6.1 billion, since their dissolution dates.

## 11. Employee Benefits

### PENSION BENEFITS AND SAVINGS PLANS

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees 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 U.S. Office of Personnel Management.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

### **Pension Benefits and Savings Plans Expenses for the Years Ended December 31**

*Dollars in Thousands*

	2001	2000
Civil Service Retirement System	\$ 1,055	\$ 1,152
Federal Employees Retirement System (Basic Benefit)	2,966	3,708
FDIC Savings Plan	1,748	2,186
Federal Thrift Savings Plan	1,131	1,408
<b>Total</b>	<b>\$ 6,900</b>	<b>\$ 8,454</b>

### ACCRUED ANNUAL LEAVE

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately \$4.1 million and \$5.2 million at December 31, 2001 and 2000, respectively.

### POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The FDIC provides certain dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for 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 life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay



plans. Dental coverage is provided to all retirees eligible for an immediate annuity and at no cost to retirees. At December 31, 2001 and 2000, the FRF's prepaid postretirement benefit cost recognized in the "Other assets, net" line item in the Statements of Financial Position was \$232 thousand and \$347 thousand, respectively.

#### LEASES

The FRF's allocated share of the FDIC's lease commitments totals \$10.9 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of 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 could cause the amounts allocated to the FRF in the future to vary from the amounts shown below. The FRF recognized leased space expense of \$5.5 million and \$5.0 million for the years ended December 31, 2001 and 2000, respectively.

#### **Lease Commitments**

*Dollars in Thousands*

<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007/Thereafter</b>
\$3,199	\$2,308	\$1,503	\$1,236	\$1,304	\$1,309

### **13. Concentration of Credit Risk**

Financial instruments that potentially subject the FRF to credit risk consist primarily of: 1) gross receivables from thrift resolutions totaling \$32.9 billion and 2) an investment in securitization-related assets acquired from receiverships totaling \$1.1 billion. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the FRF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are the main source of repayment of the FRF's receivables from thrift resolutions. An allowance for loss of \$32.6 billion, or 99% of the gross receivable, was recorded as of December 31, 2001. Of the remaining one percent of the gross receivable, the amount of credit risk is limited since 85% of the receivership assets consist of cash, cash equivalents, and marketable securities.

The value of the investment in securitization-related assets is influenced by the economy of the area relating to the underlying loans. Of this investment, \$554.6 million of the underlying mortgages are located in California and \$104.4 million of loans are located in Florida. No other state accounted for a material portion of the investment.



#### 14. 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, due to their short maturities and/or comparability with current interest rates.

The net receivables from thrift resolutions primarily include 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 receivables 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 (see Note 3), 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 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 thrift resolutions.

The investment in securitization-related assets acquired from receiverships is adjusted to fair value at each reporting date using a valuation model that estimates the present value of estimated expected future cash flows discounted for the various risks involved, including both market and credit risks, as well as other attributes of the underlying assets (see Note 4).



# **15. Supplementary Information Relating to the Statements of Cash Flows**

## **Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31**

*Dollars in Thousand*

	2001	2000
<b>Net Income</b>	<b>\$ 761,960</b>	<b>\$ 731,822</b>
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
<b>Income Statement Items:</b>		
Prior year appropriation adjustments	0	(48)
<b>Change in Assets and Liabilities:</b>		
Decrease in receivables from thrift resolutions	129,921	920,379
(Increase) in securitization-related assets acquired from receiverships	(327,132)	(38,895)
Decrease in other assets	21,044	20,414
(Decrease) in accounts payable and other liabilities	(26,301)	(28,156)
(Decrease) in liabilities from thrift resolutions	(74,872)	(221,945)
Increase in contingent liabilities for litigation losses	729	(1,247)
(Decrease) in contingent liabilities for assistance agreements	0	(339)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 485,349</b>	<b>\$ 1,381,985</b>



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

Comptroller General  
of the United States

To the Board of Directors  
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 2001 and 2000, for 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 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain internal controls should be improved, FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- no reportable noncompliance with the laws and regulations that we tested.

The following sections discuss our conclusions in more detail. They also present information on (1) the scope of our audits, (2) a reportable condition<sup>1</sup> related to information system control weaknesses, (3) BIF's reserve ratio, (4) the future activities of FRF, and (5) our evaluation of the FDIC's comments on a draft of this report.

## Opinion on BIF's Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, BIF's financial position as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended.

<sup>1</sup>Reportable conditions involve matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control and could adversely affect FDIC's ability to meet the control objectives described in this report.



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## Opinion on SAIF's Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SAIF's financial position as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended.

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## Opinion on FRF's Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's financial position as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended.

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## Opinion on Internal Control

Although certain internal controls should be improved, FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2001, that provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the FDIC funds' financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 [Federal Managers' Financial Integrity Act (FMFIA)].

Our work identified weaknesses in FDIC's information system controls, which we describe as a reportable condition in a later section of this report. The weakness in information system controls, although not considered material, represents a significant deficiency in the design or operations of internal control that could adversely affect FDIC's ability to meet its internal control objectives. Although the weakness did not materially affect the funds' 2001 financial statements, misstatements may nevertheless occur in other FDIC-reported financial information as a result of the internal control weakness.

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## 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 U.S. 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.

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## Objectives, Scope, and Methodology

FDIC's management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are

- financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

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 internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;

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- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
  - considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and
  - tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended and the Chief Financial Officers Act of 1990.

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 controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance 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 did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those deemed applicable to the funds' financial statements for the year ended December 31, 2001. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

FDIC provided comments on a draft of this report. They are discussed and evaluated in a later section of this report and are reprinted in appendix I.

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## Reportable Condition

As part of the funds' financial statement audits, we reviewed FDIC's information system controls. The primary objectives of information system controls are to safeguard data, protect computer application programs, provide for the integrity of system software, and ensure continued computer operations in case of unexpected interruption. These controls include the corporatewide security management program, access controls, system software, application development and change control, segregation of duties, and service continuity controls.



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During 2001, we found that FDIC progressed in improving information system control weaknesses we had previously identified and has taken other steps to improve security. Nevertheless, we identified additional weaknesses in FDIC's corporatewide security management program, access controls, system software, segregation of duties, and service continuity controls. Specifically, FDIC did not adequately limit the scope of access granted to authorized users or secure its network from unauthorized access. Further, FDIC had not fully established a comprehensive program to routinely oversee and monitor access to its computer facilities and data and to identify unusual or suspicious access patterns that could indicate unauthorized access.

The effect of these weaknesses in information system controls places FDIC's financial information at risk of unauthorized disclosure or loss and its critical financial operations at risk of disruption. It should also be noted that because computer systems identified at risk contain other sensitive information such as personnel data and bank examinations related to financial institutions insured by FDIC, this information is at risk of being compromised.

As we have previously reported to FDIC's Board of Directors, the primary reason for its information system control weaknesses has been that FDIC had not fully developed and implemented a comprehensive corporatewide security management program. An effective program would include assessing risks, establishing appropriate policies and related controls, raising awareness of prevailing risks and mitigating controls, and evaluating the effectiveness of established controls. While FDIC has implemented a security awareness program, updated its security policies and guidance, and taken other actions to improve security management, it still needs to take additional steps to fully implement a comprehensive corporatewide security management program.

We determined that other management controls mitigated the effect of the information system control weaknesses on the preparation of the funds' financial statements. Because of their sensitive nature, the details surrounding these weaknesses are being reported separately to FDIC management, along with our recommendations for corrective actions.

## BIF's Reserve Ratio

During 2001, as table 1 shows, BIF's reserve ratio decreased from 1.35 percent to 1.26 percent. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires FDIC to maintain the BIF fund balance at a designated reserve ratio of at least 1.25 percent of estimated insured deposits.<sup>2</sup> BIF's reserve ratio was significantly below the designated reserve ratio in 1991 and did not reach the designated reserve ratio of 1.25 percent of estimated insured deposits until May 1995.<sup>3</sup> This is the first time since 1995 that the BIF's ratio has come so close to the designated reserve ratio.

Table 1 shows BIF's reserve ratio, fund balance, and estimated insured deposits from December 31, 1991 through 2001.

**Table 1: BIF's Reserve Ratios from December 31, 1991, through December 31, 2001**

Dollars in millions			
December 31,	Reserve ratio (%)	Fund balance	Estimated insured deposits
1991	(.36)	\$(7,028)	\$1,957,722
1992	(.01)	(101)	1,945,623
1993	.69	13,122	1,906,885
1994	1.15	21,848	1,896,060
1995	1.30	25,454	1,952,543
1996	1.34	26,854	2,007,447
1997	1.38	28,293	2,055,874
1998	1.38	29,612	2,141,268
1999	1.36	29,414	2,157,536
2000	1.35	30,975	2,301,604
2001	1.26	30,439	2,408,878

<sup>2</sup>Section 302 of FDICIA amended section 7(b) of the Federal Deposit Insurance Act. FDICIA requirements are the same for both BIF and SAIF. SAIF reached the designated reserve ratio in 1996, and as of December 31, 2001, SAIF's reserve ratio was 1.36 percent.

<sup>3</sup> If the reserve ratio falls below 1.25 percent of estimated insured deposits, FDICIA requires FDIC's Board of Directors to set semiannual assessment rates for BIF members that are sufficient to increase the reserve ratio to the designated reserve ratio not later than 1 year after such rates are set, or in accordance with a recapitalization schedule of 15 years or less.

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Under FDIC's required risk-based insurance system, as long as BIF's reserve ratio is at or above 1.25 percent, FDIC does not charge premiums to most institutions that are well-capitalized and highly rated by supervisors. Currently over 90 percent of the industry does not pay for deposit insurance. Most of BIF's income comes from the interest earned on investments with the U.S. Treasury.

BIF's fund balance and level of estimated insured deposits are the factors used to calculate BIF's reserve ratio. Accordingly, changes in fund balance or insured deposits can cause the reserve ratio to increase or decrease. Table 1 shows that during 2001 the estimated insured deposits increased by over \$100 billion. To illustrate the sensitivity of this reserve ratio calculation, if the amount of estimated insured deposits had increased by an additional \$26 billion during 2001, BIF's reserve ratio would have declined to the designated reserve ratio of 1.25 percent at December 31, 2001.

Regarding the other key variable in the calculation, BIF's fund balance declined about \$500 million during 2001. This \$500 million net loss for 2001 is largely attributable to recording \$1.8 billion of estimated losses for anticipated failures of insured institutions. Assuming the December 31, 2001, level of estimated insured deposits, if BIF had incurred an additional \$328 million of losses to the fund balance during 2001, its reserve ratio would have declined to the designated reserve ratio of 1.25 percent at December 31, 2001.

Currently, there is proposed legislation in Congress to reform the federal deposit insurance system. Among other things, this legislation proposes changes to the designated reserve ratio requirements.



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## Future Activities of FRF

FDIC, as administrator of FRF, is responsible for completing the liquidation of the assets and liabilities of the former Federal Savings and Loan Insurance Corporation (FSLIC) and Resolution Trust Corporation (RTC).<sup>4</sup> Under current legislation, FRF will continue its operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. As shown in table 2, FRF has made significant progress in liquidating its assets and liabilities since 1996. FDIC expects continued rapid decline in the remaining FRF assets during 2002. After providing for all outstanding RTC liabilities, FDIC must also transfer the net proceeds from the sale of RTC-related assets to the Resolution Funding Corporation (REFCORP).<sup>5</sup> During 2001, FRF transferred \$1.4 billion to REFCORP.

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**Table 2: FRF's Assets and Liabilities as of January 1, 1996, and December 31, 2001**

Dollars in billions

	January 1, 1996	December 31, 2001	Percent increase (decrease)
Cash and cash equivalents	\$1.5	\$3.5	133
Assets not yet liquidated	13.9	1.4	(90)
Total assets	\$15.4	\$4.9	(68)
Total liabilities	\$11.2	\$0.02	(99)

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<sup>4</sup>On January 1, 1996, FRF assumed responsibility for all remaining assets and liabilities of the former RTC.

<sup>5</sup>The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 established REFCORP to provide part of the initial funds used by RTC for thrift resolutions.

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Two major components of the assets not yet liquidated are receivables from thrift resolutions (about \$0.3 billion) and investments in securitization-related assets (nearly \$1.1 billion). Most of the receivables from thrift resolutions represent amounts advanced and/or obligations incurred for resolving troubled and failed insured thrifts. FDIC manages and disposes of the assets from failed thrifts through receiverships.<sup>6</sup> Most of the remaining assets in these receiverships are cash. FDIC is pursuing the complete liquidation of these receiverships during the year 2002 with the exception of those involved in goodwill litigation.<sup>7</sup>

FDIC has conducted an extensive review and cataloging of FRF's residual assets and liabilities and is beginning to explore approaches for concluding FRF's activities. The following are some of the issues and items remaining in FRF:

- Over 900 criminal restitution orders in the amount of \$548 million are outstanding. These may remain open for up to 20 more years. The actual amount that will ultimately be collected is unknown.<sup>8</sup> During 2001, FDIC collected \$6.6 million from these outstanding restitution orders.
- About 80 litigation claims and judgments—which were obtained against officers and directors and other professionals responsible for causing thrift losses—are outstanding. These items have an estimated recoverable value of approximately \$59 million. These judgments are renewable based on individual state law. Generally, the renewals vary from 5 to 10 years and are renewable more than once.<sup>9</sup> During 2001 FDIC recovered \$19.2 million in such claims.

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<sup>6</sup>The assets held by receiverships, and the claims against them, are accounted for separately from FRF's assets and liabilities to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations.

<sup>7</sup>See note 7 of FRF's financial statements for a description of goodwill litigation and its impact.

<sup>8</sup>U.S. generally accepted accounting principles state that contingencies that may ultimately result in gains are usually not reflected in the financial statements to avoid recognizing revenue prior to its realization.

<sup>9</sup>See footnote 8 of this report.

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- Numerous assistance agreements entered into by the former FSLIC will remain open for many years as those assisted institutions share with FRF their tax savings that result from the tax-free nature of FSLIC assistance.<sup>10</sup> During 2001, FRF recovered over \$163 million as its share of these tax savings.
  - Various litigation cases are outstanding. FRF remains involved in approximately 760 cases.<sup>11</sup> The most numerous, and substantial in terms of potential liability, involve goodwill litigation.<sup>12</sup> To date, approximately 120 lawsuits have been filed against the U.S. government. Because of appeals and differences in awarding damages in the cases thus far, the final outcome in the cases and the amount of any possible damages remain uncertain. Also, there is litigation in which FRF is the plaintiff for itself or is acting in a fiduciary manner on behalf of the receiverships resulting from failed financial institutions. These pending cases may take years to settle, and many of the goodwill cases are still pending from the early 1990s.
  - Numerous potential liabilities may exist due to representations and warranties made to support the sale of assets including loans and servicing rights.<sup>13</sup> These potential liabilities could be incurred over the remaining life of the loans.

Only when the remaining asset and liability issues, some of which are highlighted above, are resolved can the FRF fund be formally dissolved. FDIC is considering whether enabling legislation or other measures may be needed to liquidate the remaining FRF assets and liabilities.

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<sup>10</sup>See footnote 8 of this report.

<sup>11</sup>Whereas FRF is involved in over 700 cases, FDIC records losses for only those cases where the loss is considered probable and reasonably estimable. FDIC also discloses losses that are reasonably possible. See note 7 of FRF's financial statements.

<sup>12</sup>See note 7 of FRF's financial statements for a description of goodwill litigation and its impact.

<sup>13</sup>See note 7 of FRF's financial statements for a description of representations and warranties.



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## FDIC Comments and Our Evaluation

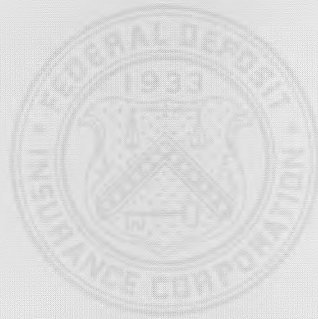
In commenting on a draft of this report, FDIC's chief financial officer (CFO) was pleased to receive unqualified opinions on BIF's, SAIF's, and FRF's 2001 and 2000 financial statements. FDIC's CFO also acknowledged the information system weaknesses we identified and plans to continue with its efforts to strengthen its information system program and to incorporate GAO's recommendations into its security plans for 2002. We plan to evaluate the effectiveness of the corrective actions as part of our 2002 audit of FDIC funds' financial statements and internal control.



David M. Walker  
Comptroller General  
of the United States

April 5, 2002









# Number and Deposits of BIF-Insured Banks Closed Because of Financial Difficulties, 1934 through 2001<sup>1</sup>

Dollars in Thousands

Year	Number of Insured Banks			Deposits of Insured Banks			Assets
	Total	Without Disbursements by FDIC	With Disbursements by FDIC	Total	Without Disbursements by FDIC	With Disbursements by FDIC	
<b>Total</b>	<b>2,100</b>	<b>19</b>	<b>2,081</b>	<b>\$214,695,834</b>	<b>\$4,298,814</b>	<b>\$210,397,020</b>	<b>\$686,939,767</b>
2001	3	...	3	49,926	...	49,926	54,469,724
2000	6	...	6	311,950	...	311,950	378,088,472
1999	7	...	7	1,268,151	...	1,268,151	1,423,819
1998	3	...	3	335,076	...	335,076	370,400
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

<sup>1</sup> Does not include institutions that received FDIC assistance and were not closed. Also 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 2001

Dollars in Thousands

Year	All Cases <sup>1</sup>					Deposit Payoff Cases <sup>2</sup>				
	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
<b>Total</b>	<b>2,211</b>	<b>108,387,935</b>	<b>70,364,662</b>	<b>44,320</b>	<b>37,978,953</b>	<b>603</b>	<b>14,557,513</b>	<b>10,224,308</b>	<b>55</b>	<b>4,333,150</b>
2001	3	48,695	41,658	2,343	4,694	0	0	0	0	0
2000	6	268,730	226,601	4,955	37,174	0	0	0	0	0
1999	7	1,244,375	392,237	15,024	837,114	0	0	0	0	0
1998	3	286,602	52,941	7,677	225,984	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,386	130,918	0	38,468	0	0	0	0	0
1995	6	609,045	524,067	345	84,633	0	0	0	0	0
1994	13	1,224,797	1,045,782	32	178,983	0	0	0	0	0
1993	41	1,797,297	1,151,438	313	645,546	5	261,203	159,268	0	101,935
1992	122	14,172,877	10,502,913	3,072	3,666,892	25	1,890,869	1,398,731	0	492,138
1991	127	21,412,647	15,271,553	4,932	6,136,162	21	1,468,407	1,000,733	0	467,674
1990	169	10,816,602	8,028,595	1,978	2,786,029	20	2,182,583	1,644,393	0	538,190
1989	207	11,445,829	5,243,605	3,594	6,198,630	32	2,116,556	1,262,145	0	854,411
1988	280	12,163,006	5,244,684	0	6,918,322	36	1,252,160	822,612	0	429,548
1987	203	5,037,871	3,014,571	55	2,023,245	51	2,103,792	1,400,945	55	702,792
1986	145	4,790,969	3,015,252	0	1,775,717	40	1,155,981	739,659	0	416,322
1985	120	2,920,687	1,913,452	0	1,007,235	29	523,789	411,175	0	112,614
1984	80	7,696,215	6,056,061	0	1,640,154	16	791,838	699,483	0	92,355
1983	48	3,807,082	2,400,044	0	1,407,038	9	148,423	122,484	0	25,939
1982	42	2,275,150	1,106,579	0	1,168,571	7	277,240	206,247	0	70,993
1981	10	888,999	107,221	0	781,778	2	35,736	34,598	0	1,138
1980	11	152,355	121,675	0	30,680	3	13,732	11,427	0	2,305
1979	10	90,489	74,372	0	16,117	3	9,936	9,003	0	933
1978	7	548,568	512,927	0	35,641	1	817	613	0	204
1977	6	26,650	20,654	0	5,996	0	0	0	0	0
1976	17	599,397	561,532	0	37,865	3	11,416	9,660	0	1,756
1975	13	332,046	292,431	0	39,615	3	25,918	25,849	0	69
1974	5	2,403,277	2,259,633	0	143,644	0	0	0	0	0
1973	6	435,238	368,852	0	66,386	3	16,771	16,771	0	0
1972	2	16,189	14,501	0	1,688	1	16,189	14,501	0	1,688
1971	7	171,646	171,430	0	216	5	53,767	53,574	0	193
1970	7	51,566	51,294	0	272	4	29,265	28,993	0	272
1969	9	42,072	41,910	0	162	4	7,596	7,513	0	83
1968	3	6,476	6,464	0	12	0	0	0	0	0
1967	4	8,097	7,087	0	1,010	4	8,097	7,087	0	1,010
1966	7	10,020	9,541	0	479	1	735	735	0	0
1965	5	11,479	10,816	0	663	3	10,908	10,391	0	517
1964	7	13,712	12,171	0	1,541	7	13,712	12,171	0	1,541
1963	2	19,172	18,886	0	286	2	19,172	18,886	0	286
1962	0	0	0	0	0	0	0	0	0	0
1961	5	6,201	4,700	0	1,501	5	6,201	4,700	0	1,501
1960	1	4,765	4,765	0	0	1	4,765	4,765	0	0
1959	3	1,835	1,738	0	97	3	1,835	1,738	0	97
1958	4	3,051	3,023	0	28	3	2,796	2,768	0	28
1957	1	1,031	1,031	0	0	1	1,031	1,031	0	0
1956	2	3,499	3,286	0	213	1	2,795	2,582	0	213
1955	5	7,315	7,085	0	230	4	4,438	4,208	0	230
1954	2	1,029	771	0	258	0	0	0	0	0
1953	2	5,359	5,359	0	0	0	0	0	0	0
1952	3	1,525	733	0	792	0	0	0	0	0
1951	2	1,986	1,986	0	0	0	0	0	0	0
1950	4	4,404	3,019	0	1,385	0	0	0	0	0
1949	4	2,685	2,316	0	369	0	0	0	0	0
1948	3	3,150	2,509	0	641	0	0	0	0	0
1947	5	2,038	1,979	0	59	0	0	0	0	0
1946	1	274	274	0	0	0	0	0	0	0
1945	1	1,845	1,845	0	0	0	0	0	0	0
1944	2	1,532	1,492	0	40	1	404	364	0	40
1943	5	7,230	7,107	0	123	4	5,500	5,377	0	123
1942	20	11,684	10,996	0	688	6	1,612	1,320	0	292
1941	15	25,061	24,470	0	591	8	12,278	12,065	0	213
1940	43	87,899	84,103	0	3,796	19	4,895	4,313	0	582
1939	60	81,828	74,676	0	7,152	32	26,196	20,399	0	5,797
1938	74	34,394	31,969	0	2,425	50	9,092	7,908	0	1,184
1937	75	20,204	16,532	0	3,672	50	12,365	9,718	0	2,647
1936	69	15,206	12,873	0	2,333	42	7,735	6,397	0	1,338
1935	25	9,108	6,423	0	2,685	24	6,026	4,274	0	1,752
1934	9	941	734	0	207	9	941	734	0	207

Continued on next page



# Recoveries and Losses by the Bank Insurance Fund on Disbursements for the Protection of Depositors, 1934 through 2001

Dollars in Thousands

Deposit Assumption Cases						Assistance Transactions <sup>1</sup>				
Year	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses	Number of Banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses
<b>Total</b>	<b>1,467</b>	<b>82,200,066</b>	<b>53,905,909</b>	<b>78,835</b>	<b>28,215,322</b>	<b>141</b>	<b>11,630,356</b>	<b>6,199,875</b>	<b>0</b>	<b>5,430,481</b>
2001	3	48,695	25,675	18,326	4,694	0	0	0	0	0
2000	6	268,730	226,601	4,955	37,174	0	0	0	0	0
1999	7	1,244,375	373,650	33,611	837,114	0	0	0	0	0
1998	3	286,602	52,941	7,677	225,984	0	0	0	0	0
1997	1	25,546	20,520	0	5,026	0	0	0	0	0
1996	5	169,386	130,918	0	38,468	0	0	0	0	0
1995	6	609,045	524,067	345	84,633	0	0	0	0	0
1994	13	1,224,797	1,045,782	32	178,983	0	0	0	0	0
1993	36	1,536,094	992,170	313	543,611	0	0	0	0	0
1992	95	12,280,522	9,102,946	3,072	3,174,504	2	1,486	1,236	0	250
1991	103	19,938,123	14,267,727	4,932	5,665,464	3	6,117	3,093	0	3,024
1990	148	8,629,084	6,381,605	1,978	2,245,501	1	4,935	2,597	0	2,338
1989	174	9,326,725	3,981,208	3,594	5,341,923	1	2,548	252	0	2,296
1988	164	9,180,495	4,232,363	0	4,948,132	80	1,730,351	189,709	0	1,540,642
1987	133	2,773,202	1,612,913	0	1,160,289	19	160,877	713	0	160,164
1986	98	3,476,140	2,209,924	0	1,266,216	7	158,848	65,669	0	93,179
1985	87	1,631,166	1,095,601	0	535,565	4	765,732	406,676	0	359,056
1984	62	1,373,198	941,674	0	431,524	2	5,531,179	4,414,904	0	1,116,275
1983	35	2,893,969	1,850,553	0	1,043,416	4	764,690	427,007	0	337,683
1982	25	268,372	213,578	0	54,794	10	1,729,538	686,754	0	1,042,784
1981	5	79,208	71,358	0	7,850	3	774,055	1,265	0	772,790
1980	7	138,623	110,248	0	28,375	1	0	0	0	0
1979	7	80,553	65,369	0	15,184	0	0	0	0	0
1978	6	547,751	512,314	0	35,437	0	0	0	0	0
1977	6	26,650	20,654	0	5,996	0	0	0	0	0
1976	13	587,981	551,872	0	36,109	1	0	0	0	0
1975	10	306,128	266,582	0	39,546	0	0	0	0	0
1974	4	2,403,277	2,259,633	0	143,644	1	0	0	0	0
1973	3	418,467	352,081	0	66,386	0	0	0	0	0
1972	0	0	0	0	0	1	0	0	0	0
1971	1	117,879	117,856	0	23	1	0	0	0	0
1970	3	22,301	22,301	0	0	0	0	0	0	0
1969	5	34,476	34,397	0	79	0	0	0	0	0
1968	3	6,476	6,464	0	12	0	0	0	0	0
1967	0	0	0	0	0	0	0	0	0	0
1966	6	9,285	8,806	0	479	0	0	0	0	0
1965	2	571	425	0	146	0	0	0	0	0
1964	0	0	0	0	0	0	0	0	0	0
1963	0	0	0	0	0	0	0	0	0	0
1962	0	0	0	0	0	0	0	0	0	0
1961	0	0	0	0	0	0	0	0	0	0
1960	0	0	0	0	0	0	0	0	0	0
1959	0	0	0	0	0	0	0	0	0	0
1958	1	255	255	0	0	0	0	0	0	0
1957	0	0	0	0	0	0	0	0	0	0
1956	1	704	704	0	0	0	0	0	0	0
1955	1	2,877	2,877	0	0	0	0	0	0	0
1954	2	1,029	771	0	258	0	0	0	0	0
1953	2	5,359	5,359	0	0	0	0	0	0	0
1952	3	1,525	733	0	792	0	0	0	0	0
1951	2	1,986	1,986	0	0	0	0	0	0	0
1950	4	4,404	3,019	0	1,385	0	0	0	0	0
1949	4	2,685	2,316	0	369	0	0	0	0	0
1948	3	3,150	2,509	0	641	0	0	0	0	0
1947	5	2,038	1,979	0	59	0	0	0	0	0
1946	1	274	274	0	0	0	0	0	0	0
1945	1	1,845	1,845	0	0	0	0	0	0	0
1944	1	1,128	1,128	0	0	0	0	0	0	0
1943	1	1,730	1,730	0	0	0	0	0	0	0
1942	14	10,072	9,676	0	396	0	0	0	0	0
1941	7	12,783	12,405	0	378	0	0	0	0	0
1940	24	83,004	79,790	0	3,214	0	0	0	0	0
1939	28	55,632	54,277	0	1,355	0	0	0	0	0
1938	24	25,302	24,061	0	1,241	0	0	0	0	0
1937	25	7,839	6,814	0	1,025	0	0	0	0	0
1936	27	7,471	6,476	0	995	0	0	0	0	0
1935	1	3,082	2,149	0	933	0	0	0	0	0
1934	0	0	0	0	0	0	0	0	0	0

<sup>1</sup> Totals do not include dollar amounts for five open bank assistance transactions between 1971 and 1980. Excludes eight transactions prior to 1962 that required no disbursements. Also, disbursements, recoveries, and estimated additional recoveries do not include working capital advances to and repayments by receiverships.

<sup>2</sup> Includes insured deposit transfer cases.

Note: Beginning with the 1997 Annual Report the number of banks in the Assistance Transactions column for 1988 was changed from 21 to 80 and the number of banks in the All Cases column was changed from 221 to 280 to reflect that one assistance transaction encompassed 60 institutions. Also, certain 1982, 1983, 1989 and 1992 resolutions previously reported in either the Deposit Payoff or Deposit Assumption categories were reclassified.

# Income and Expenses, Bank Insurance Fund, from Beginning of Operations, Sept. 11, 1933, through Dec. 31, 2001

Dollars in Millions

Income						Expenses and Losses				Net Income/ (Loss)
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate <sup>1</sup>	Total	Provision for Losses	Administrative and Operating Expenses <sup>2</sup>	Interest and Other Insur. Expenses	
<b>Total</b>	<b>\$83,707.2</b>	<b>\$53,260.6</b>	<b>\$6,709.1</b>	<b>\$37,155.7</b>		<b>\$53,514.0</b>	<b>\$37,208.0</b>	<b>\$9,339.5</b>	<b>\$6,972.5</b>	<b>\$30,193.2</b>
2001	1,996.7	47.8	0.0	1,948.9	0.0014%	2,559.4	1,756.3	785.9	17.2	(562.7)
2000	1,905.9	45.1	0.0	1,860.8	0.0014%	645.2	(153.0)	772.9	25.3	1,260.7
1999	1,815.6	33.3	0.0	1,782.3	0.0011%	1,922.0	1,168.7	730.4	22.9	(106.4)
1998	2,000.3	21.7	0.0	1,978.6	0.0008%	691.5	(37.7)	697.6	31.6	1,308.8
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	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	3.9	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
1972	467.0	468.8	280.3	278.5	0.0333%	59.7	10.1	49.6	6.0	407.3
1971	415.3	417.2	241.4	239.5	0.0345%	60.3	13.4	46.9	0.0	355.0
1970	382.7	369.3	210.0	223.4	0.0357%	46.0	3.8	42.2	0.0	336.7
1969	335.8	364.2	220.2	191.8	0.0333%	34.5	1.0	33.5	0.0	301.3
1968	295.0	334.5	202.1	162.6	0.0333%	29.1	0.1	29.0	0.0	265.9
1967	263.0	303.1	182.4	142.3	0.0333%	27.3	2.9	24.4	0.0	235.7
1966	241.0	284.3	172.6	129.3	0.0323%	19.9	0.1	19.8	0.0	221.1
1965	214.6	260.5	158.3	112.4	0.0323%	22.9	5.2	17.7	0.0	191.7
1964	197.1	238.2	145.2	104.1	0.0323%	18.4	2.9	15.5	0.0	178.7
1963	181.9	220.6	136.4	97.7	0.0313%	15.1	0.7	14.4	0.0	166.8
1962	161.1	203.4	126.9	84.6	0.0313%	13.8	0.1	13.7	0.0	147.3
1961	147.3	188.9	115.5	73.9	0.0323%	14.8	1.6	13.2	0.0	132.5
1960	144.6	180.4	100.8	65.0	0.0370%	12.5	0.1	12.4	0.0	132.1

Continued on next page



# Income and Expenses, Bank Insurance Fund, from Beginning of Operations, Sept. 11, 1933, through Dec. 31, 2001

Dollars in Millions

Income						Expenses and Losses				Net Income/ (Loss)
Year	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate <sup>1</sup>	Total	Provision for Losses	Administrative and Operating Expenses <sup>2</sup>	Interest and Other Insur. Expenses	
<b>Total</b>	<b>\$83,707.2</b>	<b>\$53,260.6</b>	<b>\$6,709.1</b>	<b>\$37,155.7</b>		<b>\$53,514.0</b>	<b>\$37,208.0</b>	<b>\$9,339.5</b>	<b>\$6,972.5</b>	<b>\$30,193.2</b>
1959	136.5	178.2	99.6	57.9	0.0370%	12.1	0.2	11.9	0.0	124.4
1958	126.8	166.8	93.0	53.0	0.0370%	11.6	0.0	11.6	0.0	115.2
1957	117.3	159.3	90.2	48.2	0.0357%	9.7	0.1	9.6	0.0	107.6
1956	111.9	155.5	87.3	43.7	0.0370%	9.4	0.3	9.1	0.0	102.5
1955	105.8	151.5	85.4	39.7	0.0370%	9.0	0.3	8.7	0.0	96.8
1954	99.7	144.2	81.8	37.3	0.0357%	7.8	0.1	7.7	0.0	91.9
1953	94.2	138.7	78.5	34.0	0.0357%	7.3	0.1	7.2	0.0	86.9
1952	88.6	131.0	73.7	31.3	0.0370%	7.8	0.8	7.0	0.0	80.8
1951	83.5	124.3	70.0	29.2	0.0370%	6.6	0.0	6.6	0.0	76.9
1950	84.8	122.9	68.7	30.6	0.0370%	7.8	1.4	6.4	0.0	77.0
1949	151.1	122.7	0.0	28.4	0.0833%	6.4	0.3	6.1	0.0	144.7
1948	145.6	119.3	0.0	26.3	0.0833%	7.0	0.7	6.3 <sup>6</sup>	0.0	138.6
1947	157.5	114.4	0.0	43.1	0.0833%	9.9	0.1	9.8	0.0	147.6
1946	130.7	107.0	0.0	23.7	0.0833%	10.0	0.1	9.9	0.0	120.7
1945	121.0	93.7	0.0	27.3	0.0833%	9.4	0.1	9.3	0.0	111.6
1944	99.3	80.9	0.0	18.4	0.0833%	9.3	0.1	9.2	0.0	90.0
1943	86.6	70.0	0.0	16.6	0.0833%	9.8	0.2	9.6	0.0	76.8
1942	69.1	56.5	0.0	12.6	0.0833%	10.1	0.5	9.6	0.0	59.0
1941	62.0	51.4	0.0	10.6	0.0833%	10.1	0.6	9.5	0.0	51.9
1940	55.9	46.2	0.0	9.7	0.0833%	12.9	3.5	9.4	0.0	43.0
1939	51.2	40.7	0.0	10.5	0.0833%	16.4	7.2	9.2	0.0	34.8
1938	47.7	38.3	0.0	9.4	0.0833%	11.3	2.5	8.8	0.0	36.4
1937	48.2	38.8	0.0	9.4	0.0833%	12.2	3.7	8.5	0.0	36.0
1936	43.8	35.6	0.0	8.2	0.0833%	10.9	2.6	8.3	0.0	32.9
1935	20.8	11.5	0.0	9.3	0.0833%	11.3	2.8	8.5	0.0	9.5
1933-34	7.0	0.0	0.0	7.0	N/A	10.0	0.2	9.8	0.0	(3.0)

<sup>1</sup> The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the FDIC exercised new authority to increase assessments above the statutory rate when needed. Beginning in 1993, the effective rate is based on a risk-related premium system under which institutions pay assessments in the range of 0.23 percent to 0.31 percent. In May 1995, the BIF reached the mandatory recapitalization level of 1.25%. As a result, the assessment rate was reduced to 4.4 cents per \$100 of insured deposits and assessment premiums totaling \$1.5 billion were refunded in September 1995.

<sup>2</sup> These expenses, which are presented as operating expenses in the Statements of Income and Fund Balance, pertain to the FDIC in its corporate capacity only and **do not** include costs that are charged to the failed bank receiverships that are managed by the FDIC. The receivership expenses are presented as part of the "Receivables from Bank Resolutions, net" line on the Statements of Financial Position. The narrative and graph presented in the "Corporate Planning and Budget" section of this report (next page) show the aggregate (corporate and receivership) expenditures of the FDIC.

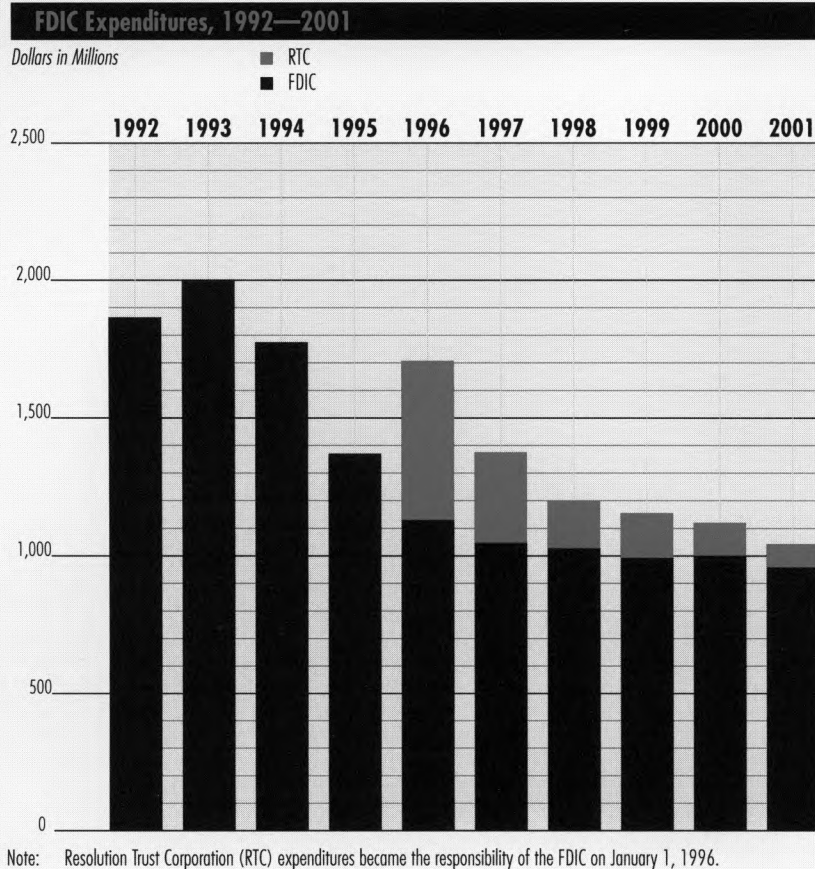
<sup>3</sup> Includes \$210 million for the cumulative effect of an accounting change for certain postretirement benefits.

<sup>4</sup> Includes \$105.6 million net loss on government securities.

<sup>5</sup> This amount represents interest and other insurance expenses from 1933 to 1972.

<sup>6</sup> Includes the aggregate amount of \$80.6 million of interest paid on capital stock between 1933 and 1948.





The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 2001 aggregate budget (for corporate, receivership and capital spending) was \$1.12 billion, while the actual expenditures for the year were \$1.04 billion, about \$77 million less than 2000 expenditures.

Over the past 10 years, the FDIC's expenditures have risen and declined in response to its workload. During the first half of the decade, costs increased as the FDIC became heavily involved with resolving the banking crisis of the late 1980s and early 1990s. In 1994 and 1995, expenditures declined due to decreasing resolution and receivership activity, but temporarily increased in 1996 in conjunction with the absorption of the Resolution Trust Corporation (RTC). Total expenditures have decreased each year since 1996.

The largest component of FDIC spending is for the costs associated with staffing. The FDIC's staff has declined each year during the past six years. Staffing decreased by about four percent in 2001, from 6,452 employees at the beginning of the year to 6,167 at the end of the year.

# Estimated Insured Deposits and the Bank Insurance Fund, December 31, 1934, through December 31, 2001

Year <sup>1</sup>	Insurance Coverage	Deposits in Insured Banks (Dollars in Millions)				Insurance Fund as a Percentage of	
		Total Domestic Deposits	Estimated Insured Deposits <sup>2</sup>	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Estimated Insured Deposits
2001	\$100,000	\$3,584,610	\$2,408,878	67.2	\$30,438.8	0.85	1.26
2000	100,000	3,326,745	2,301,604	69.2	30,975.2	0.93	1.35
1999	100,000	3,038,385	2,157,536	71.0	29,414.2	0.97	1.36
1998	100,000	2,996,396	2,141,268	71.5	29,612.3	0.99	1.38
1997	100,000	2,785,990	2,055,874	73.8	28,292.5	1.02	1.38
1996	100,000	2,642,107	2,007,447	76.0	26,854.4	1.02	1.34
1995	100,000	2,575,966	1,952,543	75.8	25,453.7	0.99	1.30
1994	100,000	2,463,813	1,896,060	77.0	21,847.8	0.89	1.15
1993	100,000	2,493,636	1,906,885	76.5	13,121.6	0.53	0.69
1992	100,000	2,512,278	1,945,623	77.4	(100.6)	(0.00)	(0.01)
1991	100,000	2,520,074	1,957,722	77.7	(7,027.9)	(0.28)	(0.36)
1990	100,000	2,540,930	1,929,612	75.9	4,044.5	0.16	0.21
1989	100,000	2,465,922	1,873,837	76.0	13,209.5	0.54	0.70
1988	100,000	2,330,768	1,750,259	75.1	14,061.1	0.60	0.80
1987	100,000	2,201,549	1,658,802	75.3	18,301.8	0.83	1.10
1986	100,000	2,167,596	1,634,302	75.4	18,253.3	0.84	1.12
1985	100,000	1,974,512	1,503,393	76.1	17,956.9	0.91	1.19
1984	100,000	1,806,520	1,389,874	76.9	16,529.4	0.92	1.19
1983	100,000	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100,000	1,544,697	1,134,221	73.4	13,770.9	0.89	1.21
1981	100,000	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100,000	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40,000	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40,000	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40,000	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40,000	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40,000	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40,000	833,277	520,309	62.5	6,124.2	0.73	1.18
1973	20,000	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20,000	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20,000	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20,000	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20,000	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15,000	491,513	296,701	60.2	3,749.2	0.76	1.26
1967	15,000	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15,000	401,096	234,150	58.4	3,252.0	0.81	1.39
1965	10,000	377,400	209,690	55.6	3,036.3	0.80	1.45
1964	10,000	348,981	191,787	55.0	2,844.7	0.82	1.48
1963	10,000	313,304	177,381	56.6	2,667.9	0.85	1.50
1962	10,000	297,548	170,210	57.2	2,502.0	0.84	1.47
1961	10,000	281,304	160,309	57.0	2,353.8	0.84	1.47
1960	10,000	260,495	149,684	57.5	2,222.2	0.85	1.48
1959	10,000	247,589	142,131	57.4	2,089.8	0.84	1.47
1958	10,000	242,445	137,698	56.8	1,965.4	0.81	1.43
1957	10,000	225,507	127,055	56.3	1,850.5	0.82	1.46
1956	10,000	219,393	121,008	55.2	1,742.1	0.79	1.44
1955	10,000	212,226	116,380	54.8	1,639.6	0.77	1.41
1954	10,000	203,195	110,973	54.6	1,542.7	0.76	1.39
1953	10,000	193,466	105,610	54.6	1,450.7	0.75	1.37
1952	10,000	188,142	101,841	54.1	1,363.5	0.72	1.34
1951	10,000	178,540	96,713	54.2	1,282.2	0.72	1.33
1950	10,000	167,818	91,359	54.4	1,243.9	0.74	1.36
1949	5,000	156,786	76,589	48.8	1,203.9	0.77	1.57
1948	5,000	153,454	75,320	49.1	1,065.9	0.69	1.42
1947	5,000	154,096	76,254	49.5	1,006.1	0.65	1.32
1946	5,000	148,458	73,759	49.7	1,058.5	0.71	1.44
1945	5,000	157,174	67,021	42.4	929.2	0.59	1.39
1944	5,000	134,662	56,398	41.9	804.3	0.60	1.43
1943	5,000	111,650	48,440	43.4	703.1	0.63	1.45
1942	5,000	89,869	32,837	36.5	616.9	0.69	1.88
1941	5,000	71,209	28,249	39.7	553.5	0.78	1.96
1940	5,000	65,288	26,638	40.8	496.0	0.76	1.86
1939	5,000	57,485	24,650	42.9	452.7	0.79	1.84
1938	5,000	50,791	23,121	45.5	420.5	0.83	1.82
1937	5,000	48,228	22,557	46.8	383.1	0.79	1.70
1936	5,000	50,281	22,330	44.4	343.4	0.68	1.54
1935	5,000	45,125	20,158	44.7	306.0	0.68	1.52
1934 <sup>3</sup>	5,000	40,060	18,075	45.1	291.7	0.73	1.61

<sup>1</sup> Starting in 1990, deposits in insured banks exclude those deposits held by Bank Insurance Fund members that are insured by the Savings Association Insurance Fund and include those deposits held by Savings Association Insurance Fund members that are insured by the Bank Insurance Fund.

<sup>2</sup> Estimated insured deposits reflect deposit information as reported in the fourth quarter FDIC Quarterly Banking Profile. Before 1991, insured deposits were estimated using percentages determined from the June 30 Call Reports.

<sup>3</sup> Initial coverage was \$2,500 from January 1 to June 30, 1934.



**Income and Expenses, Savings Association Insurance Fund, by Year, from Beginning of Operations,  
August 9, 1989, through December 31, 2001**

Dollars in Thousands

Year	Income				Expenses and Losses					Net Income (Loss)
	Total	Assessment Income	Investment and Other Sources	Effective Assessment Rate	Total	Provision for Losses	Interest and Other Insur. Expenses	Administrative and Operating Expenses	Funding Transfer from the FSLIC Resolution Fund	
Total	\$12,205,658	\$8,604,206	\$3,601,452		\$1,499,640	\$707,733	\$29,049	\$762,858	\$139,498	\$10,845,516
2001	733,121	35,402	697,719	0.004%	564,083	443,103	19,389	101,591	0	169,038
2000	664,080	19,237	644,843	0.002%	300,018	180,805	8,293	110,920	0	364,062
1999	600,995	15,116	585,879	0.002%	124,156	30,648	626	92,882	0	476,839
1998	583,859	15,352	568,507	0.002%	116,629	31,992	9	84,628	0	467,230
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 2001**

Dollars in Thousands

Name and Location	Bank Class	Number of Deposit Accounts	Total Assets	Total Deposits	FDIC Disbursements	Estimated Loss <sup>1</sup>	Date of Closing or Acquisition	Assuming Bank and Location
<b>Bank Insurance Fund</b>								
<u>Purchase and Assumption—All Deposits</u>								
First Alliance Bank & Trust Company Manchester, NH	NM	1,100	\$16,805	\$16,289	\$16,290	\$565	02/02/01	Southern New Hampshire Bank & Trust Co. Salem, NH
Malta National Bank Malta, OH	N	1,462	\$9,279	\$8,746	\$8,685	\$728	05/03/01	North Valley Bank Zanesville, OH
<u>Purchase and Assumption—Insured Deposits</u>								
Sinclair National Bank Gravette, AR	N	1,082	\$28,386	\$24,891	\$24,556	\$3,400	09/07/01	Delta Trust & Bank Parkdale, AR
<b>Savings Association Insurance Fund</b>								
<u>Purchase and Assumption—All Deposits</u>								
Superior Bank, FSB Hinsdale, IL	SB	91,392	\$2,179,783	\$1,670,802	\$1,022,000	\$440,000	07/27/01	Charter One Bank, FSB Cleveland, OH

Codes for Bank Class NM = State-chartered bank that is not a member of the Federal Reserve System

N = National bank

SB = Savings bank

<sup>1</sup> Estimated losses are as of December 31, 2001. Estimated losses are routinely adjusted with updated information from new appraisals and asset sales, which ultimately affect the asset values and projected recoveries.



**Estimated Insured Deposits and the Savings Association Insurance Fund,  
December 31, 1989, through December 31, 2001**

Year <sup>1</sup>	Insurance Coverage	Deposits in Insured Institutions (Dollars in Millions)				Insurance Fund as a Percentage of	
		Total Domestic Deposits	Est. Insured Deposits <sup>2</sup>	Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
2001	\$100,000	\$897,278	\$801,849	89.4	\$10,935.0	1.22	1.36
2000	100,000	822,610	752,756	91.5	10,758.6	1.31	1.43
1999	100,000	764,359	711,345	93.1	10,280.7	1.35	1.45
1998	100,000	751,413	708,959	94.4	9,839.8	1.31	1.39
1997	100,000	721,503	690,132	95.7	9,368.3	1.30	1.36
1996	100,000	708,749	683,090	96.4	8,888.4	1.25	1.30
1995	100,000	742,547	711,017	95.8	3,357.8	0.45	0.47
1994	100,000	720,823	692,626	96.1	1,936.7	0.27	0.28
1993	100,000	726,473	695,158	95.7	1,155.7	0.16	0.17
1992	100,000	760,902	729,458	95.9	279.0	0.04	0.04
1991	100,000	810,664	776,351	95.8	93.9	0.01	0.01
1990	100,000	874,738	830,028	94.9	18.2	0.00	0.00
1989	100,000	948,144	882,920	93.1	0.0	0.00	0.00

<sup>1</sup> Starting in 1990, deposits in insured institutions exclude those deposits held by Savings Association Insurance Fund members that are insured by the Bank Insurance Fund and include those deposits held by Bank Insurance Fund members that are insured by the Savings Association Insurance Fund.

<sup>2</sup> Estimated insured deposits reflect deposit information as reported in the fourth quarter FDIC Quarterly Banking Profile. Before 1991, insured deposits were estimated using percentages determined from the June 30 Call Reports.

**Number, Assets, Deposits, Losses, and Loss to Funds of Insured Thrifts Taken Over or Closed  
Because of Financial Difficulties, 1989 through 2001<sup>1</sup>**

*Dollars in Thousands*

Year <sup>2</sup>	Total	Assets	Deposits	Estimated Receivership Loss <sup>3</sup>	Loss to Funds <sup>4</sup>
<b>Total</b>	<b>752</b>	<b>\$ 396,291,119</b>	<b>\$ 319,185,179</b>	<b>\$ 75,000,665</b>	<b>\$ 82,200,827</b>
2001	1	2,179,783	1,560,548	350,000	350,000
2000	1	29,530	28,583	1,402	1,402
1999	1	62,956	63,427	1,343	1,343
1998	0	0	0	0	0
1997	0	0	0	0	0
1996	1	32,576	32,745	21,222	21,222
1995	2	423,819	414,692	28,192	27,750
1994	2	136,815	127,508	11,472	14,599
1993	10	6,147,962	4,881,461	281,381	171,017
1992	59	44,196,946	34,773,224	3,101,879	3,684,705
1991	144	78,898,704	65,173,122	8,450,564	9,132,202
1990	213	129,662,398	98,963,960	16,057,760	19,255,388
1989 <sup>5</sup>	318	134,519,630	113,165,909	46,695,450	49,541,199

<sup>1</sup> Prior to July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSILC 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 have been only four such failures. Additionally, SAIF was appointed receiver of one thrift (Heartland FSLA) on October 8, 1993, because, at that time, RTC's authority to resolve FSILC-insured thrifts had not yet been extended by the RTC Completion Act.

<sup>2</sup> Year is the year of failure, not the year of resolution.

<sup>3</sup> The estimated losses represent the projected loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF/SAIF and unpaid advances to receiverships from the FRF.

<sup>4</sup> The Loss to Funds represents the total resolution cost of the failed thrifts in the SAIF and FRF-RTC funds, which includes corporate revenue and expense items such as interest expense on Federal Financing Bank debt, interest expense on escrowed funds, and interest revenue on advances to receiverships, in addition to the estimated losses for receiverships.

<sup>5</sup> Total for 1989 excludes nine failures of the former FSILC.







### **Donald E. Powell**

Mr. Powell was sworn in as the 18th Chairman of the FDIC on August 29, 2001.

Prior to being named FDIC Chairman by President George W. Bush, Mr. Powell—a life-long Texan—was President and CEO of The First National Bank of Amarillo, where he started his banking career in 1971.

In addition to his professional experience as a banker, Mr. Powell has served on numerous boards at universities, civic associations, hospitals and charities.

He has been Chairman of the Board of Regents of the Texas A&M University System, which has more than 90,000 students. Mr. Powell also serves as Advisory Board Member of the George Bush School of Government and Public Service and as former Chairman of the Amarillo Chamber of Commerce.

Mr. Powell has also served on the Board of many other nonprofit, public and community organizations, including the United Way, the Harrington Regional Medical Center, the City of Amarillo Housing Board, and a number of other educational institutions.

He received his B.S. in economics from West Texas State University and is a graduate of The Southwestern Graduate School of Banking at Southern Methodist University.



James Kegley

*FDIC Board of Directors: Donald E. Powell, Chairman (seated), John M. Reich, John D. Hawke, Jr., James E. Gilleran (standing, left to right)*

### **John M. Reich**

Mr. Reich was sworn in as an FDIC Board member on January 16, 2001. He served as Acting Chairman of the FDIC following Chairman Donna Tanoue's resignation on July 11, 2001, until Mr. Powell took office on August 29, 2001.

Before joining the FDIC, Mr. Reich served for 12 years on the staff of U.S. Senator Connie Mack (R-FL). From 1998 through 2000, he was Senator Mack's Chief of Staff, directing and overseeing all of the Senator's offices and committee activities, including the Senate Banking Committee. Mr. Reich also oversaw management of the Joint Economic Committee

and the Senate Republican Conference, where Senator Mack served as Chairman.

Mr. Reich joined Senator Mack's staff after 23 years in the banking business. Beginning as Cashier of the Busey First National Bank in Urbana, IL, Mr. Reich was successively Senior Vice President and Controller of The First National Bank of Fort Myers, FL; Vice President, Secretary-Treasurer and Chief Financial Officer of Southwest Florida Banks, Inc., Fort Myers; and President and CEO of the First Commercial Bank in Fort Myers and, later, at the National Bank of Sarasota.

Mr. Reich's substantial community service includes serving as

## Board of Directors

Chairman of the Board of Trustees of a public hospital facility in Ft. Myers, FL, and Chairman of the Board of Directors of the Sarasota Family YMCA. He has also served as a Board member for a number of civic organizations.

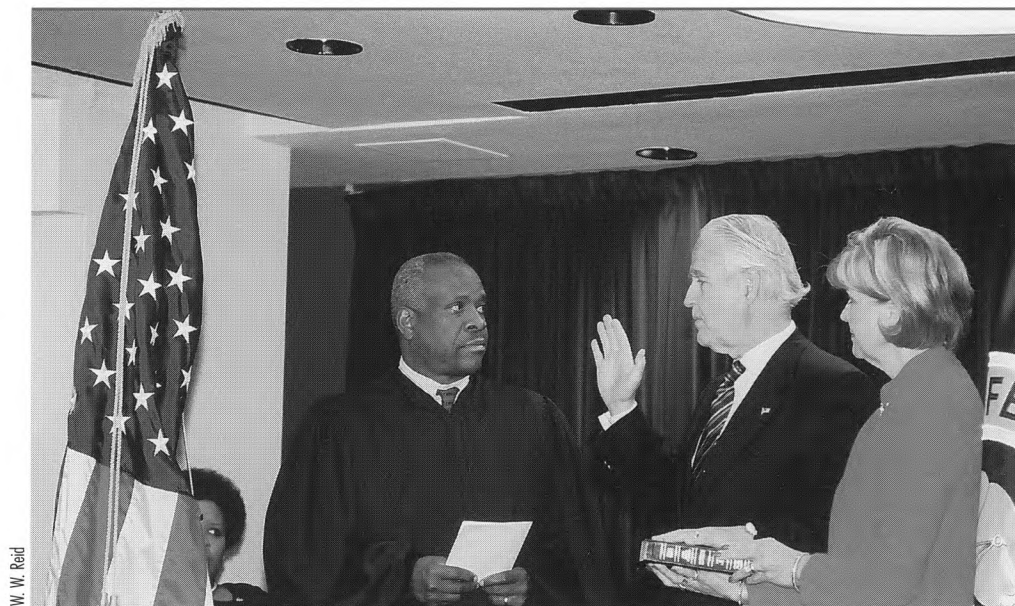
Mr. Reich holds a B.S. in accounting from Southern Illinois University and an M.B.A. from the University of South Florida. He is also a graduate of Louisiana State University's School of Banking of the South.

### **John D. Hawke, Jr.**

Mr. Hawke was sworn in as the 28th Comptroller of the Currency on December 8, 1998. After serving 10 months under a recess appointment, he was sworn in for a full five-year term on October 13, 1999. As Comptroller, Mr. Hawke serves as an FDIC Board member.

Prior to his appointment as Comptroller, Mr. Hawke served for three and a half years as Under Secretary of the Treasury for Domestic Finance. Before joining Treasury, Mr. Hawke was a senior partner at the Washington, DC, law firm of Arnold & Porter, where he began as an associate in 1962. While there, he headed the financial institutions practice, and from 1987 to 1995, served as the firm's Chairman. In 1975, he left the firm to serve as General Counsel to the Board of Governors of the Federal Reserve System, returning in 1978.

Mr. Hawke graduated from Yale University in 1954 with a B.A. in English. From 1955 to 1957, he



*At a ceremonial swearing-in on October 19, 2001, U.S. Supreme Court Justice Clarence Thomas (left) administers the oath of office to Donald E. Powell, the FDIC's 18th Chairman, as Twanna Powell holds the Bible for her husband. Chairman Powell was officially sworn in on August 29, 2001.*



*Former FDIC Chairmen William M. Isaac, Robert E. Barnett and L. William Seidman look on as Chairman Powell takes the oath of office.*

## Board of Directors

served on active duty with the U.S. Air Force. After graduating in 1960 from Columbia University School of Law, where he was Editor-in-Chief of the Columbia Law Review, Mr. Hawke was a law clerk for Judge E. Barrett Prettyman on the U.S. Court of Appeals for the District of Columbia Circuit. From 1961 to 1962, he served as counsel to the Select Subcommittee on Education in the House of Representatives.

From 1970 to 1987, Mr. Hawke taught courses on federal regulation of banking at Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation, and served as the Chairman of the Board of Advisors of the Morin Center for Banking Law Studies in Boston. Mr. Hawke also has written extensively on matters relating to the regulation of financial institutions.

### **James E. Gilleran**

Mr. Gilleran became Director of the Office of Thrift Supervision (OTS) on December 7, 2001. As OTS Director, Mr. Gilleran is also an FDIC Board member.

Mr. Gilleran was Chairman and CEO of the Bank of San Francisco from October 1994 until December 2000. From 1989 to 1994, he was the California State Banking Superintendent. He served as Chairman of the Conference of State Bank Supervisors (CSBS) from 1993 to 1994, and was a member of the CSBS's Bankers Advisory Council until 2000.

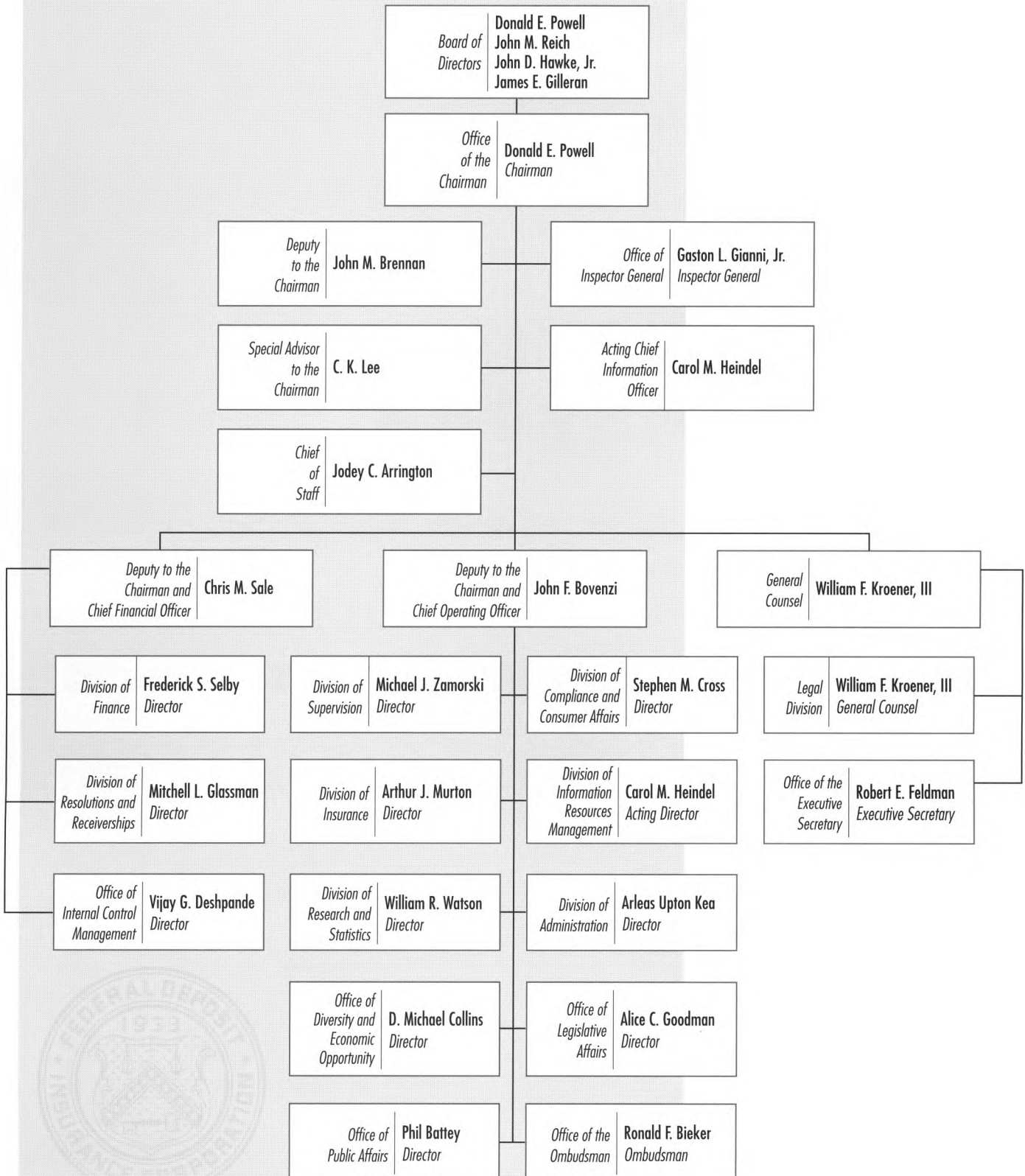
Prior to his service as the California Banking Superintendent, Mr. Gilleran was managing partner of the Northern California practice of the public accounting firm KPMG Peat Marwick. Before serving as managing partner, he was in charge of KPMG's banking practice in the western region of the U.S. He was with KPMG from 1958 through 1987.

Mr. Gilleran has also been involved in a number of educational, civic and charitable organizations, including serving as Chairman of the American Red Cross of the (San Francisco) Bay Area.

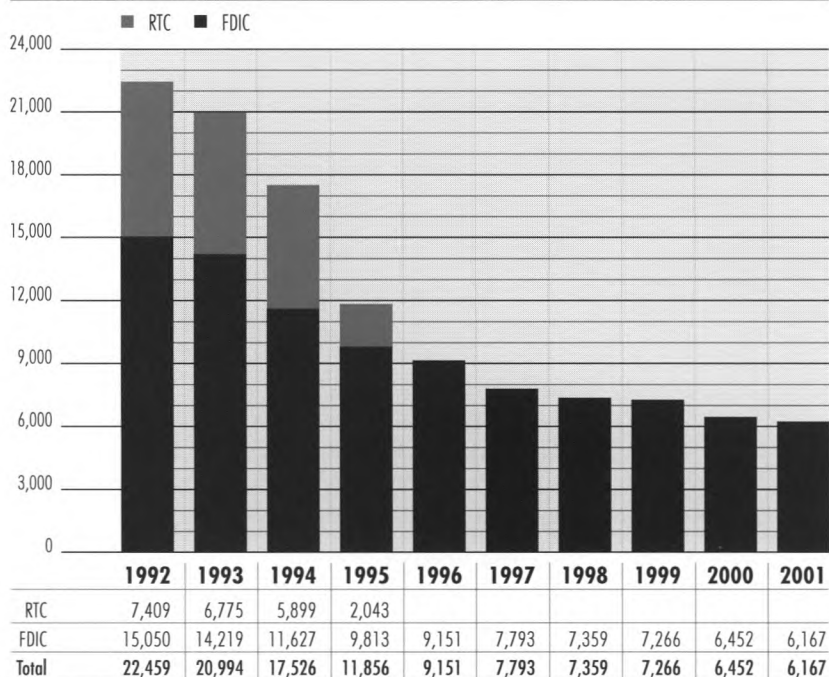
Mr. Gilleran is a certified public accountant and a member of the American Institute of CPAs. He graduated from Pace University in 1955, and received his law degree from Northwestern California University in 1996.



# FDIC Organization Chart as of December 31, 2001



## Staffing Trends 1992—2001



Note: All staffing totals reflect year-end balances.

The Resolution Trust Corporation (RTC) was fully staffed with FDIC employees and, until February 1992, the RTC was managed by the FDIC Board of Directors. Upon sunset at year-end 1995, all of its remaining workload and employees were transferred to the FDIC.

## Number of Officials and Employees of the FDIC 2000-2001 (Year-End)

	Total		Washington		Regional/Field	
	2001	2000	2001	2000	2001	2000
Executive Offices <sup>1</sup>	89	94	89	94	0	0
Division of Supervision	2,532	2,589	198	210	2,334	2,379
Division of Compliance and Consumer Affairs	570	593	64	60	506	533
Division of Resolutions and Receiverships	454	468	124	128	330	340
Legal Division	622	701	375	424	247	277
Division of Finance	384	420	284	289	100	131
Division of Information Resources Management	475	489	396	410	79	79
Division of Research and Statistics	101	99	101	99	0	0
Division of Insurance	75	71	43	39	32	32
Division of Administration	584	614	397	416	187	198
Office of Inspector General	204	225	142	159	62	66
Office of Diversity and Economic Opportunity	36	40	31	32	5	8
Office of the Ombudsman	23	30	13	13	10	17
Office of Internal Control Management	18	19	18	19	0	0
<b>Total</b>	<b>6,167</b>	<b>6,452</b>	<b>2,275</b>	<b>2,392</b>	<b>3,892</b>	<b>4,060</b>

<sup>1</sup> Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Executive Secretary, Legislative Affairs, and Public Affairs.

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**Home Page on the Internet**

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[www.fdic.gov](http://www.fdic.gov)

A wide range of banking, consumer and financial information is available on the FDIC's Internet home page. This includes the FDIC's Electronic Deposit Insurance Estimator, "EDIE," which estimates an individual's deposit insurance coverage; the Institution Directory, financial profiles of FDIC-supervised institutions; Community Reinvestment Act evaluations and ratings for banks and thrifts supervised by the FDIC; and Call Reports, banks' reports of condition and income. Several new products have been added, including Money Smart, a training program to help adults outside the financial mainstream enhance their money skills and create positive banking relationships. 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.

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**FDIC Call Center**

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Phone: 877-275-3342 (ASK FDIC)  
202-736-0000

TDD: 800-925-4618

The FDIC Call Center in Washington, DC, is the primary telephone point of contact for general questions from the banking community, the public and FDIC employees. The Call Center directly, or in concert with other FDIC subject matter experts, responds to questions about deposit insurance and other consumer issues and concerns, as well as questions about FDIC programs and activities. The Call Center also makes referrals to other federal and state agencies as needed. Hours of operation are 8:00 a.m. to 8:00 p.m. Eastern Time. Information also is available in Spanish. Recorded information about deposit insurance and other topics is available 24 hours a day at the same telephone number.

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**Public Information Center**

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801 17th Street, NW  
Washington, DC 20434

Phone: 877-275-3342 (ASK FDIC), option 5, or  
202-416-6940

Fax: 202-416-2076

E-mail: [publicinfo@fdic.gov](mailto:publicinfo@fdic.gov)

FDIC publications, press releases, speeches and Congressional testimony, directives to financial institutions, policy manuals and other documents are available on request or by subscription through the Public Information Center. These documents include the *Quarterly Banking Profile*, *Statistics on Banking*, *Summary of Deposits* and a variety of consumer pamphlets.

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**Office of the Ombudsman**

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550 17th Street, NW  
Washington, DC 20429

Phone: 877-275-3342 (ASK FDIC), option 3

Fax: 202-942-3040 or  
202-942-3041

E-mail: [ombudsman@fdic.gov](mailto:ombudsman@fdic.gov)

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.



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Note: As of June 30, 2002, the staff and functions of the Boston office will come under the New York Regional Office, while those of the Memphis office will fall primarily under the Dallas Regional office.

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