

ATTACHMENT B

FLOWS IN AND OUT OF THE SAVINGS ASSOCIATION INSURANCE FUND

Summary

The Savings Association Insurance Fund (SAIF) was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) as the successor to the Federal Savings and Loan Insurance Corporation (FSLIC). The SAIF will have resolution authority for all failed thrifts as of no earlier than January 1, 1995, nor later than July 1, 1995. Consequently, there have been limited demands on the SAIF for insurance losses since its inception. Through 1992, the majority of SAIF-member assessment revenue was diverted to thrift resolution funding needs other than the SAIF. Because uses of funds have nearly equalled sources of funds since 1989, the SAIF began Fiscal Year 1993 with a minimal balance of approximately \$200 million.

The SAIF received nearly \$0.17 billion in net assessment revenue in Fiscal Year 1993. For many reasons, it is difficult to project the SAIF's exposure. If insurance losses exceed assessment revenue, the SAIF may be required to access its other sources of funds. Under the Resolution Trust Corporation Completion Act of 1993 (RTCCA), up to \$8 billion total is authorized to be appropriated for Fiscal Years 1994 through 1998 to the SAIF for loss purposes only, subject to certifications by the FDIC's Board of Directors. Absent such funds, the SAIF would be authorized to borrow from the FDIC's \$30 billion credit line with the Treasury, with borrowings to be repaid over time with SAIF-member assessments.

Background

FIRREA abolished the FSLIC and the Federal Home Loan Bank Board (FHLBB). Their functions were transferred to the FDIC, the Office of Thrift Supervision (OTS), the Federal Housing Finance Board (FHFB), and the RTC. Under FIRREA, the FDIC became the administrator of two separate and distinct insurance funds: the Bank Insurance Fund (BIF), formerly the Deposit Insurance Fund, and the SAIF, the successor to the FSLIC Fund. Both insurance funds are maintained separately to carry out their respective legislative mandates, with no commingling of assets or liabilities.

A third separate fund under FDIC management is the FSLIC Resolution Fund (FRF). The FRF is funded through assessment revenue from SAIF-member institutions (through calendar year 1992) Congressional appropriations and asset sales. The RTC will resolve all troubled thrift cases that occur from January 1, 1989 through at least December 31, 1994, but not later than June 30, 1995, after which the SAIF will resolve all new thrift cases. The FRF will complete the resolution of all thrifts that failed or were assisted before January 1, 1989, and also will complete the resolution of any RTC conservatorships that are unresolved as of the RTC's termination in December 1995. Resolution responsibility is summarized in Table 1.

Primary Sources and Uses of Funds

The primary source of funds for the SAIF is assessment revenue from SAIF-member institutions. Since the creation of the SAIF and through the end of calendar year 1992, however, almost all assessments from SAIF-member institutions were diverted to other needs, as stipulated by FIRREA and as described below. Only SAIF assessment revenue generated from BIF-member institutions that acquired thrifts under Section 5(d)(3) of the Federal Deposit Insurance Act (FDI Act), *i.e.*, Oakar banks, was deposited in the SAIF throughout this period.

Through 1992, assessment revenue from SAIF-member institutions was diverted to the Financing Corporation (FICO)¹, the Resolution Funding Corporation (REFCORP)², and the FRF. Under Section 21 of the Federal Home Loan Bank (FHLB) Act, the FICO has an ongoing first claim on SAIF assessment income through the year 2019 to fund the interest payments on bonds issued by the FICO. Section 21 of the FHLB Act also requires that SAIF assessment income be used, if necessary, to provide funding for REFCORP.³ Because REFCORP's principal fund is fully funded, SAIF assessment income was not required for REFCORP purposes in 1992. During the period beginning on the date of enactment of FIRREA and ending on December 31, 1992, Section 11 of the FDI Act requires that "to the extent funds are needed" the sources of funds for the FRF shall include amounts assessed against SAIF members by the FDIC pursuant to Section 7 that are not required by FICO or REFCORP. Table 2 summarizes the flow of assessment revenue from 1989 through 1994.

Because most of SAIF's assessment revenue has been diverted since its inception, net revenue to the SAIF has been limited. However, there have been only limited demands on the SAIF, as losses were small and it was reimbursed by the FRF for administrative and supervisory expenses through September 30, 1992. SAIF's balance as of December 31, 1994, was \$1.9 billion and the fund is not expected to reach the 1.25 percent reserve ratio until 2002.

As noted above, assessment revenue net of the FICO obligation began flowing into the SAIF on January 1, 1993. SAIF now is obligated to fund its administrative and supervisory expenses, although the draw is relatively minor. By not sooner than January 1, 1995, and not later than

¹The FICO was created by the Competitive Equality Banking Act of 1987 (CEBA) as a mixed-ownership government corporation to recapitalize the FSLIC; its funds were used by the FRF after the enactment of FIRREA. The FICO's authority to issue obligations was terminated on December 12, 1991, by the Resolution Trust Corporation Thrift Depositor Protection Reform Act of 1991.

²The REFCORP was created by FIRREA as a mixed-ownership government corporation to provide funding for the RTC.

³SAIF assessment revenue was used to purchase zero-coupon bonds to repay the REFCORP obligations at maturity.

July 1, 1995, the SAIF will have responsibility for all new thrift resolutions.

Table 1 RESOLUTION RESPONSIBILITY: SAIF-MEMBER INSTITUTIONS			
	FRF	RTC	SAIF
Thrifts previously insured by FSLIC:			
Fail prior to 1/89	X		
Fail 1/89 - at least 12/31/94 but not later than 6/30/95		X	
Fail after not sooner than 1/1/95 and not later than 7/1/95			X
Conversion banks: Oakars and Ssassers ⁴ Fail after 8/89			X
Thrifts chartered post-FIRREA Fail after 8/89			X
Thrifts in RTC conservatorship, and all remaining RTC assets and liabilities as of December 1995	X		

⁴Under the "Oakar" Amendment, insured depository institutions are allowed to merge without changing insurance coverage for the acquired deposits. Oakar bank SAIF deposits are deposits insured by the SAIF but held by BIF-member banks. There were approximately \$154 billion in Oakar bank SAIF deposits as of March 31, 1994. Sasser deposits are insured by the SAIF but belong to banks that previously had been thrift institutions.

Table 2
Application of SAIF-Insured Institution Assessments
 Dollars in Millions

Calendar Year	Cash Assessment Revenue	Assessments Diverted to:			Total Assessments Diverted	Cash Assessments Retained by SAIF
		FICO	REFCORP	FRF		
1989	\$ 394	\$ 295	\$ 0	99	\$ 394	\$ 0
1990	1,828	738	1,090	0	1,828	0
1991	1,883	757	(29)	1,155	1,883	0
1992	1,777	772	0	740	1,512	265
1993	1,690	779	0	0	779	911
1994	1,729	596	0	0	596	1,133
Total	9,302	3,937	1,061	1,994	6,993	2,309

Other Sources

There are several potential sources of funds for the SAIF apart from assessment revenue.⁵ First, a total of up to \$8 billion is authorized to cover insurance and losses under RTCCA for Fiscal Years 1994 through 1998. Funds may be appropriated for covering incurred losses only, subject to the following certifications to the Congress by the FDIC Board ("certification funds"):

- (1) SAIF members are unable to pay additional assessments at rates required to cover losses OR meet a repayment schedule for Treasury borrowings without adversely affecting the ability of SAIF members to raise and maintain capital or to maintain the assessment base; AND

⁵Although these provisions were replaced by those of RTCCA, 1) as revenue supplements, if needed to supplement net assessment revenue to reach \$2 billion annually for each of the Fiscal Years 1993 through 2000; and 2) as net worth supplements, to pay for any amounts that may be necessary to ensure that the SAIF meets the statutory specified minimum net worth for each of the Fiscal Years 1992 through 2000. No funds were ever appropriated under the FIRREA authorization.

- (2) An increase in assessment rates needed to cover losses OR repay Treasury borrowings could reasonably be expected to result in greater losses to the Government.

One problem with this language is the ambiguity concerning the definition of "unable to pay." Moreover, the two-pronged nature of the test makes it difficult for the FDIC Board to make the certification except under extreme conditions.

Any unexpended RTC funds before the end of the two-year period beginning at the date of the RTC's termination may be provided to the SAIF to cover losses, provided that the above certifications to the Congress are made by the Board.

FIRREA also authorizes the SAIF to obtain working capital by borrowing funds from the Federal Financing Bank (FFB). For loss funds, the SAIF may borrow from the Treasury (as part of the FDIC's \$30 billion line of credit). Additionally, the SAIF may borrow from the Federal Home Loan Banks. Finally, FIRREA allows for discretionary payments to be made to the SAIF by the RTC.⁶

Outlook

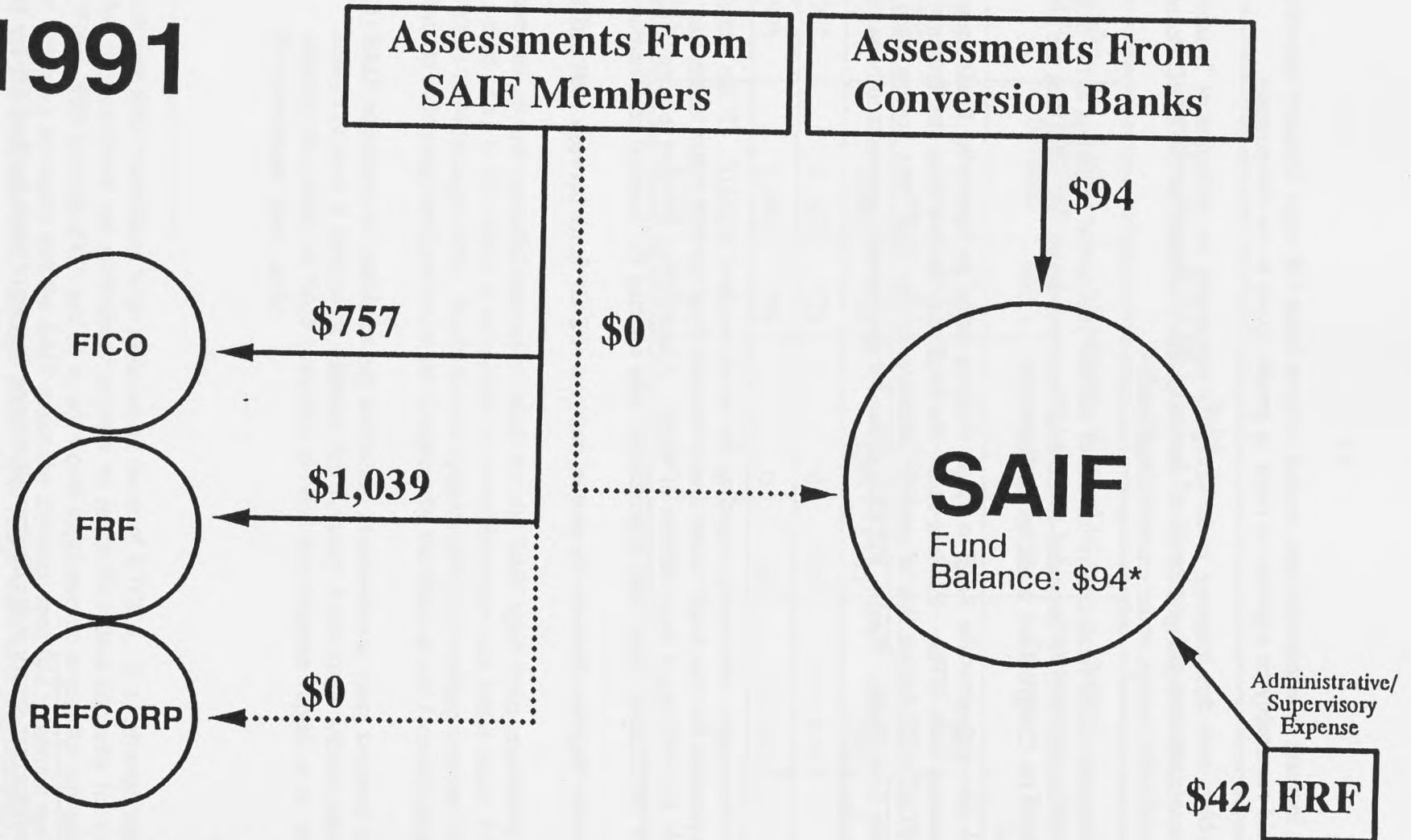
There is tremendous uncertainty regarding the future caseload of SAIF. If the economy falters, it is possible that the SAIF would need to borrow from the \$30 billion credit line if it is responsible for resolving a large number of thrifts. Alternatively, the need to borrow could be avoided if certification funds were appropriated upon meeting the required certifications.

The attached diagrams illustrate the sources and uses of SAIF funds between 1991 and June 30, 1994.

⁶These sources are shown in the diagram illustrating sources of funds for the SAIF for 1993, but not earlier, because these sources have not been accessed yet.

SAIF: Sources of Funds

1991

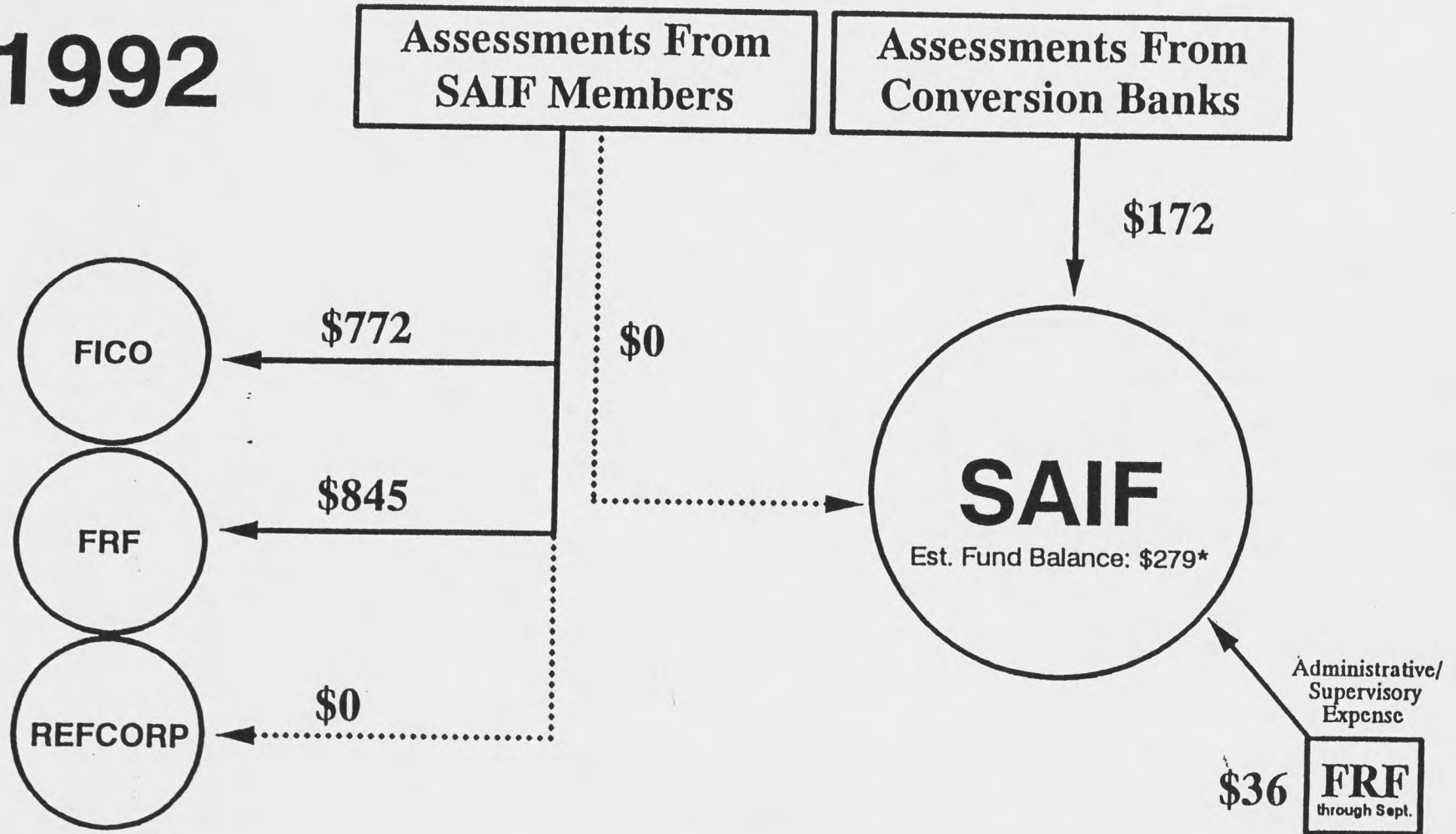


All dollar amounts in millions.

* Net of \$20 million provision for losses.

SAIF: Sources of Funds

1992

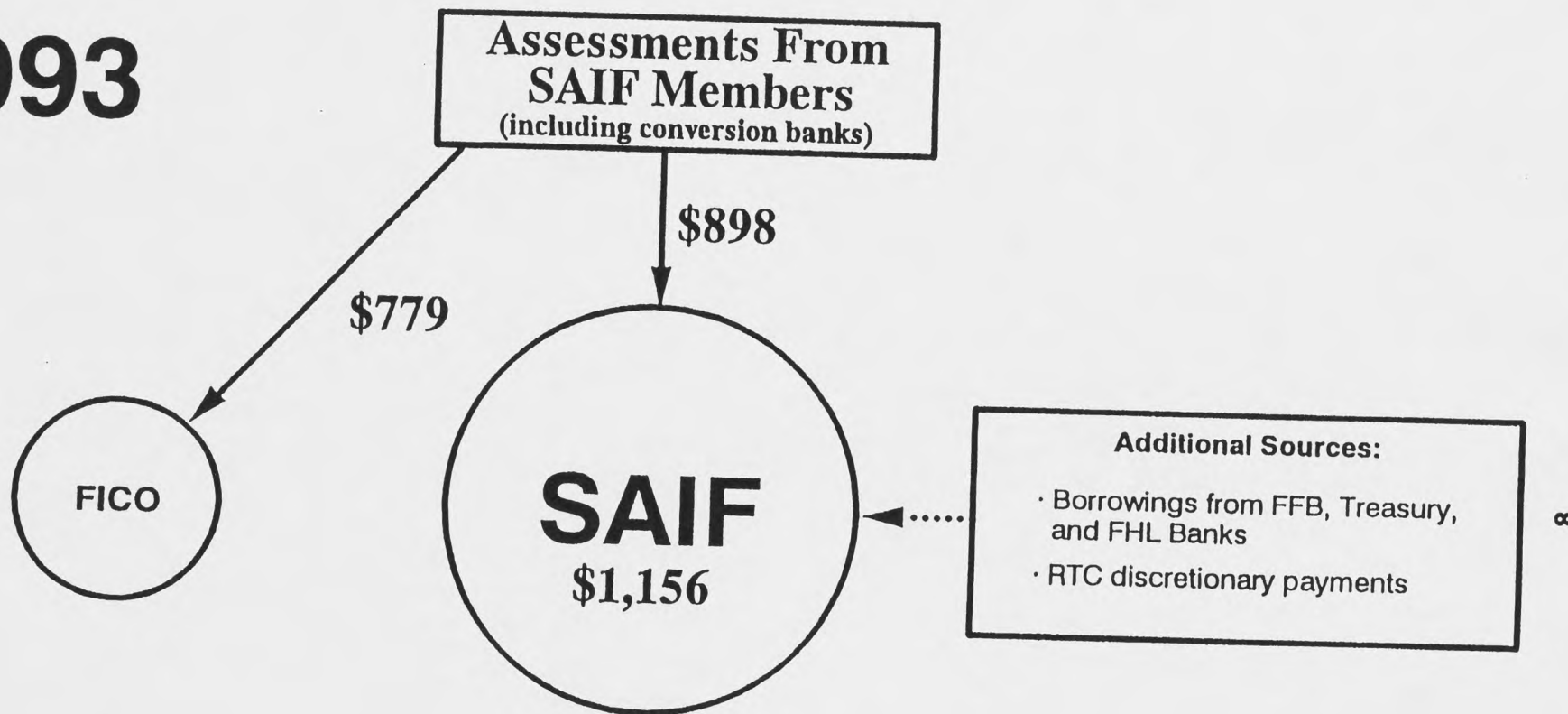


All dollar amounts in millions.

* Estimated year-end fund balance.

SAIF: Sources of Funds

1993

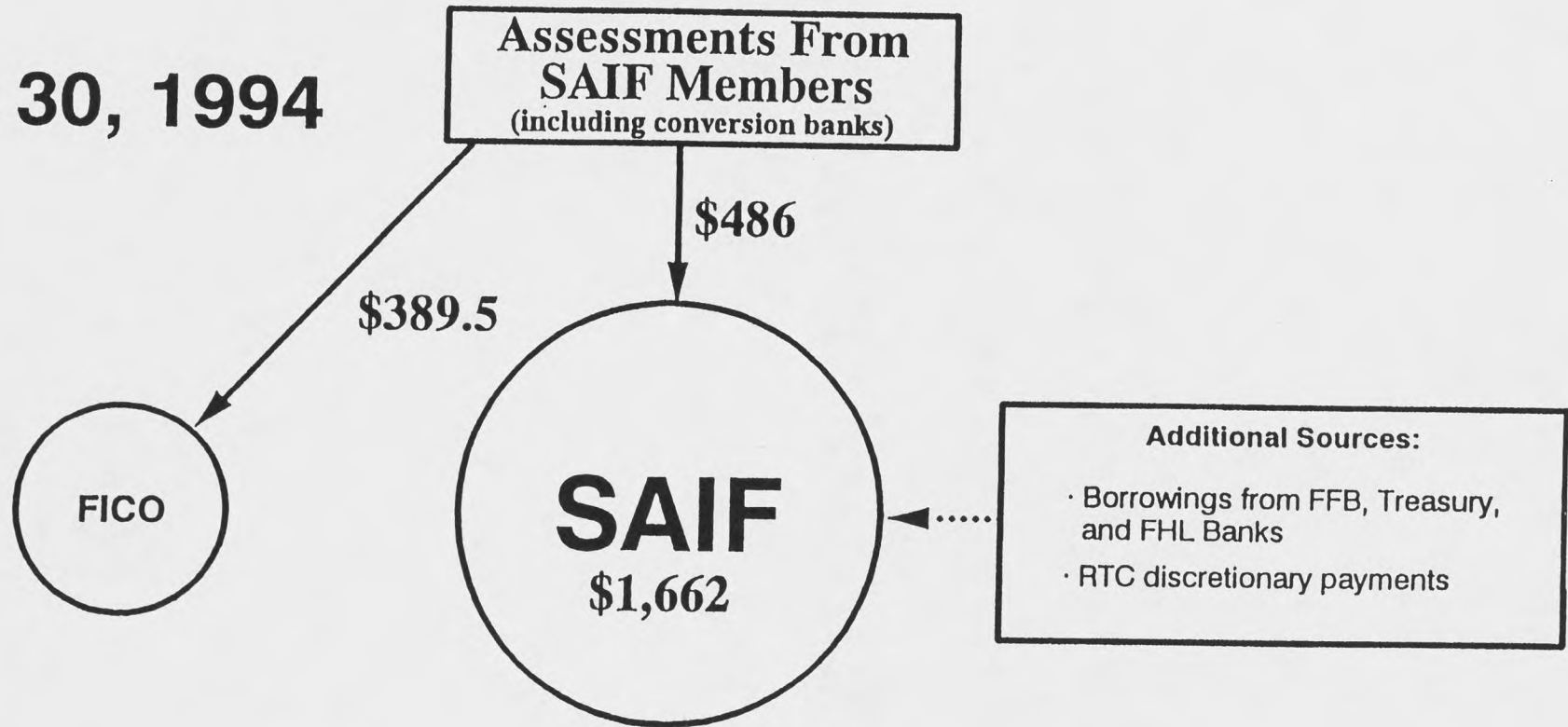


All dollar amounts in millions.

SAIF: 0 15

SAIF: Sources of Funds

June 30, 1994



All dollar amounts in millions.