

# 1999 Annual Report: Promises Kept

Each Depositor Insured to \$100,000



FEDERAL DEPOSIT INSURANCE CORPORATION



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

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

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

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

**FEDERAL DEPOSIT INSURANCE CORPORATION**





Federal Deposit Insurance Corporation  
Washington, DC 20429-9990

Office of the Chairman

August 11, 2000

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 1999.

Sincerely,

A handwritten signature in black ink, appearing to read "Donna Tanoue".

Donna Tanoue  
**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 Board of Directors  
Donna Tanoue (seated),  
John D. Hawke, Jr.,  
Ellen Seidman,  
Andrew C. Hove, Jr.  
(standing, l-r)

## Donna Tanoue

Donna Tanoue took office as the 17th Chairman of the Federal Deposit Insurance Corporation on May 26, 1998.

Chairman Tanoue has focused attention on emerging risks in the financial institution industry, and especially on the risks that arise from subprime lending. Further, under Chairman Tanoue's direction, investigating fraud at banks is among the highest priorities for FDIC examiners because recent changes in the business of banking and innovations in computer technology create greater opportunity for financial irregularities. The FDIC has also recently refined its system of setting deposit insurance premiums to capture more accurately the risks that institutions pose to its insurance funds.

Under the leadership of Chairman Tanoue, the FDIC took an aggressive approach to supervising federally insured financial institutions to ensure their readiness for the Year 2000 date change. In 1999, the Corporation engaged in an extensive program of Y2K public education and outreach in which FDIC officials participated in hundreds of outreach meetings and other Y2K events throughout the

country. Ms. Tanoue personally appeared on network television news programs to describe the industry's preparedness for Year 2000, assuring the public that there would be no significant disruptions in the banking system because of Y2K, and in late 1999 she held press conferences in major cities throughout the country to raise public awareness of banking readiness.

Before she became FDIC Chairman, Ms. Tanoue was a partner in the Hawaii law firm of Goodwill Anderson Quinn & Stifel, which she joined in 1987. She specialized in banking, real estate finance, and governmental affairs.

From 1983 to 1987, Ms. Tanoue was Commissioner of Financial Institutions for the State of Hawaii. In that post, she was the primary state regulator for state-chartered banks, savings and loan associations, trust companies, industrial loan companies, credit unions, and escrow depository companies. Ms. Tanoue also served as Special Deputy Attorney General to the Department of Commerce and Consumer Affairs for the State of Hawaii from 1981 to 1983. Ms. Tanoue received a J.D. from the Georgetown University Law Center in 1981 and a B.A. from the University of Hawaii in 1977.

**Andrew C. Hove, Jr.**

Mr. Hove was appointed to his second term as Vice Chairman of the FDIC in 1994. His first term as Vice Chairman began in 1990. Since 1991, Mr. Hove has served as Acting Chairman of the FDIC three times, most recently from June 1, 1997, when Chairman Ricki Helfer resigned, to May 26, 1998, when Donna Tanoue was sworn in as the 17th Chairman. Before joining the FDIC, Mr. Hove was Chairman and Chief Executive Officer of the Minden Exchange Bank & Trust Company, Minden, Nebraska, where he served in every department during his 30 years with the bank.

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

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

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

**Ellen Seidman**

Ms. Seidman became Director of the Office of Thrift Supervision (OTS) on October 28, 1997. As OTS Director, Ms. Seidman is also an FDIC Board member.

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

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

Drysdale, a Washington, DC, law firm specializing in tax, securities and bankruptcy issues.

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

**John D. Hawke, Jr.**

Mr. Hawke was sworn in as the 28th Comptroller of the Currency on December 8, 1998. After serving ten 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. He also serves as a Director of the Federal Financial Institutions Examination Council, and the Neighborhood Reinvestment Corporation.

Prior to his appointment as Comptroller, Mr. Hawke served for three and a half years as Under Secretary of the Treasury for Domestic Finance. He oversaw the development of policy and legislation in the financial institutions, debt management and capital markets areas, and served as Chairman of the Advanced Counterfeit Deterrence Steering Committee and as a member of the board of the Securities Investor Protection Corporation. Before Treasury, Mr. Hawke was a senior partner at the Washington, DC, law firm of Arnold & Porter, which he first joined 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 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 serves as the Chairman of the Board of Advisors of the Morin Center for Banking Law Studies in Boston. Mr. Hawke has written extensively on matters relating to the regulation of financial institutions, and is the author of "Commentaries on Banking Regulation," published in 1985. He was a founding member of the Shadow Financial Regulatory Committee, and served on the committee until joining Treasury in 1995.

**O**ur Annual Report has a new look. In the past, it was a publication of record for events the previous year. Beginning this year, it will also include an essay on a banking, financial or economic issue of current importance. This essay is not intended to provide a roadmap for legislative or regulatory actions. Rather, it seeks to provide perspectives.

The 1999 Annual Report examines a seemingly straightforward but, in fact, very complex topic: deposit insurance.

As of the end of 1999, the Bank Insurance Fund (BIF) stood at almost \$30 billion and its reserve ratio at 1.36 percent. The Savings Association Insurance Fund (SAIF) stood at more than \$10 billion and its reserve ratio at 1.45 percent – higher than the BIF ratio. Given these benign conditions and the current strong economy, there is no better time than now to look at how we can strengthen our deposit insurance system. Consequently, the FDIC is undertaking a comprehensive review of the deposit insurance system – we are taking a fresh look.

A review is necessary for a number of reasons.

First, premiums are based on risks, and we need to measure those risks more effectively and we need premiums that reflect the risks more accurately. Under our current premium system, more than 9,500 insured institutions are grouped into the same risk category – the zero premium category. We believe there are some discernible differences among the risk profiles of these institutions, and we are going to look for straightforward and compelling ways of making appropriate distinctions and charging premiums accordingly.

The supervisory process makes distinctions among these 9,500 banks, and we should be able to develop a consistent approach to pricing that reflects those differences. The market may help us to price risks from the large complex banks.

Second, a review is necessary because our current system is raising issues of fairness. Deposit growth is currently free for most institutions, and some are growing rapidly. A recent announcement by a Wall Street investment firm that it plans to sweep uninvested funds into insured deposit accounts is particularly significant for the future of the funds.

Some institutions have never paid anything into the deposit insurance funds; meanwhile, there are many other institutions that are losing core deposits and have paid substantial premiums in the past to recapitalize the funds. We need to consider alternative pricing arrangements that might distribute the costs of the deposit insurance system more fairly.

There are other areas where we need to consider reforming the system. One involves the rules for maintaining our insurance funds at appropriate levels. The current system resembles a "pay-as-you-go" approach, where the FDIC is forced to charge institutions the most during bad times, when they can least afford to pay. Arguably, this is not how an insurance system is supposed to work.

Finally, there have been calls to reevaluate deposit insurance coverage limits. The \$100,000 limit has been in place for 20 years – the longest period in the history of the FDIC without an increase in the coverage limit. We must be cautious, however, when it comes to expanding the federal safety net.

The banking and thrift crisis a decade ago demonstrated that the stakes could be enormous for the U.S. taxpayers, and we must be mindful that the reforms enacted in the wake of that crisis have not been tested by an economic downturn.

We intend to study the potential consequences of higher coverage very carefully before drawing any final conclusions.



James Kegley

Chairman Donna Tanoue

There is a danger that – in its relative simplicity – the coverage issue could overshadow other deposit insurance issues – that the public debate on deposit insurance could boil down to the question of how high coverage should be. That would be a mistake. It would address one issue with the current system, but coverage is just one issue among many. Increasing coverage raises many related considerations. In fact, expanding coverage alone would increase the fairness problem – because new and higher growth institutions wouldn't be asked to contribute more. And increasing coverage – without fine-tuning the risk-based pricing system – could reduce market discipline.

Reform will not be quick or easy. It will require a lot of thoughtful work, but we are building a foundation for action. The FDIC has held one roundtable discussion in Washington where we heard from the American Bankers Association, the Independent Community Bankers of America, America's Community Bankers, the American Association of Retired Persons, Consumer Action, the National Bankers Association, and two noted academics. We held outreach sessions in Minneapolis, Kansas City and Dallas, where we listened to the views of bank CEOs on a wide range of deposit insurance issues. We are doing research, and are commissioning independent analysts to examine specific topics in deposit insurance reform, as well.

After careful review, the FDIC will prepare a set of policy recommendations. With the exception of our long-standing position that the BIF and SAIF should be merged, we have not endorsed anything, but we are looking at the key issues presented by our current deposit insurance system.

The FDIC has served the public well over the years by providing certainty and stability.

By refining our deposit insurance system – by eliminating inequities and addressing unintended consequences – we can improve the service we provide the public.

Sincerely,



**Donna Tanoue**  
Chairman

## **Challenges in Deposit Insurance**





DIC insurance has protected depositors and served as a symbol of confidence in our nation's banking system for more than 66 years. During the last two decades of the twentieth century, there were significant changes in some of the underlying parameters of deposit insurance – in the risks the FDIC was underwriting, in the risk-management tools that banks and bank supervisors used to control those risks, and in the premium and funding structures for deposit insurance. These changes have created new issues for the operation of our deposit insurance system, and highlighted the importance of old issues. This article takes stock of the new challenges and offers thoughts on how the system might evolve in response.

## New Risks

At year-end 1999, the FDIC faced a more challenging risk environment than ever before. Cyclically, we stood at the ninth year of the longest and strongest economic expansion in U.S. history, an extraordinary period of low unemployment, low inflation, high productivity growth, low and stable interest rates, significant technological change, and soaring household wealth. One of the new risks in this economic landscape was the potential for highly integrated global financial markets to speed the transmission of financial risks across borders, sometimes in unexpected ways. And as the decade ended, there were signs of financial imbalances emerging in the U.S. economy: a buildup of household and corporate debt; a negative personal savings rate; a record and rising trade deficit; and more generally, an increasing reliance on financial markets as sources of wealth and cash flow. Some observers saw in the economic fundamentals a new age of limitless prosperity; others saw the financial imbalances in apocalyptic terms; but all agreed that the U.S. economy was in uncharted territory.

Structurally, risks within the banking industry were becoming more concentrated, a trend that ultimately could have ramifications for the ability of the banking industry to collectively insure itself. FDIC insurance gives each bank a contingent liability to pay for the failures of other banks, a contingent liability that is analogous to a credit exposure. Just as standard credit-risk measurement tools predict that the potential for extreme losses increases with the concentration of a loan portfolio, we may expect that over a long period of time, increasing banking industry concentration will place each bank at greater risk of extreme outcomes with respect to its mutual deposit insurance obligations.

As the nineties drew to a close, it also appeared that we were in the midst of a long-term trend in which the complexity of measuring

and monitoring the risks assumed by insured institutions was increasing. In part, this trend was a function of the increasing size, scope of activities, and complexity of the largest institutions. Yet the FDIC has observed that the opacity of bank risk is not confined to the largest institutions. The proliferation of securitization vehicles, the ability to quickly assume – or hedge – significant risks off the balance sheet, the ability to raise loans and deposits quickly through aggressive price competition, the propensity to outsource significant bank functions, and entry to lines of business outside the traditional bank franchise, by small institutions as well as large, all can be used by bankers to manage risk, but also can increase both the speed with which risks can change and the complexity of measuring those risks. These trends will put continued pressure on the FDIC's deposit insurance pricing system to use the best information available to assess risks – both from onsite examinations, the most reliable source of information about banks' risk profiles, and from new and existing sources of offsite information.

## New Approaches to Risk Management

Standing between the FDIC and the risks we have described is an array of private sector and supervisory risk controls. By the end of the 1990s, it was clear that these risk-mitigating tools were undergoing significant change. There was substantial discussion about the implications of these trends for capital regulation, but discussions about the implications for deposit insurance were in their infancy.

Private sector risk management strategies evolved considerably during the 1990s. An ongoing dialogue that included the accounting profession, the financial regulatory community, and leading financial institution practitioners resulted in a significant increase in the degree to which best practices in risk management were formalized and made available. Quantitative tools to measure and monitor risk became more sophisticated as well. Asset-liability management software to assist in the evaluation and control of interest rate risk is now readily available to financial institutions; market risks are being measured in real time through value-at-risk models and other approaches; and credit risk modeling and measurement is becoming more rigorous. As the decade closed, the risks identified through these tools were being managed with financial instruments and financial technologies that did not exist twenty years earlier.

Bank supervisors have long emphasized that the successful management of bank risk is ultimately a function of the stewardship provided by bank management. During the 1990s, the operational and policy implications of this philosophy began to be explored more fully.

## 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 2000. 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	8,291 (93.7%)	329 (3.7%)	50 (0.6%)
<b>Adequately Capitalized:</b>			
Assessment Rate	3	10	24
Number of Institutions	150 (1.7%)	12 (0.1%)	10 (0.1%)
<b>Undercapitalized:</b>			
Assessment Rate	10	24	27
Number of Institutions	2 (0.0%)	0 (0.0%)	8 (0.1%)

### SAIF Supervisory Subgroups\*

	A	B	C
<b>Well Capitalized:</b>			
Assessment Rate	0	3	17
Number of Institutions	1,271 (91.6%)	77 (5.5%)	6 (0.4%)
<b>Adequately Capitalized:</b>			
Assessment Rate	3	10	24
Number of Institutions	21 (1.5%)	5 (0.4%)	7 (0.5%)
<b>Undercapitalized:</b>			
Assessment Rate	10	24	27
Number of Institutions	0 (0.0%)	0 (0.0%)	1 (0.1%)

- BIF data exclude SAIF-member "Oakar" institutions that hold BIF-insured deposits. The assessment rate reflects the rate for BIF-assessable deposits, which remained the same throughout 1999.
- SAIF data exclude BIF-member "Oakar" institutions that hold SAIF-insured deposits. The assessment rate reflects the rate for SAIF-assessable deposits, which remained the same throughout 1999.

concerned with any systemic trend that increases the likelihood of such breakdowns. For example, we have seen some cases where the opportunities to generate revenue inherent in a long expansion – and the competitive pressures to do so – have led banks to compromise or neglect important aspects of risk-management discipline. Warnings from the Securities and Exchange Commission about the danger that some accounting firms may be compromising their auditing business in favor of more lucrative consulting opportunities may provide another example of a systemic trend towards an increasing volatility of risk-management outcomes. Given these trends, it can be expected that the FDIC's pricing and evaluation of risk will, over time, continue to place heavy emphasis on identifying the quality of banks' risk controls.

## A New Legislative Framework

By a combination of legislative changes, regulatory choices and economic events, the funding and pricing of FDIC insurance evolved during the 1980s and 1990s into something fundamentally different from what existed during the first 50 years of the FDIC's history. The banking crisis of the 1980s led to two major pieces of legislation, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the FDIC Improvement Act of 1991 (FDICIA). These laws have signifi-

cantly changed the way the FDIC conducts business in a number of areas, including the institutions it insures, the insurance funds it administers, its enforcement powers, and the manner in which it resolves failing institutions. Most noteworthy for the purposes of this article are two requirements laid down by FDICIA: i) that the FDIC price insurance according to the risks posed by individual institutions, in order to mitigate the moral hazard problems that can attend any deposit insurance system; and ii) that it maintain the funds at designated reserve ratios.

Supervisors placed more emphasis on risk-focused loan review and transaction testing for the purpose of validating policies and procedures, with more detailed testing where there was evidence of a need for further review. In the arena of large or publicly traded banks, there was a clear policy momentum towards improving the quality of management's public disclosures, in order to enhance the potential risk-mitigating effects of private market discipline.

The impact of these trends in risk management on the FDIC's losses will depend on the frequency of instances where specific aspects of risk control systems do not work as intended. Thus, we should be

The FDIC implemented its risk-based deposit insurance premium system in 1993, the Bank Insurance Fund achieved its designated reserve ratio in 1995, and it quickly became apparent that there were severe tensions between a requirement for risk-based pricing and a requirement to manage the insurance funds to a specific size. Implicit constraints on the size of the FDIC's insurance funds placed constraints on deposit insurance pricing at the individual institution level. The tension between the twin requirements of risk-based pricing and management of fund size became far more explicit in 1996, when the Deposit Insurance Funds Act constrained both the FDIC's ability to determine which insured institutions belong in the best category for insurance purposes, and the premiums it can charge those institutions.

In particular, when the insurance fund is above its Designated Reserve Ratio (1.25 percent of insured deposits at year-end 1999), the FDIC in effect cannot collect assessment revenue from institutions in its best insurance category, which at year-end 1999 comprised 93 percent of all insured institutions. Conversely, when the fund is below its designated ratio, the FDIC must collect sufficient assessment revenue to return the fund to that Designated Reserve Ratio within one year, or else collect average deposit insurance premiums of at least 23 basis points of domestic deposits.

The new legislative and regulatory framework has resulted in at least three striking departures from past practice. First is the zero deposit-insurance premium paid by most banks. In contrast to the period 1933-1995, when the FDIC assessed every dollar of domestic deposits at a rate of at least three basis points per annum, after 1995 most deposits were not assessed at all. A striking feature of a zero premium is that not only may the rate paid by vastly disparate banks be identical, but the dollar amount as well: a bank with \$100 billion in deposits can be billed the same amount for its insurance as the smallest community bank.

Second, in reaching a point where the FDIC does not collect assessment revenue from most institutions during good times, we have clearly departed from any concept of spreading insurance losses over time. In contrast, prior to 1989 it could be argued that Congress intended the FDIC to operate under a form of long-term expected loss pricing. During the period 1933-1989, when premiums were set by statute and never departed from a range of between three and 8.9 basis points per annum, accumulated premiums and the investment income on those balances enabled the system to roughly pay for itself. The system in place today, in contrast, amounts essentially to charging nothing in times of prosperity and a lot in times of adversity, thereby potentially magnifying swings in the banking cycle.

A third change stems from the conjunction of two factors: the FDIC's original decision to rely on examination ratings as a significant input to the risk based premium system, and the assessment revenue constraints of the 1996 Deposit Insurance Funds Act. The banks that were paying for deposit insurance at the end of the 1990s were those that had run afoul of capital regulations or the supervisory process. Thus, another departure from past practice was that the pricing of deposit insurance at the individual institution level had evolved into a penalty system for the few, rather than a priced service for all.

## Issues for Deposit Insurance Fund Management

From the FDIC's standpoint, it was clear as the nineties drew to a close that the terms of the tradeoff between the ability to price deposit insurance based on risk and constraints on aggregate revenue needed to be re-evaluated. That tradeoff had been resolved by the Deposit Insurance Funds Act in favor of a zero premium for most institutions. As a result, by the end of the 1990s, the moral hazard problems FDICIA intended to address through risk-based deposit insurance premiums may have become more firmly entrenched than ever. At year-end 1999, the FDIC provided a non-priced guarantee of over two trillion dollars in bank liabilities.

Under pure risk-based pricing, it is likely that every bank in the U.S. with insured deposits would pay something for its deposit insurance, for the same reason that every bank pays at least some spread over Treasuries for unsecured debt. Given the long and uncertain duration of banking cycles, however, under such a system it would never be clear in advance whether the premiums accumulated during times of prosperity were more, or less, than what would ultimately be needed during periods of economic upheaval. Consequently, there will inevitably be questions about the appropriate disposition of these accumulated funds. The answer to such questions depends on one's vision of how the costs and benefits of the deposit insurance system should be shared.

Under one extreme, deposit insurance could be viewed as completely private. Under this pure mutual model, monies collected by the insurer are the collective property of the banks that contributed, any insurance losses are their sole responsibility, and pricing of deposit insurance is not the subject for public policy discussions but is of concern only to the banking industry. The history of banking and financial crises in both the U.S. and other countries provides numerous examples where bank losses were so severe and so systemic that the government was forced to step in, either through loans or taxpayer bailouts. This experience calls into question

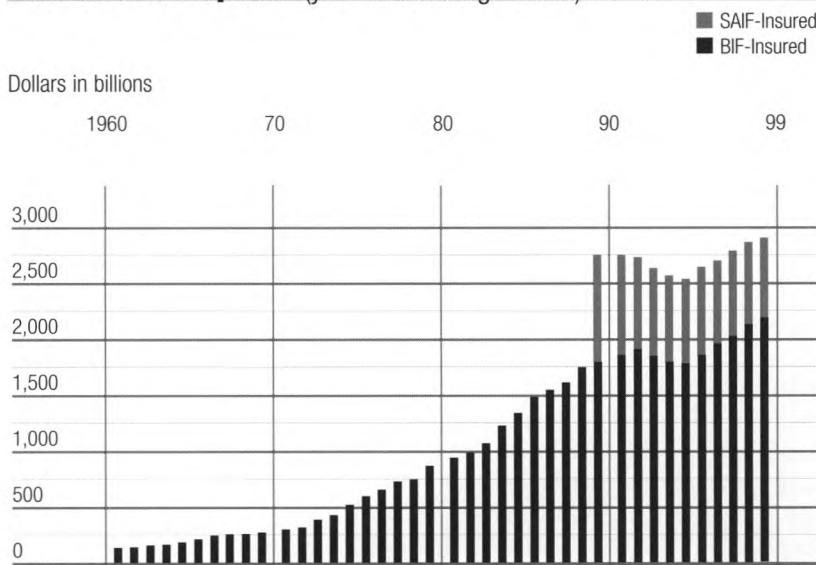
whether pure private deposit insurance would be economically viable over long periods of time.

Another endpoint, in which the mutual aspect of insurance is removed completely, might be termed the user-fee or priced service model of deposit insurance. The insurer collects premiums on an expected-loss or risk-adjusted basis from each institution. The premium is simply a payment for a service, namely the use of the deposit guarantee for a specified time. In this "demutualized" model, the premium payer has neither an ownership interest in collected premiums nor a responsibility to pay for the insurance losses of other banks. An insurance fund to provide rapid resolution flexibility is consistent with this model, provided government reaps all surplus funds during good times and readily recapitalizes it to cover all insurance losses.

The pure priced service model, taken to its logical extreme, makes moot a number of issues raised in this article. Concentrations of deposit insurance exposure – although an issue for the government insurer and its ability to diversify risks – are not an issue for insured institutions because they are never asked to help pay for the failures of other banks. Rebates from the insurance funds are ruled out, but conversely banks are relieved of the responsibility to rebuild a fund during periods of economic hardship.

Whereas history casts doubt on the long-term economic viability of a pure private deposit insurance model, it also casts doubt on the long-term political sustainability of a pure user-fee model. It is human nature to keep score. As assessment revenues mount far above cumulative insurance losses during good times, bankers will point out that

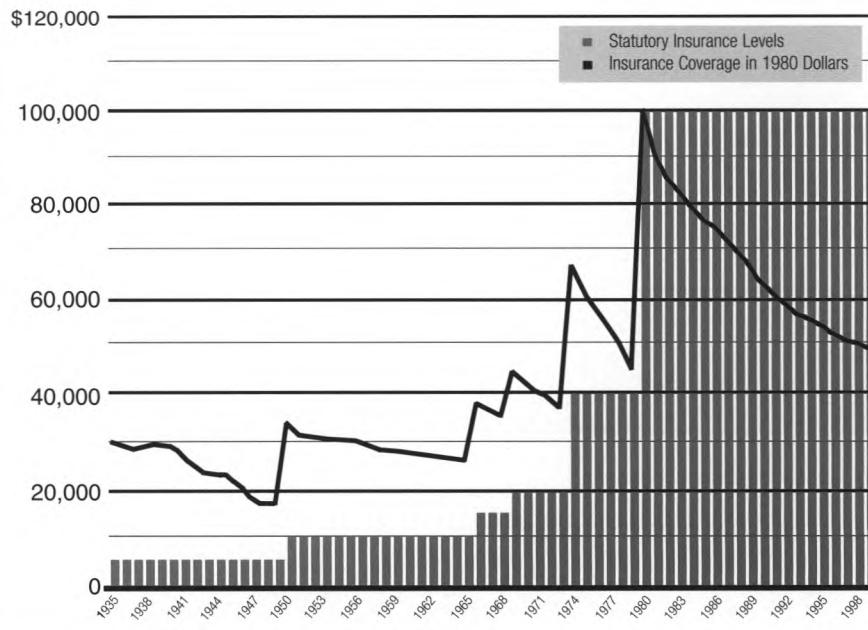
### FDIC-Insured Deposits (year-end through 1999)



Source: Commercial Bank Call Reports and Thrift Financial Reports

Note: For more details, see pages 33 (BIF) and 49 (SAIF).

### Real Value of Insured Deposit Coverage Has Declined Since 1980



the costs of the system appear to be outstripping its benefits, and they will be heard, as they were heard in 1950 when Congress required the FDIC to institute rebates of excess assessment revenues, and again in 1996 with the Deposit Insurance Funds Act.

Conversely, during bad times Congress is unlikely to sit by while losses mount, under the theory that everything will even out in the end. Instead, as they have in the past, the banking industry probably would be asked to pay for as significant a share of losses as possible before recourse is had to the taxpayer.

Between the two endpoints of a purely private system and a pure user fee system – between a pure mutual system and a completely demutualized one – are the intermediate models of mutual insurance with a federal backstop against catastrophic loss. Under these approaches, banks are mutually obligated to pay aggregate insurance losses up to a point, and mutually entitled to some of the benefits of favorable fund performance. Under any such approach, the federal government's guarantee against catastrophic loss gives it a significant public policy stake in ensuring that the guarantee is appropriately priced. At the same time, all participants in the system have a significant stake in the manner in which aggregate system performance results in shared costs and shared benefits.

For example, under the current system, banks are mutually obligated to recapitalize the insurance funds if the funds fall below a designated ratio; conversely, when the funds remain above the designated ratio they are mutually entitled to a benefit, namely zero-cost federal deposit insurance for most institutions. This particular set of mutual obligations and benefits carries with it all of the issues we described: the zero premium during good times; a potentially heavy assessment during bad times; and a growing concentration of contingent deposit insurance exposures. Current arrangements also create an issue we have so far deferred: the tendency of a zero premium under a mutual insurance arrangement to create free-rider problems, in which new banks, fast growing banks and non-banks can, at no cost to them-

## Deposit Growth Since Funds Were Capitalized

- The top 25 percent in terms of deposit growth have added \$178 billion
- 814 new banks have added \$44 billion of insured deposits
- The lowest 25 percent in terms of deposit growth have lost \$69 billion since the funds were capitalized
- \$100 billion in deposits dilutes:
  - BIF by five basis points
  - SAIF by 18 basis points

selves, increase the mutually shared obligations or reduce the mutually shared benefits of other members of the system.

There may be other quasi-mutual models where the rules for doling out mutual costs and benefits are different than in our current system, and that do not create the degree of perverse or unintended consequences as our current system. For example, it is not clear that the shared benefit that accrues to the banking industry during good times should necessarily be in the form of a zero deposit insurance premium. One could imagine, for example, that premiums collected during good times could go first to the insurance fund, and then to some asset in which member banks have a collective or individual interest. There are many ways banks' collective interest in such an asset could be structured – through a rebate system, through a credit-union approach in which each bank carries its share of the asset on its books, or some other approach in which the collective asset only generates cash flows for banks during bad times. Under any of these approaches, if ownership of the collective asset were apportioned analogous to a mutual fund, with a dollar of premiums buying a dollar of shares, the free-rider problems described above could be mitigated.

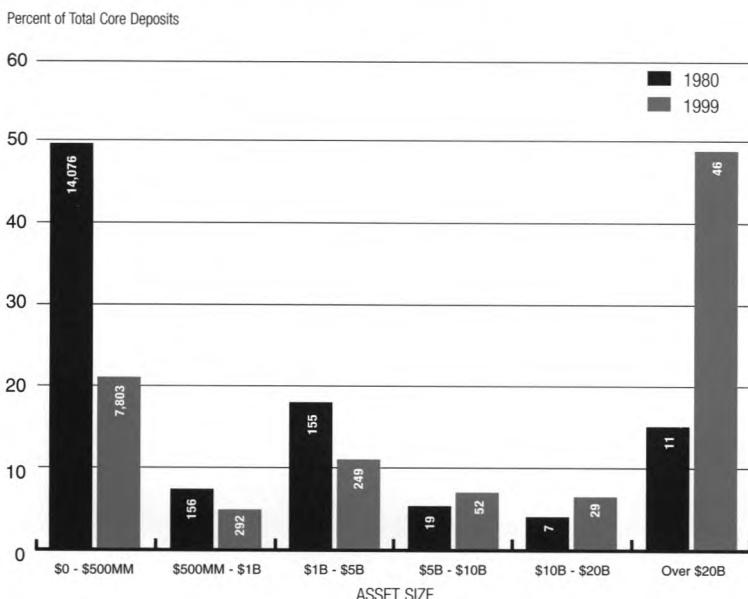
## Implications for Deposit Insurance Pricing

Risk-based deposit insurance pricing at the individual institution level has two goals: to provide beneficial incentives to control excessive risk taking and mitigate the moral hazard problems associated with flat-rate deposit insurance; and to lessen the degree to which strong institutions subsidize weak and poorly managed institutions, so that the cost of the insurance program is shared in an equitable manner.

An interesting question is whether deposit insurance pricing is conceptually redundant with supervision as a policy instrument to accomplish these goals. There are reasons to think not. There are built-in limits in a market economy on the degree that supervisors can or should attempt to control individual institution behavior. To use a private insurance analogy, a supervisor is unlikely to take away someone's driver's license simply because that person owns a sports car; an insurer, without trying to change the behavior, can price it. Even under a theoretically perfect supervisory capital regime where all institutions have an identical estimated probability of failure, market pricing or other indicators may at times suggest that the risk profiles of some institutions are significantly different than others. In such instances deposit insurance pricing can be a policy tool that complements the tools available to supervisors.

In practice, there are limits to what deposit insurance pricing can and should try to achieve. The FDIC provides a monopoly-priced

## Deposit Concentrations Have Shifted



service, and it may be undesirable for a federal agency to make exceedingly fine subjective distinctions that have the effect of allocating credit to favored activities or institutions. Within those limits, however, risk differentiation is important, and the technical issues of how best to achieve it are significant.

If a significant adverse change in the banking and economic cycle occurs in the next few years, historical experience suggests that many of the resulting bank failures will come from institutions that did not pay insurance premiums at year-end 1999. The question will then be how many of those premium misclassifications were the result of what one might call random errors – the price we willingly accepted for not having an overly burdensome regulatory and supervisory structure – and how many were the result of systematically subsidizing certain types of riskier institutions at the expense of other members of the system.

When we consider the more than 9,500 insured institutions that all paid no premium at year-end 1999, there clearly were some systematic factors that distinguished their risk profiles. The distinction between banks with composite examination ratings of 1 and 2 is one example, but there may be others. For example, should new banks or fast growing banks pay additional premiums, both for reasons of risk differentiation and to force them to pay for the external

cost they impose on other members in a mutual structure? Are there indicators that would identify those banks within the best risk-related premium category that have high concentrations of risky assets, significant interest-rate risk or market risk, or weak risk-management practices?

The best risk indicators may not be the same for large institutions as for small institutions, and indeed, both onsite and offsite examination procedures vary depending on the size, complexity and risk profile of a bank. FDICIA provided the FDIC with authority to establish separate premium systems for large versus small institutions. Because of their size, scope and complexity, large institutions and their supervisors necessarily measure and manage risk differently than is the case for a typical small bank. By the end of the nineties it was clear that some thought needed to be given to the implications of the developments in large-

bank risk measurement for the way the FDIC measures risk for insurance purposes, so that the FDIC might benefit from the results of risk measurement undertaken by industry practitioners, as well as by their supervisors and publicly available sources. Likewise, risks taken by large banks are priced in a variety of markets, conceivably resulting in useful information that may be valuable in pricing deposit insurance. And the proliferation of financial instruments by which risks are transferred and priced is at least suggestive of the possibility that new instruments could be developed that could enhance risk-based pricing at the individual institution level, or provide market signals about the direction of the FDIC's aggregate exposure.

Given the potential for a bank's risk profile to change quickly, changes in risk profiles in the interval between examinations may take on added significance in the years ahead. The FDIC already has a number of offsite tools for evaluating these inter-examination trends, and the importance of continuing to refine such tools and develop new ones is likely to increase.

Finally, if risks are indeed becoming more opaque and complex to monitor as we have argued, there is room for discussion of the implications for deposit insurance pricing. An interesting public policy question is what role, if any, deposit insurance premiums should

have in providing incentives to banks regarding the quality of their disclosures about the risks they undertake.

### **Insurance Coverage**

There has been considerable discussion since year-end 1999 about whether and how deposit insurance coverage should be adjusted for inflation. The merits of indexing coverage ultimately depend on one's view of the role of deposit insurance in the financial system. Deposit insurance was implemented not only to protect small savers, but to correct a market failure: the susceptibility of banks to deposit runs, a susceptibility that arises from banks' combination of illiquid assets and liquid liabilities.

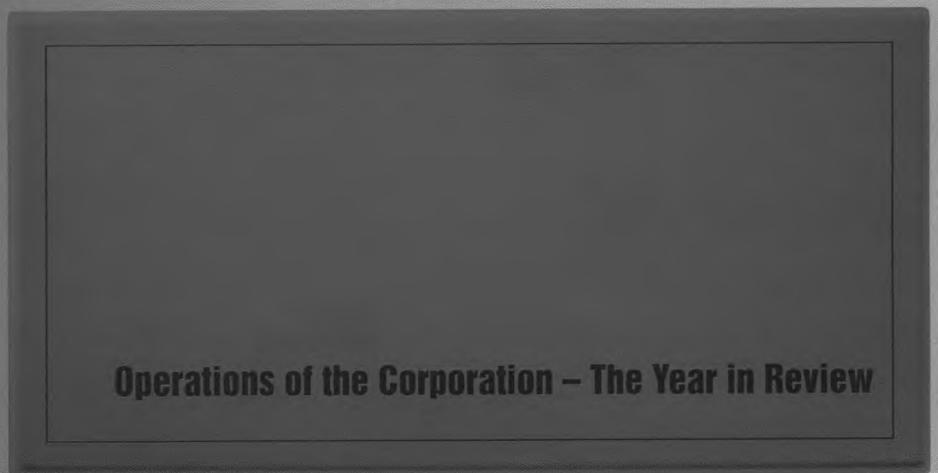
There was always a danger that deposit insurance would simply replace one ill with another. While deposit runs are a thing of the past, in their place we have a greater potential for the distortions and moral hazard problems that come with a federal safety net. For those who do not think this has been a good tradeoff, the policy prescription is clear: allow the deposit insurance coverage limit to erode in real terms over time.

On the other side of the debate are those who point to the array of private sector and supervisory risk mitigation tools, and more recently, risk-based premiums, that can act as a counterweight to the potential moral hazard problems. In this view, the increased stability deposit insurance brings is not completely offset by other problems. There is also the view that every country has deposit insurance – whether it knows it or not – and that meaningful, explicit coverage results in lower costs in the event of banking crises than would occur under negligible or implicit coverage. The argument is that little or no formal coverage may well turn into unlimited coverage in times of crisis, while a meaningful and explicit coverage limit is more likely to be adhered to. Proponents of this view would be more likely to recommend a coverage limit that adjusts over time to maintain the same relative importance in the financial system.

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None of the issues discussed in this article are easy to address, but their importance is undeniable. The time appears ripe for a productive debate on how the U.S. deposit insurance system should be strengthened to meet the new challenges.





## **Operations of the Corporation – The Year in Review**



## Overview

In 1999, the U.S. economy marked its ninth year of a remarkably strong economic expansion, which contributed to record profits for the banking industry. Insured commercial banks posted record earnings for the eighth consecutive year, while insured savings institutions recorded their third consecutive year of record earnings.

Commercial banks earned \$71.7 billion in 1999, an increase of \$9.9 billion (16.0 percent) over their 1998 results. The industry's return on assets (ROA) rose to a record-high 1.31 percent, from 1.19 percent in 1998. The previous record for full-year ROA was 1.23 percent, set in 1997. Banks' return on equity (ROE) rose to 15.34 percent, equaling the all-time high first reached in 1993. Much of the earnings improvement occurred at the largest banks, due to continued strength in noninterest income and slower growth in noninterest expenses. Profitability declined at smaller banks, reflecting narrower net interest margins. Overall asset-quality indicators remained favorable; both the percentage of loans charged off and the percentage of loans that were noncurrent (past due 90 days or more or in nonaccrual status) at year-end were lower than a year earlier. This improvement was made possible by lower losses on credit card loans, which outweighed a rise in losses on commercial and industrial loans.

Insured savings institutions earned \$10.9 billion in 1999, a \$736 million (7.3 percent) increase over 1998. The average ROA was 1.00 percent, about the same as the 1.01 percent that thrifts registered in 1998. The gap in performance between the largest savings institutions and their smaller counterparts widened in 1999. At thrifts with more than \$5 billion in assets, the average ROA was 1.06 percent, up from 1.04 percent in 1998. At savings institutions with less than \$5 billion in assets, the average ROA declined from 0.96 percent to 0.93 percent.

Bill Archer

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). As a result of positive conditions, deposit insurance assessment rates remained unchanged from 1998 for both deposit insurance funds, ranging from 0 to 27 cents annually per \$100 of assessable deposits. Under this assessment rate schedule,

93.7 percent of BIF-member institutions and 91.6 percent of SAIF-member institutions were in the lowest risk-assessment rate category and paid no deposit insurance assessments for the first semiannual assessment period of 2000.

At year-end 1999, the BIF had a balance of \$29.4 billion, representing a loss of \$198 million for the year. This was the first year-end loss reported since 1991 and was primarily attributable to insurance losses recognized in 1999. During the year, BIF-insured deposits grew by 0.76 percent, yielding a reserve ratio of 1.36 percent of insured deposits at year-end 1999. The reserve ratio at year-end 1998 was slightly higher, at 1.38 percent. Seven BIF-insured institutions failed in 1999 with total assets at failure of \$1.4 billion and total estimated insurance losses of \$838.4 million. The contingent liability for anticipated failure of BIF-insured institutions as of December 31, 1999, was \$307.0 million compared to \$32.0 million at year-end 1998.

The SAIF ended 1999 with a fund balance of \$10.3 billion, a 4.5 percent increase over the year-end 1998 balance of \$9.8 billion. Estimated insured deposits increased by 0.34 percent in 1999. The reserve ratio grew from 1.39 percent of insured deposits at year-end 1998 to 1.45 percent. Only one SAIF-insured institution failed in 1999 with total assets at failure of \$63.0 million and estimated insurance losses of \$1.3 million. The contingent liabilities for anticipated failure of SAIF-insured institutions as of December 31, 1999



FDIC representatives answer customers' questions after financial institution failures. Here, the FDIC's Rickie McCullough meets with depositors of the failed First National Bank of Keystone, Keystone, WV.

and 1998, were \$56.0 million and \$31.0 million,

respectively. On January 1, 1999, a Special Reserve was established within the SAIF, as required by the Deposit Insurance Funds Act of 1996. The SAIF Special Reserve was mandated as a result of the federal budget process and did not address any deposit-insurance issues. The reserve was funded with \$978 million, the amount by which the SAIF exceeded the Designated Reserve Ratio of 1.25 percent. The segregation of these funds into the special reserve was eliminated on November 12, 1999, with the enactment of the Gramm-Leach-Bliley Act.

## Selected Statistics

### Bank Insurance Fund (BIF)

(Dollars in Millions)

	For the year ended December 31		
	1999	1998	1997
<b>Financial Results</b>			
Revenue	\$ 1,816	\$ 2,000	\$ 1,616
Operating Expenses	730	698	605
Insurance Losses and Expenses	1,192	(6)	(428)
Net Income	(106)	1,309	1,438
Comprehensive Income ▲	(198)	1,319	1,438
Insurance Fund Balance	\$ 29,414	\$ 29,612	\$ 28,293
Fund as a Percentage of Insured Deposits	1.36%	1.38%	1.38%
<b>Selected Statistics</b>			
Total BIF-Member Institutions *	8,832	9,031	9,403
Problem Institutions	66	68	73
Total Assets of Problem Institutions	\$ 4,000	\$ 5,000	\$ 5,000
Institution Failures	7	3	1
Total Assets of Current Year Failed Institutions	\$ 1,424	\$ 370	\$ 26
Number of Active Failed Institution Receivingships	101	219	302

### Savings Association Insurance Fund (SAIF)

(Dollars in Millions)

	For the year ended December 31		
	1999	1998	1997
<b>Financial Results</b>			
Revenue	\$ 601	\$ 584	\$ 550
Operating Expenses	93	85	72
Insurance Losses and Expenses	31	32	(2)
Net Income	477	467	480
Comprehensive Income ▲	441	472	480
Insurance Fund Balance	\$ 10,281	\$ 9,840	\$ 9,368
Fund as a Percentage of Insured Deposits	1.45%	1.39%	1.36%
<b>Selected Statistics</b>			
Total SAIF-Member Institutions +	1,388	1,430	1,519
Problem Institutions	13	16	19
Total Assets of Problem Institutions	\$ 6,000	\$ 6,000	\$ 2,000
Institution Failures	1	0	0
Total Assets of Current Year Failed Institutions	\$ 63	\$ 0	\$ 0
Number of Active Failed Institution Receivingships	3	2	2

▲ Comprehensive Income is added to conform with SFAS No. 130, "Comprehensive Income."

\* Commercial banks and savings institutions. Does not include 20 U.S. branches of foreign banks.

+ Savings institutions and commercial banks.

The FRF consists of two distinct pools of assets and liabilities. One pool, composed of the assets and liabilities of the FSLIC, transferred to the FRF when the FSLIC was dissolved on August 9, 1989 (FRF-

FSLIC). The other pool, composed of the assets and liabilities of the Resolution Trust Corporation (RTC), transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy

obligations of the other. As of December 31, 1999, the FRF-FSLIC had resolution equity of \$2.2 billion, and the FRF-RTC had resolution equity of \$4.4 billion.

Eight institutions insured by the FDIC were closed during 1999. Seven of those institutions were insured by the BIF and one was insured by the SAIF. These failed entities had combined assets of approximately \$1.5 billion. The First National Bank of Keystone, Keystone, WV, accounted for \$1.0 billion of the total assets.

For the eight failures in 1999, approximately \$1.4 billion of deposits in 69,000 accounts were protected by FDIC insurance.

During 1999, the FDIC disposed of \$1.6 billion in retained assets, which resulted in a net reduction of the book value of assets in liquidation from \$2.4 billion at year-end 1998 to \$2.0 billion at year-end 1999, a decline of 17 percent. In addition to assets in liquidation, the FDIC was managing approximately \$5.2 billion in assets not in liquidation, a reduction of \$1.5 billion during the year. A total of 469 real estate properties were sold for a total of \$66.8 million, and 16,976 loans and other assets were sold for a total of \$204.2 million.

During the year, the FDIC terminated 363 receivingships. The FDIC was administering 448 receivingship estates at the end of 1999.

Chairman Tanoue appeared on live network television to withdraw cash from an ATM, showing it was business as usual for bank customers on January 1, 2000.

## Emerging Trends

Despite the apparently strong condition of the economy and the banking system in 1999, the FDIC continued to monitor a number of emerging trends.

The first trend, an area of concern, is household and business debt levels. Spending by households and businesses is growing faster than cash income, resulting in rapidly increasing indebtedness. Further, recent growth in business indebtedness raises concerns about commercial credit quality. After expanding at the fastest growth rate in more than a decade during 1998, the commercial and industrial (C&I) loan portfolios at insured depository institutions continued to grow rapidly in 1999. Evidence of weakening corporate credit quality began to appear during 1999, and the federal banking regulators have publicly expressed their concerns



W. W. Reid

about the quantity and quality of commercial credit risk in the system. Despite starting from very low levels, net C&I loan charge-offs for all insured institutions totaled \$3.6 billion during 1999 – a 51 percent increase over 1998. Moreover, results from the annual interagency review of large commercial credits – the Shared National Credit (SNC) Program – noted a sharp rise in criticized loans, albeit from historical lows. At the same time, corporate bond defaults and negative credit rating revisions during 1999 reached levels not seen since the early 1990s. These signs of moderate deterioration in commercial credit quality have been experienced during a particularly strong economic environment, leading to questions about how much further credit quality might deteriorate in the event of a moderate to severe recession.

## Liquidation Highlights 1997-1999

Dollars in billions

	1999	1998	1997
Total Failed Banks	7	3	1
Assets of Failed Banks	\$ 1.42	\$ .37	\$ .03
Total Failed Savings Associations	1	0	0
Assets of Failed Savings Associations	\$ .06	\$ 0	\$ 0
Net Collections from Assets in Liquidation*	\$ .98	\$ 3.55	\$ 3.57
Total Assets in Liquidation*	\$ 1.98	\$ 2.38	\$ 4.12
Net Collections from Assets Not in Liquidation*	\$ .21	\$ .38	\$ .48
Total Assets Not in Liquidation*	\$ 5.20	\$ 6.71	\$ 8.17

\* Also includes assets from thrifts resolved by the FSLIC and the RTC.

Second, intense competition in banking is driving business strategies. Evidence also suggests that, to maintain loan growth and meet funding needs, institutions are pursuing asset-liability structures with higher levels of interest rate risk. Innovations and cost-cutting initiatives used by insured



Chairman Tanoue (center) joins other members of the Financial Stability Forum's Study Group on Deposit Insurance at their first meeting in Ottawa, Canada, in December 1999.

Teckles Photo Inc.

institutions to counter competitive pressures may introduce new risks associated with complex accounting valuations, weakening internal controls, and the need for more intensive loan servicing.

Third, the economy and the banking system are vulnerable to sudden shocks from financial market instability. The 1990s were marked by recurring, and perhaps more frequent, episodes of financial market turbulence. At the request of the Department of the Treasury, FDIC Chairman Tanoue represents the United States on the Financial Stability Forum's Study Group on Deposit Insurance. The Financial Stability Forum was established by the Bank for International Settlements to examine issues relating to global financial stability.

Fourth, for most of the 1990s, banking industry asset growth has outstripped growth in deposits, creating greater reliance on more expensive and less stable market-based sources of funding. Each quarter, the FDIC publishes a *Regional Outlook* that provides analysis and discussion of national and regional trends that may affect the risk exposure of insured depository institutions. The third quarter 1999 edition of the *Regional Outlook* included a special analysis of these funding trends and the challenges they pose for community institutions.

Fifth, and finally, after the announcement of several mergers between several of the largest U.S. banks, the FDIC created an internal task force in July 1998 to identify and to address issues that might arise in resolving the failure of one of the largest banks.

## Year 2000

During 1999, the FDIC took an aggressive approach to supervising federally insured financial institutions to assure readiness for the Year 2000 (Y2K) date conversion and, as important, engaged in an extensive program of Y2K public education and outreach.

Throughout the year, the FDIC's Division of Supervision (DOS) examiners, with assistance from state bank regulators, performed comprehensive on-site Y2K readiness assessments of FDIC-supervised financial institutions and their service providers, as well as software vendors that the FDIC is responsible for examining. Year 2000 readiness efforts were assessed "satisfactory," "needs improvement," or "unsatisfactory." All service providers and software vendors examined by the FDIC were assessed "satisfactory" by the end of the third quarter. And on December 13, 1999, FDIC Chairman Donna Tanoue announced to the public that every FDIC-insured financial institution in the nation had achieved a satisfactory assessment. The industry was prepared for the Year 2000 rollover.

**Compliance, Enforcement and Other Related Legal Actions 1997-1999**

	1999	1998	1997
<b>Total Number of Actions Initiated by the FDIC</b>	111	143	127
<b>Termination of Insurance</b>			
<b>Involuntary Termination</b>			
Sec. 8a For Violations, Unsafe/Unsound Practices or Condition	0	0	0
<b>Voluntary Termination</b>			
Sec.8a By Order Upon Request	0	0	0
Sec.8p No Deposits	3	5	6
Sec.8q Deposits Assumed	9	4	7
<b>Sec. 8b Cease-and-Desist Actions</b>			
Notices of Charges Issued	5	2	3
Consent Orders	19	21	15
<b>Sec. 8e Removal/Prohibition of Director or Officer</b>			
Notices of Intention to Remove/Prohibit	4	2	11
Consent Orders	22	15	33
<b>Sec. 8g Suspension/Removal When Charged With Crime</b>			
	3	0	1
<b>Civil Money Penalties Issued</b>			
Sec.7a Call Report Penalties	15	41	24
Sec.8i Civil Money Penalties	20	35	10
<b>Sec. 10c Orders of Investigation</b>			
	4	6	6
<b>Sec. 19 Denials of Service After Criminal Conviction</b>			
	3	3	1
<b>Sec. 32 Notices Disapproving Officer or Director</b>			
	1	0	0
<b>Truth in Lending Act Reimbursement Actions</b>			
Denials of Requests for Relief	1	1	3
Grants of Relief	0	0	0
Banks Making Reimbursement •	134	161	139
<b>Suspicious Activity Reports</b> (Both Open and Closed Institutions)•			
	22,015	20,229	20,385
<b>Other Actions Not Listed</b>			
	2	8	7

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

The FDIC – along with the other federal and state regulatory agencies – set up supervisory programs to monitor the transition of financial institutions, service providers and software vendors into the Year 2000 during the key period of October 1, 1999, through the century date change. Each financial institution, service provider and software vendor was contacted at least once from October 1 through December 31, 1999; again from January 1-3, 2000; and again from January 4-5, 2000.

To assure public confidence, FDIC senior officials participated in hundreds of Y2K outreach events, and were interviewed by *The Wall Street Journal*, *The Washington Post*, *USA Today* and other news venues. During the year, the Y2K issue of *FDIC Consumer News* was one of the most popular publications offered by the Consumer Information Center, which distributed more than 500,000 copies to the public. Throughout the fall, Chairman Tanoue traveled the country holding press conferences in major cities and personally appear-

**FDIC Applications 1997-1999**

	1999	1998	1997
<b>Deposit Insurance</b>	<b>295</b>	<b>296</b>	<b>238</b>
Approved	295	296	238
Denied	0	0	0
<b>New Branches</b>	<b>1,346</b>	<b>1,450</b>	<b>1,436</b>
Approved	1,346	1,450	1,435
Denied	0	0	1
<b>Mergers</b>	<b>341</b>	<b>390</b>	<b>419</b>
Approved	341	390	419
Denied	0	0	0
<b>Requests for Consent to Serve *</b>	<b>210</b>	<b>304</b>	<b>261</b>
Approved	207	289	258
Section 19	42	145	76
Section 32	165	154	182
Denied	3	5	3
Section 19	1	3	2
Section 32	2	2	1
<b>Notices of Change in Control</b>	<b>31</b>	<b>34</b>	<b>28</b>
Letters of Intent Not to Disapprove	31	34	28
Disapproved	0	0	0
<b>Brokered Deposit Waivers</b>	<b>16</b>	<b>10</b>	<b>17</b>
Approved	16	9	17
Denied	0	1	0
<b>Savings Association Activities *</b>	<b>83</b>	<b>0</b>	<b>2</b>
Approved	83	0	2
Denied	0	0	0
<b>State Bank Activities/Investments ^</b>	<b>24</b>	<b>23</b>	<b>46</b>
Approved	24	23	46
Denied	0	0	0
<b>Conversions of Mutual Institutions</b>	<b>16</b>	<b>30</b>	<b>15</b>
Non-Objection	15	30	15
Objection	1	0	0

- Under Section 19 of the Federal Deposit Insurance Act, an insured institution must receive FDIC approval before employing a person convicted of dishonesty or breach of trust. Under Section 32, the FDIC must approve any change of directors or senior executive officers at a state nonmember bank that is not in compliance with capital requirements or is otherwise in troubled condition.
- 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.

ing on network television news programs. On September 11, 1999, syndicated columnist Ann Landers published a Year 2000 letter from Chairman Tanoue and included the FDIC toll-free Y2K information number. Approximately 1,200 newspapers carried the column. In mid-November, Gallup reported that nine out of ten U.S. bank customers believed their banks were ready for the Year 2000.

Throughout the day on January 1, Chairman Tanoue appeared on NBC and CNN, withdrawing money from an automated teller machine, illustrating that it was business as usual for banking – and it was. Banks reported no significant Y2K problems. Public confidence held.

**FDIC Examinations 1997-1999**

	1999	1998	1997
<b>Safety and Soundness:</b>			
State Nonmember Banks	2,289	2,170	2,515
Savings Banks	241	221	224
National Banks	3	1	6
State Member Banks	7	6	0
Savings Associations	0	1	4
<b>Subtotal</b>	<b>2,540</b>	<b>2,399</b>	<b>2,749</b>
Compliance/CRA	2,368	1,989	1,990
Trust Departments	452	542	552
Data Processing Facilities	1,446	1,335	1,514
<b>Total</b>	<b>6,806</b>	<b>6,265</b>	<b>6,805</b>

**The Gramm-Leach-Bliley Act**

In 1999, Congress passed financial modernization legislation directly affecting depository institutions and the FDIC, and appropriations legislation for the FSLIC Resolution Fund and the Office of Inspector General (OIG).

The Gramm-Leach-Bliley Act is financial modernization legislation signed by President Clinton on November 12, 1999. The Act (Public Law 106-102) repeals Sections 20 and 32 of the Banking Act of 1933 (Glass-Steagall Act) and amends the Bank Holding Company Act of 1956 to allow affiliations between insured depository institutions and any "financial" company, including securities and insurance firms, in new types of bank holding companies known as financial holding companies. The Gramm-Leach-Bliley Act also allows certain financial activities permitted by financial holding companies to be carried out through bank subsidiaries, subject to safeguards and restrictions.

The new law also protects the deposit insurance funds and the federal banking agencies from certain claims brought in bankruptcy for return of capital infusions made to a failing depository institution at the direction of a federal banking agency. The FDIC and the other federal banking agencies are also required to write regulations on privacy, fair credit reporting, insurance products offered by banks, and disclosure of agreements related to the Community Reinvestment Act (CRA); establish a consumer complaints mechanism for violations of rules related to insurance; and establish recordkeeping requirements related to certain securities activities conducted by banks. In addition, the FDIC is required to implement and enforce other new legal provisions, including those related to privacy and pretext calling (obtaining customer information under false pretenses).



## **FINANCIAL STATEMENTS**



**Federal Deposit Insurance Corporation****Bank Insurance Fund Statements of Financial Position at December 31**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 164,455	\$ 2,117,644
Investment in U.S. Treasury obligations, net (Note 3)	28,238,065	26,125,695
<i>(Market value of investments at December 31, 1999 and December 31, 1998 was \$27.9 billion and \$27.5 billion, respectively)</i>		
Interest receivable on investments and other assets, net	467,070	657,636
Receivables from bank resolutions, net (Note 4)	743,011	747,948
Assets acquired from assisted banks and terminated receivingships, net (Note 5)	20,750	27,373
Property and equipment, net (Note 6)	260,040	209,615
<b>Total Assets</b>	<b>\$ 29,893,391</b>	<b>\$ 29,885,911</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 148,821	\$ 197,034
<i>Contingent liabilities for: (Note 7)</i>		
Anticipated failure of insured institutions	307,000	32,000
Assistance agreements	10,910	15,125
Litigation losses	10,000	22,301
Asset securitization guarantees	2,477	7,141
<b>Total Liabilities</b>	<b>479,208</b>	<b>273,601</b>
<i>Commitments and off-balance-sheet exposure (Note 12)</i>		
<b>Fund Balance</b>		
Accumulated net income	29,494,950	29,601,395
Unrealized (loss)/gain on available-for-sale securities, net (Note 3)	(80,767)	10,915
<b>Total Fund Balance</b>	<b>29,414,183</b>	<b>29,612,310</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 29,893,391</b>	<b>\$ 29,885,911</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

	1999	1998
<b>Revenue</b>		
Interest on U.S. Treasury obligations	\$ 1,733,603	\$ 1,674,344
Assessments (Note 8)	33,333	21,688
Interest on advances and subrogated claims	20,626	67,350
Gain on conversion of benefit plan (Note 11)	0	200,532
Revenue from assets acquired from assisted banks and terminated receiverships	11,484	20,926
Other revenue	16,556	15,422
<b>Total Revenue</b>	<b>1,815,602</b>	<b>2,000,262</b>
<b>Expenses and Losses</b>		
Operating expenses	730,394	697,604
Provision for insurance losses (Note 9)	1,168,749	(37,699)
Expenses for assets acquired from assisted banks and terminated receiverships	18,778	29,803
Interest and other insurance expenses	4,126	1,831
<b>Total Expenses and Losses</b>	<b>1,922,047</b>	<b>691,539</b>
<b>Net (Loss) Income</b>	<b>(106,445)</b>	<b>1,308,723</b>
Unrealized (loss)/gain on available-for-sale securities, net (Note 3)	(91,682)	11,039
<b>Comprehensive (Loss) Income</b>	<b>(198,127)</b>	<b>1,319,762</b>
<b>Fund Balance - Beginning</b>	<b>29,612,310</b>	<b>28,292,548</b>
<b>Fund Balance - Ending</b>	<b>\$29,414,183</b>	<b>\$29,612,310</b>

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

**Federal Deposit Insurance Corporation****Bank Insurance Fund Statements of Cash Flows for the Years Ended December 31**

Dollars in Thousands

	1999	1998
<b>Cash Flows From Operating Activities</b>		
<b>Cash provided by:</b>		
Interest on U.S. Treasury obligations	\$ 1,848,536	\$ 1,788,937
Recoveries from bank resolutions	426,348	881,802
Recoveries on conversion of benefit plan	175,720	0
Recoveries from assets acquired from assisted banks and terminated receivingships	46,390	54,207
Assessments	34,692	22,931
Miscellaneous receipts	19,029	27,990
<b>Cash used by:</b>		
Operating expenses	(722,096)	(711,020)
Disbursements for bank resolutions	(1,333,622)	(420,691)
Disbursements for assets acquired from assisted banks and terminated receivingships	(27,756)	(37,391)
Miscellaneous disbursements	(7,542)	(7,959)
<b>Net Cash Provided by Operating Activities (Note 15)</b>	<b>459,699</b>	<b>1,598,806</b>
<b>Cash Flows From Investing Activities</b>		
<b>Cash provided by:</b>		
Maturity of U.S. Treasury obligations, held-to-maturity	2,120,000	5,850,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	1,060,000	185,456
<b>Cash used by:</b>		
Purchase of property and equipment	(70,886)	(51,058)
Purchase of U.S. Treasury obligations, held-to-maturity	(1,596,859)	(4,478,337)
Purchase of U.S. Treasury obligations, available-for-sale	(3,925,143)	(1,206,430)
<b>Net Cash (Used by) Provided by Investing Activities</b>	<b>(2,412,888)</b>	<b>299,631</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(1,953,189)</b>	<b>1,898,437</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>2,117,644</b>	<b>219,207</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 164,455</b>	<b>\$ 2,117,644</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) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's assessment authority (see Note 8) 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 insured deposits or a higher percentage as circumstances warrant.

The Deposit Insurance Funds Act of 1996 (DIFA) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on BIF-assessable deposits that is one-fifth of the rate for SAIF-assessable deposits through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 4) the payment of the annual FICO interest obligation of approximately \$790 million on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of BIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the BIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 7) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk; and 8) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date. As of December 31, 1999, Congress did not enact legislation to either merge the BIF and the SAIF or to eliminate the thrift charter.

The Gramm-Leach-Bliley Act (GLBA), (Public Law 106-102), was enacted on November 12, 1999, in order to modernize the financial service industry that includes banks, brokerages, insurers, and other financial services providers. The GLBA will, among other changes, lift restrictions on affiliations among banks, securities firms, and insurance companies. It will also expand the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries. The GLBA provides for a greater degree of functional regulation of securities and insurance

activities conducted by banks and their affiliates. The GLBA also governs affiliations of thrifts that are in financial holding companies and provides for functional regulation of such thrifts' affiliates.

### Recent Legislative Initiatives

Congress continues to focus on legislative proposals that would affect the deposit insurance funds. Some of these proposals, such as the merger of the BIF and the SAIF and the rebate of the insurance funds, may have a significant impact on the BIF and the SAIF, if enacted into law. However, these proposals continue to vary and 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 liquidating their assets. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System. Further, the FDIC can also provide assistance to failing banks and monitor compliance with assistance agreements.

The BIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations and 2) BIF assess-

ment premiums. 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 also established a limitation on obligations that can be incurred by the BIF, known as the maximum obligation limitation (MOL). At December 31, 1999, the MOL for the BIF was \$51.8 billion.

### 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 liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses 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 or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

### Use of Estimates

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

### Cash Equivalents

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

### Investments in U.S. Treasury Obligations

Investments in U.S. Treasury obligations are recorded pursuant to the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are 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 fair value with unrealized gains and losses 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. The BIF does not designate any securities as trading.

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

The BIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed banks. The BIF also records as an asset the amounts paid for assets acquired from assist-

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

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

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

### **Disclosure About Recent Accounting Standard Pronouncements**

In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the BIF's disclosures for postretirement benefits have been made, the impact is not material.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This Statement requires the development or purchase cost of internal-use software to be treated as a capital asset. The FDIC adopted this Statement effective January 1, 1998. This asset is presented in the "Property and equipment, net" line item in the BIF's Statements of Financial Position (see Note 6).

Other recent pronouncements are not applicable to the financial statements.

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

Cash received by the BIF is invested in U.S. Treasury obligations with maturities exceeding three months unless cash is needed to meet the liquidity needs of the fund. The BIF's current portfolio includes securities classified as held-to-maturity and available-for-sale. The BIF also invests in Special U.S. Treasury Certificates that are included in the "Cash and cash equivalents" line item.

### **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.

Prior to January 1, 1998, only buildings owned by the Corporation were capitalized and depreciated. On January 1, 1998, FDIC began capitalizing the development and purchase cost of internal-use software in accordance with the requirements of SOP 98-1. The FDIC also began to capitalize the cost of furniture, fixtures, and general equipment. These costs were expensed in prior years on the basis that the costs were immaterial. The expanded capitalization policy had no material impact on the financial position or operations of the BIF.

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 disclosed throughout the financial statements and footnotes.

### **Reclassifications**

Reclassifications have been made in the 1998 financial statements to conform to the presentation used in 1999.

In 1999, the FDIC purchased \$1.9 billion (adjusted par value) of Treasury inflation-indexed securities (TIIS) for the BIF. Unlike a traditional Treasury security, the par value of a TIIS is indexed to and increases with the Consumer Price Index (CPI). Hence, these securities provide a measure of protection for the BIF in the event of unanticipated inflation.

**U.S. Treasury Obligations at December 31, 1999**

Dollars in Thousands

Maturity	Stated Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
Less than one year	6.02%	\$ 2,560,000	\$ 2,561,679	\$ 3,087	\$ (2,468)	\$ 2,562,298
1-3 years	6.06%	6,540,000	6,669,580	7,233	(32,331)	6,644,482
3-5 years	6.45%	4,805,000	5,052,441	18,300	(17,217)	5,053,524
5-10 years	5.88%	9,439,053	9,665,955	58,403	(374,526)	9,349,832
<b>Total</b>		<b>\$23,344,053</b>	<b>\$23,949,655</b>	<b>\$ 87,023</b>	<b>\$ (426,542)</b>	<b>\$23,610,136</b>
<b>Available-for-Sale</b>						
Less than one year	5.62%	\$ 430,000	\$ 431,206	\$ 48	\$ (94)	\$ 431,160
1-3 years	5.36%	625,000	631,662	0	(7,001)	624,661
3-5 years	6.00%	445,000	454,254	0	(6,391)	447,863
5-10 years	5.15%	2,977,452	2,852,055	0	(67,329)	2,784,726
<b>Total</b>		<b>\$ 4,477,452</b>	<b>\$ 4,369,177</b>	<b>\$ 48</b>	<b>\$ (80,815)</b>	<b>\$ 4,288,410</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$27,821,505</b>	<b>\$28,318,832</b>	<b>\$ 87,071</b>	<b>\$ (507,357)</b>	<b>\$27,898,546</b>

(a) For Treasury inflation-indexed securities (TIPS), the yields in the above table include their stated real yields at purchase, not their effective yields. Effective yields on TIPS would include the stated real yield at purchase plus an inflation adjustment of 2.6%, which was the latest year-over-year increase in the CPI as reported by the Bureau of Labor Statistics on December 14, 1999. These effective yields are 6.44% and 6.70% for TIPS classified as held-to-maturity and available-for-sale, respectively.

**U.S. Treasury Obligations at December 31, 1998**

Dollars in Thousands

Maturity	Stated Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
Less than one year	5.57%	\$ 2,120,000	\$ 2,133,448	\$ 10,597	\$ 0	\$ 2,144,045
1-3 years	6.04%	5,525,000	5,564,524	148,112	0	5,712,636
3-5 years	6.19%	5,965,000	6,345,044	322,126	0	6,667,170
5-10 years	6.01%	10,295,000	10,566,047	864,116	0	11,430,163
<b>Total</b>		<b>\$23,905,000</b>	<b>\$ 24,609,063</b>	<b>\$ 1,344,951</b>	<b>\$ 0</b>	<b>\$ 25,954,014</b>
<b>Available-for-Sale</b>						
Less than one year	5.09%	\$ 940,000	\$ 946,726	\$ 4,947	\$ 0	\$ 951,673
1-3 years	5.63%	550,000	558,991	5,968	0	564,959
<b>Total</b>		<b>\$ 1,490,000</b>	<b>\$ 1,505,717</b>	<b>\$ 10,915</b>	<b>\$ 0</b>	<b>\$ 1,516,632</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$25,395,000</b>	<b>\$26,114,780</b>	<b>\$1,355,866</b>	<b>\$ 0</b>	<b>\$27,470,646</b>

There were no available-for-sale securities sold during 1999. One available-for-sale security was sold during 1998, which resulted in a realized gain of \$224 thousand. Proceeds from this sale were \$186 million. This gain was included in the "Other revenue" line item. The cost of the security sold was determined on a specific identification basis.

As of December 31, 1999 and 1998, the book value of Investment in U.S. Treasury obligations net, is \$28.2 billion and \$26.1 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, 1999, the unamortized premium, net of the unamortized discount, was \$497 million. As of December 31, 1998, the unamortized premium, net of the unamortized discount, was \$720 million.

#### 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 seven bank failures in 1999 and three in 1998, with assets at failure of \$1.4 billion and \$370 million, respectively, and BIF outlays of \$1.2 billion and \$286.1 million, respectively.

As of December 31, 1999 and 1998, the FDIC, in its receivership capacity for BIF-insured institutions, held assets with a book value of \$1.9 billion and \$1.6 billion, respectively (including cash and miscellaneous receivables of \$524 million and \$480 million at December

31, 1999 and 1998, respectively). These assets represent a significant source of repayment of the BIF's receivables from bank resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could 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

	1999	1998
Assets from open bank assistance	\$ 105,655	\$ 112,045
Allowance for losses	(4,196)	(10,727)
<b>Net Assets From Open Bank Assistance</b>	<b>101,459</b>	<b>101,318</b>
Receivables from closed banks	15,673,843	18,656,746
Allowance for losses	(15,032,291)	(18,010,116)
<b>Net Receivables From Closed Banks</b>	<b>641,552</b>	<b>646,630</b>
<b>Total</b>	<b>\$ 743,011</b>	<b>\$ 747,948</b>

## 5. Assets Acquired from Assisted Banks and Terminated Receiverships, Net

The BIF has acquired assets from certain troubled and failed banks by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The methodology to estimate cash recoveries from these assets, which is used to derive the related allowance for losses, is similar to that for receivables from bank resolutions (see Note 4). The estimated cash recoveries are based upon a statistical

sampling of the assets but only include expenses for the disposition of the assets.

The BIF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of interest earned on assets in liquidation and gain on the sale of owned real estate. Expenses are recognized for the management and liquidation of these assets.

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

Dollars in Thousands

	1999	1998
Assets acquired from assisted banks and terminated receiverships	\$ 105,136	\$ 169,712
Allowance for losses	(84,386)	(142,339)
<b>Total</b>	<b>\$ 20,750</b>	<b>\$ 27,373</b>

## 6. Property and Equipment, Net

### Property and Equipment, Net at December 31

Dollars in Thousands

	1999	1998
Land	\$ 29,631	\$ 29,631
Buildings	159,188	152,078
PC/LAN/WAN equipment	27,748	15,612
Application software	29,671	1,892
Mainframe equipment	5,569	354
Furniture, fixtures, and general equipment	10,596	764
Telephone equipment	1,771	460
Work in Progress - Application software	48,961	49,630
Accumulated depreciation	(53,095)	(40,806)
<b>Total</b>	<b>\$ 260,040</b>	<b>\$ 209,615</b>

The depreciation expense was \$12.3 million and \$3.7 million for 1999 and 1998, respectively.

## 7. 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, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liabilities for anticipated failure of insured institutions as of December 31, 1999 and 1998, were \$307 million and \$32 million, respectively. The contingent liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable bank failures. Therefore, these estimates are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 4).

Several recent bank failures have involved some degree of fraud, which adds uncertainty to estimates of loss and recovery rates. These uncertainties, along with potential changes in economic conditions, could affect the ultimate cost to the BIF from probable failures.

In addition to these recorded contingent liabilities, the FDIC has recently identified a small number of additional BIF-insured financial institutions that are likely to fail in the near future unless institution management can resolve existing problems. If these institutions fail, they may collectively cause a material loss to the BIF, but the amount of potential loss is not estimable at this time.

There are other banks where the risk of failure is less certain, but still considered reasonably possible. Should these banks fail, the BIF could incur additional estimated losses ranging from \$1 million to \$205 million.

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

#### **Year 2000 Anticipated Failures**

The BIF is also subject to a potential loss from banks that may fail if they are unable to become Year 2000 compliant in a timely manner. In May 1997, the federal financial institution regulatory agencies developed a program to conduct uniform reviews of all FDIC-insured institutions' Year 2000 readiness. The program assessed the five key phases of an institution's Year 2000 conversion efforts: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation. The reviews classified each institution as Satisfactory, Needs Improvement, or Unsatisfactory. Performance was defined as Satisfactory when Year 2000 weaknesses were minor in nature and could be readily corrected within the program management framework.

In order to assess exposure to the BIF from Year 2000 potential failures, the FDIC evaluated all information relevant to such an assess-

ment, to include multiple Year 2000 on-site examination results, institution capital levels and supervisory examination composite ratings, and other institution past and current financial characteristics. Based on data updated through December 31, 1999, all BIF-insured institutions have received a Satisfactory rating. As a result of this assessment, we conclude that, as of December 31, 1999, there are no probable or reasonably possible losses to the BIF from Year 2000 failures.

#### **Assistance Agreements**

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

#### **Litigation Losses**

The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling \$83 million are reasonably possible.

#### **Asset Securitization Guarantees**

As part of the FDIC's efforts to maximize the return from the sale or disposition of assets from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the BIF provided limited guarantees to cover certain losses on the securitized assets up to a specified maximum. In exchange for backing the limited guarantees, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantees. At December 31, 1999 and 1998, the BIF had a contingent liability under the guarantees of \$2.5 million and \$7.1 million, respectively. The maximum off-balance-sheet exposure under the limited guarantees is presented in Note 12.

## **8. Assessments**

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for BIF members semi-annually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; 3) required the FDIC to build and maintain the reserves in the insurance funds to 1.25 percent of

insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings. Since May 1995, the BIF has maintained a capitalization level at or higher than the DRR of 1.25 percent of insured deposits. As of December 31, 1999, the capitalization level for BIF is 1.36 percent of estimated insured deposits.

The DIFIA (see Note 1) provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions (including banks, thrifts, and Oakar and Sasser financial institutions). It also 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. The FICO assessment rate on BIF-assessable deposits is one-fifth the rate for SAIF-assessable deposits. The annual FICO interest obligation of approximately \$790 million will be paid on a pro rata basis between banks and thrifts on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist.

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 1999 and 1998, \$364 million and \$341 million, respectively, was collected from banks and remitted to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 0.11 cents and 0.8 cents per \$100 of assessable deposits for 1999 and 1998, respectively. On November 8, 1999, the Board voted to retain the BIF assessment schedule at the annual rate of 0 to 27 cents per \$100 of assessable deposits for the first semiannual period of 2000. The Board reviews premium rates semiannually.

## 9. Provision for Insurance Losses

Provision for insurance losses was \$1.2 billion and a negative \$38 million for 1999 and 1998, respectively. The large provision in 1999 was largely attributed to recognizing losses of \$838 million for the resolution of current year bank failures. In 1998, the negative provi-

sion resulted primarily from decreased losses expected for assets in liquidation. 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

#### Valuation Adjustments:

	1999	1998
Open bank assistance	\$ (6,280)	\$ (2,431)
Closed banks	325,836	(53,926)
Assets acquired from assisted banks and terminated receivingships	(10,977)	2,222
<b>Total Valuation Adjustments</b>	<b>308,579</b>	<b>(54,135)</b>

#### Contingent Liabilities:

Anticipated failure of insured institutions	849,000	29,000
Assistance agreements	8,792	(8,322)
Litigation losses	2,294	8,801
Asset securitization guarantees	84	(13,043)
<b>Total Contingent Liabilities</b>	<b>860,170</b>	<b>16,436</b>
<b>Total</b>	<b>\$ 1,168,749</b>	<b>\$ (37,699)</b>

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

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.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on BIF's operating expenses for 1998.

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

Dollars in Thousands

	1999	1998
CSRS/FERS Disability Fund	\$ 0	\$ 1,166
Civil Service Retirement System	10,270	10,477
Federal Employees Retirement System (Basic Benefit)	28,449	27,857
FDIC Savings Plan	17,215	17,534
Federal Thrift Savings Plan	11,018	10,991
<b>Total</b>	<b>\$ 66,952</b>	<b>\$ 68,025</b>

## 11. Postretirement Benefits Other Than Pensions

On January 2, 1998, the BIF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 FDIC employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the BIF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 FDIC retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their future health insurance coverage, beginning January 1, 1999.

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

Eligible FDIC employees also may participate in 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.

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately \$38.2 million and \$38.4 million at December 31, 1999 and 1998, respectively.

The OPM assumed the BIF's obligation for postretirement health benefits for retirees and near retirees for a fee of \$150 million. The OPM is now responsible for postretirement health benefits for all FDIC employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constituted both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of \$201 million to the BIF in 1998.

**Postretirement Benefits Other Than Pensions**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
<b>Funded Status at December 31</b>		
Fair value of plan assets (a)	\$ 71,286	\$ 67,539
Less: Benefit obligation	75,275	67,539
<b>Under Funded Status of the Plan</b>	<b>\$ 3,989</b>	<b>\$ 0</b>
Accrued benefit liability recognized in the Statements of Financial Position	\$ 3,989	\$ 0
<b>Expenses and Cash Flows for the Period Ended December 31</b>		
Net periodic benefit cost	\$ 2,468	\$ (1,942)
Employer contributions	1,111	6,299
Benefits paid	1,111	6,299
<b>Weighted-Average Assumptions at December 31</b>		
Discount rate	4.50%	4.50%
Expected return on plan assets	4.50%	4.50%
Rate of compensation increase	3.00%	4.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to

be subject to an annual cap of \$2,000.

**12. Commitments and Off-Balance-Sheet Exposure****Commitments****Leases**

The BIF's allocated share of the FDIC's lease commitments totals \$150.9 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 \$41.5 million and \$47.7 million for the years ended December 31, 1999 and 1998, respectively.

**Lease Commitments**

Dollars in Thousands

<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
\$39,487	\$34,718	\$33,322	\$23,043	\$13,261	\$7,085

**Off-Balance-Sheet Exposure****Asset Securitization Guarantees**

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

**Asset Securitization Guarantees at December 31**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
Maximum exposure under the limited guarantees	\$ 448,881	\$ 481,313
Less: Guarantee claims paid (inception-to-date)	(32,716)	(27,253)
Less: Amount of exposure recognized as a contingent liability (see Note 7)	(2,477)	(7,141)
<b>Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees</b>	<b>\$ 413,688</b>	<b>\$ 446,919</b>

**Deposit Insurance**

As of December 31, 1999, deposits insured by the BIF totaled approximately \$2.2 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

**Asset Putbacks**

Upon resolution of a failed bank, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain 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 BIF 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 \$4.5 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 acquirer initiates the asset putback procedures. The FDIC projects that a total of \$132 thousand in book value of assets will be putback.

**13. Concentration of Credit Risk**

As of December 31, 1999, the BIF had \$15.8 billion in gross receivables from bank resolutions and \$105.1 million in gross assets acquired from assisted banks and terminated receiverships. An allowance for loss of \$15.0 billion and \$84.4 million, respectively, has been recorded against these assets. The liquidating entities' ability to

make repayments to the BIF is largely influenced by the economy of the area in which they are located. The BIF's estimated maximum exposure to possible accounting loss for these assets is shown in the table below.

**Concentration of Credit Risk at December 31, 1999**

Dollars in Millions

	<b>Southeast</b>	<b>Southwest</b>	<b>Northeast</b>	<b>Midwest</b>	<b>Central</b>	<b>West</b>	<b>Total</b>
Receivables from bank resolutions, net	\$ 160	\$ 106	\$ 391	\$ 5	\$ 0	\$ 81	\$ 743
Assets acquired from assisted banks and terminated receiverships, net	0	20	0	0	0	1	21
<b>Total</b>	<b>\$ 160</b>	<b>\$ 126</b>	<b>\$ 391</b>	<b>\$ 5</b>	<b>\$ 0</b>	<b>\$ 82</b>	<b>\$ 764</b>

## 14. Disclosures About the Fair Value of Financial Instruments

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

The net 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 sec-

tor, and has no established market, it is not practicable to estimate its fair market value.

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

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

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

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

Dollars in Thousands

	1999	1998
<b>Net Income</b>	<b>\$ (106,445)</b>	<b>\$ 1,308,723</b>
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
<b>Income Statement Items:</b>		
Provision for insurance losses	1,168,749	(37,699)
Amortization of U.S. Treasury obligations	164,880	133,705
TIIS inflation adjustment	(26,930)	0
Gain on sale of investments	0	(224)
Gain on conversion of benefit plan	0	(200,532)
Depreciation on property and equipment	12,288	3,745
Retirement of capitalized equipment	4,476	0
<b>Change in Assets and Liabilities:</b>		
Decrease (Increase) in interest receivable on investments and other assets	188,322	(7,033)
(Increase) Decrease in receivables from bank resolutions	(311,671)	417,444
Decrease in assets acquired from assisted banks and terminated receiverships	17,599	31,129
(Decrease) in accounts payable and other liabilities	(45,219)	(26,416)
(Decrease) in contingent liabilities for anticipated failure of insured institutions	(574,000)	(8,000)
(Decrease) in contingent liabilities for assistance agreements	(13,007)	(8,505)
(Decrease) in contingent liabilities for litigation losses	(14,595)	0
(Decrease) in contingent liabilities for asset securitization guarantees	(4,748)	(7,531)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 459,699</b>	<b>\$ 1,598,806</b>

**16. Year 2000 Issues****State of Readiness**

The FDIC, as administrator for the BIF, conducted a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant. This meant that systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. An oversight committee comprised of FDIC division management directed the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) led the Year 2000 effort, under the direction of the oversight committee. The internal Year 2000 team used a structured approach and rigorous program management as described in the U.S. General Accounting Office's (GAO) *Year 2000 Computing Crisis: An Assessment Guide*. This methodology consisted of five phases under the overall umbrellas of Program and Project Management. The FDIC

completed all of the recommended GAO phases: Awareness, Assessment, Renovation, Validation, and Implementation.

As a precautionary measure, the FDIC developed a Year 2000 Rollover Weekend Strategy to monitor the information systems during the transition into the year 2000. Contingency plans were in place for mission-critical application failures and for other systems. No major problems were anticipated due to the extensive planning and validation that occurred (see Note 17).

**Year 2000 Estimated Costs**

Year 2000 compliance expenses for the BIF are estimated at \$45.4 million and \$34.7 million at December 31, 1999 and 1998, respectively. These expenses are reflected in the "Operating expenses" line of the BIF's Statements of Income and Fund Balance.

**17. Subsequent Events****Year 2000 Effect on Internal Systems**

On January 1, 2000, all FDIC systems were operating normally as a result of a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant prior to December 31, 1999. No internal system failures have occurred and none are anticipated (see Note 16).

**Year 2000 Effect on Anticipated Failures**

As of May 5, 2000, no banks had failed due to Year 2000 related problems and none are anticipated. Refer to "Contingent Liabilities for: Year 2000 Anticipated Failures" (see Note 7).

**Federal Deposit Insurance Corporation****Savings Association Insurance Fund Statements of Financial Position at December 31**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 146,186	\$ 666,736
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) <i>(Includes cash and cash equivalents of \$23.3 million and \$55.2 million at December 31, 1999 and December 31, 1998, respectively)</i>	268,490	253,790
Investment in U.S. Treasury obligations, net (Note 4) <i>(Market value of investments at December 31, 1999 and December 31, 1998 was \$9.8 billion and \$9.4 billion, respectively)</i>	9,979,572	9,061,786
Interest receivable on investments and other assets, net	153,558	140,699
Receivables from thrift resolutions, net (Note 5)	62,244	8,857
<b>Total Assets</b>	<b>\$ 10,610,050</b>	<b>\$ 10,131,868</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 4,888	\$ 7,247
Contingent liability for anticipated failure of insured institutions (Note 6)	56,000	31,000
SAIF-member exit fees and investment proceeds held in escrow (Note 3)	268,490	253,790
<b>Total Liabilities</b>	<b>329,378</b>	<b>292,037</b>
<i>Commitments and off-balance-sheet exposure (Note 10)</i>		
<b>Fund Balance</b>		
Accumulated net income	10,312,416	9,835,577
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)	(31,744)	4,254
<b>Total Fund Balance</b>	<b>10,280,672</b>	<b>9,839,831</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 10,610,050</b>	<b>\$ 10,131,868</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

	1999	1998
<b>Revenue</b>		
Interest on U.S. Treasury obligations	\$ 585,830	\$ 562,750
Assessments (Note 7)	15,116	15,352
Gain on conversion of benefit plan (Note 9)	0	5,464
Other revenue	49	293
<b>Total Revenue</b>	<b>600,995</b>	<b>583,859</b>
<b>Expenses and Losses</b>		
Operating expenses	92,882	84,628
Provision for insurance losses	30,648	31,992
Other insurance expenses	626	9
<b>Total Expenses and Losses</b>	<b>124,156</b>	<b>116,629</b>
<b>Net Income</b>	<b>476,839</b>	<b>467,230</b>
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)	(35,998)	4,286
<b>Comprehensive Income</b>	<b>440,841</b>	<b>471,516</b>
<b>Fund Balance - Beginning</b>	<b>9,839,831</b>	<b>9,368,315</b>
<b>Fund Balance - Ending</b>	<b>\$ 10,280,672</b>	<b>\$ 9,839,831</b>

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

**Federal Deposit Insurance Corporation****Savings Association Insurance Fund Statements of Cash Flows for the Years Ended December 31**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
<b>Cash Flows From Operating Activities</b>		
<b>Cash provided by:</b>		
Interest on U.S. Treasury obligations	\$ 606,244	\$ 597,596
Assessments	15,384	13,991
Entrance and exit fees, including interest on exit fees (Note 3)	15,487	10,306
Recoveries from thrift resolutions	5,775	1,119
Recoveries from conversion of benefit plan	2,264	0
Miscellaneous receipts	46	67
<b>Cash used by:</b>		
Operating expenses	(91,789)	(85,248)
Disbursements for thrift resolutions	(64,494)	(5,414)
Miscellaneous disbursements	(306)	0
<b>Net Cash Provided by Operating Activities (Note 12)</b>	<b>488,611</b>	<b>532,417</b>
<b>Cash Flows From Investing Activities</b>		
<b>Cash provided by:</b>		
Maturity of U.S. Treasury obligations, held-to-maturity	1,635,000	1,840,000
Maturity of U.S. Treasury obligations, available-for-sale	425,000	0
<b>Cash used by:</b>		
Purchase of U.S. Treasury obligations, held-to-maturity	(1,326,004)	(1,402,352)
Purchase of U.S. Treasury obligations, available-for-sale	(1,775,103)	(438,225)
<b>Net Cash Used by Investing Activities</b>	<b>(1,041,107)</b>	<b>(577)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(552,496)</b>	<b>531,840</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>721,984</b>	<b>190,144</b>
<b>Unrestricted Cash and Cash Equivalents - Ending</b>	<b>146,186</b>	<b>666,736</b>
<b>Restricted Cash and Cash Equivalents - Ending</b>	<b>23,302</b>	<b>55,248</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 169,488</b>	<b>\$ 721,984</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 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) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. 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 insured deposits or a higher percentage as circumstances warrant.

The Deposit Insurance Funds Act of 1996 (DIFA) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio (DRR) of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured thrifts and banks; 3) beginning January 1, 1997, the imposition of a FICO assessment rate on SAIF-assessable deposits that is five times the rate for BIF-assessable deposits through the earlier of December 31, 1999, or the date on which the last savings association ceases to exist; 4) the payment of the annual FICO interest obligation of approximately \$790 million on a pro rata basis between thrifts and banks on the earlier of January 1, 2000, or the date on which the last savings association ceases to exist; 5) authorization of SAIF assessments only if needed to maintain the fund at the DRR; 6) the refund of amounts in the SAIF in excess of the DRR with such refund not to exceed the previous semiannual assessment; 7) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk; and 8) the merger of the SAIF and the BIF on January 1, 1999, if no insured depository institution is a savings association on that date. As of December 31, 1999, Congress did not enact legislation to either merge the SAIF and the BIF or to eliminate the thrift charter.

The DIFA required the establishment of a Special Reserve of the SAIF if, on January 1, 1999, the reserve ratio exceeded the DRR of 1.25 percent. The reserve ratio exceeded the DRR by approximately 0.14 percent on January 1, 1999. As a result, \$978 million was placed in a Special Reserve of the SAIF and was administered by the FDIC. On November 12, 1999, the Gramm-Leach-Bliley Act (GLBA), (Public Law 106-102), was enacted which eliminated the SAIF Special Reserve.

The GLBA was enacted in order to modernize the financial services industry that includes banks, brokerages, insurers, and other financial service providers. The GLBA will, among other changes, lift restrictions on affiliations among banks, securities firms, and insurance companies. It will also expand the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries. The GLBA provides for a greater degree of functional regulation of securities and insurance activities conducted by banks and their affiliates. The GLBA also governs affiliations of thrifts that are in financial holding companies and provides for functional regulation of such thrifts' affiliates.

### **Recent Legislative Initiatives**

Congress continues to focus on legislative proposals that would affect the deposit insurance funds. Some of these proposals, such as the merger of the SAIF and the BIF and the rebate of the insurance funds, may have a significant impact on the SAIF and the BIF, if enacted into law. However, these proposals continue to vary and 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 SAIF-insured institutions including managing and liquidating 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 Oakar financial institutions.

The SAIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations and 2) SAIF assessment premiums. 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 also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). At December 31, 1999, the MOL for the SAIF was \$16.7 billion.

### **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 liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses 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 or liquidating agent. Periodic and final accountability reports of the FDIC's activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

### **Use of Estimates**

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

### **Cash Equivalents**

Cash equivalents are short-term, highly liquid investments with origi-

nal maturities of three months or less. Cash equivalents primarily consist of Special U.S. Treasury Certificates.

### **Investments in U.S. Treasury Obligations**

Investments in U.S. Treasury obligations are recorded pursuant to the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. Securities designated as held-to-maturity are 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 fair value with unrealized gains and losses 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. The SAIF does not designate any securities as trading.

# SAIF

## 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 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.

## Postretirement Benefits Other Than Pensions

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

## Disclosure About Recent Accounting Standards Pronouncements

In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the SAIF's disclosures for postretirement benefits have been made, the impact is not material.

Other recent pronouncements are not applicable to the financial statements.

## Related Parties

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

## Reclassifications

Reclassifications have been made in the 1998 financial statements to conform to the presentation used in 1999.

## 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 1999 and 1998 that resulted in an exit fee to the SAIF.

As of December 31, 1999, the unamortized premium, net of unamortized discount, was \$6.0 million. As of December 31, 1998, the unamortized premium, net of the unamortized discount, was \$3.4 million.

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

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
Cash and cash equivalents	\$ 23,302	\$ 55,248
Investment in U.S. Treasury obligations, net	239,975	193,350
Interest receivable on U.S. Treasury obligations	4,529	4,190
Exit fees receivable	684	1,002
<b>Total</b>	<b>\$ 268,490</b>	<b>\$ 253,790</b>

**U.S. Treasury Obligations, Net at December 31, 1999 (Restricted for SAIF-Member Exit Fees)**

Dollars in Thousands

Maturity	Stated Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
1-3 years	5.90%	\$ 115,000	\$ 115,336	\$ 0	\$ (876)	\$ 114,460
3-5 years	6.30%	55,000	56,131	217	(582)	55,766
5-10 years	5.20%	64,000	68,508	0	(5,265)	63,243
<b>Total</b>		<b>\$ 234,000</b>	<b>\$ 239,975</b>	<b>\$ 217</b>	<b>\$ (6,723)</b>	<b>\$ 233,469</b>

**U.S. Treasury Obligations, Net at December 31, 1998 (Restricted for SAIF-Member Exit Fees)**

Dollars in Thousands

Maturity	Stated Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
1-3 years	5.52%	\$ 15,000	\$ 15,359	\$ 335	\$ 0	\$ 15,694
3-5 years	6.12%	135,000	134,722	6,550	0	141,272
5-10 years	5.69%	40,000	43,269	2,156	0	45,425
<b>Total</b>		<b>\$ 190,000</b>	<b>\$ 193,350</b>	<b>\$ 9,041</b>	<b>\$ 0</b>	<b>\$ 202,391</b>

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

Cash received by the SAIF is invested in U.S. Treasury obligations with maturities exceeding three months unless cash is needed to meet the liquidity needs of the fund. The SAIF's current portfolio includes securities classified as held-to-maturity and available-for-sale. The SAIF also invests in Special U.S. Treasury Certificates that are included in the "Cash and cash equivalents" line item.

In 1999, the FDIC purchased \$935.7 million (adjusted par value) of Treasury inflation-indexed securities (TIIS) for the SAIF. Unlike a traditional Treasury security, the par value of a TIIS is indexed to and increases with the Consumer Price Index (CPI). Hence, these securities provide a measure of protection for the SAIF in the event of unanticipated inflation.

As of December 31, 1999 and 1998, the book value of Investment in U.S. Treasury obligations, net is \$10.0 billion and \$9.1 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, 1999, the unamortized premium, net of unamortized discount, was \$130.5 million. As of December 31, 1998, the unamortized premium, net of the unamortized discount, was \$152.5 million.

## SAIF

**U.S. Treasury Obligations, Net at December 31, 1999 (Unrestricted)**

Dollars in Thousands

Maturity	Stated Yield at Purchase (a)	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
Less than one year	5.93%	\$ 1,630,000	\$ 1,631,605	\$ 1,020	\$ (1,154)	\$ 1,631,471
1-3 years	5.97%	2,915,000	2,937,618	280	(14,021)	2,923,877
3-5 years	6.34%	705,000	739,940	2,131	(4,218)	737,853
5-10 years	5.61%	2,713,214	2,771,691	5,896	(126,467)	2,651,120
<b>Total</b>		<b>\$ 7,963,214</b>	<b>\$ 8,080,854</b>	<b>\$ 9,327</b>	<b>\$ (145,860)</b>	<b>\$ 7,944,321</b>
<b>Available-for-Sale</b>						
Less than one year	5.62%	\$ 150,000	\$ 150,379	\$ 22	\$ (14)	\$ 150,387
1-3 years	5.17%	80,000	81,096	0	(1,046)	80,050
3-5 years	6.28%	240,000	255,838	0	(2,151)	253,687
5-10 years	5.03%	1,447,582	1,443,149	0	(28,555)	1,414,594
<b>Total</b>		<b>\$ 1,917,582</b>	<b>\$ 1,930,462</b>	<b>\$ 22</b>	<b>\$ (31,766)</b>	<b>\$ 1,898,718</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$ 9,880,796</b>	<b>\$ 10,011,316</b>	<b>\$ 9,349</b>	<b>\$ (177,626)</b>	<b>\$ 9,843,039</b>

(a) For Treasury inflation-indexed securities (TIPS), the yields in the above table include their stated real yields at purchase, not their effective yields. Effective yields on TIPS would include the stated real yield at purchase plus an inflation adjustment of 2.6%, which was the latest year-over-year increase in the CPI as reported by the Bureau of Labor Statistics on December 14, 1999. These effective yields are 6.47% and 6.71% for TIPS classified as held-to-maturity and available-for-sale, respectively.

**U.S. Treasury Obligations, Net at December 31, 1998 (Unrestricted)**

Dollars in Thousands

Maturity	Stated Yield at Purchase	Face Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
<b>Held-to-Maturity</b>						
Less than one year	5.82%	\$ 1,490,000	\$ 1,496,779	\$ 8,790	\$ 0	\$ 1,505,569
1-3 years	5.96%	3,585,000	3,609,527	88,035	0	3,697,562
3-5 years	6.04%	1,640,000	1,703,669	76,027	0	1,779,696
5-10 years	6.00%	1,615,000	1,664,974	117,633	0	1,782,607
<b>Total</b>		<b>\$ 8,330,000</b>	<b>\$ 8,474,949</b>	<b>\$ 290,485</b>	<b>\$ 0</b>	<b>\$ 8,765,434</b>
<b>Available-for-Sale</b>						
Less than one year	5.55%	\$ 370,000	\$ 373,840	\$ 2,172	\$ 0	\$ 376,012
1-3 years	5.61%	205,000	208,743	2,082	0	210,825
<b>Total</b>		<b>\$ 575,000</b>	<b>\$ 582,583</b>	<b>\$ 4,254</b>	<b>\$ 0</b>	<b>\$ 586,837</b>
<b>Total Investment in U.S. Treasury Obligations, Net</b>						
<b>Total</b>		<b>\$ 8,905,000</b>	<b>\$ 9,057,532</b>	<b>\$ 294,739</b>	<b>\$ 0</b>	<b>\$ 9,352,271</b>

## 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 1999 with assets at failure of \$63 million and SAIF outlays of \$63 million, and no thrift failures in 1998.

As of December 31, 1999 and 1998, the FDIC, in its receivership capacity for SAIF-insured institutions, held assets with a book value of \$114.0 million and \$46.1 million, respectively (including cash and miscellaneous receivables of \$104.0 million and \$45.7 million at

December 31, 1999, and 1998, respectively). These assets represent a significant source of repayment of the SAIF's receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could 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, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liabilities for anticipated failure of insured institutions as of December 31, 1999 and 1998, were \$56 million and \$31 million, respectively. The contingent liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable thrift failures. Therefore, these estimates are subject to the same uncertainties as those affecting the SAIF's receivables from thrift resolutions (see Note 5). Consequently, this could affect the ultimate cost to the SAIF from probable failures.

There are other thrifts where the risk of failure is less certain, but still considered reasonably possible. Should these thrifts fail, the SAIF could incur additional estimated losses ranging from \$1 million to \$87 million.

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

### Year 2000 Anticipated Failures

The SAIF is also subject to a potential loss from thrifts that may fail if they are unable to become Year 2000 compliant in a timely manner.

In May 1997, the federal financial institution regulatory agencies developed a program to conduct uniform reviews of all FDIC-insured institutions' Year 2000 readiness. The program assessed the five key phases of an institution's Year 2000 conversion efforts: 1) awareness, 2) assessment, 3) renovation, 4) validation, and 5) implementation. The reviews classified each institution as Satisfactory, Needs Improvement, or Unsatisfactory. Performance was defined as Satisfactory when Year 2000 weaknesses were minor in nature and could be readily corrected within the program management framework.

In order to assess exposure to the SAIF from Year 2000 potential failures, the FDIC evaluated all information relevant to such an assessment, to include multiple Year 2000 on-site examination results, institution capital levels and supervisory examination composite ratings, and other institution past and current financial characteristics. Based on data updated through December 31, 1999, all SAIF-insured institutions have received a Satisfactory rating. As a result of this assessment, we conclude that, as of December 31, 1999, there are no probable or reasonably possible losses to the SAIF from Year 2000 failures.

### Litigation Losses

The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. For 1999 and 1998, no legal cases were deemed probable in occurrence. The FDIC has determined that losses from unresolved legal cases totaling \$620 thousand are reasonably possible.

# SAIF

## 7. Assessments

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

The DIFA (see Note 1) provided, among other things, for the capitalization of the SAIF to its 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, 1999, the capitalization level for the SAIF is 1.45 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 Oakar and Sasser financial institutions). It also 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 1999 and 1998, \$426 million and \$446 million, respectively, was collected from SAIF-member institutions and remitted to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories, using a two-step process based first on capital ratios and then on other relevant information. The assessment rate averaged approximately 0.20 cents and 0.21 cents per \$100 of assessable deposits for 1999 and 1998, respectively. On November 8, 1999, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 27 cents per \$100 of assessable deposits for the first semiannual period of 2000. The Board reviews premium rates semiannually.

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

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.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on SAIF's operating expenses for 1998.

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

Eligible FDIC employees also may participate in 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.

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately \$4.4 million at both December 31, 1999 and 1998.

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

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
CSRS/FERS Disability Fund	\$ 0	\$ 140
Civil Service Retirement System	1,276	1,242
Federal Employees Retirement System (Basic Benefit)	3,268	3,002
FDIC Savings Plan	2,029	1,947
Federal Thrift Savings Plan	1,267	1,176
<b>Total</b>	<b>\$ 7,840</b>	<b>\$ 7,507</b>

**9. Postretirement Benefits Other Than Pensions**

On January 2, 1998, the SAIF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 FDIC employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the SAIF's obligation for postretirement health benefits for these employees at no initial enrollment cost. In addition, legislation was passed that allowed the remaining 2,600 FDIC retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for their

future health insurance coverage, beginning January 1, 1999. The OPM assumed the SAIF's obligation for postretirement health benefits for retirees and near retirees for a fee of \$3.7 million. The OPM is now responsible for postretirement health benefits for all FDIC employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

OPM's assumption of the health care obligation constituted both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of \$5.5 million to the SAIF in 1998.

**Postretirement Benefits Other Than Pensions**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
<b>Funded Status at December 31</b>		
Fair value of plan assets (a)	\$ 5,160	\$ 5,048
Less: Benefit obligation	5,833	5,048
<b>Under Funded Status of the Plans</b>	<b>\$ 673</b>	<b>\$ 0</b>
Accrued benefit liability recognized in the Statements of Financial Position	\$ 673	\$ 0
<b>Expenses and Cash Flows for the Period Ended December 31</b>		
Net periodic benefit cost	\$ 483	\$ 1,516
Employer contributions	129	718
Benefits paid	129	718
<b>Weighted-Average Assumptions at December 31</b>		
Discount rate	4.50%	4.50%
Expected return on plan assets	4.50%	4.50%
Rate of compensation increase	3.00%	4.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to be

subject to an annual cap of \$2,000.

# SAIF

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

### Commitments

#### Leases

The SAIF's allocated share of the FDIC's lease commitments totals \$17.5 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 \$5.7 million and \$4.8 million for the years ended December 31, 1999 and 1998, respectively.

### Lease Commitments

Dollars in Thousands

2000	2001	2002	2003	2004	2005
\$4,576	\$4,023	\$3,861	\$2,670	\$1,537	\$821

### Off-Balance-Sheet Exposure

#### Deposit Insurance

As of December 31, 1999, deposits insured by the SAIF totaled approximately \$711 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

#### Asset Putbacks

Upon resolution of a failed thrift, the assets are placed into receivership and may be sold to an acquirer under an agreement that certain 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 the existing agreements is \$40.1 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 acquirer initiates the asset putback procedures. The FDIC projects that a total of \$443 thousand in book value of assets will be putback.

## 11. Disclosures About the Fair Value of Financial Instruments

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

The net 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.

## 12. 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

	1999	1998
<b>Net Income</b>	<b>\$ 476,839</b>	<b>\$ 467,230</b>
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
<b>Income Statement Items:</b>		
Provision for insurance losses	30,648	31,992
Amortization of U.S. Treasury obligations (unrestricted)	51,708	41,198
TIIS inflation adjustment	(11,818)	0
Gain on conversion of benefit plan	0	5,464
<b>Change in Assets and Liabilities:</b>		
Decrease in amortization of U.S. Treasury obligations (restricted)	808	304
(Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	(13,500)	(20,187)
(Increase) in receivables from thrift resolutions	(41,450)	(4,700)
(Decrease) in accounts payable and other liabilities	(2,325)	(3,126)
(Decrease) in contingent liability for anticipated failure of insured institutions	(17,000)	0
Increase in exit fees and investment proceeds held in escrow	14,701	14,242
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 488,611</b>	<b>\$ 532,417</b>

## 13. Year 2000 Issues

### State of Readiness

The FDIC, as administrator for the SAIF, conducted a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant. This meant that systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. An oversight committee comprised of FDIC division management directed the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) led the Year 2000 effort, under the direction of the oversight committee. The internal Year 2000 team used a structured approach and rigorous program management as described in the U.S. General Accounting Office's (GAO) Year 2000 Computing Crisis: An Assessment Guide. This methodology consisted of five phases under the overall umbrellas of Program and Project Management. The FDIC

completed all of the recommended GAO phases: Awareness, Assessment, Renovation, Validation, and Implementation.

As a precautionary measure, the FDIC developed a Year 2000 Rollover Weekend Strategy to monitor the information systems during the transition into the year 2000. Contingency plans were in place for mission-critical application failures and for other systems. No major problems were anticipated due to the extensive planning and validation that occurred (see Note 14).

### Year 2000 Estimated Costs

Year 2000 compliance expenses for the SAIF are estimated at \$6.5 million and \$4.4 million at December 31, 1999 and 1998, respectively. These expenses are reflected in the "Operating expenses" line of the SAIF's Statements of Income and Fund Balance.

## 14. Subsequent Events

### Year 2000 Effect on Internal Systems

On January 1, 2000, all FDIC systems were operating normally as a result of a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant prior to December 31, 1999. No internal system failures have occurred and none are anticipated (see Note 13).

### Year 2000 Effect on Anticipated Failures

As of May 5, 2000, no thrifts had failed due to Year 2000 related problems and none are anticipated. Refer to "Contingent Liabilities for: Year 2000 Anticipated Failures" (see Note 6).



**Federal Deposit Insurance Corporation****FSLIC Resolution Fund Statements of Financial Position at December 31**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,948,138	\$ 4,631,379
Receivables from thrift resolutions, net (Note 3)	1,366,344	1,516,565
Investment in securitization related assets acquired from receiverships (Note 4)	2,675,374	4,424,237
Assets acquired from assisted thrifts and terminated receiverships, net (Note 5)	34,407	64,101
Other assets, net (Note 6)	7,159	40,721
<b>Total Assets</b>	<b>\$ 7,031,422</b>	<b>\$ 10,677,003</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 73,620	\$ 40,396
Liabilities from thrift resolutions (Note 7)	296,817	202,836
<i>Contingent liabilities for: (Note 8)</i>		
Assistance agreements	4,751	4,852
Litigation losses	1,445	18,340
<b>Total Liabilities</b>	<b>376,633</b>	<b>266,424</b>
<i>Commitments and concentration of credit risk (Note 13 and Note 14)</i>		
<b>Resolution Equity (Note 10)</b>		
Contributed capital	131,328,499	135,490,742
Accumulated deficit	(124,913,461)	(125,320,868)
Unrealized gain on available-for-sale securities, net (Note 4)	239,751	240,705
Accumulated deficit, net	(124,673,710)	(125,080,163)
<b>Total Resolution Equity</b>	<b>6,654,789</b>	<b>10,410,579</b>
<b>Total Liabilities and Resolution Equity</b>	<b>\$ 7,031,422</b>	<b>\$ 10,677,003</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

	1999	1998
<b>Revenue</b>		
Interest on securitization related assets acquired from receiverships	\$ 104,232	\$ 262,962
Interest on U.S. Treasury obligations	108,001	109,045
Interest on advances and subrogated claims	19,033	212,645
Gain on conversion of benefit plan (Note 12)	0	39,297
Revenue from assets acquired from assisted thrifts and terminated receiverships	25,476	40,124
Limited partnership equity interests and other revenue	23,787	28,879
Realized gain on investment in securitization related assets acquired from receiverships (Note 4)	93,113	49,642
<b>Total Revenue</b>	<b>373,642</b>	<b>742,594</b>
<b>Expenses and Losses</b>		
Operating expenses	83,317	56,336
Provision for losses (Note 9)	(278,267)	(1,176,165)
Expenses for goodwill settlements and litigation	80,921	154,492
Expenses for assets acquired from assisted thrifts and terminated receiverships	15,664	19,652
Interest expense on Federal Financing Bank debt and other notes payable	2,240	22,413
Other expenses	4,410	3,834
Realized loss on investment in securitization related assets acquired from receiverships (Note 4)	57,950	4,239
<b>Total Expenses and Losses</b>	<b>(33,765)</b>	<b>(915,199)</b>
<b>Net Income</b>	<b>407,407</b>	<b>1,657,793</b>
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)	(954)	199,692
<b>Comprehensive Income</b>	<b>406,453</b>	<b>1,857,485</b>
<b>Accumulated Deficit - Beginning</b>	<b>(125,080,163)</b>	<b>(126,937,648)</b>
<b>Accumulated Deficit - Ending</b>	<b>\$ (124,673,710)</b>	<b>\$ (125,080,163)</b>

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

**Federal Deposit Insurance Corporation****FSLIC Resolution Fund Statements of Cash Flows for the Years Ended December 31**

Dollars in Thousands

	1999	1998
<b>Cash Flows From Operating Activities</b>		
<b>Cash provided by:</b>		
Interest on U.S. Treasury obligations	\$ 108,001	\$ 109,045
Interest on securitization related assets acquired from receivingships	111,159	243,134
Recoveries from thrift resolutions	592,198	890,566
Recoveries from limited partnership equity interests	80,046	188,801
Recoveries from assets acquired from assisted thrifts and terminated receivingships	103,699	48,580
Recoveries on conversion of benefit plan	28,332	0
Miscellaneous receipts	8,166	1,383
<b>Cash used by:</b>		
Operating expenses	(97,299)	(78,526)
Interest paid on notes payable	0	(29,997)
Disbursements for thrift resolutions	(82,069)	(177,365)
Disbursements for goodwill settlements and litigation expenses	(80,921)	(154,492)
Disbursements for assets acquired from assisted thrifts and terminated receivingships	(40,690)	(26,952)
Miscellaneous disbursements	(6)	(220)
<b>Net Cash Provided by Operating Activities (Note 16)</b>	<b>730,616</b>	<b>1,013,957</b>
<b>Cash Flows From Investing Activities</b>		
<b>Cash provided by:</b>		
Investment in securitization related assets acquired from receivingships, available-for-sale	1,752,917	2,408,667
<b>Cash used for:</b>		
Purchase of investment in securitization related assets acquired from receivingships, available-for-sale	0	(25,425)
<b>Net Cash Provided by Investing Activities</b>	<b>1,752,917</b>	<b>2,383,242</b>
<b>Cash Flows From Financing Activities</b>		
<b>Cash provided by:</b>		
U.S. Treasury payments for goodwill settlements	1,000	0
<b>Cash used for:</b>		
Return of U.S. Treasury payments (Note 10)	(4,167,774)	(3,020)
Repayments of Federal Financing Bank borrowings	0	(838,412)
Repayments of indebtedness from thrift resolutions	0	(31,559)
<b>Net Cash Used by Financing Activities</b>	<b>(4,166,774)</b>	<b>(872,991)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(1,683,241)</b>	<b>2,524,208</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>4,631,379</b>	<b>2,107,171</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 2,948,138</b>	<b>\$ 4,631,379</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 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. The RTC Completion

Act made available approximately \$18 billion worth of additional funding. The RTC actually drew down \$4.6 billion. During 1999, the FRF-RTC returned \$4.2 billion to the U.S. Treasury.

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 (see Note 10).

### 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 U.S. Treasury to repay RTC Completion Act appropriations and 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 receivings; 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 \$79.1 million

and \$51.2 million to DOJ for fiscal years 1999 and 1998, respectively. Separate funding for goodwill judgments and settlements is available through Public Law 106-113 (see Note 8).

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

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

### **Use of Estimates**

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

### **Cash Equivalents**

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents primarily 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 recorded pursuant to the provisions of the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that securities be classified in one of three categories: held-to-maturity, available-for-sale, or trading. 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. The FRF does not have any securities classified as held-to-maturity or trading.

### **Allowance for Losses on Receivables from Thrift Resolutions and Assets Acquired from Assisted Thrifts and Terminated Receiverships**

The FRF records a receivable for the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. The FRF also records as an asset the amounts paid for assets acquired from assisted thrifts and terminated receiverships. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all 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.

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

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

### **Disclosure About Recent Accounting Standard Pronouncements**

In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Although changes in the FRF's disclosures for postretirement benefits have been made, the impact is not material.

Other recent pronouncements are not applicable to the financial statements.

### Wholly Owned Subsidiary

The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. The investment in the FADA is accounted for using the equity method and is included in the "Other assets, net" line item (see Note 6). Final judgment on the remaining litigation was made on December 16, 1998. FADA was terminated with a final liquidating dividend by December 31, 1999.

### 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, and S-Series programs. The majority of the limited partnership equity interests have been transferred from the receiverships to the FRF. These assets are included in the "Receivables from thrift resolutions, net" line item in the FRF's Statements of Financial Position. The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

### Reclassifications

Reclassifications have been made in the 1998 financial statements to conform to the presentation used in 1999.

### Restatement

The credit enhancement escrow accounts included in the "Investment in securitization related assets acquired from receiverships" have been restated to conform with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and to reflect the related impact on each primary financial statement. The change is due to interpretations in the FASB's recently issued special report, "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and to recognize the investment characteristics of the credit enhancement escrow accounts.

Additionally, corrections were made for immaterial offsetting errors relating to the purchase price of the credit enhancement escrow accounts and the residual certificates and to the associated gain or loss calculations. The impact of these restatements on the January 1, 1998 accumulated deficit is a reduction of \$35.3 million.

## 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.

As of December 31, 1999 and 1998, the FDIC, in its receivership capacity for the former FSLIC and SAIF-insured institutions, held assets with a book value of \$2.1 billion and \$2.6 billion, respectively (including cash and miscellaneous receivables of \$1.5 billion and

\$1.6 billion at December 31, 1999 and 1998, respectively). These assets represent a significant source of repayment of the FRF's receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The sample was constructed to produce a statistically valid result. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. These factors could 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

Assets from open thrift assistance

	1999	1998
Assets from open thrift assistance	\$ 437,265	\$ 529,123

Allowance for losses

Allowance for losses	(385,537)	(386,935)
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### Net Assets From Open Thrift Assistance

	1999	1998
Net Assets From Open Thrift Assistance	<b>51,728</b>	<b>142,188</b>

Receivables from closed thrifts

Receivables from closed thrifts	51,720,279	72,874,857
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Allowance for losses

Allowance for losses	(50,405,663)	(71,500,480)
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### Net Receivables From Closed Thrifts

	1999	1998
Net Receivables From Closed Thrifts	<b>1,314,616</b>	<b>1,374,377</b>

### Total

Total	<b>\$ 1,366,344</b>	<b>\$ 1,516,565</b>
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### Representations and Warranties

The RTC provided guarantees, representations, and warranties on approximately \$107 billion in unpaid principal balance of loans sold and approximately \$132 billion in unpaid principal balance of loans under servicing right contracts that had been sold. In general, the guarantees, representations, and warranties on loans sold related to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The representations and warranties made in connection with the sale of servicing rights were limited to the responsibilities of acting as a servicer of the loans. Future losses on representations and warranties could significantly increase or

decrease over the remaining life of the loans that were sold, which could be as long as 20 years.

The FRF includes estimates of corporate losses related to the receiverships' representations and warranties as part of the FRF's allowance for loss valuation. The allowance for these estimated losses was \$30 million and \$81 million as of December 31, 1999 and 1998, respectively. There are additional amounts of representation and warranty claims that are considered reasonably possible. As of December 31, 1999, the amount is estimated at \$339 million. The contingent liability for representations and warranties associated with loan sales that involved assets acquired from assisted thrifts and terminated receiverships are included in "Accounts payable and other liabilities" (\$4 million and \$5 million for 1999 and 1998, respectively).

### 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 escrow accounts (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.

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.

The escrow accounts were transferred from the receiverships to the FRF for \$5.7 billion. This transfer was offset by amounts owed by the receiverships to the FRF. The residual certificates were transferred from the receiverships to the FRF for \$1.4 billion. This transfer was also offset by amounts owed by the receiverships to the FRF.

The FRF received \$910 million in proceeds from terminations during 1999 and \$1.2 billion during 1998. Realized gains and losses are recorded based upon the difference between the proceeds at termination of the deal and the cost of the original investment. Realized gains and losses are calculated on both the escrow account and the related residual certificate. 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 investment in securitization related assets acquired from receiverships of \$104.2 million during 1999 and \$263 million during 1998.

#### Investment in Securitization Related Assets Acquired from Receiverships at December 31, 1999

Dollars in Thousands

	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement escrow accounts	\$ 1,563,722	\$ 249,185	\$ (121,251)	\$ 1,691,656
Residual certificates	871,901	111,817	0	983,718
<b>Total</b>	<b>\$2,435,623</b>	<b>\$ 361,002</b>	<b>\$ (121,251)</b>	<b>\$ 2,675,374</b>

**Investment in Securitization Related Assets Acquired from Receiverships at December 31, 1998**

Dollars in Thousands

	<b>Cost</b>	<b>Unrealized Holding Gains</b>	<b>Unrealized Holding Losses</b>	<b>Fair Value</b>
Credit enhancement escrow accounts	\$ 2,996,584	\$ 278,179	\$ (115,183)	\$3,159,580
Residual certificates	1,186,948	80,887	(3,178)	1,264,657
<b>Total</b>	<b>\$4,183,532</b>	<b>\$ 359,066</b>	<b>\$ (118,361)</b>	<b>\$4,424,237</b>

**5. Assets Acquired from Assisted Thrifts and Terminated Receiverships, Net**

The FRF's assets acquired from assisted thrifts and terminated receiverships include:

1) assets the former FSLIC and the former RTC purchased from failing or failed thrifts and 2) assets the FRF acquired from receiverships and purchased under assistance agreements. The methodology to estimate cash recoveries from these assets, which are used to derive the related allowance for losses, is similar to that for receivables from thrift resolutions (see Note 3). The estimated cash recoveries are

based upon a statistical sampling of the assets but only include expenses for the disposition of the assets.

The FRF recognizes revenue and expenses on these acquired assets. Revenue consists primarily of proceeds from professional liability claims, interest earned on loans, gain on the sale of owned assets, and other liquidation income. Expenses are recognized for the management and liquidation of these assets.

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

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
Assets acquired from assisted thrifts and terminated receiverships	\$ 148,584	\$ 216,006
Allowance for losses	(114,177)	(151,905)
<b>Total</b>	<b>\$ 34,407</b>	<b>\$ 64,101</b>

**6. Other Assets, Net****Other Assets, Net at December 31**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
Investment in FADA (Note 2)	\$ 0	\$ 15,000
Allowance for loss	0	(11,074)
<b>Investment in FADA, Net</b>	<b>0</b>	<b>3,926</b>
Accounts receivable	7,159	33,200
Due from other government entities	0	3,595
<b>Other Receivables</b>	<b>7,159</b>	<b>36,795</b>
<b>Total</b>	<b>\$ 7,159</b>	<b>\$ 40,721</b>

## 7. Liabilities from Thrift Resolutions

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

tions for assistance agreements are presented in the "Liabilities from thrift resolutions" line item. Estimated future assistance payments are included in the "Contingent liabilities for: Assistance agreements" line item (see Note 8).

### Liabilities from Thrift Resolutions at December 31

Dollars in Thousands

	1999	1998
Assistance agreement notes payable	\$ 62,360	\$ 62,360
Interest payable	4,156	994
Other liabilities to thrift institutions	6,801	10,982
Estimated cost associated with liquidating assets	223,500	128,500
<b>Total</b>	<b>\$ 296,817</b>	<b>\$ 202,836</b>

## 8. Contingent Liabilities for:

### Assistance Agreements

The contingent liabilities for assistance agreements are \$4.8 million and \$4.9 million at December 31, 1999 and 1998, respectively. The liability represents an estimate of future assistance payments to acquirers of troubled thrift institutions. There were 28 and 33 assistance agreements outstanding as of December 31, 1999 and 1998, respectively. The last agreement is scheduled to expire in July 2000.

### Litigation Losses

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling \$141.3 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 31, 2000, the DOJ informed the FDIC that, in the approximately 100 remaining cases which are in litigation at the trial court level, "it is too early to predict the extent of any litigation risk." The DOJ notes that 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. Even if the

Goodwill Litigation judgments and compromise settlements were to exceed other available resources of the FRF-FSLIC, an appropriation is available to pay such judgments and settlements. In these circumstances, any liabilities for the Goodwill Litigation should have no material impact on the financial condition of the FRF-FSLIC.

## 9. Provision for Losses

The provision for losses was a negative \$278 million and a negative \$1.2 billion for 1999 and 1998, respectively. In both years, the negative provision resulted primarily from decreased losses expected for

assets in liquidation. The following chart lists the major components of the negative provision for losses.

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

Dollars in Thousands

	1999	1998
<b>Valuation Adjustments:</b>		
Open thrift assistance	\$ 10,092	\$ 12,514
Recovery of tax benefits	(110,061)	(115,401)
Closed thrifts	(284,699)	(1,150,567)
Estimated cost associated with liquidating assets	95,000	128,500
Assets acquired from assisted thrifts and terminated receiverships	15,907	(66,709)
Investment in securitization related assets acquired from receiverships	16,357	0
Miscellaneous receivables	0	(42)
<b>Total Valuation Adjustments</b>	<b>(257,404)</b>	<b>(1,191,705)</b>
<b>Contingent Liabilities:</b>		
Litigation losses	(20,863)	15,540
<b>Total Contingent Liabilities</b>	<b>(20,863)</b>	<b>15,540</b>
<b>Total</b>	<b>\$ (278,267)</b>	<b>\$ (1,176,165)</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 separate-

ly 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, 1999

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	\$ 44,156,000	\$ 91,334,742	\$ 135,490,742
Miscellaneous payments/adjustments	1,000	4,531	5,531
Less: U.S. Treasury repayments	0	(4,167,774)	(4,167,774)
<b>Contributed capital - ending</b>	<b>44,157,000</b>	<b>87,171,499</b>	<b>131,328,499</b>
Accumulated deficit	(41,929,682)	(82,743,074)	(124,672,756)
Less: Unrealized loss on available-for-sale securities	0	(954)	(954)
<b>Accumulated deficit, net</b>	<b>(41,929,682)</b>	<b>(82,744,028)</b>	<b>(124,673,710)</b>
<b>Total</b>	<b>\$ 2,227,318</b>	<b>\$ 4,427,471</b>	<b>\$ 6,654,789</b>

**Resolution Equity at December 31, 1998**

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
<b>Contributed capital</b>	<b>\$ 44,156,000</b>	<b>\$ 91,334,742</b>	<b>\$ 135,490,742</b>
Accumulated deficit	(42,057,685)	(83,222,170)	(125,279,855)
Less: Unrealized gain on available-for-sale securities	0	199,692	199,692
<b>Accumulated deficit, net</b>	<b>(42,057,685)</b>	<b>(83,022,478)</b>	<b>(125,080,163)</b>
<b>Total</b>	<b>\$ 2,098,315</b>	<b>\$ 8,312,264</b>	<b>\$ 10,410,579</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.

The FRF-FSLIC's contributed capital at December 31, 1999, includes \$1 million received from the U.S. Treasury to fund a current year goodwill litigation settlement (see Note 8). The FRF-RTC's contributed capital at December 31, 1999, includes an adjustment of \$4.5 million that relates to prior year appropriations.

**Accumulated Deficit**

The accumulated deficit represents the cumulative excess of expenses over revenue for activity related to the former FSLIC and the for-

mer RTC (\$29.7 billion and \$87.9 billion were brought forward from the FSLIC and RTC, respectively).

**Resolution Equity Restrictions**

**FRF-RTC:** The former RTC drew down \$4.6 billion of the approximately \$18 billion made available by the RTC Completion Act. The RTC Completion Act requires the FDIC to deposit in the general fund of the U.S. Treasury any funds transferred to the RTC but not needed by the RTC. The FDIC returned \$4.2 billion to the U.S. Treasury on behalf of the FRF-RTC, pursuant to the RTC Completion Act, during 1999.

In addition, the FDIC must transfer net proceeds from the sale of RTC assets to pay interest on the REFCORP bonds, after providing for all outstanding RTC liabilities. Any such payments benefit the U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds (see Note 1).

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

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.

During 1998, there was an open season that allowed employees to switch from CSRS to FERS. This did not have a material impact on FRF's operating expenses for 1998.

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 (OPM).

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.

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately \$6.9 million and \$5.4 million at December 31, 1999 and 1998, respectively.

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

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
CSRS/FERS Disability Fund	\$ 0	\$ 308
Civil Service Retirement System	1,367	1,382
Federal Employees Retirement System (Basic Benefit)	4,687	4,438
FDIC Savings Plan	2,619	2,619
Federal Thrift Savings Plan	1,767	1,675
<b>Total</b>	<b>\$ 10,440</b>	<b>\$ 10,422</b>

**12. Postretirement Benefits Other Than Pensions**

On January 2, 1998, the FRF's obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for postretirement health benefits was reduced when over 6,500 FDIC employees enrolled in the Federal Employees Health Benefits (FEHB) Program for their future health insurance coverage. The OPM assumed the FRF's obligation for postretirement health benefits for these employees at no initial enrollment cost.

In addition, legislation was passed that allowed the remaining 2,600 FDIC retirees and near-retirees (employees within five years of retirement) in the FDIC health plan to also enroll in the FEHB Program for

their future health insurance coverage, beginning January 1, 1999. The OPM assumed the FRF's obligation for postretirement health benefits for retirees and near retirees for a fee of \$32 million. The OPM is now responsible for postretirement health benefits for all FDIC employees and covered retirees. The FDIC will continue to be obligated for dental and life insurance coverage for as long as the programs are offered and coverage is extended to retirees.

The OPM's assumption of the health care obligation constituted both a settlement and a curtailment as defined by SFAS No. 106. This conversion resulted in a gain of \$39 million to the FRF in 1998.

**Postretirement Benefits Other Than Pensions**

Dollars in Thousands

	<b>1999</b>	<b>1998</b>
<b>Funded Status at December 31</b>		
Fair value of plan assets (a)	\$ 14,994	\$ 14,337
Less: Benefit obligation	16,130	14,337
<b>Under Funded Status of the Plans</b>		
Accrued benefit liability recognized in the Statements of Financial Position	\$ 1,136	\$ 0
<b>Expenses and Cash Flows for the Period Ended December 31</b>		
Net periodic benefit cost	\$ 563	\$ (919)
Employer contributions	202	886
Benefits paid	202	886
<b>Weighted-Average Assumptions at December 31</b>		
Discount rate	4.50%	4.50%
Expected return on plan assets	4.50%	4.50%
Rate of compensation increase	3.00%	4.00%

(a) Invested in U.S. Treasury obligations.

Total dental coverage trend rates were assumed to be 7% per year, inclusive of general inflation. Dental costs were assumed to

be subject to an annual cap of \$2,000.

## 13. Commitments

### Letters of Credit

The RTC had adopted special policies that included honoring outstanding conservatorship and receivership collateralized letters of credit. This enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were issued by thrifts that later failed and were used to guarantee tax-exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1999 and 1998, securities pledged as collateral to honor these letters of credit totaled \$7.6 million and \$21.4 million, respectively. The FRF estimated corporate losses related to the receiverships' letters of credit as part of the allowance for loss valuation. The allowance for these losses was \$1.1 million and \$6.3 million as of December 31, 1999 and 1998, respectively.

### Lease Commitments

Dollars in Thousands

2000	2001	2002	2003	2004	2005
\$5,738	\$5,095	\$5,001	\$3,439	\$2,036	\$1,253

## 14. Concentration of Credit Risk

As of December 31, 1999, the FRF had gross receivables from thrift resolutions totaling \$52.2 billion, gross assets acquired from assisted thrifts and terminated receiverships totaling \$149 million, and an investment in securitization related assets acquired from receiverships totaling \$2.7 billion. The allowance for loss against receivables from thrift resolutions totaled \$51.0 billion, and the allowance against the assets acquired from assisted thrifts and terminated receiverships totaled \$114 million.

### Leases

The FRF's allocated share of the FDIC's lease commitments totals \$22.6 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 amount shown below. The FRF recognized leased space expense of \$7.2 million and \$6.3 million for the years ended December 31, 1999 and 1998, respectively.

### Concentration of Credit Risk at December 31, 1999

Dollars in Millions

	Southeast	Southwest	Northeast	Midwest	Central	West	Total
Receivables from thrift resolutions, net	\$ 184	\$ 33	\$ 876	\$ 151	\$ 31	\$ 91	\$1,366
Assets acquired from assisted thrifts and terminated receiverships, net	0	33	1	0	0	0	34
Investment in securitization related assets acquired from receiverships	489	313	288	80	67	1,438	2,675
<b>Total</b>	<b>\$ 673</b>	<b>\$ 379</b>	<b>\$ 1,165</b>	<b>\$ 231</b>	<b>\$ 98</b>	<b>\$1,529</b>	<b>\$4,075</b>

Cash recoveries may be influenced by economic conditions. Similarly, the value of the investment in securitization related assets acquired from receiverships can be influenced by the economy of the area relating to the underlying loans and other assets. Accordingly, the FRF's maximum exposure to possible accounting loss is the recorded (net of allowance) value and is also shown in the table below.

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

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

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

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).

## 16. 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

	1999	1998
<b>Net Income</b>	<b>\$ 407,407</b>	<b>\$ 1,657,793</b>
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
<b>Income Statement Items:</b>		
Interest on Federal Financing Bank borrowings	0	18,068
Provision for losses	(278,267)	(1,176,165)
Gain on conversion of benefit plan	0	(39,297)
Prior year appropriation adjustments	4,531	0
<b>Change in Assets and Liabilities:</b>		
Decrease in receivables from thrift resolutions	437,750	2,307,756
Increase in securitization related assets acquired from receiverships	(21,365)	(1,415,155)
Decrease in assets acquired from assisted thrifts and terminated receiverships	13,788	61,928
Decrease (Increase) in other assets	35,680	(389,691)
Increase (Decrease) in accounts payable and other liabilities	34,710	(125,545)
(Decrease) in accrued interest on notes payable	0	(28,950)
(Decrease) Increase in liabilities from thrift resolutions	92,414	130,794
Increase in contingent liabilities for litigation losses	3,968	13,897
(Decrease) in contingent liabilities for assistance agreements	0	(1,476)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 730,616</b>	<b>\$ 1,013,957</b>

### Noncash Investing Activity

The FRF acquired securitization residual certificates through a noncash purchase from its receiverships. This noncash transaction valued at \$1.4 billion was applied to amounts owed by FRF receiverships which

resulted in a reduction to the "Receivables from thrift resolutions, net" line item and an increase in the "Investment in securitization related assets acquired from receiverships" line item (see Note 4).

## 17. Year 2000 Issues

### State of Readiness

The FDIC, as administrator for the FRF, conducted a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant. This meant that systems must accurately process date and time data in calculations, comparisons, and sequences after December 31, 1999, and be able to correctly deal with leap-year calculations in 2000. An oversight committee comprised of FDIC division management directed the Year 2000 effort.

The FDIC's Division of Information Resources Management (DIRM) led the Year 2000 effort, under the direction of the oversight committee. The internal Year 2000 team used a structured approach and rigorous program management as described in the U.S. General Accounting Office's (GAO) *Year 2000 Computing Crisis: An Assessment Guide*. This methodology consisted of five phases under

the overall umbrellas of Program and Project Management. The FDIC completed all of the recommended GAO phases: Awareness, Assessment, Renovation, Validation, and Implementation.

As a precautionary measure, the FDIC developed a Year 2000 Rollover Weekend Strategy to monitor the information systems during the transition into the year 2000. Contingency plans were in place for mission-critical application failures and for other systems. No major problems were anticipated due to the extensive planning and validation that occurred (see Note 18).

### Year 2000 Estimated Costs

Year 2000 compliance expenses for the FRF are estimated at \$1.3 million and \$2.1 million at December 31, 1999 and 1998, respectively. These expenses are reflected in the "Operating expenses" line of the FRF's Statements of Income and Accumulated Deficit.

## 18. Subsequent Events

### Year 2000 Effect on Internal Systems

On January 1, 2000, all FDIC systems were operating normally as a result of a corporate-wide effort to ensure that all FDIC information systems were Year 2000 compliant prior to December 31, 1999. No internal system failures have occurred and none are anticipated (see Note 17).



Comptroller General  
of the United States

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

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To the Board of Directors  
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1999 and 1998, 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 conformity with 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 systems control noted during our 1999 audits, (3) the current status of the goodwill litigation cases, (4) the current status of FRF's liquidation activities, and (5) our evaluation of the Corporation's comments on a draft of this report.

#### **Opinion on Bank Insurance Fund's Financial Statements**

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Bank Insurance Fund's financial position as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended.

#### **Opinion on Savings Association Insurance Fund's Financial Statements**

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Savings Association Insurance Fund's financial position as of December 31, 1999 and 1998, 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 FSLIC Resolution Fund's Financial Statements**

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the FSLIC Resolution Fund's financial position as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended.

As discussed in note 8 of FRF's financial statements, a contingency exists from approximately 100 lawsuits pending in the United States Court of Federal Claims concerning the counting of goodwill assets as part of regulatory capital. Based on information currently available, a reasonable estimate cannot be made regarding future losses and settlements related to these cases. Information on the current status of the goodwill cases is presented later in this report.

#### **Opinion on Internal Control**

Although certain internal controls should be improved, FDIC management maintained, in all material respects, effective internal control over financial reporting and compliance as of December 31, 1999, that provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the Corporation's financial statements would be prevented or detected on a timely basis. FDIC management asserted that its internal control was effective based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA) of 1982. In making its assertion, FDIC management also fairly stated the need to improve certain internal controls.

Our work identified the need to improve information systems control, as described in a later section of this report. The weakness in information systems control, 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 as described later in this report. Although the weakness did not materially affect the 1999 financial statements, misstatements may nevertheless occur in other FDIC-reported financial information as a result of the internal control weakness.

#### **Compliance With Laws and Regulations**

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

#### **Objectives, Scope, and Methodology**

FDIC's management is responsible for

- preparing the annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable

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assurance that the broad control objectives of FMFIA are met; and

- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with 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 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 and for performing limited procedures with respect to certain other information appearing in FDIC's 1999 Annual Report and 1999 Chief Financial Officers Act Report.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting, including safeguarding assets, and compliance with laws and regulations, including the execution of transactions in accordance with management's authority;
- tested relevant internal controls over financial reporting, including safeguarding assets, and compliance; evaluated the design and operating effectiveness of internal control; and evaluated management's assertion about the 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; the Chief Financial Officers Act of 1990; and the Federal Home Loan Bank Act, as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to 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 pro-

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jecting 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 which we deemed applicable to the financial statements for the year ended December 31, 1999. 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 conducted our audits from July 1999 through May 2000. We did our work in accordance with generally accepted government auditing standards.

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

#### **Reportable Condition**

As part of the financial statement audits, we reviewed FDIC's information systems (IS) general controls. The primary objectives of IS general controls are to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations in case of unexpected interruption. IS general controls include corporatewide security program planning and management, access controls, system software, application software development and change controls, segregation of duties, and service continuity controls. The effectiveness of application controls<sup>2</sup> is dependent on the effectiveness of general controls. Both IS general controls and application controls must be effective to help ensure the reliability, appropriate confidentiality, and availability of critical automated information.

In performing our tests, we found FDIC's IS general controls to be ineffective. We identified weaknesses in FDIC's corporatewide security program, access controls, segregation of duties, and service continuity. The weaknesses in IS general controls significantly impair the effectiveness of FDIC's application controls, including financial systems. We considered the effect of the information system control weaknesses and determined that other management controls mitigated their effect on the financial statements. FDIC recognizes the significance of the IS general control issues and has begun planning and initiating corrective actions. Because of their sensitive nature, the details surrounding these weaknesses and vulnerabilities are being communicated to FDIC management, along with our recommendations for corrective action, through separate correspondence.

In addition to these weaknesses, we identified less significant matters involving FDIC's system of internal accounting control that we will be reporting in a separate correspondence to FDIC management.

#### **Current Status of the Goodwill Litigation Cases**

As discussed in note 8 of FRF's financial statements, a contingency exists from the goodwill-related lawsuits against the United States government pending in the

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<sup>2</sup>Application controls consist of the structure, policies, and procedures that apply to separate, individual systems, such as accounts payable and general ledger systems.

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United States Court of Federal Claims. These lawsuits assert that certain agreements were breached when Congress enacted, and the Office of Thrift Supervision implemented, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which affected the thrift industry. The legislation changed the computation for regulatory capital requirements, thereby eliminating the special accounting treatment previously allowed for goodwill assets acquired when institutions merged with or acquired failing thrifts. The changes in regulatory treatment of goodwill assets caused some institutions to fall out of capital compliance. In such cases, institutions had to take action to meet capital requirements or they were subject to regulatory action.

On July 1, 1996, the United States Supreme Court concluded that the government is liable for damages in three cases, consolidated for appeal to the Supreme Court, in which the changes in regulatory treatment required by FIRREA led the government to not honor its contractual obligations related to the accounting treatment of goodwill assets. The cases were then referred back to the Court of Federal Claims for trials to determine the amount of damages. On July 23, 1998, the Department of the Treasury determined, based on an opinion of the Department of Justice, that FRF is legally available to satisfy all judgments and settlements in the goodwill litigation involving supervisory action or assistance agreements, in which the former Federal Savings and Loan Insurance Corporation (FSLIC) was a party to those agreements. Treasury further determined that FRF is the appropriate source of funds for payment of any such judgments and settlements.

During 1999, damage awards in three significant goodwill-related cases were decided. On April 9, 1999, the Court of Federal Claims ruled that the federal government must pay Glendale Federal Bank \$908.9 million for breaching the contract that allowed the thrift to count goodwill toward regulatory capital. The plaintiffs were seeking up to \$2 billion in damages. On April 16, 1999, the Court of Federal Claims awarded \$23 million in damages to California Federal Bank, which had been seeking more than \$1 billion in damages. On September 30, 1999, the Court of Federal Claims awarded approximately \$5 million to LaSalle Talman Bank, which had been seeking more than \$1.2 billion in damages. All parties in these cases have appealed. Subsequent to December 31, 1999, the Court of Federal Claims awarded \$21.5 million to Landmark Land Company, which had been seeking approximately \$750 million in damages in its supervisory goodwill case against the government. All parties in the Landmark Land case have appealed.

Because of the 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. With regard to the approximately 100 remaining cases at the trial court level, the outcome of each case and the amount of any possible damages remain uncertain. However, FDIC has concluded that it is probable that FRF will be required to pay additional, possibly substantial, amounts as a result of future judgments and settlements. Because of the uncertainties surrounding the cases, such losses are currently not estimable.

### Current Status of FRF's Liquidation Activities

FDIC, as administrator of FRF, is responsible for liquidating the assets and liabilities of the former Resolution Trust Corporation (RTC),<sup>3</sup> as well as the former FSLIC's assets and liabilities. FDIC continues to make significant progress in liquidating FRF's assets. As of December 31, 1999, FRF held total assets valued at \$7.0 billion. Of that total, \$2.9 billion was held in cash and cash equivalents, with \$4.1 billion in assets remaining to be liquidated. These asset levels represent a significant decrease from the prior year, as shown in table 1.

**Table 1: FRF's Assets as of December 31, 1999 and 1998**

(Dollars in billions)

	1999	1998	(Decrease)
Cash and cash equivalents	\$2.9	\$ 4.6	(\$1.7)
Assets not yet liquidated	4.1	6.1	( 2.0)
Total Assets	\$7.0	\$10.7	(\$3.7)

The RTC Completion Act required 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 RTC. The RTC Completion Act made available \$18.3 billion of additional funding. Prior to RTC's termination on December 31, 1995, RTC drew down \$4.6 billion of the \$18.3 billion made available by the RTC Completion Act. During 1999, FDIC returned \$4.2 billion to the U.S. Treasury. Subsequent to December 31, 1999, FDIC made approximately \$400 million in payments to the U.S. Treasury, so that as of February 3, 2000, the full amount of the appropriation transferred to RTC pursuant to the RTC Completion Act had been repaid.

After providing for all outstanding RTC liabilities, FDIC must transfer the net proceeds from the sale of RTC-related assets to the Resolution Funding Corporation (REFCORP). Any funds transferred to REFCORP are used to pay the interest on REFCORP bonds issued to provide funding for the early RTC resolutions. On April 10, 2000, FDIC transferred \$533 million to REFCORP. The payments to REFCORP benefit the U.S. Treasury, which is otherwise obligated to pay the interest on the bonds. The final amount of unused funds available for transfer to REFCORP will not be known with certainty until all of FRF's remaining assets and liabilities are liquidated.

Funds available in FRF-FSLIC will be used to pay future liabilities of the FRF-FSLIC, including the contingency related to the goodwill litigation cases. Because additional and possibly substantial amounts could be paid out of FRF-FSLIC for the goodwill cases, FRF has been provided with an indefinite permanent appropriation for the payment of judgments and settlements in the goodwill litigation.

<sup>3</sup>On January 1, 1996, FRF assumed responsibility for all remaining assets and liabilities of the former RTC.

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**Corporation Comments and Our Evaluation**

In commenting on a draft of this report, FDIC acknowledged the IS control weaknesses, and stated a commitment to implementing a strong IS security program for the FDIC and fostering an environment that makes all employees aware of their security responsibilities. We plan to evaluate the effectiveness of FDIC's corrective actions in IS security as part of our audits of FDIC's 2000 financial statements.

FDIC also stated that it will continue to monitor the other matters discussed in our report, including the status of the goodwill litigation cases and FRF's liquidation activities. We also plan to monitor these issues as a part of our 2000 audits.



David M. Walker  
Comptroller General  
of the United States

May 5, 2000

## KEY STATISTICS

**NUMBER AND DEPOSITS OF BIF-INSURED BANKS CLOSED  
BECAUSE OF FINANCIAL DIFFICULTIES, 1934 THROUGH 1999<sup>1</sup>**

(Dollars in Thousands)

Year	Number of Insured Banks		Deposits of Insured Banks			Assets	
	Total	Without disbursements by FDIC	With disbursements by FDIC	Total	Without disbursements by FDIC	With disbursements by FDIC	
Total	2,091	19	2,072	\$214,333,958	\$4,298,814	\$210,035,144	\$254,381,571
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	4,257,667	3,132,177	3,539,373
1992	120	10	110	41,150,898	36,893,231	44,197,009	
1991	124	...	124	53,751,763	...	53,751,763	63,119,870
1990	168	...	168	14,473,300	...	14,473,300	15,660,800
1989	206	...	206	24,090,551	...	24,090,551	29,168,596
1988	200	...	200	24,931,302	...	24,931,302	35,697,789
1987	184	...	184	6,281,500	...	6,281,500	6,850,700
1986	138	...	138	6,471,100	...	6,471,100	6,991,600
1985	120	...	120	8,059,441	...	8,059,441	8,741,268
1984	79	...	79	2,883,162	...	2,883,162	3,276,411
1983	48	...	48	5,441,608	...	5,441,608	7,026,923
1982	42	...	42	9,908,379	...	9,908,379	11,632,415
1981	10	...	10	3,826,022	...	3,826,022	4,859,060
1980	10	...	10	216,300	...	216,300	236,164
1979	10	...	10	110,696	...	110,696	132,988
1978	7	...	7	854,154	...	854,154	994,035
1977	6	...	6	205,208	...	205,208	232,612
1976	16	...	16	864,859	...	864,859	1,039,293
1975	13	...	13	339,574	...	339,574	419,950
1974	4	...	4	1,575,832	...	1,575,832	3,822,596
1973	6	...	6	971,296	...	971,296	1,309,675
1972	1	...	1	20,480	...	20,480	22,054
1971	6	...	6	132,058	...	132,058	196,520
1970	7	...	7	54,806	...	54,806	62,147
1969	9	...	9	40,134	...	40,134	43,572
1968	3	...	3	22,524	...	22,524	25,154
1967	4	...	4	10,878	...	10,878	11,993
1966	7	...	7	103,523	...	103,523	120,647
1965	5	...	5	43,861	...	43,861	58,750
1964	7	...	7	23,438	...	23,438	25,849
1963	2	...	2	23,444	...	23,444	26,179
1962	1	1	0	3,011	3,011	0	N/A
1961	5	...	5	8,936	...	8,936	9,820
1960	1	...	1	6,930	...	6,930	7,506
1959	3	...	3	2,593	...	2,593	2,858
1958	4	...	4	8,240	...	8,240	8,905
1957	2	1	1	11,247	10,084	1,163	1,253
1956	2	...	2	11,330	...	11,330	12,914
1955	5	...	5	11,953	...	11,953	11,985
1954	2	...	2	998	...	998	1,138
1953	4	2	2	44,711	26,449	18,262	18,811
1952	3	...	3	3,170	...	3,170	2,388
1951	2	...	2	3,408	...	3,408	3,050
1950	4	...	4	5,513	...	5,513	4,005
1949	5	1	4	6,665	1,190	5,475	4,886
1948	3	...	3	10,674	...	10,674	10,360
1947	5	...	5	7,040	...	7,040	6,798
1946	1	...	1	347	...	347	351
1945	1	...	1	5,695	...	5,695	6,392
1944	2	...	2	1,915	...	1,915	2,098
1943	5	...	5	12,525	...	12,525	14,058
1942	20	...	20	19,185	...	19,185	22,254
1941	15	...	15	29,717	...	29,717	34,804
1940	43	...	43	142,430	...	142,430	161,898
1939	60	...	60	157,772	...	157,772	181,514
1938	74	...	74	59,684	...	59,684	69,513
1937	77	2	75	33,677	328	33,349	40,370
1936	69	...	69	27,508	...	27,508	31,941
1935	26	1	25	13,405	85	13,320	17,242
1934	9	...	9	1,968	...	1,968	2,661

<sup>1</sup> Does not include institutions insured by the Savings Association Insurance Fund (SAIF), which was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

**RECOVERIES AND LOSSES BY THE BANK INSURANCE FUND  
ON DISBURSEMENTS FOR THE PROTECTION OF DEPOSITORS, 1934 THROUGH 1999**

(Dollars in Thousands)

	ALL CASES <sup>1</sup>				Deposit payoff cases <sup>2</sup>				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	Number of banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses	Number of banks	Disbursements	Recoveries	Estimated Additional Recoveries	Estimated Losses		
<b>Total</b>	2,202	107,971,371	69,413,408	581,915	37,976,046		603	14,469,299	9,916,395	17,676	4,535,228	1,458	81,871,716	53,296,951	564,025	28,010,740	141	11,630,356	6,200,062	214	5,430,080		
1999	7	1,234,278	11,082	384,771	838,425	0	0	0	0	0	0	7	1,234,278	11,082	384,771	838,425	0	0	0	0	0		
1998	3	285,763	44,168	12,875	228,720	0	0	0	0	0	0	3	285,763	44,168	12,875	228,720	0	0	0	0	0		
1997	1	25,546	19,670	1,099	4,777	0	0	0	0	0	0	1	25,546	19,670	1,099	4,777	0	0	0	0	0		
1996	5	169,397	127,747	4,265	37,385	0	0	0	0	0	0	5	169,397	127,747	4,265	37,385	0	0	0	0	0		
1995	6	609,045	521,871	3,144	84,030	0	0	0	0	0	0	6	609,045	521,871	3,144	84,030	0	0	0	0	0		
1994	13	1,224,797	1,032,243	14,322	178,232	0	0	0	0	0	0	13	1,224,797	1,032,243	14,322	178,232	0	0	0	0	0		
1993	41	1,797,297	1,145,335	4,043	647,919	5	261,203	159,321	90	101,792	36	1,536,094	986,014	3,953	546,127	0	0	0	0	0	0	0	
1992	122	14,084,663	10,371,335	35,659	3,677,669	25	1,802,655	1,309,027	1,312	492,316	95	12,280,522	9,061,072	34,347	3,185,103	2	1,486	1,236	0	250			
1991	27	21,412,647	15,134,723	92,013	6,185,911	21	1,468,407	989,193	10,026	469,188	103	19,938,123	14,142,437	81,987	5,713,699	3	6,117	3,093	0	3,024			
1990	169	10,816,602	8,024,701	27,149	2,764,752	20	2,182,583	1,436,443	6,248	739,892	148	8,629,084	6,585,661	20,901	2,022,522	1	4,935	2,597	0	2,338			
1989	207	11,445,829	5,246,366	2,361	6,197,102	32	2,116,556	1,262,729	0	853,827	174	9,326,725	3,983,385	2,361	5,340,979	1	2,548	252	0	2,296			
1988	280	12,163,006	5,246,311	0	6,916,695	36	1,252,160	822,612	0	429,548	164	9,180,495	4,233,990	0	4,946,505	80	1,730,351	189,709	0	1,540,642			
1987	203	5,037,871	3,015,215	0	2,022,656	51	2,103,792	1,401,589	0	702,203	133	2,773,202	1,612,913	0	1,160,289	19	160,877	713	0	160,164			
1986	145	4,790,969	3,015,125	0	1,775,844	40	1,155,981	739,659	0	416,322	98	3,476,140	2,209,797	0	1,266,343	7	158,848	65,669	0	93,179			
1985	120	2,920,687	1,913,454	0	1,007,233	29	523,789	411,175	0	112,614	87	1,631,166	1,095,603	0	535,563	4	765,732	406,676	0	359,056			
1984	80	7,696,215	6,056,061	0	1,640,154	16	791,838	699,483	0	92,355	62	1,373,198	941,674	0	431,524	2	5,531,179	4,414,904	0	1,116,275			
1983	48	3,807,082	2,400,231	214	1,406,637	9	148,423	122,484	0	25,939	35	2,893,969	1,850,553	0	1,043,416	4	764,690	427,194	214	337,282			
1982	42	2,275,150	1,106,579	0	1,168,571	7	277,240	206,247	0	70,993	25	268,372	213,578	0	54,794	10	1,729,538	686,754	0	1,042,784			
1981	10	888,999	107,221	0	781,778	2	35,736	34,598	0	1,138	5	79,208	71,358	0	7,850	3	774,055	1,265	0	772,790			
1980	11	152,355	121,675	0	30,680	3	13,732	11,427	0	2,305	7	138,623	110,248	0	28,375	1	0	0	0	0	0	0	
1979	10	90,489	74,372	0	16,117	3	9,936	9,003	0	933	7	80,553	65,369	0	15,184	0	0	0	0	0	0	0	
1978	7	548,568	512,927	0	35,641	1	817	613	0	204	6	547,751	512,314	0	35,437	0	0	0	0	0	0	0	
1977	6	26,650	20,654	0	5,996	0	0	0	0	0	6	26,650	20,654	0	5,996	0	0	0	0	0	0	0	
1976	17	599,397	561,532	0	37,865	3	11,416	9,660	0	1,756	13	587,981	551,872	0	36,109	1	0	0	0	0	0	0	
1975	13	332,046	292,431	0	39,615	3	25,918	25,849	0	272	3	22,301	0	0	0	0	0	0	0	0	0	0	
1974	5	2,403,277	2,259,633	0	143,644	0	0	0	0	0	4	2,403,277	2,259,633	0	143,644	1	0	0	0	0	0	0	
1973	6	435,238	368,852	0	66,386	3	16,771	16,771	0	0	3	418,467	352,081	0	66,386	0	0	0	0	0	0	0	
1972	2	16,189	14,501	0	1,688	1	16,189	14,501	0	1,688	0	0	0	0	0	0	0	1	0	0	0	0	
1971	7	171,646	171,430	0	216	5	53,767	53,574	0	193	1	117,879	117,856	0	23	1	0	0	0	0	0	0	
1970	7	51,566	51,294	0	272	4	29,265	28,993	0	272	3	22,301	0	0	0	0	0	0	0	0	0	0	
1969	9	42,072	41,910	0	162	4	7,596	7,513	0	83	5	34,476	34,397	0	79	0	0	0	0	0	0	0	
1968	3	6,476	6,464	0	12	0	0	0	0	0	3	6,476	6,464	0	12	0	0	0	0	0	0	0	
1967	4	8,097	7,087	0	1,010	4	8,097	7,087	0	1,010	0	0	0	0	0	0	0	0	0	0	0	0	
1966	7	10,020	9,541	0	479	1	735	735	0	0	6	9,285	8,806	0	479	0	0	0	0	0	0	0	
1965	5	11,479	10,816	0	663	3	10,908	10,391	0	517	2	571	425	0	146	0	0	0	0	0	0	0	
1964	7	13,712	12,171	0	1,541	7	13,712	12,171	0	1,541	0	0	0	0	0	0	0	0	0	0	0	0	
1963	2	19,172	18,886	0	286	2	19,172	18,886	0	286	0	0	0	0	0	0	0	0	0	0	0	0	
1962	0	0	0	0	0	0	0	0	0	0	0	0	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	0	0	0	0	0	0	0	0	0	0	0	0	
1960	1	4,765	4,765	0	0	1	4,765	4,765	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
1959	3	1,835	1,738	0	97	3	1,835	1,738	0	97	0	0	0	0	0	0	0	0	0	0	0	0	
1958	4	3,051	3,023	0	28	3	2,796	2,768	0	28	1	255	255	0	0	0	0	0	0	0	0	0	0
1957	1	1,031	1,031	0	0	1	1,031	1,031	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
1956	2	3,499	3,286	0	213	1	2,795	2,582	0	213	1	704	704	0	0	0	0	0	0	0	0	0	
1955	5	7,315	7,085	0	230	4	4,438	4,208	0	230	1	2,877	2,877	0	0	0	0	0	0	0	0	0	
1954	2	1,029	771	0	258	0	0	0	0	0	2	1,029	771	0	258	0	0	0	0	0	0	0	
1953	2	5,359	5,359	0	0	0	0	0	0	0	2	5,359	5,359	0	0	0	0	0	0	0	0	0	
1952	3	1,525	733	0	792	0	0	0	0	0	3	1,525	733	0	792	0	0	0	0	0	0	0	
1951	2	1,986	1,986	0	0	0	0	0	0	0	2	1,986	1,986	0	0	0	0	0	0	0	0	0	
1950	4	4,404	3,019	0	1,385	0	0	0	0	0	4	4,404	3,019	0	1,385	0	0	0	0	0	0	0	
1949	4	2,685	2,316	0	369	0	0	0	0	0	4	2,685	2,316	0	369	0	0	0	0	0	0	0	
1948	3	3,150	2,509	0	641	0	0	0	0	0	3	3,150	2,509	0	641	0	0	0	0	0	0	0	
1947	5	2,038	1,979	0	59	0	0	0	0	0	5	2,038	1,979	0	59	0	0	0	0	0	0	0	
1946	1	274	274	0	0	0	0	0	0	0	1	274	274	0	0	0	0	0	0	0	0	0	
1945	1	1,845	1,845	0	0	0	0	0	0	0	1	1,845	1,845	0	0	0	0	0	0	0	0	0	
1944	2	1,532	1,492	0	40	1	404	364	0	40	1												

**INCOME AND EXPENSES, BANK INSURANCE FUND,  
FROM BEGINNING OF OPERATIONS, SEPTEMBER 11, 1933, THROUGH DECEMBER 31, 1999**

(Dollars in Millions)

Year	Income					Expenses and Losses				Net Income/ (Loss)
	Total	Assessment Income	Assessment Credits	Investment and Other Sources	Effective Assessment Rate <sup>1</sup>	Total	Provision for Losses	Administrative and Operating Expenses <sup>2</sup>	Interest & Other Ins. Expenses	
Total	\$79,804.6	\$53,167.7	\$6,709.1	\$33,346.0		\$50,309.4	\$35,604.7	\$7,780.7	\$6,930.0	\$29,495.2
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	49.5	13,222.2
1992	6,301.5	5,587.8	0.0	713.7	0.2300%	(625.8)	(2,259.7)	570.8 <sup>3</sup>	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 <sup>4</sup>	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 <sup>6</sup>	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
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>5</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)

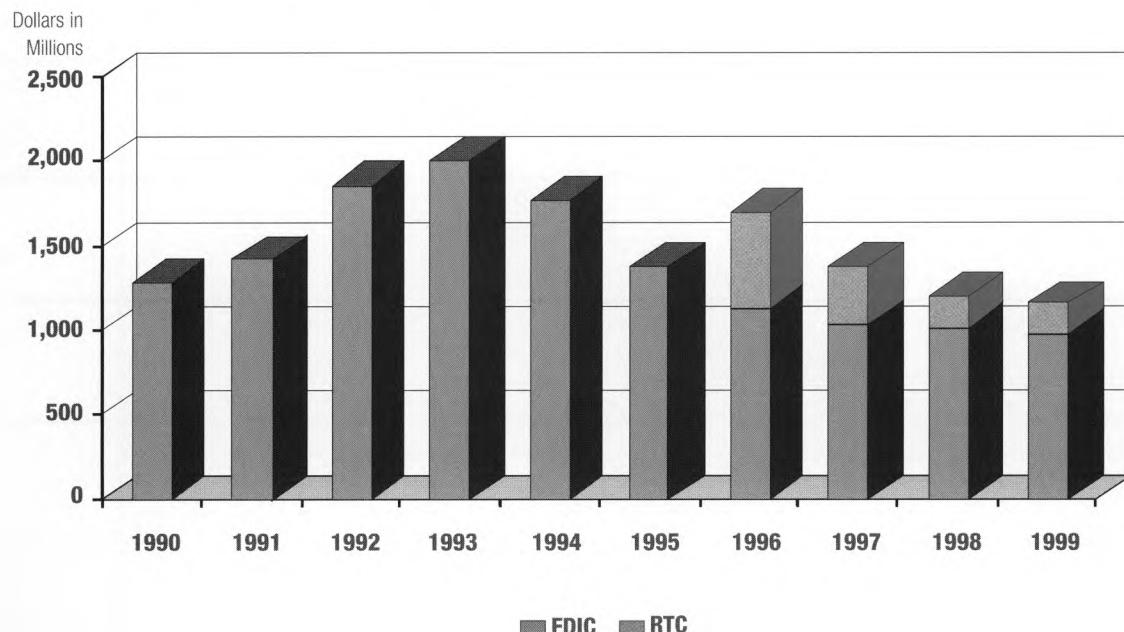
<sup>1</sup> The effective rates from 1950 through 1984 vary from the statutory rate of 0.0833 percent due to assessment credits provided in those years. The statutory rate increased to 0.12 percent in 1990 and to a minimum of 0.15 percent in 1991. The effective rates in 1991 and 1992 vary because the 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> Includes \$80.6 million of interest paid on capital stock between 1933 and 1948.

**FDIC Expenditures Continue Downward Trend**

The FDIC's Strategic Plan and Annual Performance Plan provide the basis for annual planning and budgeting for needed resources. The 1999 aggregate budget (for corporate and receivership expenses) was \$1.22 billion, while actual expenditures for the year were \$1.16 billion. The 1999 expenditures were four percent less than 1998 spending, resulting in the lowest FDIC spending level since 1990.

Over the past 10 years, the FDIC's expenditures have risen and declined in response to its corporate workload. From 1990 to 1993, costs increased as the FDIC became heavily involved with resolving the banking crisis of the late 1980s and early 1990s. Expenditures began to decline in 1994 due to decreasing resolution

and receivership activity, but temporarily increased in 1996 in conjunction with the absorption of Resolution Trust Corporation (RTC) operations into the FDIC. 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 continued to decline from a peak of 15,611 in mid-1993 to 7,266 at the end of 1999. A further decline to about 6,550 is expected by year-end 2000.

**ESTIMATED INSURED DEPOSITS AND THE BANK INSURANCE FUND,  
DECEMBER 31, 1934, THROUGH DECEMBER 31, 1999**

Year <sup>1</sup>	Insurance Coverage	(Dollars in Millions)				Insurance Fund as a Percentage of	
		Est. Deposits in Insured Banks		Percentage of Insured Deposits	Deposit Insurance Fund	Total Domestic Deposits	Est. Insured Deposits
		Total Domestic Deposits	Insured <sup>2</sup> Deposits				
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.

**INCOME AND EXPENSES, SAVINGS ASSOCIATION INSURANCE FUND, BY YEAR,  
FROM BEGINNING OF OPERATIONS, AUGUST 9, 1989, THROUGH DECEMBER 31, 1999**

(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 & Other Ins. Expenses	Administrative and Operating Expenses	Funding Transfer from the FSLIC Resolution Fund	
Total	\$10,808,457	\$8,549,567	\$2,258,890		\$635,539	\$83,825	\$1,367	\$550,347	\$139,498	\$10,312,416
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 1999**

(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
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**Bank Insurance Fund**

**Purchase and Assumption - All Deposits**

Victory State Bank Columbia, SC	NM	1,500	\$11,782	\$11,082	\$11,172	\$0	03/26/99	South Carolina Community Bank Columbia, SC
Zia New Mexico Bank Tucumcari, NM	SM	1,640	\$13,354	\$12,604	\$12,602	\$3,792	04/23/99	First National Bank of New Mexico Clayton, NM
East Texas National Bank Marshall, TX	N	2,381	\$112,632	\$100,470	\$109,151	\$10,619	07/09/99	Fredonia State Bank Nacogdoches, TX
Peoples National Bank of Commerce Miami, FL	N	5,000	\$35,181	\$33,558	\$33,566	\$2,014	09/10/99	Boston Bank of Commerce Boston, MA
Golden City Commercial Bank New York, NY	NM	18,146	\$88,254	\$81,268	\$81,233	\$0	12/10/99	Cathay Bank, Los Angeles, CA
<b>Purchase and Assumption - Insured Deposits</b>								
Pacific Thrift and Loan Company Woodland Hills, CA	NM	2,600	\$116,756	\$107,198	\$105,575	\$52,000	11/19/99	Affinity Bank Ventura, CA
<b>Payout</b>								
First National Bank of Keystone Keystone, WV	N	25,434	\$1,045,861	\$921,971	\$890,132	\$770,000	09/01/99	Ameribank, Incorporated Welch, WV

**Savings Association Insurance Fund**

**Purchase and Assumption - All Deposits**

Oceanmark Bank North Miami Beach, FL	FSB	2,900	\$62,956	\$63,427	\$62,662	\$1,343	07/09/99	Third FS&LA of Florida North Miami Beach, FL
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Codes for Bank Class:

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

SM = State-chartered bank that is a member of the Federal Reserve System

N = National Bank

FSB = Federal Savings Bank

<sup>1</sup> Estimated losses are as of 12/31/99. 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, 1999**

Year <sup>1</sup>	Insurance Coverage	(Dollars in Millions)				Insurance Fund as a Percentage of	
		Est. Deposits in Insured Institutions		Percentage of Insured Deposits	Deposit Insurance Fund		
Total Domestic Deposits	Insured <sup>2</sup> Deposits				Total Domestic Deposits	Est. Insured Deposits	
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 1999<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>
Total	750	\$ 395,112,638	\$ 318,422,840	\$ 74,697,436	\$ 82,766,593
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	36,213	36,068
1994	2	136,815	127,508	11,478	14,606
1993	10	7,178,794	5,708,253	294,547	326,349
1992	59	44,196,946	34,773,224	3,122,362	3,769,210
1991	144	78,898,704	65,173,122	8,515,839	9,489,992
1990	213	129,662,398	98,963,960	16,195,857	19,494,475
1989 <sup>5</sup>	318	134,519,630	113,165,909	46,498,575	49,613,328

<sup>1</sup> Prior to July 1, 1995, all thrift closings were the responsibility of the Resolution Trust Corporation (RTC). Since the RTC was terminated on December 31, 1995, and all assets and liabilities transferred to the FSLIC Resolution Fund (FRF), all the results of 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 two 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 FSLIC-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.

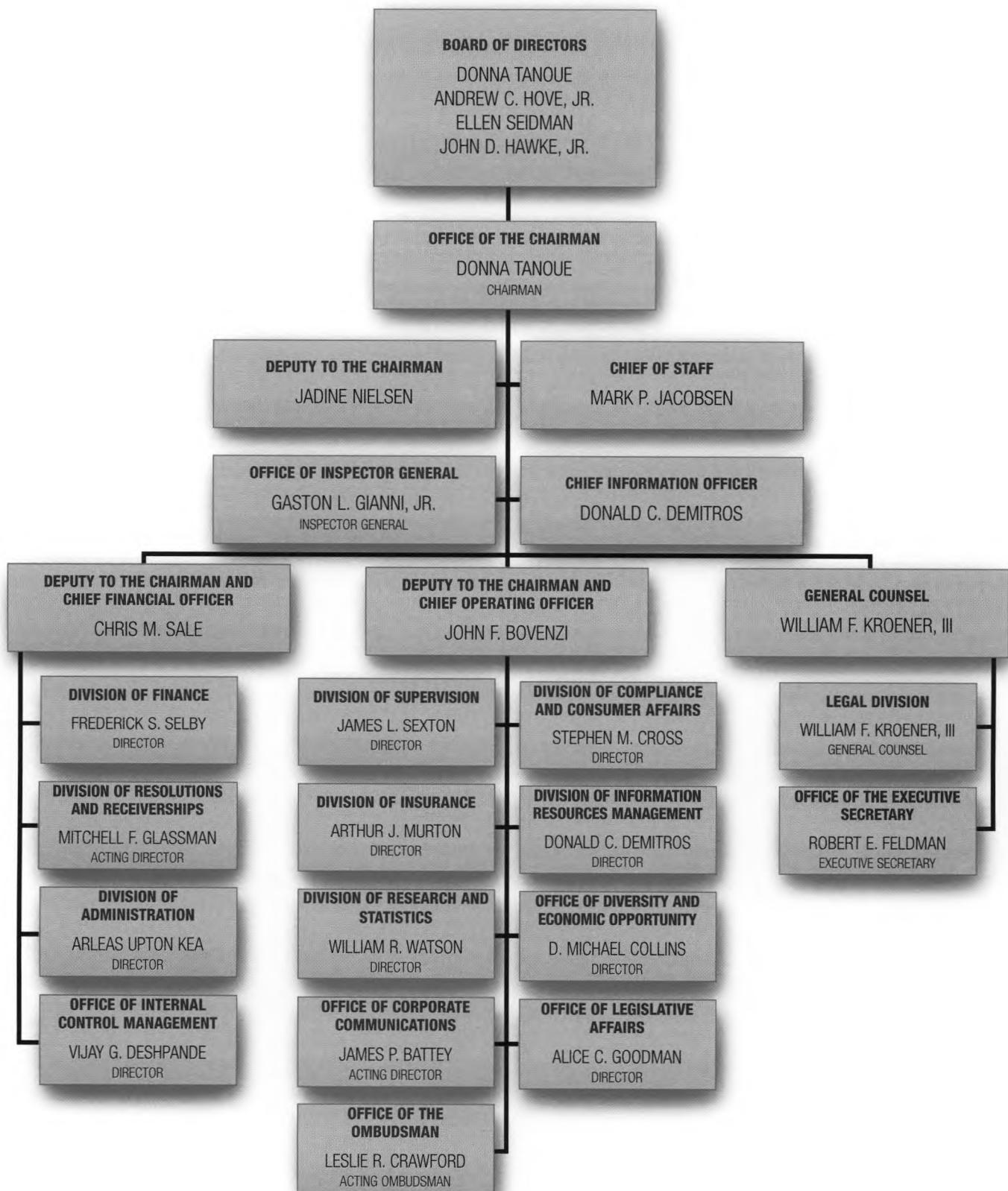
<sup>3</sup> The estimated losses represent the projected loss at the fund level from receiverships for unreimbursed subrogated claims of the FRF/SAIF and unpaid advances to receiverships from the FRF.

<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 FSLIC.



## **RESOURCES**



**Number of Officials and Employees of the FDIC 1998-1999 (year-end)**

	Total		Washington		Regional/Field	
	1999	1998	1999	1998	1999	1998
Executive Offices*	96	110	96	110	0	0
Division of Supervision	2,693	2,655	208	197	2,485	2,458
Division of Compliance and Consumer Affairs	634	646	54	59	580	587
Division of Resolutions and Receiverships	753	795	130	134	623	661
Legal Division	849	907	450	482	399	425
Division of Finance	541	570	296	298	245	272
Division of Information Resources Management	528	505	435	429	93	76
Division of Research and Statistics	103	94	103	94	0	0
Division of Insurance	74	69	41	36	33	33
Division of Administration	662	687	410	417	252	270
Office of Inspector General	227	218	158	145	69	73
Office of Diversity and Economic Opportunity	47	45	36	33	11	12
Office of the Ombudsman	38	37	13	15	25	22
Office of Internal Control Management	21	21	21	21	0	0
<b>Total</b>	<b>7,266</b>	<b>7,359</b>	<b>2,451</b>	<b>2,470</b>	<b>4,815</b>	<b>4,889</b>

\* Includes the Offices of the Chairman, Vice Chairman, Director (Appointive), Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Executive Secretary, Corporate Communications, Legislative Affairs, and (for year-end 1998 only) Policy Development.

### **Public Information Center**

801 17th Street, NW  
Washington, DC 20434

Phone: 800-276-6003 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 and other documents are available through the Public Information Center. These documents include the *Quarterly Banking Profile*, *Statistics on Banking* and a variety of consumer pamphlets.

### **Division of Compliance and Consumer Affairs**

550 17th Street, NW  
Washington, DC 20429

Phone: 800-934-3342 or  
202-942-3100

TDD/TTY: 800-925-4618 or  
202-942-3147

Fax: 202-942-3427 or  
202-942-3098

Internet:  
<http://www.fdic.gov/consumers/questions/customer/index.html>

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

### **Office of the Ombudsman**

550 17th Street, NW  
Washington, DC 20429

Phone: 800-250-9286 or  
202-942-3500

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

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.

### **Home Page on the Internet**

<http://www.fdic.gov>

A wide range of banking, consumer and financial information is available on the FDIC's Internet home page. Information 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. 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. Readers will be interested in the fully searchable texts of "FDIC Law, Regulations and Related Acts" and "FDIC Enforcement Decisions and Orders." In 1999, the FDIC's Internet site was redesigned, with the addition of a new "card catalog" search facility.

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Examines and supervises state-chartered banks that are not members of the Federal Reserve System. Provides information about sound banking practices.

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**Published by:**

The Office of Public Affairs

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