FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-126-92 (9-9-92)

FDIC ISSUES MID-YEAR 1992 FINANCIAL RESULTS FOR THE BANK INSURANCE FUND

The Federal Deposit Insurance Corporation announced today that preliminary information shows the Bank Insurance Fund (BIF) had net income of approximately $1.5 billion for the six months ended June 30, 1992. As a result, the unaudited fund balance improved to a negative $5.5 billion from the year-end 1991 level of a negative $7 billion. The major factor contributing to earnings was a favorable interest rate environment, which led to an upward adjustment to expected values on failed bank assets in liquidation.

On a current basis, however, the fund's insurance costs continue to exceed assessment income. The BIF's operating expenses and insurance losses for the first six months of the year totaled about $3.3 billion, compared to assessment income of about $2.8 billion during the period. This continues a pattern that began in 1984 where, on a current basis, actual costs have exceeded assessment revenue each year. The aggregate assessment revenue shortfall from January 1984 through June 1992 amounts to approximately $18 billion.

FDIC Chairman Andrew C. Hove, Jr., noted: "Any insurance operation must, over time, have premium income that covers its underwriting costs. Although we are pleased to report positive results for the first half of 1992, it is clear that the imbalance between the Bank Insurance Fund's assessments and its insurance expenses and losses must be reversed if we are to fulfill our responsibility to recapitalize the fund."

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Sixty-six banks with assets of approximately $20.1 billion failed during the first half of 1992. The estimated costs to the Bank Insurance Fund from those failures is about $3.1 billion. The BIF's reserve for unresolved cases at mid-year stood at $15.2 billion, a decline of $1.1 billion from the year-end 1991 reserve for future bank failures.

Chairman Hove also said that despite the increase in the fund balance at mid-year, continuation of favorable performance is far from certain. "The banking industry and the FDIC are benefiting from the low interest rate environment of recent months," Mr. Hove said. "The margins between what banks have been paying in interest and what they have been earning on investments have improved, enabling many banks that looked as though they would fail to either delay that event or, in some cases, avoid it. But there still remains a large volume of nonperforming assets in banks whose future is in doubt. If these banks are unable to avoid failure, the Bank Insurance Fund's financial position could deteriorate."

Chairman Hove noted that working capital borrowings from the Federal Financing Bank, which are repaid with the proceeds from asset sales, increased by $4.5 billion to a balance of $15.3 billion. To date, the FDIC has not yet borrowed any of the $30 billion available from the U.S. Treasury to cover operating and insurance losses related to bank failures.

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