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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

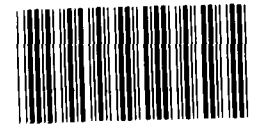
## Examination Of The Federal Savings And Loan Insurance Corporation's Financial Statements For The Years Ended December 31, 1984 and 1983

GAO examined the financial statements of the Federal Savings and Loan Insurance Corporation for the years ended December 31, 1984 and 1983. The examinations were made in accordance with generally accepted government auditing standards.

As of December 31, 1984, the Corporation held \$1.8 billion in subrogated accounts and secured advances (claims against the assets of closed institutions). Empire, Knox Federal, and San Marino savings and loan associations account for \$1.3 billion of these claims. The net amount that will be realized from the claims against these three institutions is uncertain. The Corporation has established a \$468 million allowance for loss for the assets acquired from these three institutions. However, the recency of the San Marino and Knox failures, along with inadequate loan records and pending and possible litigation affecting the three institutions, precludes finalizing the estimated net realizable value of the assets.

In GAO's opinion, subject to the uncertain net realizable value of the assets acquired from Empire, Knox Federal, and San Marino, the financial statements present fairly the financial position of the Corporation as of December 31, 1984 and 1983, the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

Because of the many imponderables involved in forecasting the sufficiency of the insurance fund to meet future claims against it, our opinion on the financial statements does not extend to the adequacy of the fund.



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GAO/AFMD-85-60  
JULY 16, 1985

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-114893

To the President of the Senate and the  
Speaker of the House of Representatives

This report presents our opinion on the Federal Savings and Loan Insurance Corporation's financial statements for the years ended December 31, 1984 and 1983. We believe the statements are fairly presented subject to the uncertain net realizable value of \$1.3 billion of assets on the 1984 statements that the Corporation acquired from the failure of three insured savings and loan associations. The Corporation incurred a loss of \$879 million in 1984, resulting from protecting depositors and assisting problem institutions, and could sustain future losses in subsequent accounting periods. Because of the many imponderables involved in forecasting the sufficiency of the insurance fund to meet future claims against it, our opinion on the financial statements does not extend to the adequacy of the fund. Appendix I is our report on the Corporation's system of internal accounting controls, and appendix II is our report on the Corporation's compliance with laws and regulations.

The Federal Savings and Loan Insurance Corporation is a wholly owned government corporation that is governed by the Federal Home Loan Bank Board. The Corporation is responsible for insuring the safety of savings in thrift and home financing institutions. The Comptroller General is required to audit the financial transactions of wholly owned government corporations under 31 U.S.C. 9105. We conducted our examinations in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Chairman of the Federal Home Loan Bank Board.

A handwritten signature in black ink that reads "Charles A. Bowsher".

Comptroller General  
of the United States

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

May 10, 1985

B-114893

The Honorable Edwin J. Gray  
Chairman, Federal Home Loan  
Bank Board

Dear Mr. Gray:

We have examined the statements of financial position of the Federal Savings and Loan Insurance Corporation as of December 31, 1984 and 1983, and the related statements of income and expense and reserves, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As of December 31, 1984, the Corporation, in its role as liquidator of failed institutions, held \$1.8 billion in subrogated accounts and secured advances (claims against the assets of closed institutions). Empire Savings and Loan, Knox Federal Savings and Loan, and San Marino Savings and Loan account for \$1.3 billion of these claims. The estimated net realizable value of these claims is uncertain. Although the Corporation has established a \$468 million allowance for loss for the assets acquired from the three institutions, the recency of the San Marino and Knox failures, inadequate loan records, and pending and possible litigation affecting the three institutions preclude finalizing the estimated net realizable value of the assets acquired.

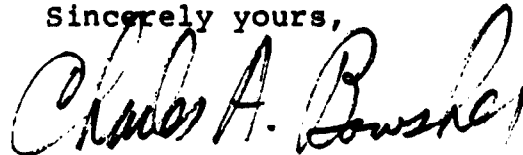
In our opinion, subject to the uncertain value of the \$1.3 billion of assets on the 1984 statements that the Corporation acquired from the three failed insured savings and loan institutions, the financial statements referred to above present fairly the financial position of the Federal Savings and Loan Insurance Corporation as of December 31, 1984 and 1983, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

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In 1984, the Corporation incurred a loss of \$879 million resulting from protecting depositors and assisting problem institutions, and could sustain future losses in subsequent periods. The

savings and loan industry has been thinly capitalized and confronted by narrow interest rate margins and poor quality loans and investments. As of December 31, 1984, the Corporation had reserves of about \$5.6 billion, and as discussed in note 11 to the financial statements, as of March 31, 1985, the Corporation had obtained a special assessment totaling \$245 million from all federally insured institutions to strengthen the insurance fund. Because of the many imponderables involved in forecasting the sufficiency of the insurance fund to meet future claims against it, our opinion on the financial statements does not extend to the adequacy of the fund.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsley". The signature is written in black ink and is positioned above the typed name.

Comptroller General  
of the United States

A p p e n d i x e s

Page

I	Report on Internal Accounting Controls	1
II	Report on Compliance with Laws and Regulations	3
III	Federal Savings and Loan Insurance Corporation Financial Statements	
	Comparative Statement of Condition	4
	Comparative Statement of Income and Expense and Reserves	5
	Comparative Statement of Changes in Financial Position	6
	Notes to Financial Statements	7





REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Federal Savings and Loan Insurance Corporation for the years ended December 31, 1984 and 1983, and have issued our opinion thereon. As part of our examinations, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of internal accounting controls for the year ended December 31, 1984. (Our report on the system of internal accounting controls for the year ended December 31, 1983 is presented in GAO/AFMD-84-47, 5/30/84.) For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- assistance to problem savings and loan associations,
- expenditures,
- financial reporting,
- insurance premiums, and
- investments.

Our study included all of the control categories listed above. However, we did not evaluate the accounting controls over assistance to problem savings and loan associations, financial reporting, and investments because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Corporation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

The management of the Federal Savings and Loan Insurance Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of the inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the Federal Savings and Loan Insurance Corporation taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Federal Savings and Loan Insurance Corporation for the years ended December 31, 1984 and 1983, and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended December 31, 1984. (Our report on compliance with laws and regulations for the year ended December 31, 1983, is presented in GAO/AFMD-84-47, 5/30/84.)

In our opinion, the Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Corporation was not in compliance with the terms and provisions of applicable laws and regulations for those transactions not tested.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION  
COMPARATIVE STATEMENT OF CONDITION  
DECEMBER 31, 1984 AND 1983

	<u>1984</u>	<u>1983</u>
<u>Assets</u>		
Cash.....	\$ 2,764,236	\$ 1,160,313
Insurance Premiums and Accounts Receivable.....	37,803,382	46,336,719
Investments (Note 2).....	5,869,307,301	6,799,195,381
Interest Receivable on Investments.....	58,296,395	70,840,669
Loans to Insured Institutions (Note 7).....	922,349,947	208,749,278
Interest Receivable on Loans to Insured Institutions.....	4,157,244	3,433,918
Subrogated Accounts in Insured Institutions.....	1,156,502,895	351,876,053
Less: Allowance for Possible Future Losses.....	642,597,193	108,800,000
Net Subrogated Accounts (Note 3).....	<u>513,905,702</u>	<u>243,076,053</u>
Income Capital and Net Worth Certificates.....	865,163,795	850,100,000
Dividends Receivable on Net Worth Certificates.....	526,598	260,572
Less: Allowance for Possible Future Losses.....	<u>146,857,000</u>	<u>101,500,000</u>
Net Income Capital and Net Worth Certificates (Note 5).....	718,833,393	748,860,572
Secured Advances Due from Receiver.....	642,809,038	-0-
Less: Allowance for Possible Future Losses.....	60,127,729	-0-
Net Secured Advances Due from Receiver (Note 8) ..	<u>582,681,309</u>	<u>-0-</u>
Mortgage Loans and Real Estate.....	297,246,914	253,277,765
Less: Allowance for Possible Future Losses.....	69,758,005	27,638,989
Net Mortgage Loans and Real Estate.....	<u>227,488,909</u>	<u>225,638,776</u>
Total Assets .....	<u>8,937,587,818</u>	<u>8,347,291,679</u>
<u>Liabilities and Reserves</u>		
Accounts Payable and Other Liabilities.....	55,679,776	33,358,958
Notes Payable to FHLBanks (Note 7).....	700,000,000	-0-
Notes Payable to Insured Institutions (Note 6).....	834,834,936	842,603,148
Accrued Interest on Notes Payable.....	35,044,537	38,325,995
Allowance for Possible Future Losses Under Contribution Agreements (Note 4).....	1,706,261,101	1,007,582,054
Primary Reserve (Note 9).....	4,885,037,594	5,764,260,686
Secondary Reserve (Note 9).....	<u>720,729,874</u>	<u>661,160,838</u>
Total Liabilities and Reserves.....	<u>\$ 8,937,587,818</u>	<u>\$ 8,347,291,679</u>

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION  
COMPARATIVE STATEMENT OF INCOME AND EXPENSE AND RESERVES  
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

<u>Income</u>	<u>1984</u>	<u>1983</u>
Insurance Premiums (Note 1)..... \$	596,940,890	\$ 508,491,095
Interest on Investments.....	655,265,644	604,655,968
Interest on Loans to Insured Institutions....	42,396,735	20,200,094
Income on Mortgage Loans and Real Estate .....	18,412,484	28,194,774
Other Income .....	<u>11,962,043</u>	<u>931,050</u>
Total Income.....	1,324,977,796 =====	1,162,472,981 =====
 <u>Expenses</u>		
Administrative Expenses.....	1,233,731	1,076,727
Net Loss on Sale of Securities .....	-0-	17,887,091
Services Rendered by The Federal Home Loan Bank Board (Note 8).....	28,365,685	30,276,417
Interest on Notes Payable to FHLBanks.....	23,785,879	-0-
Interest on Notes Payable to Insured Institutions.....	89,458,494	66,662,590
Insurance Settlement and Other Expenses.....	21,666,975	16,928,393
Provision for Possible Future Losses on:		
Contribution Agreements (Note 4).....	1,293,503,676	895,178,263
Mortgage Loans and Real Estate.....	62,771,576	5,000,000
Income Capital and Net Worth Certificates.	45,357,000	(68,400,000)
Subrogated Accounts (Note 3).....	516,764,330	103,038,249
Secured Advances Due from Receiver.....	<u>60,127,729</u>	<u>-0-</u>
Total Expenses.....	2,143,035,075 =====	1,067,647,730 =====
Net Income (Loss) From Operations.....	(818,057,279)	94,825,251
Interest Applied to the Secondary Reserve (Note 9).....	<u>61,165,813</u>	<u>47,758,026</u>
Net Income (Loss)	(879,223,092)	47,067,225
Reserves at Beginning of Year.....	6,425,421,524	6,330,843,117
Increase to Secondary Reserve.....	<u>59,569,036</u>	<u>47,511,182</u>
Reserves at End of Year (Note 9)..... \$	5,605,767,468 =====	\$ 6,425,421,524 =====

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

<u>Source of Funds:</u>	<u>1984</u>	<u>1983</u>
Net Income (Loss).....	\$ (879,223,092)	\$ 47,067,225
Add (deduct) Items not Requiring, or Generating Cash:		
Depreciation of F&E.....	27,019	16,559
Provision for Possible Future Losses on:		
Mortgage Loans and Real Estate.....	62,771,576	5,000,000
Income Capital and Net Worth Certificates..	45,357,000	(68,400,000)
Contribution Agreements.....	1,293,503,676	895,178,263
Subrogated Accounts.....	533,797,193	108,800,000
Secured Advances Due from Receiver.....	60,127,729	-0-
Return on Secondary Reserve.....	61,165,813	47,758,026
Transfer from Secondary Reserve.....	(1,438,798)	(189,802)
Accretion and Amortization on Investments.....	<u>(26,341,231)</u>	<u>(96,597,810)</u>
Funds Provided from Operations.....	1,149,746,885	938,632,461
Increase (Decrease) in:		
Notes Payable - to FHLBanks.....	700,000,000	-0-
Accounts Payable and Other Liabilities.....	22,320,818	7,977,931
Decrease (Increase) in:		
Investments and Interest Receivable.....	967,451,610	(313,971,377)
Accounts and Dividends Receivable.....	<u>8,267,311</u>	<u>(23,655,880)</u>
Total.....	<u>2,847,786,624</u>	<u>608,983,135</u>
 <u>Application of Funds:</u>		
Increase (Decrease) in:		
Subrogated Accounts.....	804,626,842	253,427,622
Income Capital & Net Worth Certificates.....	15,063,795	408,300,000
Amount Paid Under Contribution Agreements....	594,824,629	592,954,336
Refund of Secondary Reserve.....	157,979	57,042
Secured Advances Due from Receiver.....	642,809,038	-0-
Loans to Insured Institutions and Interest Receivable.....	714,323,995	(134,239,374)
Mortgage Loans and Real Estate.....	63,326,753	(105,807,758)
Decrease (Increase) in		
Notes Payable and Accrued Interest.....	<u>11,049,670</u>	<u>(406,666,414)</u>
Total.....	<u>2,846,182,701</u>	<u>608,025,454</u>
 Increase in Cash.....	\$ 1,603,923	\$ 957,681
	=====	=====

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

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1984 AND 1983

1. Summary of Significant Accounting Policies:

- a) Income Recognition - Insurance Premium Income is recognized as earned when member institutions are assessed.
- b) Generally the Provision for Possible Future Losses is recorded when a default prevention action is taken.

2. Investments - Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are computed on the level yield method at rates based upon the lives of the related securities. Both amortization and accretions are recognized as an adjustment to Interest on Investments.

All cash received by the Corporation which is not used to defray operating expenses or for outlays related to assistance to insured institutions and liquidation activities, is invested in U.S. Treasury securities. Other obligations are mostly securities issued by Federal Government Agencies other than the U.S. Treasury which were obtained through the Corporation's default prevention activities. As of December 31, 1984 and 1983, the Corporation's investment portfolio consisted of the following:

	<u>1984</u>		<u>1983</u>	
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>
	(in thousands)		(in thousands)	
U.S. Treasury Obligations:				
Overnight Funds	\$ 2,334,219	\$ 2,334,219	\$ 1,946,558	\$ 1,946,558
Maturities up to				
One Year	542,497	545,407	1,488,841	1,484,025
Maturities Over One				
Year	<u>2,164,708</u>	<u>1,881,044</u>	<u>2,491,754</u>	<u>2,118,038</u>
Subtotal:	<u>5,041,424</u>	<u>4,760,670</u>	<u>5,927,153</u>	<u>5,548,621</u>
Other Obligations:				
Maturities Up to One				
Year	125	119	-0-	-0-
Maturities Over One				
Year	<u>827,758</u>	<u>756,045</u>	<u>872,042</u>	<u>802,804</u>
Subtotal:	<u>827,883</u>	<u>756,164</u>	<u>872,042</u>	<u>802,804</u>
Total:	<u>\$ 5,869,307</u>	<u>\$ 5,516,834</u>	<u>\$ 6,799,195</u>	<u>\$ 6,351,425</u>
	*****	*****	*****	*****

3. Subrogated Accounts - As required by Statute, the FSLIC closes institutions only when there is no default prevention measure that would be less costly than liquidation. In these cases, FSLIC settles insurance claims either by cash payout of insured accounts or by transferring insured accounts to another insured institution. In either case insurance payment is made in exchange for the account holder's claim against the assets of the defaulted institution. Subrogated Accounts represent the total of these outstanding claims. The changes in the Allowance for Possible Future Losses on Subrogated Accounts for the years ended December 31, 1984 and 1983 are:

	<u>1984</u>	<u>1983</u>
	(in thousands)	
Balance, Beginning of Year	\$ 108,800	\$ -0-
Add: Net Provision Charged to Expense	516,764	103,038
Net Premiums	17,033	5,762
Balance, End of Year	\$ <u>642,597</u>	\$ <u>108,800</u>
	=====	=====

4. Contribution Agreements - The FSLIC makes contribution agreements to prevent default of an insured institution. Under some of these agreements the Corporation agrees to make, or commits itself to make, certain contributions over time. The FSLIC may incur additional contingent liabilities in excess of Possible Future Losses resulting from uncertainties concerning litigation and other undisclosed liabilities. However, it is management's opinion that these amounts cannot be reasonably estimated. The changes in the Allowance for Possible Future Losses Under Contribution Agreements for the years ended December 31, 1984 and 1983 are:

	<u>1984</u>	<u>1983</u>
	(in thousands)	
Balance, Beginning of Year	\$ 1,007,582	\$ 705,358
Add: Provision Charged to Expense	1,293,504	895,178
Less: Contributions Paid	594,825	592,954
Balance, End of Year	\$ <u>1,706,261</u>	\$ <u>1,007,582</u>
	=====	=====

5. Income Capital & Net Worth Certificates - Since 1981 the FSLIC has purchased Income Capital Certificates (ICC's) from insured institutions. The FSLIC records the ICC's at cost. The ICC's earn annual income payments based on the United States Treasury Bill rates. The annual income payments and principal are redeemable upon the issuing institution having profitable operations and attaining a specified net worth level. The changes in the ICC's for the years ended December 31, 1984 and 1983 are:

	<u>1984</u>	<u>1983</u>
	(in thousands)	
Balance, Beginning of Year	\$ 773,200	\$ 404,300
Add: Net Purchases (Decrease)		
During Year	(52,586)	368,900
	<u>720,614</u>	<u>773,200</u>
Less: Allowance for Possible		
Future Losses (Cumulative)	142,857	92,750
Balance, End of Year	\$ <u>577,757</u>	\$ <u>680,450</u>
	=====	=====



5. (Con't)

In addition, since 1982 the FSLIC has purchased Net Worth Certificates (NWC's) from insured institutions as part of its default prevention activities. NWC's earn annual income payments based on the cost of Federal Home Loan Bank System Obligations plus 1/4 of one percent. Annual income and principal payments are redeemable upon the issuing institution having profitable operations and attaining a specified net worth level. Such payments have been accrued for institutions meeting these requirements. The changes in the NWC's for the years ended December 31, 1984 and 1983 are:

	<u>1984</u>	<u>1983</u>
	(in thousands)	
Balance, Beginning of Year	\$ 76,900	\$ 37,500
Add: Purchases During Year	67,650	39,400
	<u>144,550</u>	<u>76,900</u>
Add: Dividends Receivable	526	261
Less: Allowance for Possible Future Losses (Cumulative)	4,000	8,750
Balance, End of Year	<u>\$141,076</u>	<u>\$ 68,411</u>
	=====	=====

6. Notes Payable to Insured Institutions - The FSLIC has outstanding negotiable notes to purchase ICC's and promissory notes to purchase ICC's and NWC's in the amount of \$536,450,000 as of December 31, 1984, and \$776,900,000 as of December 31, 1983. Variable interest is paid semiannually based on the cost of Federal Home Loan Bank System Obligations or the average auction yield for United States Treasury Notes with maturities from 5-10 years. In addition to issuing notes to purchase ICC's and NWC's, the FSLIC has also issued other negotiable notes to carry out its default prevention activities in the amount of \$298,384,936 as of December 31, 1984, and \$65,703,148 as of December 31, 1983.
  
7. Loans to Insured Institutions - The FSLIC has made loans to insured institutions on occasion as part of its default prevention activities. The outstanding balance of these loans at December 31, 1984 and 1983 were \$922,349,947 and \$208,749,278, respectively. The majority of the increase was a \$700,000,000 collateralized loan to an insured institution.  
  
 In order to finance the loan to an insured institution, FSLIC issued a \$700,000,000 collateralized note to a FHLBank. Interest on the note is based on the cost of funds of the FHLBank plus twenty basis points. Interest on the loan is based on the monthly weighted average cost of funds charged to members of the FHLBank in which the insured institution is located.
  
8. Related Party Transactions - The Federal Home Loan Bank Board is an independent Federal agency in the executive branch of government and governs the Federal Savings and Loan Insurance Corporation (FSLIC). The Bank Board assessed the FSLIC for services rendered in the amount of \$28,365,685 for 1984 and \$30,276,417 for 1983. The principal function of the FSLIC is to insure accounts in savings and loan associations and federal mutual savings banks.

## 8. (Con't)

In addition, the FSLIC, as part of its default prevention activities, may guarantee repayment of FHLBank advances that were made to certain insured institutions. These guarantees are typically granted on a short-term basis, generally covering advances that are secured. The amount of these advances as of December 31, 1984, totaled \$1,715 million and \$559 million at December 31, 1983. In the event that it is called upon to honor these guarantees, the FSLIC has claim against any assets pledged as collateral to secure such advances. The FSLIC honored \$642,809,038 of guaranteed advances during 1984 and exercised its claim to the assets securing these advances. An allowance for possible future losses in the amount of \$60,127,729 was also established.

9. Reserves - The FSLIC's total reserves available for losses consist of the Primary and Secondary Reserves. The Secondary Reserve is the equity of certain institutions in FSLIC based on premium prepayments and related interest not yet paid to these institutions. It is available for losses, but may also be paid back to the institutions depending on FSLIC's financial condition and management's anticipation of losses. Interest of \$61,165,813 was credited to the Secondary Reserve based on the yield of FSLIC's investment portfolio. The Primary Reserve is the cumulative net income of the FSLIC since its inception less the interest applied to the Secondary Reserve.

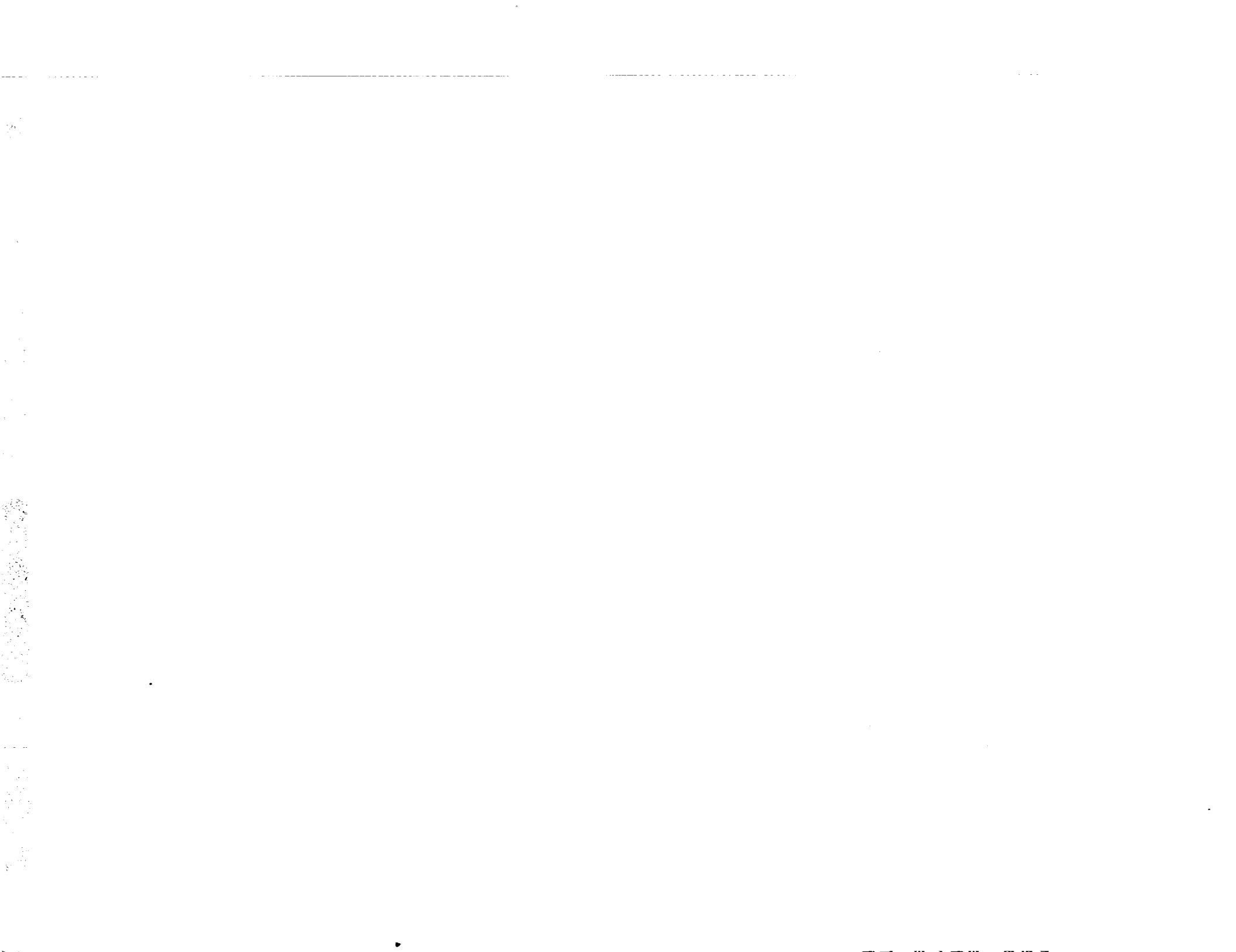
	<u>1984</u>	<u>1983</u>
<u>Primary Reserve</u>		
Balance, Beginning of Year	\$ 5,764,260,686	\$ 5,693,669,737
Prior Period Adjustments	-0-	23,523,724
As Restated	5,764,260,686	5,717,193,461
Net Income (Loss)	(879,223,092)	47,067,225
Balance, End of Year	4,885,037,594	5,764,260,686
<u>Secondary Reserve</u>		
Balance, Beginning of Year	661,160,838	613,649,656
Interest Applied	61,165,813	47,758,026
Transfers and Refunds	(1,596,777)	(246,844)
Balance, End of Year	720,729,874	661,160,838
Total Reserves at End of Year	\$ 5,605,767,468 =====	\$ 6,425,421,524 =====

10. Retirement Plan - All permanent, full-time and part-time employees who were employed by the FSLIC prior to January 1, 1984, are covered by the contributory Civil Service Retirement Plan. The Corporation makes bi-weekly contributions to the plan equal to the employee's bi-weekly contributions. Employees hired after January 1, 1984 fall under the Social Security Act; however, they also contribute 1.3% and the Corporation 7% to the Civil Service Retirement Plan. The retirement plan expense incurred for calendar years 1984 and 1983 were \$258,366 and \$241,567 respectively.
11. Given the state of the economy and present condition of the industry, it is possible that FSLIC could sustain additional losses in subsequent accounting periods due to its default prevention actions. Because many of the causes for default are beyond management's control, the amount of these losses cannot be determined. However, the Corporation believes that its resources, including the right to increase insurance premiums, are sufficient to absorb any such losses over the foreseeable future.

## 11. (Con't)

The Federal Home Loan Bank Board, as the operating head of FSLIC, on February 22, 1985, authorized FSLIC to assess each insured institution an additional premium for insurance in an amount equal to one-thirty second of one per centum of the total amount of the accounts of the members of each insured institution determined as of December 31, 1984. The additional \$245 million insurance premium assessed was paid by each insured institution on or about March 31, 1985. The Bank Board also expressed its intention to consider the assessment of further additional premiums in amounts equal to one thirty second of one per centum on a quarterly basis during 1985. If adopted, such assessments would increase income by an additional \$750 million.

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