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Report to the Congress

November 1991

FINANCIAL AUDIT

Bank Insurance Fund's 1990 and 1989 Financial Statements

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

Comptroller General
of the United States

B-114831

November 12, 1991

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

This report presents the results of our audit of the financial statements of the Bank Insurance Fund for the years ended December 31, 1990 and 1989. The Bank Insurance Fund, the insurer of deposits for the banking industry, is administered by the Federal Deposit Insurance Corporation (FDIC). The Fund's financial statements are fairly presented in accordance with generally accepted accounting principles, but significant uncertainties exist, largely beyond FDIC's control, which affect cost estimates for resolving institutions. As a result, actual resolution costs incurred by the Bank Insurance Fund could be higher than estimated.

We conducted our audit in accordance with generally accepted government auditing standards. Our report was delayed due to several significant issues which needed to be resolved before FDIC could finalize the Fund's 1990 financial statements. In August 1991, FDIC officials agreed to adjust the Fund's 1990 financial statements to reflect $4.2 billion in previously unrecognized costs related to insolvent institutions as we had recommended in April 1991. FDIC ultimately agreed that this amount represented needed additional reserves for losses in accordance with generally accepted accounting principles.

In addition, we took exception to how FDIC reported on the Fund's financial statements amounts related to certain failed bank resolutions that FDIC characterized as "escrowed funds." FDIC initially reported these amounts, $3.7 billion and $0.7 billion as of December 31, 1990 and 1989, respectively, as an offset to the financial statement line item "Net receivables from bank assistance and failures." This was a significant reporting issue because how these amounts are reported in the Fund's financial statements directly affects FDIC's available borrowing authority for the Fund under Section 15(c) of the Federal Deposit Insurance Act, as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). In October 1991, FDIC agreed to reclassify these amounts to the financial statement line item "Liabilities incurred from bank assistance and failures," thereby decreasing its available borrowing authority.

The Fund's 1990 financial statements show that the significant losses it has incurred in resolving problem institutions have substantially depleted its equity. Its adjusted $4.0 billion balance at year-end 1990 represented just 0.15 percent of insured deposits. Given the minimum level of identifiable exposure the Fund faces from bank failures likely to occur in 1991, as well as other institutions that could fail in the next 1 to 3 years, we believe that the Fund in all likelihood will be insolvent by December 31, 1991. In addition, the Fund faces a significant shortage of working capital. Based on the Fund's level of exposure from problem institutions, we believe that FDIC's current borrowing authority will not be sufficient to enable it to resolve problem institutions promptly and effectively.

The Congress is considering legislation that would increase FDIC's borrowing authority for the Fund to approximately $70 billion, the exact amount depending on the effect of a formula for limiting the Fund's outstanding obligations. However, the amount of funds that will ultimately be needed to resolve failing institutions depends on current and future economic conditions, and may thus be significantly higher than the amount of funds FDIC may receive under the proposed legislation. Delays in the ability of bank regulators to resolve future problem institutions could occur if the funding provided is not sufficient to cover the costs of future bank failures and the Fund's reserves are not rebuilt to absorb these additional costs. These delays, as we have seen from experience in the thrift industry, will ultimately lead to higher costs for resolving problem banks and may thus expose the taxpayer to future losses. Finally, we caution that no funding bill should be passed if it does not also address weaknesses in the regulation of the banking industry and deficiencies in the internal control and reporting standards for financial institutions.

We are sending copies of this report to the Chairman of the Board of Directors, Federal Deposit Insurance Corporation; the Director of the Office of Management and Budget; the Secretary of the Treasury; the Chairman of the Board of Governors of the Federal Reserve System; the

Comptroller of the Currency; and the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs.

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

FDIC	Federal Deposit Insurance Corporation
FFB	Federal Financing Bank
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989

GAO

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of the United States

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To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the accompanying statements of financial position of the Bank Insurance Fund as of December 31, 1990 and 1989, and the related statements of income and fund balance and statements of cash flows for the years then ended. These financial statements are the responsibility of the management of the Federal Deposit Insurance Corporation (FDIC), the Fund's administrator. Our responsibility is to express an opinion on these financial statements based on our audits. In addition, we are reporting on our consideration of FDIC's internal control structure and on its compliance with laws and regulations as they relate to the Fund.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Fund's financial statements reflect FDIC's estimate of the cost that the Fund will incur in resolving troubled institutions that meet the criteria for loss recognition under generally accepted accounting principles. As of December 31, 1990, FDIC estimated that the Fund will incur costs of $7.7 billion for resolving banks identified as equity insolvent or insubstance equity insolvent.[1] This amount includes an audit adjustment for $4.2 billion that we recommended FDIC report on the Fund's December 31, 1990, financial statements. This adjustment represents our estimate of the costs to the Fund related to the likely failure of 28 large banks and 48 small banks we identified as equity insolvent or insubstance equity insolvent. When we first presented our estimates and proposed adjustment in April 1991, FDIC did not reflect these costs on the Fund's December 31, 1990, financial statements. However, in August

[1] Insubstance equity insolvent banks are banks that reported positive equity capital on their December 31, 1990, call reports but whose reserves for loan losses, when compared to their level of nonperforming loans and similar banks in the same geographical region, were determined to be insufficient to cover the level of losses inherent in their loan portfolios. When these banks' reserves were increased to reflect a more appropriate level of reserves needed to cover loan losses, their equity capital was depleted.

1991, FDIC agreed with us that these additional costs associated with bank failures needed to be reported.

The Fund's December 31, 1990 and 1989, financial statements include $3.7 billion and $0.7 billion, respectively, in amounts related to certain failed bank resolutions in which an acquiring institution purchases certain assets and assumes certain liabilities of a failed institution. FDIC characterized these amounts as "escrowed funds" and initially presented them as an offset to the Fund's "Net receivables from bank assistance and failures" financial statement line item on the Fund's preliminary 1990 and 1989 financial statements. However, we determined that this reporting treatment was not in accordance with generally accepted accounting principles and, accordingly, proposed adjusting the financial statements to reclassify these amounts to the "Liabilities incurred from bank assistance and failures" financial statement line item. FDIC agreed to reclassify these amounts in October 1991.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank Insurance Fund as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. However, significant uncertainties exist regarding the value of real estate assets, which may ultimately result in substantial reductions in the recovery value of failed bank assets held by the Fund and in substantial increases in costs for resolving future bank failures. Also, based on the level of identifiable loss exposure and working capital needs the Fund faces, it will soon be in a position where it will not have the funds available to enable regulators to resolve problem institutions promptly and effectively unless FDIC is provided a substantial infusion of loss and working capital funds.

The Uncertain Value of Real Estate Could Affect Recoveries From Receivership Assets and Costs of Bank Failures

The Fund's reported financial condition is significantly influenced by FDIC's estimates of recoveries on the sale of failed bank assets held in receivership and estimates of the cost of resolving troubled institutions. These estimates are derived primarily from historical experience. However, such experience may not be reliable for estimating amounts FDIC will ultimately recover from the sale of failed bank assets because current economic conditions are adversely affecting real estate values. The amount of distressed real estate assets—held by the Fund, other government entities, banks, and other elements of the private sector—now on the market, coupled with the significant discounts the Resolution Trust Corporation offers in an attempt to reduce its inventory of real estate assets, could severely affect FDIC's ability to generate recoveries for the Fund on future asset sales similar to the recovery rates it experienced in the past.

As of December 31, 1990, the Fund, in its receivership capacity, held failed bank assets with a book value of $23.7 billion. A significant portion of these assets consists of real estate loans and related assets. Also, the book value of the 28 large banks we identified as equity insolvent or insubstance equity insolvent, whose estimated costs of resolution are reflected in the financial statements, totaled $19.5 billion as of December 31, 1990. Approximately $11.2 billion of these banks' book value consisted of real estate loans and related assets. We believe that the reported losses of $16.6 billion relating to assets held in receivership, which is reflected in the Fund's 1990 financial statements as the allowance for losses on net receivables from bank assistance and failures, and costs of $7.7 billion relating to equity insolvent or insubstance insolvent institutions on the Fund's 1990 financial statements could materially increase.

The uncertainties about FDIC's (1) ultimate recovery on the Fund's existing inventory of failed bank assets and (2) ultimate cost to the Fund for resolving troubled banks will, in our judgment, continue until the historical experience used to calculate the losses on failed bank assets held in receivership and the estimate of the cost of resolving troubled institutions reflects significant and representative experience in selling real estate and troubled loans secured by real estate in the currently depressed market.

Estimated Losses Will Deplete the Fund

The Fund has incurred significant net losses over the last 3 years from resolving and assisting failing institutions. These losses have resulted in the Fund's capital position declining from $18.3 billion as of December 31, 1987, to $4.0 billion as of December 31, 1990. The 1990 Fund balance represented just 0.15 percent of insured deposits as of December 31, 1990. Given the minimum level of identifiable exposure facing the Fund from bank failures likely to occur in 1991, we believe that the Fund in all likelihood will be insolvent by December 31, 1991.

In addition to the banks we identified as equity insolvent or insubstance equity insolvent as of December 31, 1990, the estimated costs for which are reflected in the Fund's 1990 financial statements, we identified 34 large institutions with assets totaling $28.6 billion and 47 small institutions with assets totaling $1.4 billion that are in such severely impaired financial condition that, unless they receive a capital infusion, they are likely to fail in 1991. We estimate the costs associated with the likely failure of these banks to be $5.4 billion. Consistent with existing generally accepted accounting principles for loss recognition, these costs have not been accrued for in the Fund's December 31, 1990, financial statements. However, we believe that existing generally accepted accounting principles allow too much latitude in both recognizing when a loss has been incurred for reporting purposes and measuring the extent of the loss. Application of proposed accounting principles we have recommended[2] to the Financial Accounting Standards Board would require earlier, and we believe more appropriate, recognition of losses on an entity's financial statements. Under the accounting principles we propose, the costs associated with the banks we identified as likely to fail in 1991 would be recognized on the Fund's year-end 1990 financial statements. Had this accounting been adopted, the Fund's capital position would have been a deficit of $1.4 billion as of December 31, 1990.

In addition to the banks we identified as likely to fail in 1991 unless they receive a capital infusion, we identified 64 large banks with assets totaling $179 billion, whose financial condition as of December 31, 1990, was such that, continued deterioration of their financial condition could result in their failure over the next 1 to 3 years. If these 64 banks fail, and if the Fund continues to experience the level of costs from small bank failures similar to what it has experienced over the last several years, we estimate that the Fund will incur additional costs from bank failures totaling $25.5 billion over the next 1 to 3 years. In total, we identified likely and possible bank failures that could cost the Fund $30.9 billion.

FDIC recently recognized the continuing exposure the Fund faces from problem institutions and raised its estimates of costs to the Fund from projected bank failures through December 31, 1993. FDIC's revised baseline estimate of $33.5 billion is now close to the minimum costs we estimated the Fund will incur from bank failures. FDIC also provided a more pessimistic estimate of $43.0 billion, which assumes a prolonged recession. If the recession is prolonged, we agree with FDIC that costs to the Fund from bank failures will increase substantially. Also, both FDIC's and our estimates of the Fund's likely and potential costs from future bank failures use historical loss rates to derive the estimates. Because of

[2]Failed Banks: Accounting and Auditing Reforms Urgently Needed (GAO/AFMD-91-43, April 22, 1991).

the uncertain value of real estate assets, the actual cost of future bank failures could be significantly higher than either FDIC's or our estimates.

There are other factors which will also affect both the amount and timing of the loss exposure facing the Bank Insurance Fund. The lower general level of interest rates may permit banks to increase their interest rate spreads and, thus, their profitability. In addition, possible legislation affecting bank powers, among other new developments, complicates any effort to predict future costs to the Fund. Therefore, we are unable to reasonably estimate any long-term government funding requirements needed to augment funds derived from existing bank insurance premiums.

Fund Does Not Have Enough Loss and Working Capital Funds

The Fund faces, in the near future, a significant shortage of working capital that could severely limit its ability to resolve failing institutions promptly. We believe that the Fund will need to borrow at least $14 billion from the Federal Financing Bank (FFB) through December 31, 1991, to resolve problem institutions. Section 15(c) of the Federal Deposit Insurance Act, as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), authorizes FDIC to borrow funds, so long as the Fund's ratio of its net worth to total assets does not fall below 10 percent. In addition to its borrowing authority subject to the net worth limitation, FDIC may also borrow up to $5 billion with the approval of the Secretary of the Treasury. Therefore, if the Fund is insolvent by December 31, 1991, FDIC will no longer have borrowing authority except to the extent the Secretary authorizes FDIC to borrow the $5 billion, presumably from the Treasury. This could severely limit the Fund's resolution activity beyond 1991.

The Congress is considering legislation that would increase FDIC's borrowing authority for the Fund to approximately $70 billion, the exact amount depending on the effect of a formula for limiting the Fund's outstanding obligations. However, given the uncertainties associated with current and future economic conditions, the amount of funds that will ultimately be needed to resolve failing institutions is difficult, if not impossible, to estimate precisely at this time.

We believe that the Fund needs to be adequately capitalized to enable the regulators to act promptly and effectively to close institutions before all of the economic value of these institutions has been diminished or lost. Failure to provide sufficient funding will only delay the resolution of troubled institutions and will ultimately increase the cost of bank resolutions to the Fund and, possibly, to the taxpayer.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

November 1, 1991

Report on Internal Control Structure

We have audited the financial statements of the Bank Insurance Fund as of December 31, 1990 and 1989, and have issued our opinion thereon. This report pertains only to our study and evaluation of the Federal Deposit Insurance Corporation's (FDIC) internal control structure as it relates to the Bank Insurance Fund for the year ended December 31, 1990. The report on our study and evaluation of the Corporation's internal control structure as it relates to the Fund for the year ended December 31, 1989, is presented in GAO/AFMD-90-100, dated September 11, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit, we considered the internal control structure of FDIC as it relates to the Fund in order to determine the auditing procedures needed for purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

FDIC's management is responsible for establishing and maintaining an internal control structure over the Bank Insurance Fund. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure 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 internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified FDIC's significant internal control structure policies and procedures for the Fund into the following categories:

- assistance, consisting of the policies and procedures related to the Fund's efforts to provide financial assistance to open but troubled institutions and to liquidate closed financial institutions;
- treasury, consisting of the policies and procedures related to the Fund's cash balances, cash receipts, cash disbursements, and investing activity;
- assessments, consisting of the policies and procedures related to the Fund's levying, collecting, and accounting for insurance premiums charged to insured banks;
- expenditures, consisting of the policies and procedures related to the Fund's recognition of liabilities and expenses and disbursements for payroll, property and buildings, and administrative expenses; and
- financial reporting, consisting of the policies and procedures related to the form, content, and preparation of the Fund's financial statements.

For each of the internal control structure categories listed, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation. Also, we assessed control risk. We performed limited tests of control procedures for each of the categories listed; however, we found it more efficient to rely solely on substantive audit tests to determine if related financial statement balances and disclosures were fairly stated. For all categories, we performed audit tests to substantiate account balances associated with each control category. Such tests can also serve to identify weaknesses in the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by FDIC personnel while performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operations that do not affect the fair presentation of the Bank Insurance Fund's financial statements, but which nevertheless warrant management's attention. We are reporting these other matters in a separate letter to FDIC's management.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the Bank Insurance Fund as of December 31, 1990 and 1989, and have issued our opinion thereon. This report pertains only to our review of the Federal Deposit Insurance Corporation's (FDIC) compliance with laws and regulations as they relate to the Bank Insurance Fund for the year ended December 31, 1990. Our report on FDIC's compliance with laws and regulations as it relates to the Fund for the year ended December 31, 1989, is presented in GAO/AFMD-90-100, dated September 11, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

FDIC's management is responsible for compliance with laws and regulations applicable to the Bank Insurance Fund. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatements, we selected and tested transactions and records to determine FDIC's compliance with certain provisions of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1811 et. seq.), which, if not complied with, could have a material effect on the Bank Insurance Fund's financial statements. However, it should be noted that our objective was not to provide an opinion on the overall compliance with such provisions. Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which FDIC has to comply.

The results of our tests indicate that, with respect to the items tested, FDIC complied, in all material respects, with those provisions of laws and regulations that could have a material effect on the Fund's financial statements. With respect to transactions not tested, nothing came to our attention that caused us to believe that FDIC had not complied, in all material respects, with those provisions.

Statements of Financial Position

FEDERAL DEPOSIT INSURANCE CORPORATION
BANK INSURANCE FUND
STATEMENTS OF FINANCIAL POSITION
(In thousands)

	December 31 1990	December 31 1989
Assets		
Cash and cash equivalents (Note 3)	$ 1,216,185	$ 4,803,032
Investment in U. S. Treasury obligations, net (Note 4)	5,649,222	8,925,360
Accrued interest receivable on investments and other assets	196,795	245,315
Net receivables from bank assistance and failures (Note 5)	12,778,820	6,245,491
Property and buildings (Note 7)	145,218	97,673
	$19,986,240	**$20,316,871**
Liabilities and the Fund Balance		
Accounts payable, accrued liabilities and other	87,942	43,514
Liabilities for estimated bank assistance (Note 8)	8,596,269	3,820,297
Liabilities incurred from bank assistance and failures (Note 9)	7,105,640	3,121,336
Liabilities for estimated litigation losses	151,903	122,201
Total Liabilities	15,941,754	7,107,348
Fund Balance	4,044,486	13,209,523
	$19,986,240	**$20,316,871**

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

Statements of Income and the Fund Balance

FEDERAL DEPOSIT INSURANCE CORPORATION
BANK INSURANCE FUND
STATEMENTS OF INCOME AND THE FUND BALANCE
(in thousands)

	For the Year Ended December 31	
	1990	**1989**
Revenue		
Assessments earned (Note 10)	$ 2,855,263	$ 1,885,029
Interest on U. S. Treasury obligations	855,252	1,371,962
Other revenue	127,796	237,637
	3,838,311	3,494,628
Expenses and Losses		
Administrative operating expenses	219,581	213,855
Merger assistance losses and expenses	178,339	235,314
Provision for insurance losses - Actual (Note 6)	4,448,055	3,016,290
Provision for insurance losses - Unresolved (Note 6)	7,685,033	795,000
Nonrecoverable insurance expenses	472,340	85,776
	13,003,348	4,346,235
Net Loss	(9,165,037)	(851,607)
Fund Balance - Beginning	13,209,523	14,061,130
Fund Balance - Ending	$ 4,044,486	$13,209,523

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

Statements of Cash Flows

FEDERAL DEPOSIT INSURANCE CORPORATION
BANK INSURANCE FUND
STATEMENTS OF CASH FLOWS
(In thousands)

	December 31	
	1990	**1989**
Cash Flows From Operating Activities:		
Cash inflows from:		
Assessments earned	$ 2,851,561	$ 1,885,029
Interest on U. S. Treasury obligations	1,019,085	1,575,695
Recoveries from bank assistance and failures	2,700,099	4,627,697
Miscellaneous Receipts	51,518	5,481
Cash outflows for:		
Administrative operating expenses	218,214	214,294
Assistance and failures of insured banks	9,749,910	6,400,370
Interest paid on indebtedness incurred from bank assistance and failures	309,031	372,205
Net Cash Provided (Used) by Operating Activities	**(3,654,892)**	**1,107,033**
Cash Flows From Investing Activities:		
Cash inflows from:		
Maturity and sale of U. S. Treasury obligations	3,199,544	6,092,095
Gain on sale of U.S. Treasury Obligations	6,143	-0-
Cash outflows for:		
Purchase of U. S. Treasury obligations	-0-	1,773,967
Property and buildings	48,932	21,527
Net Cash Provided by Investing Activities	**3,156,755**	**4,296,601**
Cash Flows From Financing Activities:		
Cash outflows for:		
Payments of indebtedness incurred from bank assistance and failures	3,088,710	3,518,609
Cash Used by Financing Activities	**(3,088,710)**	**(3,518,609)**
Net Increase in Cash and Cash Equivalents	(3,586,847)	1,885,025
Cash and Cash Equivalents - Beginning	4,803,032	2,918,007
Cash and Cash Equivalents - Ending	**$ 1,216,185**	**$ 4,803,032**

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

Notes to the Financial Statements

NOTES TO THE BANK INSURANCE FUND FINANCIAL STATEMENTS

DECEMBER 31, 1990 and 1989

1. Legislative Reform

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) became public law on August 9, 1989. The primary purpose of the legislation was to reform, recapitalize, and consolidate the federal deposit insurance system in order to restore the public's confidence in the savings and loan industry and to ensure a safe and stable system of affordable housing finance through major regulatory reforms, strengthened capital standards and safeguards for the disposal of recoverable assets. FIRREA abolished the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Bank Board. Their functions were transferred, in a prescribed manner, to the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision, the Federal Housing Finance Board and the Resolution Trust Corporation (RTC).

Under FIRREA, the FDIC became the administrator of two separate and distinct insurance funds: the Bank Insurance Fund (BIF), which insures the deposits of all BIF member banks, and the Savings Association Insurance Fund (SAIF), which insures the deposits of all SAIF member savings associations (formerly a function of the FSLIC). Both insurance funds are maintained separately to carry out their respective legislative mandates. The FDIC was given authority to borrow from the U.S. Treasury up to $5 billion for the two funds combined.

In November 1990, Congress enacted the *FDIC Assessment Rate Act of 1990* (1990 Act). Principle provisions of the 1990 Act removed annual assessment rate restrictions, timing of rate increases, the upper limit on the designated reserve ratio, and permitted the FDIC, on behalf of the BIF or SAIF, to borrow from the Federal Financing Bank (FFB) on terms and conditions determined by the FFB. The borrowing authority is in addition to the $5 billion Treasury borrowing authority and is limited by the Federal Deposit Insurance (FDI) Act which provides that the FDIC may not issue notes or incur obligations which would cause the net worth of the BIF to be less than 10 percent of assets.

2. Summary of Significant Accounting Policies

General. These financial statements pertain to the financial position, results of operations, and cash flows of the Bank Insurance Fund only.These statements do not include reporting for assets and liabilities of closed insured banks for which the BIF acts as receiver or liquidating agent. Periodic and final accountability reports of the BIF activities as receiver or liquidating agent are furnished to courts, supervisory authorities, and others as required.

U. S. Treasury Obligations. Securities are shown at amortized cost, which is the purchase price of securities less the amortized premium or plus the accreted discount. Such amortizations and accretions are computed on a daily basis from the date of acquisition to the date of maturity. Interest is also calculated on a daily basis and recorded monthly using the constant yield method.

Allowance for Loss on Receivables from Bank Assistance and Failures. A receivable and an associated estimated allowance for loss are established for funds advanced for assisting and closing banks. The allowance for loss represents the difference between the funds advanced and the expected repayment, based on the estimated cash recoveries from the assets of the assisted or failed bank, net of all estimated liquidation costs, including any dividends received from, and sales of, equity instruments acquired in assistance agreements (the proceeds of which are deferred pending final settlement of the assistance transaction).

Escrowed Funds from Purchase and Assumption Transactions. In a purchase and assumption transaction the BIF pays the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considers the amount of the deduction for assets purchased to be funds held on behalf of the receivership. The funds will remain in escrow and accrue interest until such time as the receivership uses the funds to: (1) repurchase assets under asset put options; (2) pay preferred and secured claims; (3) pay receivership expenses; or (4) pay dividends.

Litigation Losses. The BIF accrues as a charge to current period income an estimate for probable loss from litigation against the BIF in its corporate and receivership capacity. The FDIC Legal Division recommends these estimated losses on a case-by-case basis.

Depreciation. The Washington office buildings 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. The cost of furniture, fixtures, and equipment purchased by the FDIC on behalf of the three Funds under its administration is allocated among these Funds on a pro rata basis. The BIF expenses its share of these allocated costs at the time of acquisition. This policy is a departure from generally accepted accounting principles; however, the financial impact is not material to the BIF financial statements.

Recovery/Allocation of Common Expenses. Administrative operating expenses include allocated personnel, administrative, and other overhead expenses not directly related to the BIF. These expenses are allocated in amounts reflecting the relative degree to which the expenses were incurred by the BIF. The BIF recovers certain indirect liquidation expenses from receiverships that cannot be directly charged to a given receivership.

Merger Assistance Losses and Expenses. The costs incurred by the BIF which resulted from either providing assistance to open insured banks or merging of insured banks are recorded as merger assistance losses. These costs, which are not liquidation-related, are specified in the terms of the agreements and have no potential for recovery by the BIF.

Nonrecoverable Insurance Expenses. Nonrecoverable insurance expenses are incurred by the BIF as a result of: (1) paying insured depositors in closed bank payoff activity; (2) administering and liquidating assets purchased in a corporate capacity; (3) administering assistance transactions; (4) bridge bank operations; and (5) interest on escrowed funds.

Reclassifications. Reclassifications have been made in the 1989 Financial Statements to conform to the presentation used in 1990.

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

3. Cash and Cash Equivalents

The BIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. This includes the purchase of one-day Special Treasury Certificates. There is a cash restriction represented by funds held in escrow totaling $147,000,000. BIF received proceeds beginning in October 1988 from the sale of the Delaware Bridge Bank settlement. These funds are held in escrow by FDIC pending a litigation settlement. Cash and cash equivalents as of December 31 consisted of the following (in thousands of dollars):

	1990	1989
Cash	$ 561,039	$ 66,561
Cash Equivalents	655,146	4,736,471
	$ 1,216,185	**$ 4,803,032**

4. U. S. Treasury Obligations

All cash received by the BIF not used to defray operating expenses or for outlays related to assistance to banks and liquidation activities or invested in short-term highly liquid investments is invested in U. S. Treasury obligations. The BIF investment portfolio as of December 31 consisted of the following (in thousands of dollars):

1990

Maturity	Description	Yield to Maturity at Market	Book Value	Market Value	Face Value
Less than one year	U.S.T. Bills, Notes & Bonds	6.92	$1,711,922	$1,714,568	$1,700,000
1-3 years	U.S.T. Notes & Bonds	7.23	3,937,300	3,970,721	3,900,000
			$5,649,222	**$5,685,289**	**$5,600,000**

1989

Maturity	Description	Yield to Maturity at Market	Book Value	Market Value	Face Value
Less than one year	U.S.T. Bills, Notes & Bonds	8.16	$1,812,004	$1,824,807	$1,800,000
1-3 years	U.S.T. Notes & Bonds	7.99	5,446,301	5,414,175	5,300,000
3-5 years	U.S.T. Notes & Bonds	7.97	1,667,055	1,669,277	1,700,000
			$8,925,360	**$8,908,259**	**$8,800,000**

The unamortized premium, net of unaccreted discount, for 1990 and 1989 was $49,222,000 and $125,360,000, respectively. The amortized premium expense, net of accreted discount income, for 1990 and 1989 was $76,594,000 and $49,157,000 respectively.

5. Net Receivables from Bank Assistance and Failures

Net Receivables from Bank Assistance and Failures as of December 31 consisted of the following (in thousands of dollars):

	1990	1989
Receivables from Bank Assistance:		
Open banks	$ 1,759,163	$ 1,713,879
Capital instruments	25,000	-0-
Facilitate deposit assumptions	36,000	36,000
Facilitate merger agreements	115,000	134,398
Accrued interest receivable	3,891	14,366
Allowance for losses	(1,196,435)	(1,153,122)
Deferred settlements	(10,723)	(5,198)
	731,896	740,323
Receivables from Bridge Banks:		
Capitalization	-0-	1,950,000
Accrued interest receivable	-0-	93,582
Allowance for losses	-0-	(1,750,000)
	-0-	293,582
Receivables from Bank Failures:		
Loans and related assets	1,741,275	2,018,692
Receiverships/Purchase and Assumption transactions	26,065,215	15,047,257
Depositors' claims unpaid	509,363	79,055
Corporate Purchase transactions	623,174	523,239
Deferred settlements	(298,992)	(284,217)
Allowance for losses	(16,593,111)	(12,172,440)
	12,046,924	5,211,586
	$ 12,778,820	**$ 6,245,491**

Asset Recoveries

As stated in Note 2, the allowance for loss on receivables from bank assistance and failures represents the difference between amounts advanced and the expected repayment, based upon the estimated cash recoveries from the assets of the assisted or failed bank, net of all estimated liquidation costs. As of December 31, 1990 and 1989, the BIF, in its receivership capacity, held assets with a book value of $ 23.7 billion and $13.3 billion, respectively.

The estimated cash recoveries from the sale of these assets are subject to uncertainties because of current economic conditions affecting real estate and the oversupply of distressed real estate assets now in the marketplace. These factors could reduce the BIF's actual recoveries upon sale of these assets from the level of recoveries currently estimated.

Capital Instrument Program:

Receivables from open bank assistance include amounts outstanding to qualified institutions under the Capital Instrument Program. This program was established at the FDIC by authorization of the Garn-St Germain Depository Institutions Act of 1982. Under this program, the BIF would purchase a qualified institution's capital instrument such as Net Worth Certificates (NWCs), and Income Capital Certificates (ICCs). The BIF would issue, in a non-cash exchange, its non-negotiable promissory note of equal value. The total assistance outstanding to qualified institutions as of December 31, 1990 and 1989 is $179,488,000 and $258,539,000, respectively. As of December 31, 1990 and 1989, the financial statements excluded $154,488,000 and $258,539,000, respectively, of NWCs, for which no losses are expected. The original authority to issue NWCs/ICCs expired October 13, 1986. The Competitive Equality Banking Act of 1987 reinstated the net worth/capital certificate program through October 13, 1991.

For December 31, 1990, the BIF established an allowance for loss of $25,000,000 for one capital note outstanding as it poses a probable loss to the BIF. Once an allowance for loss is established against a NWC, the financial statement presentation of the NWC and related promissory note (i.e., exclusion from statement of financial position) is discontinued. Therefore, the off balance sheet exposure to credit loss is represented by the stated value of those instruments excluded from financial statement presentation.

6. Analysis of Changes in Allowance for Losses and Estimated Liabilities

The Analysis of Changes in Allowance for Losses and Estimated Liabilities as of December 31 consisted of the following (in thousands of dollars):

1990					
Allowance for Losses	**Beginning Balance**	**Provision for Losses**	**Net Cash Payments**	**Transfers and Adjustments**	**Ending Balance**
Open bank assistance	$ 1,153,122	$ 88,025	$ -0-	$ (44,712)	$ 1,196,435
Bridge Bank	1,750,000	-0-	-0-	(1,750,000)	-0-
Failed Bank:					
Loans and related assets	1,057,727	62,368	-0-	-0-	1,120,095
Receivership/Purchase and Assumption	10,892,024	3,406,216	-0-	767,532	15,065,772
Corporate Purchases	222,689	145,517	-0-	39,038	407,244
Total Allowances	**15,075,562**	**3,702,126**	**-0-**	**(988,142)**	**17,789,546**
Estimated Liabilities					
Liabilities for estimated bank assistance	3,820,297	8,401,260	(1,511,022)	(2,114,266)	8,596,269
Liabilities for estimated litigation losses	122,201	29,702	-0-	-0-	151,903
Total Liabilities	**3,942,498**	**8,430,962**	**(1,511,022)**	**(2,114,266)**	**8,748,172**
Total Allowances/ Liabilities	**$19,018,060**	**$ 12,133,088**	**$ (1,511,022)**	**$(3,102,408)**	**$26,537,718**

6. Analysis of Changes in Allowance for Losses and Estimated Liabilities (continued)

1989

Allowance For Losses	Beginning Balance	Provision for Losses	Net Cash Payment	Transfers and Adjustments	Ending Balance
Open bank assistance	$ 1,110,328	$ 42,794	$ -0-	$ -0-	$ 1,153,122
Bridge Bank	-0-	-0-	-0-	1,750,000	1,750,000
Failed Bank:					
Loans and related assets	1,439,200	(222,383)	-0-	(159,090)	1,057,727
Receivership/Purchase and Assumption	8,931,851	2,050,270	-0-	(90,097)	10,892,024
Corporate Purchases	297,515	(74,826)	-0-	-0-	222,689
Total Allowances	11,778,894	1,795,855	-0-	1,500,813	15,075,562
Estimated Liabilities					
Liabilities for estimated bank assistance	3,877,376	2,002,757	(644,866)	(1,414,970)	3,820,297
Liabilities for estimated litigation losses	109,523	12,678	-0-	-0-	122,201
Total Liabilities	3,986,899	2,015,435	(644,866)	(1,414,970)	3,942,498
Total Allowances/ Liabilities	**$15,765,793**	**$ 3,811,290**	**$ (644,866)**	**$ 85,843**	**$19,018,060**

7. Property and Buildings

Property and Buildings as of December 31 consisted of the following (in thousands of dollars):

	1990	1989
Land	$ 32,024	$ 31,930
Office buildings	126,481	77,643
Accumulated depreciation	(13,287)	(11,900)
	$145,218	$ 97,673

The 1990 increase of $48,932,000 for land and buildings represents disbursements for completion of the L. William Seidman Center in Arlington, Virginia.

A portion of depreciation expense on BIF-owned office buildings is allocated to the failed banks as liquidation expense. In both 1990 and 1989, the amount of depreciation expense allocated to the failed banks was $496,000.

8. Liabilities for Estimated Bank Assistance

The BIF has recorded as a contingent liability an estimated loss for its probable cost for those banks the regulatory process has identified as either equity insolvent or in-substance equity insolvent and for those banks where current agreement terms indicate further assistance will be required. The BIF outstanding liabilities for estimated bank assistance as of December 31, 1990 and 1989 are $8.6 billion and $3.8 billion, respectively.

Of this total line item, the amounts representing estimated liabilities for probable bank failures as of December 31, 1990 and 1989 are $7.7 billion and $1.1 billion, respectively. These estimated costs are derived in part from estimates of recoveries from the sale of the assets of these probable bank failures. As such, they are subject to the same uncertainties as those affecting the BIF's net receivable from bank assistance and failures (see Note 5), and thus could understate the ultimate costs to the BIF from probable bank failures.

The BIF has included in the December 31, 1990 "Liabilities for estimated bank assistance" line item, $341,736,000 of realized proceeds from the sale of equity instruments and other such transactions associated with the assisted institution. BIF defers recognition of such proceeds pending final termination of the assistance agreement. Such proceeds are used to offset future assistance costs for related agreements and have been considered in determining the estimated loss to the BIF.

CURRENT LARGE BANK ASSISTANCE AGREEMENTS

First RepublicBank/NCNB Texas National Bank

Termination and final Separate Asset Pool settlement for the NCNB agreement is scheduled for November 22, 1991. At the time of termination, the BIF must: (1) purchase remaining unliquidated assets at their original mark-to-market value; (2) settle with NCNB for the current settlement account balance arising from administering the Separate Asset Pool; and (3) settle with NCNB for the deferred settlement account balance arising from gains and losses on disposition of assets as well as charge-offs and write-ups of pool assets. The BIF expects to pay $2.5 billion to repurchase unliquidated assets remaining in the Separate Asset Pool at the termination date.

The Separate Asset Pool balance on December 31, 1990 was $3.5 billion. Total estimated cost to the BIF for the First RepublicBank transaction is projected to be $3.4 billion.

MCorp/BancOne

On January 1, 1990, the FDIC consummated the sale of the MCorp Bridge Bank, N.A. to BancOne Corporation, BancOne Texas Corporation, and BancOne Texas, N.A. through a financial assistance agreement.

Commencement date funding by the BIF of $2.6 billion was for the negative equity of the Bridge Bank (including Bridge Bank operating losses) during its tenure of operation (March 29, 1989 to December 31, 1989), as well as mark-to-market for assets and liabilities.

By terms of the Shareholders Agreement, the BIF purchased 3,375,000 shares of Class B non-voting Convertible Common Stock and 1,250,000 shares of Class C non-voting Common Stock of BancOne Texas, N.A. in exchange for a note payable in the amount of $416.3 million due on or before the day on which the FDIC no longer owns any shares of such stock. On March 1, 1991, BancOne purchased 375,000 shares of Class B stock and 577,242 shares of Class C stock for an aggregate purchase price of $94.8 million or a $9 million gain to the BIF. As a result the note payable is reduced to $321.5 million.

By terms of the assistance agreement, the BIF and BancOne Texas, N.A. transferred to a Separate Asset Pool $2.5 billion of troubled assets and owned real estate of the insolvent MCorp banks to be administered by the acquirer. During 1990, BancOne transferred an additional $77 million of assets to the Separate Asset Pool. The second year limitation for additional asset transfers to the pool is $600 million. The BIF bears the costs of administering and funding the Separate Asset Pool for the five year term of the agreement.

Termination and final asset pool settlement is scheduled for January 1, 1995. At the time of termination, the BIF must: (1) purchase remaining assets at their original mark-to-market value; (2) settle with BancOne for the current settlement account balance arising from administering the pool; and (3) settle with BancOne for the deferred settlement account balance arising from gains and losses on disposition of assets as well as charge-offs and write-ups of pool assets.

The Separate Asset Pool balance on December 31, 1990 was $1.8 billion. Total estimated cost for the MCorp transaction is projected to be $2.8 billion.

Texas American Bancshares/Texas American Bridge Bank

On January 1, 1990, the FDIC consummated the sale of the Texas American Bridge Bank, N.A. (TAB) to the Deposit Guaranty Bank, Dallas, Texas. The bank was renamed Team Bank, N.A., Fort Worth, Texas.

By terms of the assistance agreement, the BIF and Team Bank, N.A. transferred to a Separate Asset Pool $772 million of troubled assets and owned real estate of the insolvent Texas American banks to be administered by the acquirer. During 1990, Team Bank transferred an additional $140 million of assets to the pool. The second year limitation for additional asset transfers to the pool is $180 million. The BIF bears the costs of administering and funding the Separate Asset Pool for the five year term of the agreement.

Termination and final asset pool settlement is scheduled for January 1, 1995. At such time, the BIF will settle with Team Bank for the current settlement account balance arising from administering the pool. By terms of the assistance agreement, the Team Bank does not have a deferred settlement account as all pool related transactions are settled on a quarterly basis.

The Separate Asset Pool balance on December 31, 1990 was $647 million. Total estimated cost for the TAB transaction is projected to be $1.1 billion.

Off Balance Sheet Separate Asset Pool Risk

Estimated total assistance costs for institutions involving Separate Asset Pools include estimated amounts for subsequent asset transfers which are probable. The amounts for subsequent asset transfers are jointly determined by the acquirer and the FDIC at specific points in time. However, actual assets transferred may be more than original estimates as allowed under the terms of the related assistance agreements. If these additional transfers were to occur, the BIF would be required to pay the mark-to-market value of the additional assets transferred as well as repurchase any remaining assets in the Separate Asset Pool at the termination date of the agreement.

9. Liabilities Incurred from Bank Assistance and Failures

Liabilities Incurred from Bank Assistance and Failures as of December 31 consisted of the following (in thousands of dollars):

	1990	1989
Escrowed funds from purchase and assumption transactions	$ 3,673,279	$ 702,464
Funds held in trust	146,425	489
Depositors' claims unpaid	509,363	79,055
Notes indebtedness	2,613,755	798,982
Guaranty assistance	4,778	6,660
Federal indebtedness	-0-	1,450,000
Accrued interest/other liabilities	158,040	83,686
	$ 7,105,640	**$ 3,121,336**

Maturities of these liabilities for each of the next five years and thereafter are as follows (in thousands of dollars):

1991	1992	1993	1994	1995	1996/Thereafter
$5,646,439	$199,431	$104,479	$5,740	$1,067,581	$81,970

10. Assessments

The FDI Act authorizes the FDIC to set assessment rates for the BIF members semiannually to be applied against a member's average assessment base.

The FDI Act also provides for an assessment credit to BIF members when the Board of Directors determines that the BIF reserve ratio is expected to exceed the designated reserve ratio in the succeeding year, after taking into account expected expenses and revenues. The FDI Act defines the BIF designated reserve ratio as (i) 1.25 percent of estimated insured deposits; or (ii) such higher percentage of estimated insured deposits as the Board of Directors determines for that year to be justified by circumstances that raise a risk of substantial future losses to the BIF.

The assessment rate is 0.195 percent for calendar year 1991. The FDIC Board of Directors approved an increase in the assessment rate to 0.230 percent for the second semiannual period of 1991 and thereafter. Based on the present projected status of the BIF and anticipated expenses and revenue for the next year, the reserve ratio is not expected to exceed the current designated reserve ratio of 1.25 percent. Therefore, insured members will not receive an assessment credit in 1991.

11. Pension Benefits, Savings Plans and Accrued Annual Leave

Pension Benefits and Savings Plans expenses as of December 31 consisted of the following (in thousands of dollars):

	1990	1989
Civil Service Retirement System (CSRS)	$ 6,284	$ 6,497
Federal Employee Retirement System (FERS) (Basic Benefit)	10,573	7,442
FDIC - 401K Plan	5,697	5,242
Thrift Savings Plan (TSP)	2,181	1,599
	$ 24,735	**$ 20,780**

The FDIC eligible employees assigned to the BIF are covered by either the CSRS or the FERS. Automatic and matching employer contributions are provided by the BIF for all eligible employees. Matching contributions are also provided by the BIF on behalf of all eligible employees to the FDIC 401K Plan and the TSP.

Although the BIF contributes a portion of pension benefits for eligible employees and makes the necessary payroll withholdings from them, the BIF does not account for the assets of either retirement system, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts are reported by the U. S. Office of Personnel Management and are not allocated to the individual employers.

The BIF liability to employees for accrued annual leave is approximately $17,062,000 and $18,430,000 at December 31, 1990 and 1989, respectively.

The FDIC provides certain health (including dental care) and life insurance coverage for its eligible retirees. Eligible retirees are those that have elected the FDIC's health and/or life insurance program and are entitled to an immediate annuity. The health insurance coverage is a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wrap-around (the dental care is underwritten by Connecticut General Insurance Company). The FDIC makes the same contributions for retirees as those of active employees. The FDIC benefit programs are fully insured and expenses are recognized as premiums are paid. The cost of benefits provided and the number of retirees are as follows:

	1990	1989
FDIC Health Insurance Plan		
Premiums Paid	$ 434,083	$ 341,594
Participating retirees	171	153
FDIC Dental Insurance Plan		
Premiums Paid	$ 36,345	$ 33,212
Participating retirees	214	192

The life insurance program is underwritten by Metropolitan Life Insurance Company and provides for basic coverage at no cost and allows converting optional coverages to direct-pay plans with Metropolitan Life. The FDIC does not make any contributions towards annuitants basic life insurance coverage; this charge is built into rates for active employees.

12. Commitments

The BIF lease agreement commitments for office space are $45,593,000 for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. Leased space expense was $31,284,000 and $29,390,000 for the years ended December 31, 1990 and 1989, respectively.

Leased fees, which are committed per contractual agreement, for future years are as follows (in thousands of dollars):

1991	1992	1993	1994	1995	1996/Thereafter
$22,432	$10,265	$6,525	$5,179	$1,179	$13

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 the assets may be "putback", or resold to the receivership at the recognized book value within a defined period of time. It is possible that the BIF could be called upon to fund the purchase of any or all of the "unexpired puts" at any time prior to expiration. The balance of unexpired asset putbacks as of December 31, 1990 is $236,095,000. The total amount that will be repurchased and the losses resulting from these acquisitions is not reasonably estimable at December 31, 1990.

13. Contingencies

The FDIC estimates that 141 banks could fail in 1991 with combined bank assets totaling $73 billion and that 375 banks could fail in 1992 and 1993 with combined bank assets between $168 billion and $236 billion. These institutions, located primarily in the Northeast region, are experiencing the effects of softening real estate markets and weakening state economies. Current estimates indicate the BIF could recognize additional net losses of approximately $22.3 billion to $32.9 billion through December 31, 1993. Current and future economic conditions and the increasing level of government held real estate assets in the marketplace could increase both the number of bank failures over the next several years and their cost to the BIF.

14. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of net loss to net cash used by operating activities for the year ended December 31 (in thousands of dollars):

	1990	1989
Net Loss	$(9,165,037)	$ (851,607)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loss	12,133,088	3,811,290
Amortization of U. S. Treasury obligations	76,594	49,156
Interest on escrowed funds	21,616	25,037
Gain on sale of U.S. Treasury obligations	(6,143)	-0-
Assessments	765	-0-
Depreciation expense	1,387	1,387
Increase (decrease) in accounts payable, accrued liabilities and other	31,359	(7,646)
Decrease in accrued interest receivable on investments and other assets	20,159	2,165
Net cash disbursed for bank assistance and failures not impacting income	(7,081,753)	(1,795,324)
Accrual of assets and liabilities from bank assistance and failures	313,073	(127,425)
Net cash provided (used) by operating activities	**$(3,654,892)**	**$ 1,107,033**

Schedule of non-cash transactions incurred from bank assistance and failures:

	1990	1989
Increase (decrease) in net receivable from bank assistance and failures:		
Preferred stock	$ 416,250	$ (320,000)
Notes receivable	(243,582)	1,770,000
Notes in lieu of cash	2,597,486	-0-
Depositors' claims unpaid	430,308	46,213
Transfer of allowance for loss	(1,095,000)	(1,950,000)
Total Increase (Decrease)	**2,105,462**	**(453,787)**
Decrease (increase) in liabilities incurred from bank assistance and failures:		
Escrowed funds	(205,078)	-0-
Notes payable	(3,453,417)	(1,450,000)
Pending claims of depositors	(430,308)	(46,213)
Liabilities for estimated assistance transfer	1,983,341	1,950,000
Total Decrease (Increase)	**$(2,105,462)**	**$ 453,787**

As stated in the Escrowed Funds from Purchase and Assumption Transactions section of the Summary of Significant Accounting Policies, the BIF pays the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considers the assets purchased portion of this transaction to be a non-cash adjustment. Accordingly, for Cash Flow Statement presentation, cash outflows for bank assistance and failures excludes $3.3 billion in 1990 and $702 million in 1989 for assets purchased.

15. Concentration of Credit Risk

The BIF is counterparty to a group of financial instruments with entities located throughout regions of the United States which are experiencing problems in both loans and real estate. The BIF's maximum exposure to possible accounting loss should each counterparty to these instruments fail to perform and any underlying assets prove to be of no value is shown as follows (in millions of dollars):

	South East	South West	North East	Mid West	Central	West	Total
Net Receivables from Assistance & Failures	$ 724	$4,478	$5,482	$ 61	$ 885	$ 879	$12,509
Corporate Purchases (Net)	9	82	112	2	7	58	270
Asset Putback Agreements (Off Balance Sheet)	-0-	89	84	-0-	63	-0-	236
NWC/ICCs (Off Balance Sheet)	-0-	-0-	154	-0-	-0-	-0-	154
Total	**$ 733**	**$4,649**	**$5,832**	**$ 63**	**$ 955**	**$ 937**	**$ 13,169**

16. Subsequent Events

Bank of New England Corporation

On January 6, 1991, Bank of New England, N.A., Boston, Massachusetts, Connecticut Bank and Trust, N.A., Hartford, Connecticut and Maine National Bank, N.A., Portland, Maine, three bank subsidiaries owned by the Bank of New England Corporation were declared insolvent by their chartering authorities and subsequently closed, with the FDIC appointed receiver. The FDIC organized three new national "bridge banks", chartered by the Office of Comptroller of the Currency to purchase all assets and assume deposits and certain non-deposit liabilities from the failed institutions. These three new bridge banks are being operated by the FDIC pending acquisition by private sector entities.

The FDIC announced on February 1, 1991 that bids would be accepted either for the entire three-bank franchise or on a bank-by-bank basis in the spring of 1991. On April 22, 1991, Fleet/Norstar was awarded this bid. The BIF has recorded in 1990 an estimated loss for this transaction of $2.5 billion.

Recapitalization of Bank Insurance Fund

On February 5, 1991, the Department of the Treasury released a report on the federal deposit insurance system entitled *Modernizing the Financial System: Recommendations for Safer, More Competitive Banks.* The report proposed deposit insurance reform through four interrelated parts: (1) restoring competitiveness through nationwide banking and branching; (2) reducing overextended insurance coverage to reduce the Fund exposure and increase market discipline; (3) streamlining the regulatory system; and (4) recapitalizing the FDIC with sufficient resources using industry funds while avoiding imposing unnecessary stress on the banking system. Subsequently, various proposals are being offered by the banking industry, regulatory agencies and legislative offices on recapitalization of the BIF. The outcome of these proposals is not certain.

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