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REPORT TO THE CONGRESS

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Audit Of  
Federal Deposit Insurance Corporation  
For The Year Ended June 30, 1971  
Limited By Agency Restriction On  
Access To Bank Examination Records

B-114831

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

~~701125~~

096555

MAY 25, 1972



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

B-114831

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

This is our report on the audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1971, pursuant to section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Chairman of the Board of Directors, Federal Deposit Insurance Corporation.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

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COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

AUDIT OF FEDERAL DEPOSIT INSUR-  
ANCE CORPORATION FOR THE YEAR 195  
- ENDED JUNE 30, 1971--LIMITED  
BY AGENCY RESTRICTION ON ACCESS  
TO BANK EXAMINATION RECORDS  
B-114831

D I G E S T

WHY THE AUDIT WAS MADE

The General Accounting Office (GAO) is required by law to make an annual audit of the Federal Deposit Insurance Corporation.

OPINION OF FINANCIAL STATEMENTS

The financial statements in this report were prepared by the Corporation. These financial statements do not show an estimate of the liability which the Corporation may incur as a result of problem conditions existing in insured banks.

Because GAO, as in prior years, did not have unrestricted access to examination reports and related documentation, it could not ascertain (1) whether bank examinations were of sufficient scope and could be relied upon to identify all banks that should have been classified as problem banks, (2) whether the Corporation had taken effective follow-up action on findings disclosed by the bank examiners, and (3) the significance of any possible adverse effect of problem banks on the financial position of the Corporation.

For these reasons GAO cannot express an overall opinion on the accompanying financial statements for fiscal year 1971. Except for the comment as to the estimated liability relating to problem conditions in insured banks, GAO believes that the individual amounts shown in the financial statements are fairly stated as of June 30, 1971, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws. (See p. 17.)

## OTHER MATTERS OF INTEREST

GAO was unable to discharge fully its audit responsibilities because the Corporation would not permit unrestricted access to examination reports, files, and other records relative to the banks it insures. GAO believes that access to these records is essential because they contain facts, opinions, and recommendations of vital importance to the conduct of the Corporation's affairs. The Corporation believes that the basic concept of confidentiality, as to open bank data, is essential to the proper supervision of banks and to the functioning of deposit insurance. (See pp. 7 and 8.)

The respective positions of GAO and the Corporation on this matter are set forth in detail in GAO's report to the Congress on Audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1964 (B-114831, Feb. 28, 1966).

## RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations to officials of the Corporation.

## AGENCY ACTIONS AND UNRESOLVED ISSUES

Both the Corporation and GAO believe that the law supports their respective positions on the access-to-records problem. Repeated efforts to resolve the matter administratively have failed.

The Chairman of the Board of Directors of the Corporation advised GAO that legislative clarification eventually might be required if the problem was to be resolved; however, the Corporation continues to oppose permitting GAO to have unrestricted access to the records.

## MATTERS FOR CONSIDERATION BY THE CONGRESS

In order that GAO can more effectively carry out its responsibility, GAO is recommending that the Congress enact legislation which will clarify its authority for access for purpose of audit to all books, documents, files, and other records of the Corporation, including bank examination reports of the Corporation, the Federal Reserve banks, and the Comptroller of the Currency. (See p. 8.)

In prior audit reports to the Congress on the audit of the Federal Deposit Insurance Corporation, GAO recommended that the Federal Deposit Insurance Act be amended (1) to require that the Corporation pay the Government's share of the costs of providing retirement and disability benefits from creation of the Corporation through June 30, 1957, and reimburse the employees' compensation fund for benefit payments made subsequent to the creation of the Corporation and (2) to change the requirement for an annual audit of the Corporation by GAO from a fiscal-year basis to a calendar-year basis. Both the Corporation and GAO believe that these recommendations are still valid. (See p. 15.)



## CHAPTER 1

### INTRODUCTION

The Federal Deposit Insurance Corporation is an independent Government agency which insures deposits in banks qualified for deposit insurance in the maximum amount of \$20,000 for each depositor. National banks that are chartered by the Comptroller of the Currency and all State banks that are members of the Federal Reserve System are required to be insured. State banks that are not members of the Federal Reserve System may become insured upon application for insurance and approval thereof.

The Corporation also acts, when appointed to do so, as receiver for insured banks that have been closed. As of June 30, 1971, the Corporation had 25 active receivership cases.

The Corporation's operations are financed from assessments against insured banks and from income from its investments in U.S. Government securities. The Corporation is authorized to borrow up to \$3 billion from the U.S. Treasury when, in the judgment of the Board of Directors, such funds are required for insurance purposes. This borrowing authority has never been used. The deposit insurance fund, representing the accumulated net income of the Corporation, amounted to approximately \$4.5 billion at June 30, 1971. The amount of the fund was equivalent to 1.23 percent of the insured deposits of \$369.7 billion in the 13,884 banks insured by the Corporation at June 30, 1971. Of the 13,884 banks, 8,147 were State nonmember banks, 1,138 were State member banks, and 4,599 were national banks.

Management of the Corporation is vested in the Board of Directors which is composed of three members--two members are appointed by the President of the United States and the third member is the Comptroller of the Currency.

During fiscal year 1971 the membership of the Board of Directors was, as follows:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Frank Wille, Chairman	Mar. 1970	Present
Irvine H. Sprague	Sept. 1968	Present
William B. Camp, Comptroller of the Currency	Nov. 1966	Present



## EXAMINATIONS OF INSURED BANKS

The Corporation makes regular examinations of insured State banks that are not members of the Federal Reserve System. According to the Corporation these banks are examined to ascertain their financial condition, compliance with applicable laws and regulations, and operation of policies and practices. The banks are examined also to determine the condition of their loan portfolios, the consideration being given to such factors as the possibility of undue risk and overextension of credit or undue concentration in a single line of credit, the suitability of their security portfolios from the standpoint of liquidity and quality, the adequacy of their capital and reserves, and the effectiveness of their internal controls. In addition, overall appraisals of the banks' management are made.

State banks that are members of the Federal Reserve System are examined by the Federal Reserve banks. National banks are examined by the Comptroller of the Currency. We were not informed as to the scope of the examinations made by the Federal Reserve banks and the Comptroller of the Currency. Section 7(a)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1817) provides that the Corporation have access to reports on examinations made by, and reports on condition made to, any Federal Reserve bank and the Comptroller of the Currency.

The Corporation reported that, for the period July 1, 1970, through July 2, 1971, it had examined 7,934 insured State nonmember banks and had reviewed reports on examinations made by the Federal Reserve banks of 231 State member banks and by the Comptroller of the Currency on 764 national banks.

## CHAPTER 2

### CONTINUED RESTRICTION ON ACCESS TO REPORTS

#### AND RECORDS ON BANK EXAMINATIONS

As in prior years we were unable to discharge fully our audit responsibilities under the Federal Deposit Insurance Act because officials of the Corporation did not give us unrestricted access to examination reports, files, and other records maintained by the Corporation that were relative to the banks it insures, except for the records for closed banks.

The positions of GAO and the Corporation on this matter are set forth in detail in our report to the Congress on Audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1964 (B-114831, Feb. 28, 1966). The Chairman of the Board of Directors, Federal Deposit Insurance Corporation, advised us by letter dated March 16, 1972, that the Corporation believed that some kind of legislative clarification might be required if the issues on our access to the Corporation's records were to be resolved. The Chairman advised, however, that, if a bill granting GAO such access were proposed, the Corporation would have to oppose it.

We believe that access to the records of the Corporation's Division of Bank Supervision is essential to a meaningful audit of the Corporation by GAO. That Division employs approximately 77 percent of the Corporation's total personnel, and the efforts and reports of the Division are an essential and integral part of the operations of the Corporation. The Division's reports on insured banks contain facts, opinions, and recommendations of vital importance to the conduct of the Corporation's affairs. Without full and complete access to these reports and the supporting documentation, we cannot evaluate important information affecting the Corporation's financial operations and condition.

The Corporation believes that the basic concept of confidentiality, as to open bank data, is essential to the proper supervision of banks and to the functioning of deposit insurance.

Because of restrictions on access to the records, we were unable to ascertain (1) whether bank examinations were of sufficient scope and could be relied upon to identify all

banks that should have been classified as problem banks, (2) whether the Corporation had taken effective follow-up action on findings revealed by the bank examiners, and (3) the significance of any possible adverse effect of problem banks on the financial position of the Corporation.

Both the Corporation and GAO believe that the present law supports their respective positions. Repeated efforts to resolve this matter administratively have been unsuccessful.

In 1969 the Chairman of the House Committee on Banking and Currency introduced House bill 40 to amend the Federal Deposit Insurance Act. The bill provided that GAO have access to all records used by the Corporation, including examination reports of the Federal Reserve banks and of the Comptroller of the Currency. GAO supported the enactment of this bill; however, it had not come before the Ninety-first Congress for action prior to adjournment and no similar bill had been introduced in the first session of the Ninety-second Congress.

#### MATTER FOR CONSIDERATION BY THE CONGRESS

In order that we can more effectively carry out our responsibility, we recommend that the Congress enact legislation which will clarify our authority for access for purpose of audit to all books, documents, files, and other records of the Corporation, including bank examination reports of the Corporation, the Federal Reserve banks, and the Comptroller of the Currency.

## CHAPTER 3

PROBLEM BANKS AND BANK FAILURESPROBLEM BANKS

The Corporation classifies problem banks as serious problem banks and other problem banks. It defines a serious problem bank as one that threatens ultimately to involve the Corporation in a financial outlay unless drastic change can be brought about. Other problem banks are defined by the Corporation as banks of lesser degree of vulnerability, including those which give cause for more than ordinary concern and require aggressive supervisory attention.

The Corporation's estimates of the number of banks and insured deposits of the serious problem banks and other problem banks at June 30, 1971, and 1970, are shown below.

	<u>Number of banks</u>		<u>Estimated insured deposits</u>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>1971</u>	<u>1970</u>	<u>1971</u>	<u>1970</u>
	(000 omitted)			
Serious problem banks:				
State nonmember banks	44	40	\$ 489,975	\$ 558,213
State member banks	6	4	952,550	147,006
National banks	<u>11</u>	<u>10</u>	<u>241,287</u>	<u>145,008</u>
Total	<u>61</u>	<u>54</u>	<u>1,683,812</u>	<u>850,227</u>
Other problem banks:				
State nonmember banks	134	149	1,143,497	1,071,459
State member banks	14	14	225,003	1,137,373
National banks	<u>34</u>	<u>27</u>	<u>404,744</u>	<u>287,432</u>
Total	<u>182</u>	<u>190</u>	<u>1,773,244</u>	<u>2,496,264</u>
Total	<u>243</u>	<u>244</u>	<u>\$3,457,056</u>	<u>\$3,346,491</u>

During fiscal year 1971, 105 banks were removed from the classification of problem banks--101 banks because of improvements in their management or financial condition and four banks because of their failure. During the fiscal year, 104 other banks were added by the Corporation to the

problem bank classification, making a total of 243 banks at June 30, 1971. Of the 243 banks in the problem category, the Corporation estimated that the five largest problem banks had insured deposits which totaled \$1 billion.

To correct problem conditions at an insured bank, the Corporation, with the assistance of the appropriate banking regulatory body, attempts to obtain the cooperation of the bank's management in improving the bank's operations and financial condition. When corrective action is not obtainable by this method, the Corporation is authorized under section 202 of the Financial Institutions Supervisory Act of 1966 (12 U.S.C. 1818) to take corrective measures--such as the issuance of cease and desist orders to insured banks engaged in unsafe and unsound practices and the suspension or removal of bank officers and directors, subject to certain protective standards and procedures.

When unsafe and unsound practices persist, the Corporation is authorized under section 8(a) of the Federal Deposit Insurance Act to commence proceedings which may result in the termination of the deposit insurance coverage of the bank.

The accompanying financial statements do not show an estimate of the liability which the Corporation may incur as a result of problem conditions existing in insured banks.

BANK FAILURES

During the fiscal years 1967 through 1971, 29 insured banks failed as shown in the following tabulation.

Fiscal year	Number of insured banks which failed			
	Total	State		National
Nonmember		Member		
1967	5	4	1	-
1968	3	1	-	2
1969	6	3	2	1
1970	7	5	-	2
1971	<u>8</u>	<u>7</u>	-	<u>1</u>
Total	<u>29</u>	<u>20</u>	<u>3</u>	<u>6</u>

The Corporation estimated that, for the eight banks which failed during fiscal year 1971, the total payments required to discharge its insurance indemnity liability

would be about \$190 million and that its estimated losses thereon would be about \$33 million, as shown below.

<u>Bank</u>	<u>Date closed</u>	Estimated liability paid or payable (note a)	Estimated loss to Corporation
(000 omitted)			
Eatontown National Bank, Eatontown, New Jersey	8- 7-70	\$ 13,561	\$ 5,500
First State Bank of Bonne Terre, Bonne Terre, Missouri	8-24-70 <sup>b</sup>	5,683	400
City Bank of Philadelphia, Philadelphia, Pennsylvania	9- 3-70 <sup>c</sup>	8,856	1,000
Berea Bank and Trust Company, Berea, Kentucky	10- 8-70 <sup>d</sup>	5,300	10
Sharpstown State Bank, Houston, Texas	1-25-71	47,773	24,000
Birmingham Bloomfield Bank, Birmingham, Michigan	2-11-71 <sup>e</sup>	106,609	1,000
Farmers State Bank of Carlock, Carlock, Illinois	2-17-71	1,914	1,000
Bank of Salem, Salem, Nebraska	4- 2-71	<u>542</u>	<u>-</u>
		<u>\$190,238</u>	<u>\$32,910</u>

<sup>a</sup>Does not include liquidation expenses incurred or collections received.

<sup>b</sup>Assumed by Commerce Bank of Bonne Terre.

<sup>c</sup>Assumed by Girard Trust Bank, Philadelphia.

<sup>d</sup>Assumed by Peoples Bank and Trust Company, Berea.

<sup>e</sup>Assumed by Fidelity Bank of Michigan, Birmingham.

The Corporation, in discharging its insurance indemnity liability for the eight banks which failed, paid the depositors of four of the banks the amount of their insured deposits in exchange for the depositors' claims on the banks' assets and took action to facilitate the acquisition of the other four banks by other insured banks.

The Corporation purchased some of the assets of the failed banks that were taken over by the assuming banks, and the amount paid became part of the assets acquired by the assuming banks. The assets acquired by the Corporation are to be liquidated and the proceeds applied in payment to the Corporation for (1) its investment in the acquired assets, (2) its expenses incurred in maintaining and liquidating the acquired assets, and (3) its interest on unliquidated investments in the acquired assets and the accumulated expenses at the rate of 4 percent a year. Any remaining proceeds and other assets are to be returned to the failed banks.

The Corporation's records showed that the bank failures in the last several years resulted from various combinations of unsound and deceptive practices in operations, including misuse of bank funds by bank officers, directors, and owners; substandard loans and excessive appraisals of collateral; unwarranted loans in which bank officials, directors, and owners had personal financial interests; loans in excess of the limit prescribed by law; broker-solicited funds in certificates of deposit and related unwarranted out-of-territory lending; inadequate capital; unsatisfactory management; and defalcations.

## CHAPTER 4

### CONTINGENT LIABILITIES

The Corporation's Assistant General Counsel advised us that there were eight legal actions pending against the Corporation at June 30, 1971, and estimated that the Corporation might have a total liability of about \$2.7 million in these actions. This amount is included in the Corporation's reserve for losses shown on the statement of financial condition.

The Corporation's Assistant General Counsel is of the opinion that the legal actions against the Corporation in certain other cases are without merit. The more significant cases in this category are described below.

One case involves an action by eight directors of the closed Public Bank, Detroit, Michigan, seeking to set aside the closing of the bank and the transfer of its assets to the Bank of the Commonwealth, Detroit. The primary relief sought is the return of the Public Bank to its former status as an operating bank and the transfer of the Corporation's \$10 million guaranty fund from the Bank of the Commonwealth to the Public Bank. The action involves also a claim for damages of an amount not disclosed in the complaint. The Corporation's Assistant General Counsel considers it highly unlikely that there will be any judgment for damages against the Corporation. The General Counsel advised us that, in another case, the same type of issues had been decided in favor of the Corporation in September 1967 by the Circuit Court for Wayne County, Michigan.

A second case involves a claim for damages totaling \$7.5 million against the Corporation and other defendants concerning matters arising from the closing of two banks--San Francisco National Bank and The First National Bank of Marlin, Texas. The Corporation was dismissed from the action; however, an appeal is pending to the U.S. Ninth Circuit Court of Appeals. The Corporation's Assistant General Counsel believes the case is without merit.

A third case involves a claim for damages of approximately \$50 million against the Corporation in its corporate capacity and as receiver of the San Francisco National Bank and The First National Bank of Marlin, as well as against certain other defendants. Previously the Corporation had filed suit against the claimant and his interests seeking judgment for approximately \$700,000. In January 1970 an Order for Dismissal and Summary Judgment was signed by the



district judge for the U.S. District Court for the Northern District of California entering judgment in favor of the Corporation. Although the plaintiff has an appeal pending before the U.S. Court of Appeals, the Corporation's Assistant General Counsel believes that the appeal is without merit.

CHAPTER 5

STATUS OF PRIOR YEARS' RECOMMENDATIONS

In our prior audit reports, we recommended:

1. That the Federal Deposit Insurance Act be amended to require the Corporation to:
  - a. Pay into the civil service retirement and disability fund the Government's share of the cost of providing retirement and disability benefits for the Corporation's employees for the period from the creation of the Corporation through June 30, 1957. The Corporation, starting with the first pay period in July 1957, began paying its share of these costs.
  - b. Pay into the employees' compensation fund the amount of benefit payments made from such fund on account of the Corporation's employees for all periods subsequent to the creation of the Corporation.
  - c. Pay into the Treasury as miscellaneous receipts a fair part of the cost of administering the civil service retirement system and the employees' compensation fund for all periods subsequent to the creation of the Corporation.
2. That section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827(c)) be amended to require that GAO make its reports of audits on a calendar-year basis rather than on a fiscal-year basis.

Proposed legislation to amend the act was introduced in prior years but was not acted on by the Congress. No new legislation covering these matters had been introduced in the first session of the Ninety-second Congress.

Both the Corporation and GAO believe that the adoption of the above recommendations would result in a more equitable allocation of the cost of retirement, disability, and compensation benefits between the Federal Government and the Corporation and would eliminate the inconsistency in the periods covered by the annual reports of GAO and the Corporation.

## CHAPTER 6

### SCOPE OF AUDIT

Our audit of the Corporation consisted principally of an examination of its statement of financial condition as of June 30, 1971, the related statements of income and deposit insurance fund and of sources and application of funds for the fiscal year then ended, and the statement of analysis of the deposit insurance fund from the fund's inception. We were unable to ascertain the possible adverse effect of problem banks on the financial position of the Corporation because of the restrictions imposed by Corporation officials on our access to examination reports and related data. (See p. 7.) We believe that unrestricted access to such reports and records is indispensable for a proper examination of the Corporation's financial statements.

Our examination was made in accordance with generally accepted auditing standards and, with the foregoing exception concerning review of bank examination reports and related data, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control and the work performed by the Corporation's internal auditors.

**BEST DOCUMENT AVAILABLE**

## CHAPTER 7

### OPINION OF FINANCIAL STATEMENTS

The financial statements in this report were prepared by the Corporation. These financial statements do not show an estimate of the liability which the Corporation may incur as a result of problem conditions existing in insured banks. Because we did not have unrestricted access to examination reports and related documentation on insured banks (see p. 7) we could not ascertain (1) whether bank examinations were of sufficient scope and could be relied upon to identify all banks that should have been classified as problem banks, (2) whether the Corporation had taken effective follow-up action on findings revealed by the bank examiners, and (3) the significance of any possible adverse effect of problem banks on the financial position of the Corporation.

For these reasons we cannot express an overall opinion on the accompanying financial statements for fiscal year 1971. In our opinion, except for the foregoing comment as to the estimated liability relating to problem conditions existing in insured banks, the individual amounts shown in the financial statements are fairly stated as of June 30, 1971, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.



FEDERAL DEPOSIT INSURANCE CORPORATION  
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION  
 JUNE 30, 1971, AND JUNE 30, 1970

	<u>June 30, 1971</u>	<u>June 30, 1970</u>
ASSETS		
CASH	\$ 11,575,554	\$ 7,277,964
U.S. GOVERNMENT OBLIGATIONS:		
Securities at amortized cost	\$4,644,799,985 <sup>a</sup>	\$4,453,946,801 <sup>b</sup>
Accrued interest receivable	<u>60,281,951</u>	<u>52,530,692</u>
	4,705,081,936	4,506,477,493
ASSETS ACQUIRED IN RECEIVERSHIP AND DEPOSIT ASSUMPTION TRANSACTIONS:		
Special assistance to insured banks	8,014,385	8,676,257
Subrogated claims of depositors against closed insured banks	87,706,138	30,778,842
Net insured balances of depositors in closed insured banks, to be subrogated when paid--see related liability	1,924,077	1,625,450
Equity in assets acquired under agreements with insured banks	105,855,759	13,250,771
Assets purchased outright	<u>15,953</u>	<u>15,508</u>
	203,516,312	54,346,828
Less reserve for losses	<u>56,614,000</u>	<u>28,832,794</u>
	146,902,312	25,514,034
MISCELLANEOUS ASSETS	470,086	391,760
LAND AND OFFICE BUILDING, less depreciation on building	7,296,893	7,432,097
FURNITURE, FIXTURES AND EQUIPMENT	<u>1</u>	<u>1</u>
Total assets	<u>\$4,871,326,782</u>	<u>\$4,547,093,349</u>
LIABILITIES AND DEPOSIT INSURANCE FUND (note 1)		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 2,796,563	\$ 2,635,593
EARNEST MONEY, ESCROW FUNDS AND COLLECTIONS HELD FOR OTHERS	2,502,030	873,296
ACCRUED ANNUAL LEAVE OF EMPLOYEES	2,702,602	2,466,172
DUE INSURED BANKS:		
Net assessment income credits (note 2):		
Available July 1, 1971, and July 1, 1970, respectively	\$ 210,021,029	\$ 220,230,665
Available July 1, 1972, and July 1, 1971, respectively (estimated)	103,684,567	106,124,803
Other	<u>8,805</u>	<u>94,043</u>
	313,714,401	326,449,511
NET INSURED BALANCES OF DEPOSITORS IN CLOSED INSURED BANKS--See related assets	<u>1,924,077</u>	<u>1,625,450</u>
Total liabilities	323,639,673	334,050,022
DEPOSIT INSURANCE FUND, net income accumulated since inception (schedule 2 and note 3)	<u>4,547,687,109</u>	<u>4,213,043,327</u>
Total liabilities and deposit insurance fund	<u>\$4,871,326,782</u>	<u>\$4,547,093,349</u>

## GAO notes:

<sup>a</sup>At June 30, 1971--face value \$4,660,668,000, cost \$4,631,475,681, market value \$4,316,846,152.

<sup>b</sup>At June 30, 1970--face value \$4,480,946,000, cost \$4,439,527,970, market value \$3,940,076,936.

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements is set forth on page 17.

SCHEDULE 2

FEDERAL DEPOSIT INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND DEPOSIT INSURANCE FUND

FISCAL YEARS ENDED JUNE 30, 1971, AND JUNE 30, 1970

	<u>Fiscal year 1971</u>		<u>Fiscal year 1970</u>	
<b>INCOME:</b>				
Deposit insurance assessments (note 2):				
Assessments earned during the year	\$386,615,352		\$366,019,786	
Less net assessment income credits to insured banks--estimated	<u>207,572,739</u>	\$ 179,042,613	<u>215,515,945</u>	\$ 150,503,841
Adjustments of assessments earned in prior years		<u>39,464</u>		<u>146,232</u>
		179,082,077		150,650,073
 Net income from U.S. Government securities		230,648,590		207,356,387
Other income		<u>168,689</u>		<u>629,587</u>
 Total income		<u>409,899,356</u>		<u>358,636,047</u>
<b>EXPENSES AND LOSSES:</b>				
Administrative and operating expenses:				
Salaries and wages	29,367,145		25,256,947	
Civil Service retirement fund and FICA payments	2,018,770		1,650,819	
Travel expenses	7,605,435		6,336,886	
Office rentals, communications and other expenses	<u>6,023,367</u>	45,014,717	<u>5,437,300</u>	38,681,952
 Provisions for insurance losses:				
Applicable to banks assisted in the current fiscal year	32,910,000		6,000,000	
Adjustments applicable to banks assisted in prior years	<u>-3,810,692</u>	29,099,308	<u>-2,521,206</u>	3,478,794
 Nonrecoverable insurance expenses incurred to protect depositors--net		<u>1,141,549</u>		<u>630,847</u>
 Total expenses and losses		<u>75,255,574</u>		<u>42,791,593</u>
 NET INCOME--ADDITION TO THE DEPOSIT INSURANCE FUND FOR THE YEAR		334,643,782		315,844,454
 DEPOSIT INSURANCE FUND, at the beginning of the year		<u>4,213,043,327</u>		<u>3,897,198,873</u>
 DEPOSIT INSURANCE FUND, at the end of the year, net income accumulated since inception (schedule 4 and note 3)		<u>\$4,547,687,109</u>		<u>\$4,213,043,327</u>

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements is set forth on page 17.

BEST DOCUMENT AVAILABLE

## FEDERAL DEPOSIT INSURANCE CORPORATION

## SOURCES AND APPLICATION OF FUNDS

FISCAL YEAR ENDED JUNE 30, 1971

## FUNDS PROVIDED BY:

Net deposit insurance assessments	\$179,082,077
Income from U.S. Government securities, less amortized net discounts	228,656,720
Maturities and sales of U.S. Government securities	524,573,076
Collections on assets acquired in receiver- ship and deposit assumption transactions	<u>42,950,621</u>
Total funds provided	<u>\$975,262,494</u>

## FUNDS APPLIED TO:

Administrative, operating, and insurance expenses, less miscellaneous credits	\$ 45,615,943
Acquisition of assets in receivership and deposit assumption transactions	193,139,580
Purchase of U.S. Government securities	713,434,390
Decrease in assessment credits due insured banks	12,735,110
Net changes in other assets and liabilities	<u>10,337,471</u>
Total funds applied	<u>\$975,262,494</u>

The opinion of the General Accounting Office on these financial statements is set forth on page 17.



SCHEDULE 4

FEDERAL DEPOSIT INSURANCE CORPORATION

ANALYSIS OF DEPOSIT INSURANCE FUND

FROM INCEPTION TO JUNE 30, 1971

INCOME:	
Insurance assessments	\$5,651,346,387
Less net assessment income credits	<u>2,706,173,442</u>
Net insurance assessments	2,945,172,945
Income from U.S. Government securities	2,168,452,449
Other operating income (principally interest and allowable return from deposit insurance assumption and receivership cases)	<u>10,148,176</u>
Total income	<u>5,123,773,570</u>
EXPENSES AND LOSSES:	
Administrative and operating expenses	406,137,386
Deposit insurance losses and expenses	89,386,763
Interest paid to the Secretary of the Treasury on retired capital stock	<u>80,562,312</u>
Total expenses and losses	<u>576,086,461</u>
DEPOSIT INSURANCE FUND, NET INCOME ACCUMULATED SINCE INCEPTION (note 3)	<u>\$4,547,687,109</u>

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements is set forth on page 17.

NOTES TO FINANCIAL STATEMENTS

1. Capital stock was retired by payments to the United States Treasury in 1947 and 1948.
2. Represents the portion of the Corporation's net assessment income for the preceding calendar year and an estimated portion of such income for the first half of the current calendar year which, pursuant to the Federal Deposit Insurance Act (12 U.S.C. 1817), shall be credited against assessments becoming due from insured banks, after the end of the current fiscal year and after the end of the following fiscal year, respectively.
3. The deposit insurance fund represents the accumulated net income of the Corporation and is available for insuring deposits. The Corporation also has borrowing authority of \$3 billion from the United States Treasury which has never been used.
4. These statements do not include accountability for the assets and liabilities of the closed insured banks for which the Corporation acts as receiver or liquidating agent.





FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D C 20429

OFFICE OF THE CHAIRMAN

March 16, 1972

Mr. H. L. Krieger, Regional Manager  
U.S. General Accounting Office  
803 W. Broad Street - 5th Floor  
Falls Church, Virginia 22046

Dear Mr. Krieger:

This is in response to your letter of January 17, 1972, with which you enclosed two copies of the draft of your proposed report to the Congress on the audit of the Federal Deposit Insurance Corporation for fiscal year 1971.

We have no problem with the fact that you have discontinued processing two separate reports of your audit of the Corporation: that is, one for the Congress and one for the Corporation.

As we have noted in the past, it continues to appear that some kind of legislative clarification will eventually be required if the issues with respect to your access to our confidential reports and records on bank examinations are to be resolved. We have also noted, however, that if a bill granting GAO such access were proposed, we would have to oppose it. In this connection, we feel also that your report has become somewhat unilateral in that your continuing front cover and narrative references to the subject of access state your views but do not provide at least the basic substance of the Corporation's position.

We continue to concur in the proposal that the Federal Deposit Insurance Act be amended as to the Corporation's posture in connection with certain of its contributions to the civil service retirement and employees' compensation system and funds. Additionally, the Corporation concurs in your proposal that Section 17(c) of the Federal Deposit Insurance Act be amended to require that GAO make its reports of audits on a calendar-year basis rather than on a fiscal year basis. If the foregoing legislation should be introduced and considered, the Corporation would support it.

As we have also noted, we have some question as to whether anything is gained by including in your proposed "Statement of Financial Condition"

APPENDIX I

Mr. H.L. Krieger

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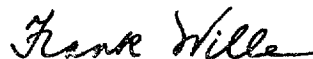
March 16, 1972

the market value of the Corporation's portfolio of Government securities. Inasmuch as you continue to include a market value figure, we assume you must feel this is appropriate. Our own view is that market value at any point in time has relatively little meaning in stating the Corporation's financial condition, recognizing that the great bulk of our portfolio is held as a deposit insurance fund and re-invested as it matures.

[See GAO note.]

Beyond these comments, after review of your proposed draft and statements, we have no additional suggestions and appreciate the opportunity you have provided for the expression of our views.

Sincerely,



Frank Wille  
Chairman

GAO note: The deleted material related to a matter that was included in the draft report but omitted from the final report.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.