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REPORT BY THE

112869

Comptroller General

OF THE UNITED STATES

Examination Of Financial Statements Of The Federal Deposit Insurance Corporation For The Year Ended December 31, 1979



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JULY 25, 1980

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

B-199560

The Honorable Irvine H. Sprague
Chairman, Board of Directors
Federal Deposit Insurance
Corporation *AGC 02196*

Dear Mr. Sprague:

We have completed an audit of the accompanying financial statements of the Federal Deposit Insurance Corporation for the year ended December 31, 1979. We made our examination pursuant to section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827).

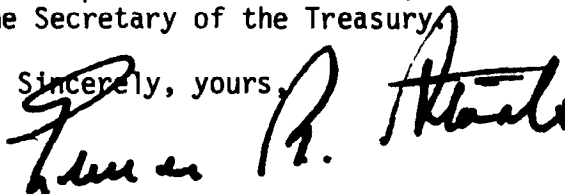
We examined the Statement of Financial Condition of the Federal Deposit Insurance Corporation as of December 31, 1979, and the Related Statements of Income and the Deposit Fund, Changes in Financial Position, and Analysis of the Deposit Insurance Fund. Our examination was made in accordance with the Comptroller General's standards for financial and compliance audits. We included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances. To the extent possible, we supplemented our audit procedures by using work of the Corporation's internal auditors.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Deposit Insurance Corporation at December 31, 1979, and the results of its operations and changes in its financial position for the year then ended, in conformity with both generally accepted accounting principles and the accounting principles prescribed by the Comptroller General applied on a basis consistent with that of the preceding year.

The deposit insurance fund of about \$9.8 billion at December 31, 1979, represents net income accumulated since the fund's beginning in 1933 and is available to meet future losses. We believe the fund is financially sound and adequate to meet potential losses that might result from problem conditions known to exist in specific insured banks at the end of 1979. Whether it would be adequate during future periods depends on economic conditions and, therefore, is currently undeterminable.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of the Treasury.

Sincerely, yours,

A handwritten signature in black ink, appearing to read "Thomas R. Atkins". The signature is written in a cursive style with a large initial "T" and "A".

Comptroller General
of the United States

Enclosures

FEDERAL DEPOSIT INSURANCE CORPORATION

BOARD OF DIRECTORS

IRVINE H. SPRAGUE

Chairman

JOHN G. HEIMANN

Director

WILLIAM M. ISAAC

Director

FINANCIAL STATEMENTS

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**COMPARATIVE STATEMENT
OF FINANCIAL CONDITION** (In thousands)

ASSETS:

	-UNAUDITED-	
	December 31, 1979	December 31, 1978
Cash (GAO notes 1 and 2)	<u>\$ 1,523</u>	<u>\$ 4,343</u>
U.S. Government obligations: (Note 1)		
Securities at amortized cost	9,449,595	8,210,441
Accrued interest	<u>186,511</u>	<u>162,720</u>
Total	9,636,106	8,373,161
Equity in assets acquired from deposit payoff cases and insured banks assisted under Section 13(e) of the FDI Act:		
Depositors' claims paid	31,876	33,980
Depositors' claims unpaid	802	861
Loans and assets purchased (GAO notes 1 and 2)	746,583	940,309
Assets purchased outright	18,391	19,104
Notes purchased plus accrued interest (Note 3)	133,627	135,568
Less allowance for losses (Note 2)	<u>257,384</u>	<u>273,949</u>
Total	673,695	855,873
Equity in assets acquired from insured banks assisted under Section 13(c) of the FDI Act:		
Assets purchased outright	22,143	23,936
Notes purchased plus accrued interest (Note 4)	37,000	37,028
Less allowance for losses (Note 2)	<u>20,000</u>	<u>20,700</u>
Total	39,143	40,264
Miscellaneous assets (Note 5)	2,765	2,759
Land and office building, less depreciation on building	6,148	6,283
Total Assets	\$10,359,380	\$9,282,683

The accompanying summary of significant policies and notes to financial statements are an integral part of these statements.

Our opinion on this statement appears on page 1 of the letter.

FEDERAL DEPOSIT INSURANCE CORPORATION

**LIABILITIES AND THE
DEPOSIT INSURANCE FUND:****-UNAUDITED-**

	December 31, 1979	December 31, 1978
Accounts payable and accrued liabilities	\$ 5,309	\$ 4,963
Earnest money, escrow funds, and collections held for others	1,920	4,893
Accrued annual leave of employees	5,393	4,716
Due insured banks:		
Net assessment income credits:		
Available July 1, 1979	0	443,101
Available July 1, 1980 (Note 6)	524,672	0
 Available excess credits (Note 7)	<u>13,981</u>	<u>11,990</u>
Total	538,653	455,091
Liabilities incurred in failures of insured banks:		
Notes payable plus accrued interest (Note 8)	14,571	16,166
Depositors' claims unpaid	<u>802</u>	<u>861</u>
Total	15,373	17,027
 Total Liabilities	 566,648	 486,690
 Deposit Insurance Fund	 9,792,732	 8,795,993
 Total Liabilities and the Deposit Insurance Fund	 \$10,359,380	 \$9,282,683

The accompanying summary of significant policies and notes to financial statements are an integral part of these statements.

Our opinion on this statement appears on page 1 of the letter.

**COMPARATIVE STATEMENT OF INCOME
AND THE DEPOSIT INSURANCE FUND (In thousands)**

	-UNAUDITED-	
	For the twelve months ended	
	December 31, 1979	December 31, 1978
Revenues:		
Assessments earned	\$ 881,970	\$ 810,532
Interest on U.S. Government obligations	699,900	567,042
Amortization of premiums and discounts (net)	4,433	(1,264)
Interest earned on notes receivable	12,370	11,974
Other income	<u>17,280</u>	<u>7,313</u>
Total	1,615,953	1,395,597
Assessment Credits, Expenses, and Losses:		
Provision for assessment credits	525,538	443,534
Administrative and operating expenses (net) (Note 10)	106,791	103,289
Nonrecoverable insurance expenses	4,137	5,409
Provision for insurance losses	(17,252)	36,532
Loss on sale of securities	<u>0</u>	<u>3,628</u>
Total	619,214	592,392
Net Income	996,739	803,205
Deposit Insurance Fund-January 1	8,795,993	7,992,788
Deposit Insurance Fund-December 31	\$9,792,732	\$8,795,993

The accompanying summary of significant policies and notes to financial statements are an integral part of these statements.

Our opinion on this statement appears on page 1 of the letter.

FEDERAL DEPOSIT INSURANCE CORPORATION

COMPARATIVE STATEMENT OF CHANGES
IN FINANCIAL POSITION (In thousands)

	-UNAUDITED-	
	For the twelve months ended	
	December 31, 1979	December 31, 1978
Financial Resources Were Provided From:		
Operations:		
Net deposit insurance assessments	\$ 356,432	\$ 366,998
Interest on U.S. Government obligations	699,900	567,042
Interest on notes receivable	12,370	11,974
Other income	17,280	7,313
Total	<u>1,085,982</u>	<u>953,327</u>
Less:		
Administrative and operating expenses, net of depreciation	106,656	103,154
Nonrecoverable insurance expenses	4,137	5,409
Total	<u>110,793</u>	<u>108,563</u>
Resources provided from operations	<u>975,189</u>	<u>844,764</u>
Maturity and sale of U.S. Government obligations, less, \$3,628 net loss in 1978	879,975	794,469
Collections received on assets acquired in receiver- ship and deposit assumption transactions	341,542	799,248
Increase in assessment credits due banks	83,562	26,355
Decrease in cash	2,820	4,320
Total financial resources provided	<u>\$2,283,088</u>	<u>\$2,469,156</u>
Financial Resources Were Applied To:		
Purchase of U.S. Government obligations	\$2,246,816	\$1,686,705
Increase (decrease) in U.S. Treasury One-Day Certificates (Total purchases - \$35,828,626 in 1979 and \$37,879,123 in 1978 Total maturities - \$35,960,746 in 1979 and \$37,485,081 in 1978)	(132,120)	194,042
Acquisition of Assets acquired in receivership and deposit assumption transactions	141,078	554,280
Increase in accrued interest on securities	23,791	24,763
Net change in other assets and liabilities	3,523	9,366
Total financial resources applied	<u>\$2,283,088</u>	<u>\$2,469,156</u>

The accompanying summary of significant policies and notes to financial statements are an integral part of these statements.

Our opinion on this statement appears on page 1 of the letter.

FEDERAL DEPOSIT INSURANCE CORPORATION

COMPARATIVE STATEMENT OF ADMINISTRATIVE
AND OPERATING EXPENSES (In thousands)

	-UNAUDITED-	
	For the twelve months ended	
	December 31, 1979	December 31, 1978
Personal Services:		
Salaries	\$ 67,428	\$ 62,617
Retirement, hospitalization, and life insurance	6,630	6,228
Legal and professional services	677	820
Other contractual services	241	180
Education and training	<u>198</u>	<u>135</u>
	75,174	69,980
Travel:		
Regular travel	14,270	15,509
Change of station	902	820
Other travel	<u>30</u>	<u>52</u>
	15,202	16,381
Building and Leased Space:		
Operation of headquarters building	1,740	1,509
Leased office space	<u>5,536</u>	<u>4,826</u>
	7,276	6,335
Equipment:		
Purchase	1,501	3,336
Rental	1,215	1,259
Maintenance and operation	<u>207</u>	<u>142</u>
	2,923	4,737
Supplies and Printed Matter	1,902	2,137
Other Expenses:		
Communications	3,086	1,826
Cafeteria and dining room	75	133
Employee and other conferences	17	496
Joint studies and grants	48	2
Training materials, tuition, and fees	384	479
Other employee benefits	770	747
Miscellaneous	<u>256</u>	<u>244</u>
	4,616	3,927
Total Administrative and Operating Expenses	107,093	103,497
Less Recoverable Expenses and Other Credits	302	208
Total Net Administrative and Operating Expenses	\$106,791	\$103,289

The accompanying summary of significant policies and notes to financial statements are an integral part of these statements.

Our opinion on this statement appears on page 1 of the letter.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General. These statements do not include accountability for assets and liabilities of closed insured banks for which the Corporation acts as receiver or liquidating agent. Periodic and final accountability reports of its activities as receiver or liquidating agent are furnished by the Corporation to courts, supervisory authorities, and others as required.

U.S. Government Obligations. Securities are shown at amortized cost which is the purchase price of the securities less the amortized premium or plus the accreted discount. Such amortization and accretion are computed on a daily straight-line basis from the date of acquisition to the date of maturity.

Deposit Insurance Assessments. The Corporation assesses insured banks at the rate of 1/12 of one percent per year on the bank's average deposit liability less certain exclusions and deductions. Assessments are due in advance for each six-month period and credited to income each month. Section 7(d) of the Federal Deposit Insurance Act states that each July 1, sixty-six and two-thirds percent of the Corporation's net assessment income from the prior calendar year be made available to insured banks as a prorated credit against the current assessment due.

Allowance for Losses. It is the policy of the Corporation to establish an estimated allowance for loss at the time a bank fails. These allowances are reviewed every six months and adjusted as required, based on the financial developments which accrue during each six-month period. The Corporation does not state its estimated contingent liability for unknown future bank closings because such estimates are impossible to make. The Corporation's contingent liability for eventual net losses depends upon factors which cannot be assessed until or after a bank has actually failed. The Corporation's entire deposit insurance fund and borrowing authority are available, however, for such contingencies.

Depreciation. The headquarters building is depreciated on a straight-line basis over a 50-year estimated life. The cost of furniture, fixtures, and equipment is expensed at time of acquisition.

Reclassifications. Certain reclassifications have been made in the 1978 financial statements to conform to the presentation used in 1979.

NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 1979 and 1978

1. U.S. Government Obligations. All cash received by the Corporation which is not used to defray operating expenses or for outlays related to assistance to banks and liquidation activities, is invested in U.S. Treasury securities. As of December 31, 1979 the Corporation's investment portfolio consisted of the following:

(in thousands)					
Maturity	Description	Par Value	Book Value	Market Value	Cost
1-Day	Special Treasury Certificates	\$ 141,922	\$ 141,922	\$ 141,922	\$ 141,922
Less Than 1 Year	U.S.T. Notes and Bonds	1,081,002	1,079,872	1,058,910	1,074,447
2-5 Years	U.S.T. Notes and Bonds	3,799,920	3,799,232	3,524,120	3,799,448
6-10 Years	U.S.T. Notes and Bonds	4,356,828	4,355,770	3,978,462	4,359,313
Over 10 Years	U.S.T. Notes and Bonds	75,546	72,999	59,634	71,806
		\$9,455,016	\$9,449,595	\$8,763,048	\$9,446,936

FEDERAL DEPOSIT INSURANCE CORPORATION

2. Allowance for Losses. An analysis of the changes in the allowance for losses on the accounts described below for years ended December 31, 1979 and 1978 follows:

	1979	1978
Depositors' claims paid:		
Balance, beginning of period	\$ 14,475,000	\$ 16,032,000
Add (Subtract):		
Provision charged to expense	4,100,000	300,000
Net adjustment to prior years	(1,775,000)	(1,214,000)
Write-off at termination	<u>0</u>	<u>(643,000)</u>
Balance, end of period	<u>16,800,000</u>	<u>14,475,000</u>
Loans and assets purchased:		
Balance, beginning of period	240,763,500	210,709,400
Add (Subtract):		
Provision charged to expense	9,255,000	7,505,000
Net adjustment to prior years	(27,683,000)	23,735,100
Write-off at termination	<u>(11,500)</u>	<u>(1,186,000)</u>
Balance, end of period	<u>222,324,000</u>	<u>240,763,500</u>
Assets purchased outright:		
Balance, beginning of period	39,410,000	33,400,000
Add (Subtract):		
Provision charged to expense	0	0
Net adjustment to prior years	(1,150,000)	6,010,000
Write-off at termination	<u>0</u>	<u>0</u>
Balance, end of period	<u>38,260,000</u>	<u>39,410,000</u>
	\$277,384,000	\$294,648,500

3. Notes Purchased to Facilitate Deposit Assumptions. The Corporation's outstanding principal on notes receivable, purchased to facilitate deposit assumptions and mergers of closed insured banks under Section 13(a) of the Federal Deposit Insurance Act, at December 31, 1979 and 1978 are:

	1979	1978
Clearing Bank	\$ 1,000,000	\$ 1,000,000
Marine National Exchange Bank of Milwaukee	1,500,000	1,500,000
First Tennessee National Corporation	16,000,000	16,000,000
First Tennessee National Bank	8,000,000	8,000,000
Bank Leumi Trust Company of New York	8,750,000	10,000,000
New Orleans Bancshares, Inc.	5,833,333	6,666,667
European-American Bancorp.	85,000,000	85,000,000
Drovers Bank of Chicago	4,000,000	4,000,000
Town-Country National Bank	<u>250,000</u>	<u>250,000</u>
	\$130,333,333	\$132,416,667

4. Notes Purchased to Assist Operating Banks. The Corporation's outstanding principal on notes receivable, purchased under authority of Section 13(c) of the Federal Deposit Insurance Act, at December 31, 1979 and 1978 are:

	1979	1978
Unity Bank and Trust Company	\$ 1,500,000	\$ 1,500,000
Bank of the Commonwealth	<u>35,500,000</u>	<u>35,500,000</u>
	\$37,000,000	\$37,000,000

5. Miscellaneous Assets. The Corporation's miscellaneous assets at December 31, 1979 and 1978 are:

	1979	1978
Receivables	\$1,719,000	\$1,748,000
Prepaid Items	<u>1,046,000</u>	<u>1,011,000</u>
	\$2,765,000	\$2,759,000

6. Assessment Credits Due Banks July 1, 1980. The computation of net assessment income credits that will become available to banks on July 1, 1980 is as follows:

Computation:		
Gross Assessment Income C.Y. 1979		\$880,403,000
Less: Administrative and Operating Expenses	\$108,791,000	
Provision for Losses	(17,252,000)	
Insurance Expense	<u>4,125,000</u>	<u>93,664,000</u>
Net Assessment Income		<u>\$786,739,000</u>

Distribution:		
1/3 to F.D.I.C.	\$282,248,000	
2/3 to Insured Banks	<u>524,493,000</u>	<u>\$786,739,000</u>

Assessment Credit Available to Banks - July 1, 1980:	
Assessment Credit C.Y. 1979	\$524,493,000
Prior Years Credits	<u>179,000</u>
Assessment Credit Available July 1, 1980	<u>\$524,672,000</u>

Effective Rate of Assessment for C.Y. 1979: 1/30 of 1% of Total Assessable Deposits

7. Available Excess Credits. As of December 31, 1979 and 1978, assessments receivable from insured banks reflected credit balances representing excesses of assessment income credits made available to insured banks on July 1, 1979 and 1978 over assessments due for the last six months of each calendar year. These excess credits continued to be available to insured banks at the beginning of the next assessment period in the following calendar years.

8. Notes Payable. These amounts represent the unpaid principal and accrued interest on the Corporation's unsecured notes designated "5.775% Series A Notes due January 1, 1988" and "5.775% Series B Notes due January 1, 1990" as set forth in the consents, exchange agreement, and agreements of release and satisfaction related to the sale of Franklin Buildings, Inc. to European-American Bank and Trust Company.

9. Southern Bancorporation Note Receivable. On December 9, 1976, Southern Bancorporation repaid in full the \$8 million note that the Corporation had purchased on September 24, 1974. Southern Bancorporation financed this transaction by obtaining a loan from First Union National Bank of North Carolina. To induce FUNB to enter the loan agreement, the FDIC agreed to guarantee the payment of 75 percent of the unpaid principal amount of the loan on the terms and conditions set forth in the guarantee agreement. As of December 31, 1979 and 1978, FUNB's outstanding principal due on the loan totaled \$5.8 million and \$6.6 million, respectively.

10. Lease Commitments. Rental expense of \$4,556,000 (1979) and \$3,916,000 (1978) for office premises has been charged to expense. Minimum rentals for each of the next 5 years and for subsequent years thereafter are as follows:

1980	1981	1982	1983	1984	1985 or after
\$4,249,000	\$3,595,000	\$3,359,000	\$1,988,000	\$1,492,000	\$3,456,000

Most office premise lease agreements provide for increase in basic rentals resulting from increased property taxes and maintenance expense.

ADDITIONAL GAO NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1979 and 1978

1. To more appropriately reflect the status of cash on deposit in the Corporation's accounts, cash totaling \$.6 million, which was in liquidator's possession and control at December 31, 1979, has been included in the loans and assets purchased account. The prior period statement included cash totaling \$2.1 million, which was in liquidator's possession and control at December 31, 1978, in the Corporation's cash account.

2. About \$26,000 of the Corporation's cash and about \$500,000 of the cash in the loans and assets purchased account were based on a December 21, 1979, cutoff date for the year-end cash reconciliations. Test analyses of the affected December 21 and December 31 bank statement balances did not indicate differences which would materially affect the statements as presented.

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