



Highlights of GAO-10-705, a report to congressional committees

## Why GAO Did This Study

Created in 1933 to insure bank deposits and promote sound banking practices, the Federal Deposit Insurance Corporation (FDIC) plays an important role in maintaining public confidence in the nation's financial system.

FDIC administers the Deposit Insurance Fund (DIF), which protects bank and savings deposits, and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), which was created to close out the business of the former FSLIC.

Section 17 of the Federal Deposit Insurance Act, as amended, requires GAO to annually audit the financial statements of the DIF and the FRF. GAO is responsible for obtaining reasonable assurance about whether FDIC's financial statements for the DIF and the FRF are presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles, and whether FDIC maintained effective internal control over financial reporting, and for testing FDIC's compliance with selected laws and regulations.

In commenting on GAO's draft report, FDIC pointed out that the past year was unusually challenging and acknowledged the important role internal control plays in achieving its mission and goals. Further, FDIC stated that financial management remains a high priority and cited actions taken or underway to address the deficiencies GAO identified.

[View GAO-10-705 or key components.](#)  
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## FINANCIAL AUDIT

### Federal Deposit Insurance Corporation Funds' 2009 and 2008 Financial Statements

## What GAO Found

In GAO's opinion, FDIC fairly presented, in all material respects, the 2009 and 2008 financial statements for the two funds it administers—DIF and FRF. Because of a material weakness in internal control related to its process for estimating losses on loss-sharing agreements, in GAO's opinion, FDIC did not have effective internal control over financial reporting. GAO did not find any reportable instances of noncompliance with provisions of the laws and regulations it tested.

The banking industry continued to face challenges in 2009 that negatively impacted the DIF. In 2009, the DIF recognized approximately \$58 billion in estimated losses from 140 bank failures with combined assets of over \$170 billion, and other insured institutions the banking regulators believe are likely to fail. FDIC identified additional risk that could result in up to approximately \$24 billion in further estimated losses to the DIF should potentially vulnerable insured institutions ultimately fail. FDIC continues to evaluate the ongoing risks to affected institutions and the effect of such risks on the DIF. Actual losses, if any, will largely depend on future economic and market conditions and could differ materially from FDIC's estimates. Between January 1 and June 14, 2010, 82 institutions failed.

As of December 31, 2009, the DIF had a negative fund balance of \$20.9 billion, and it had a negative 0.39 percent ratio of reserves to insured deposits. FDIC took action during 2009 to maintain the DIF's ability to continue resolving troubled institutions by charging insured institutions both a special assessment and approximately 3 years of regular assessments totaling about \$46 billion paid in advance, and by increasing the use of loss-sharing agreements in its resolution strategy. In addition to DIF's existing resources, FDIC can borrow up to \$100 billion through the Federal Financing Bank and up to \$100 billion from the U.S. Treasury to carry out DIF's insurance functions, with the ability under certain circumstances to increase its Treasury borrowings to \$500 billion through 2010. Consistent with the FDIC Reform Act of 2005 and subsequent legislation, FDIC adopted a plan to restore, within 8 years, the fund's reserves to the minimum ratio of 1.15 percent of insured deposits through increased premium assessments.

During the 2009 audit, GAO identified errors in FDIC's draft financial statements for DIF that resulted from a material weakness in FDIC's internal controls over the estimation of DIF's losses from loss-sharing agreements. Although FDIC subsequently corrected DIF's financial statements, GAO believes that there is a reasonable possibility that material misstatements could occur that would not be prevented or detected by FDIC's controls. Additionally, GAO identified a significant deficiency in FDIC's internal controls with respect to information systems security. GAO will be reporting separately to FDIC management on these matters and, as appropriate, other less significant matters involving FDIC's internal controls, along with related recommendations.