United States General Accounting Office

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Report to the Congress

December 1991

FINANCIAL AUDIT

FSLIC Resolution Fund's 1990 and 1989 Financial Statements

145438

GAO

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

Comptroller General
of the United States

B-244576

December 17, 1991

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

This report presents the results of our audits of the financial statements of the FSLIC Resolution Fund for the year ended December 31, 1990, and the period August 9, 1989 (its inception), through December 31, 1989. Our audit disclosed various factors that together raise significant uncertainties affecting the Fund's ultimate cost of assistance to troubled thrift institutions and the Fund's recoveries from the sale of its assets. Largely due to the continuing weakness in the economy and the seriously over-built real estate market, factors which are outside the Fund's control, we were unable to assess the reasonableness of the Fund's estimated liability for assisted institutions and its estimated recoveries from asset sales. Therefore, we do not express an opinion on the Fund's statements of financial position as of December 31, 1990 and 1989, or its statements of income and accumulated deficit for the year ended December 31, 1990, and the period August 9, 1989, through December 31, 1989. However, the Fund's statements of cash flows for these periods present fairly, in all material respects, the Fund's cash flows.

Our reports on the Fund's internal control structure and its compliance with laws and regulations are also presented. We conducted our audits pursuant to the provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)), and in accordance with generally accepted government auditing standards.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Public Law 101-73, created the FSLIC Resolution Fund to manage and dispose of assets and to pay debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation. The Federal Deposit Insurance Corporation is responsible for administering the Fund to ensure that its assets are sold and its liabilities are paid.

The Congress appropriated $22 billion for fiscal year 1991, most of which was expected to be used to reduce the cost of the Fund's assistance obligations. However, since most of these actions had not been planned as of December 31, 1990, the 1990 financial statements do not fully reflect the potential cost savings from use of this appropriation.

We are sending copies of this report to 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; the Chairman of the Federal Deposit Insurance Corporation; the Secretary of the Treasury; the Director of Office of Management and Budget; and the Director of the Office of Thrift Supervision.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FIS	Financial Information System
FSLIC	Federal Savings and Loan Insurance Corporation
GAAP	generally accepted accounting principles
RTC	Resolution Trust Corporation

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To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the accompanying statements of financial position of the FSLIC Resolution Fund[1] as of December 31, 1990 and 1989, and the related statements of income and accumulated deficit and the statements of cash flows for the year ended December 31, 1990, and the period August 9, 1989, through December 31, 1989. 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 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. However, due to the significant uncertainties discussed below, which are largely beyond FDIC's control, we were not able to assess the reasonableness of the Fund's estimated liability for assisted institutions and estimated recoveries from the sale of its receivership and corporate owned assets.

Generally, under its assistance contracts entered into by FSLIC, the Fund is obligated to compensate the acquirers of troubled thrift institutions for losses realized on both the disposition value and financial performance of the primarily real estate related, poor-quality assets of the acquired institutions. As of December 31, 1990, FDIC estimated that the Fund will pay the acquirers about $18 billion as a result of these losses. However, the Fund's actual assistance payments could be significantly affected by various factors, such as (1) the continuing instabilities in the real estate markets where the majority of these assets are located, (2) fluctuations in future interest rates, (3) the effectiveness of asset

[1] The FSLIC Resolution Fund was established on August 9, 1989, by section 215 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage the assets and pay the debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation (FSLIC).

disposition strategies, and (4) use of the Fund's fiscal year 1991 appropriation to reduce its assistance obligations.

FDIC records the amounts paid to close failed thrift institutions as receivables and to purchase assets from troubled or failed thrift institutions as corporate owned assets. It then establishes loss allowances against the receivables and corporate owned assets. These allowances represent the difference between amounts paid and the expected repayment. The expected repayment is based on the estimated recoveries from the sale of the failed institutions' (receivership) assets. As of December 31, 1990, the Fund's combined receivership and corporate owned asset portfolio had a book value of $12.7 billion, and FDIC estimated that the Fund would recover about $6 billion, or 47 percent, from the sale of these assets. However, actual recoveries will be significantly affected by the market impact of the rapidly increasing number of similar assets that other federal entities are holding for sale and by the continuing instabilities in the economies where these assets are located.

Because of the material effect the factors described above could have on the Fund's estimated amounts to be paid under its assistance contracts and on the Fund's estimated recoveries from the sale of its receivership and corporate owned assets, we are unable to express, and we do not express, an opinion on the Fund's statements of financial position as of December 31, 1990 and 1989, or its statements of income and accumulated deficit for the year ended December 31, 1990, and the period August 9, 1989, through December 31, 1989. Therefore, we caution users that these statements have limited reliability. However, in our opinion, the Fund's statements of cash flows for the year ended December 31, 1990, and the period August 9, 1989, through December 31, 1989, present fairly, in all material respects, the Fund's cash flows for the periods then ended, in conformance with generally accepted accounting principles.

The following sections of this report more fully discuss how the factors described above could significantly affect the amounts the Fund will have to pay under its assistance contracts and the amounts the Fund will recover from the sale of its receivership and corporate owned assets.

Estimated Liabilities for Assisted Institutions Are Uncertain

Under FIRREA, the FSLIC Resolution Fund is responsible for making all payments required by the long-term financial assistance contracts FSLIC had entered into with acquirers of insolvent institutions. FDIC administered the assistance contracts, commonly referred to as assistance agreements, until January 1991 and projected the amount of assistance payments as of December 31, 1990. FDIC then transferred management responsibility for the assistance agreements to the Resolution Trust Corporation (RTC). FDIC continues to perform the accounting function for these agreements.

The larger assistance agreements generally provided each acquirer with an interest-bearing note equal to the acquired institution's reported negative net worth (the amount by which the institution's liabilities exceeded its assets) and guaranteed the disposition value (capital loss coverage) and financial performance (yield maintenance coverage) of the poor-quality assets acquired from the failed institution.[2] The individual assets to which these guarantees apply are referred to as covered assets. Collectively, they are referred to as covered asset pools. The aggregate covered asset pool for all agreements was about $29 billion as of December 31, 1990, over 84 percent of which was real estate related.[3]

Capital loss coverage guarantees the recorded value (usually historical cost) of poor-quality assets held by the acquired thrift. Under this coverage, acquirers are compensated when they sell a covered asset for less than its guaranteed value. Yield maintenance coverage guarantees the financial performance of these assets. This coverage guarantees that each assistance agreement's covered assets will collectively yield a specified rate which varies in accordance with the terms of the agreements and market conditions. Under this coverage, acquirers are compensated if the covered assets do not generate the amount of income specified by the agreements. As of December 31, 1990, FDIC estimated that the Fund would pay about $18 billion over the remaining life of the assistance agreements (8 years for the larger agreements) as a result of these asset value and performance guarantees. However, the combined effect of three interrelated factors that give rise to uncertainties, which are

[2] See Thrift Resolutions: Estimated Costs of FSLIC's 1988 and 1989 Assistance Agreements Subject to Change (GAO/AFMD-90-81, September 13, 1990) for a more detailed discussion of these and other assistance agreement provisions.

[3] Real estate related covered assets include (1) loans and investments secured by primarily commercial properties, (2) foreclosed commercial or residential properties, and (3) subsidiaries which held these types of assets when the acquired institutions' investment in the subsidiary became a covered asset. This definition considers undeveloped land to be commercial property.

largely outside of FDIC's control, could significantly affect the actual covered asset payments to be made after December 31, 1990.

First, local real estate market conditions, the most important determinant of any individual real estate related asset's value, are subject to significant shifts over extended periods. Most assets guaranteed by the Fund are located in the Southwest and in certain parts of California—real estate markets that have experienced severe instability in recent years. Projected capital loss payments, which comprised about 56 percent of the Fund's total December 31, 1990, estimated liability, were based on covered asset appraisals. However, appraisals, which generally estimate value based on recent sales of similar assets, might not reliably indicate future values because the local real estate markets could significantly change prior to asset disposition. For example, a decrease of only 5 percent in the disposition values used in FDIC's December 31, 1990, projections would increase capital loss estimates by over $795 million. Because the majority of these assets are located in unstable real estate markets, asset values determined as recently as 6 months ago may now be overly optimistic.

Market conditions will also affect the amount of yield maintenance payments, which comprised about 34 percent of the Fund's total December 31, 1990, estimated liability for assistance agreements. For example, when market conditions result in increased rental income, yield maintenance payments are reduced. This is because such income offsets the amount the Fund must pay to meet the assisted thrifts' guaranteed yield. Similarly, real estate market conditions that decrease rental income would increase the level of assistance payments.

The second factor that may affect actual covered asset payments is fluctuations in interest rates. These fluctuations parallel changes in cost of funds indexes and will directly affect covered asset pool guaranteed yield levels and therefore the amount of the Fund's estimated yield maintenance payments. Even small fluctuations of 0.5 percent to 1.0 percent in interest rates would produce a change from $146 million to $292 million, respectively, per year in yield maintenance payments, based on FDIC's December 31, 1990, valuation of the covered asset pool. The Fund's December 31, 1990, projections assumed interest rates would remain constant. However, interest rates may fluctuate over the remaining term of the agreements and, therefore, we cannot be certain that FDIC's estimate provides a reliable basis for substantiating future yield maintenance costs.

Third, the success of RTC's oversight of the assisted thrifts' asset management and disposition strategies will have a significant effect on actual covered asset payments. In January 1991, RTC took over responsibility for reviewing and approving assisted thrifts' asset management plans. These plans typically provide the assets' estimated disposition dates and values. Successful use of RTC's broad oversight authority should help ensure that covered assets are managed in a manner which maximizes their financial performance and disposition value and, therefore, minimizes future claim payments. On behalf of the Fund, RTC exercises broad authority to write down assets to fair market value, purchase covered assets at their guaranteed value, and renegotiate the assistance agreements which could materially affect the ultimate payments. To facilitate its oversight, RTC has developed a system to help ensure that assisted thrifts submit and obtain approval of their asset management plans. However, RTC had not reviewed the validity of the data provided by the thrifts as of the end of July 1991. When the system becomes fully operational, it should provide aggregate data that will help develop a historical record against which the overall success of approved plans can be measured. Such information can be beneficial when used with sales data on individual assets.

In addition, Public Law 101-507, dated November 5, 1990, provided the Fund a total fiscal year 1991 appropriation of $22 billion, the majority of which was used to implement actions aimed at reducing the Fund's future assistance agreement costs.[4] While this appropriation was available before FDIC finalized the Fund's 1990 financial statements, only a small portion of it was used during 1990. In addition, FDIC could not project the full impact of savings resulting from use of the appropriation because the RTC Oversight Board did not approve strategies for using these funds until January 1991. Therefore, these financial statements do not reflect all the potential cost savings from the use of the fiscal year 1991 appropriation.[5]

[4]RTC has initiated a five-step plan to reduce the Fund's future assistance agreement payments. See Thrift Resolutions: FSLIC 1988 and 1989 Assistance Agreement Costs Subject to Significant Uncertainties (GAO/AFMD-92-9, November 18, 1991) for a more detailed discussion of the status of RTC's plans through the end of July 1991.

[5]As discussed in note 14 to the financial statements, the Fund's request for a fiscal year 1992 appropriation was before the Senate Appropriations Committee. Subsequent to the date of our opinion, Public Law 102-139, which was passed on October 28, 1991, appropriated about $15.9 billion to the Fund for fiscal year 1992.

Estimated Recoveries on Assets in Receivership or Owned by the Fund Are Uncertain

As part of its resolution activities, FSLIC placed failed institutions into receivership and paid out funds required to settle depositor claims of these failed institutions. However, FDIC expects to recover some portion of those paid claims through the sale of the failed institutions' assets that remain in receivership. As of December 31, 1990, the Fund's claim against receiverships totaled about $13.5 billion. Receivership assets associated with those claims totaled about $9 billion, and FDIC estimated it would recover only $5 billion from the sale of these assets. In addition, the Fund owns about $3.7 billion in assets that FSLIC had purchased to improve the marketability (and, thus facilitate the sale) of certain troubled institutions and to terminate receiverships. These assets are referred to as corporate owned assets. FDIC is managing and marketing these assets to maximize their recovery value. As of December 31, 1990, FDIC estimated the Fund would recover approximately $1 billion from the sale of its corporate owned assets.

For the Fund's 1989 reporting period, FDIC calculated the Fund's receivership asset recovery values based on the asset's estimated market value less the associated costs of holding the asset for sale. Also in 1989, for the Fund's corporate owned assets, FDIC used the recovery rate that was calculated by FSLIC in September 1988. FDIC did not update the asset recovery values as of December 31, 1990. Instead, it used the same recovery rate that it determined in 1989 for the Fund's receivership assets and that FSLIC determined in 1988 for the Fund's corporate owned assets. Given the current instabilities in the economy, particularly with regard to the real estate markets where the majority of the Fund's assets are located, we question the reliability of using 1989's asset recovery values, particularly since the 1989 corporate asset recovery value is based on 1988 information, when the overall economy was healthier.

The uncertainties surrounding these recovery values have been magnified by RTC's recent introduction into the market of large quantities of similar assets acquired as a result of thrift failures. As of December 31, 1990, RTC had resolved 352 thrift institutions and had $58 billion in assets left to be sold related to those thrift resolutions. RTC estimates that another 375 thrift institutions with total assets of $217 billion will be resolved by August 9, 1992. In resolving these additional thrift institutions, the federal government's asset portfolio will greatly increase. The weakening condition of the banking industry is also steadily adding to the government's portfolio of assets. As of December 31, 1990, the Bank Insurance Fund was holding about $18 billion in real estate related assets. If the current recession continues or deepens, and the thrift and banking industries continue to deteriorate, asset sales are likely to yield significantly less than expected. As a result, the Fund's estimated recoveries from its receivership and corporate owned asset sales as of December 31, 1990, may be materially overstated.

The present state of the thrift industry and the interrelated banking industry problems have created a situation where estimated recoveries from the sale of receivership or corporate owned assets and the estimated cost of the assistance agreements are subject to significant and potentially material misstatement. When the level of uncertainty associated with these estimates decreases and they are more fully supported by historical experience, we will be able to express an opinion on the Fund's statement of financial position and its statement of income and accumulated deficit. FDIC will get this experience when it has sold a significant and representative portion of the Fund's real estate and troubled loans secured by real estate. Meanwhile, it is imperative that FDIC continue to provide management, the Congress, and others with its best estimates of the Fund's exposure in order to build the historical record necessary to make informed judgments about future funding requests.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

August 30, 1991

Report on Internal Control Structure

We have audited the financial statements of the FSLIC Resolution Fund as of December 31, 1990, and the period August 9, 1989, through December 31, 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 FSLIC Resolution Fund for the year ended December 31, 1990. The report on our study and evaluation of FDIC's internal control structure as it relates to the Fund for the period August 9, 1989, through December 31, 1989, is presented in our report on the Fund's 1989 financial statements (GAO/AFMD-91-69, August 2, 1991).

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 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 FSLIC Resolution 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 (GAAP).

Because of 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 to troubled institutions, consisting of policies and procedures related to assistance agreement claim payments and to estimates of the future costs of the Fund's assistance programs;
- assistance to closed institutions, consisting of policies and procedures related to liquidation activities for receiverships and to the valuation of the Fund's net receivables from assistance transactions;
- corporate owned assets, consisting of policies and procedures related to the management, liquidation, and valuation of assets owned by the Fund;
- treasury/revenue, consisting of policies and procedures related to cash disbursements, cash receipts, and investing activities;
- expenditures, consisting of policies and procedures related to disbursements for administrative and supervisory expenses; and
- financial reporting, consisting of policies and procedures related to the processing of journal entries into the general ledger and the preparation of financial statements.

For all internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures, determined whether they have been placed in operation, and assessed the associated control risk. We performed limited tests of controls over the assistance agreement claim payments, assistance agreement future cost projections, disbursements, administrative and supervisory expenses, and financial reporting. However, we found it more efficient to rely solely on substantive audit tests for the Fund's receivership and corporate owned asset liquidation activity, valuation of net receivables, investments, and cash receipts. For all categories listed above, 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. As discussed in the following paragraphs, our consideration of FDIC's internal control structure revealed one reportable condition.

Reportable Conditions

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

There are basically two levels of reportable conditions—those that are considered material weaknesses,[6] which could affect the fair presentation of the financial statements, and those that, while not material, are significant matters that merit management's attention. While we did not identify any material weaknesses, we noted one matter involving the internal control structure and its operation that we consider to be a reportable condition as defined above. This condition concerns the inability of FDIC's financial reporting system to readily identify cash transactions in order to prepare a statement of cash flows in accordance with GAAP.

FDIC's Accounting System Cannot Readily Produce a Statement of Cash Flows

The Financial Accounting Standard Board (FASB) Statement no. 95, Statement of Cash Flows, requires an entity to include a statement of cash flows when issuing a complete set of financial statements. The primary purpose of a statement of cash flows is to provide relevant information about an entity's cash receipts and cash payments during a given period. In order to address the above requirement, FDIC's Financial Information System (FIS) contains a reporting feature which segregates all transactions as either cash or noncash related.

Information in FIS could not be used to readily produce the statement of cash flows for the year ended December 31, 1990. Extensive reclassifications of the accounting entries within the system made the cash report it produced inaccurate and not useful. With the current system design, reclassified entries often result in miscoded cash and noncash related information. In addition, the information obtained from the system is not provided in enough detail to allow for an easy assignment of the cash activity to the proper financial statement line item. Therefore, FDIC had to perform an extensive manual analysis of activity within the FIS accounts. This process did not allow FDIC to present an acceptable cash flow statement until August 21, 1991, which delayed the issuance of a complete set of audited financial statements for the 1990 reporting period.

Cash flow information, when used with related disclosures and information in the other financial statements, is intended to help the Congress and other users of the FSLIC Resolution Fund's financial statement to

[6] A material weakness is a reportable 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 employees in the normal course of performing their assigned functions.

assess the Fund's ability to generate positive future cash flows from operations and thus meet its obligations. However, considerable delays in producing the Fund's financial statements lessens the statements' usefulness in assessing the health of the Fund and its future financing needs.

FDIC's extensive manual analysis enabled it to produce a statement of cash flows for the Fund for the year ended December 31, 1990, which we found to be fairly stated in all material respects in conformance with GAAP. FDIC acknowledges its accounting system's limitations regarding the statement of cash flows and is currently working on enhancements to enable it to produce this statement in a timely manner. However, these enhancements are not likely to be completed in time for its 1991 financial statements.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the FSLIC Resolution Fund for the year ended December 31, 1990, and the period August 9, 1989, through December 31, 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 FSLIC Resolution Fund for the year ended December 31, 1990. The report on our review of FDIC's compliance with laws and regulations as they relate to the Fund for the period August 9, 1989, through December 31, 1989, is presented in our report on the Fund's 1989 financial statements (GAO/AFMD-91-69, August 2, 1991).

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 FSLIC Resolution Fund. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, 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.), and the Federal Home Loan Bank Act, as amended (12 U.S.C. 1421 et. seq.), which, if not complied with, could have a material effect on the FSLIC Resolution Fund's financial statements. However, it should be noted that our objective was not to provide an opinion on 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 referred to above. 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.

Financial Statements

Statements of Financial Position

(dollars in thousands)

	December 31	
	1990	1989
Assets		
Cash and cash equivalents (Note 3)	$ 1,256,066	$ 1,576,127
Net receivables from assistance and failures (Note 4)	5 ,017,412	7,171,552
Corporate owned assets, net (Note 5)	1,027,929	1,282,462
Other assets (Note 6)	80,172	31,332
	7,381,579	**10,061,473**
Liabilities and Resolution Equity		
Liabilities		
Accounts payable, accrued liabilities and other	22,699	26,628
Liabilities incurred from assistance and failures (Note 7)	23,525,134	23,941,545
Liabilities for estimated assistance (Note 8)	17,839,267	20,047,694
Liabilities for estimated litigation losses	107,845	103,000
Total Liabilities	41,494,945	44,118,867
Resolution Equity (Note 10)		
Contributed capital	7,753,000	1,829,000
Accumulated deficit	(41,866,366)	(35,886,394)
Total Resolution Equity	(34,113,366)	(34,057,394)
	$ 7,381,579	**$ 10,061,473**

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

Statements of Income and Accumulated Deficit

(dollars in thousands)

	Jan 1 - Dec 31 1990	Aug 9 - Dec 31 1989
Revenue		
Assessments earned (Note 11)	$ 27,598	$ 98,827
Interest on U.S. Treasury obligations	45,277	39,996
Other interest	87,328	54,538
Revenue from corporate owned assets	310,392	82,423
Other revenue	4,162	25,904
	474,757	301,688
Expenses and Losses		
Administrative operating expenses	87,233	70,161
Interest expense	1,869,216	820,740
Operating expenses for corporate owned assets	124,071	18,207
Provision for losses (Note 9)	4,311,682	5,479,181
Other expenses	6,439	-0-
	6,398,641	6,388,289
Net Loss Before Funding Transfer	(5,923,884)	(6,086,601)
Funding Transfer to Savings Association Insurance Fund (Note 1)	(56,088)	(5,602)
Net Loss	(5,979,972)	(6,092,203)
Accumulated Deficit - Beginning	(35,886,394)	(29,794,191)
Accumulated Deficit - Ending	$(41,866,366)	$(35,886,394)

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

Statements of Cash Flows

(dollars in thousands)

	1990	Aug 9 - Dec 31 1989
Cash Flows From Operating Activities		
Cash inflows from:		
Assessments earned	$ -0-	$ 98,827
Interest on U.S. Treasury obligations	45,278	39,996
Recoveries from assistance and failures	2,047,069	456,160
Recoveries from corporate owned assets	675,639	3
Miscellaneous receipts	91,141	-0-
Cash outflows for:		
Administrative operating expenses	201,550	72,415
Disbursements for assistance and failures	7,643,358	2,326,105
Disbursements for corporate owned assets	124,071	14,606
Miscellaneous disbursements	-0-	69,231
Net Cash Used by Operating Activities	(5,109,852)	(1,887,371)
Funding transfer to SAIF	56,088	5,602
Net Cash Used by Operating Activities (Note 16)	**(5,165,940)**	**(1,892,973)**
Cash Flows Provided From Investing Activities	-0-	-0-
Cash Flows From Financing Activities		
Cash inflows from:		
U.S. Treasury Payments	5,924,000	1,159,000
Sales of Capital Certificates	-0-	670,000
Cash outflows for:		
Payments of liabilities incurred from assistance and failures of insured institutions	1,078,121	295,549
Net Cash Provided by Financing Activities	**4,845,879**	**1,533,451**
Net (Decrease) in Cash and Cash Equivalents	**(320,061)**	**(359,522)**
Cash and Cash Equivalents - Beginning	**1,576,127**	**1,935,649**
Cash and Cash Equivalents - Ending	**$ 1,256,066**	**$ 1,576,127**

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

Notes to 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. In addition, FIRREA created the FSLIC Resolution Fund (FRF), a third separate fund under FDIC management.

The Resolution Funding Corporation (REFCORP) was established by FIRREA to provide funds to the RTC to enable the RTC to carry out its mandate. The Financing Corporation (FICO; established under the Competitive Equality Banking Act of 1987) is a mixed-ownership government corporation whose sole purpose is to function as a financing vehicle for the FRF (formerly the FSLIC).

Creation and Purpose of the FRF. The FRF was established on August 9, 1989 by FIRREA. Its purpose is to liquidate assets and contractual obligations of the now defunct FSLIC.

In accordance with FIRREA, the FRF will complete the resolution of all thrifts that failed before January 1, 1989 or were assisted before August 9, 1989. The RTC will manage and resolve all thrifts that were previously insured by the FSLIC and for which a conservator or receiver is appointed during the period January 1, 1989 through August 8, 1992, after which the SAIF will begin resolving cases. Accordingly, the RTC is managing seven receiverships that were effected by the FSLIC after January 1, 1989 but prior to the enactment of FIRREA. However, activities of these receiverships are included in the FRF financial statements because the FRF remains financially responsible for the losses associated with these resolution cases.

FIRREA requires the FRF to pay to the Savings Association Insurance Fund such amounts as are needed for the SAIF's administrative and supervisory expenses for the period from inception (August 9, 1989) through September 30, 1991. Upon termination of the RTC (not later than December 31, 1996), all assets and liabilities of the RTC will be transferred to the FRF, after which all future net proceeds from the sale of such assets will be transferred to the REFCORP for interest payments. The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon dissolution of the FRF, any funds remaining shall be paid to the U. S. Treasury; any administrative facilities and supplies will be transferred to the SAIF.

Source of Funds. The FRF is funded from the following sources, to the extent funds are needed, in the listed priority: (1) Income earned on, and proceeds from the disposition of, assets of the FRF; (2) Liquidating dividends and payments made on claims received by the FRF from receiverships to the extent such funds are not required by the REFCORP or the FICO; (3) Amounts borrowed by the FICO; and (4) During the period from inception (August 9, 1989) through December 31, 1991, amounts assessed against SAIF members by the FDIC which are not claimed by the FICO or by the REFCORP.

If the above sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in such amounts as are necessary, as approved by the Congress, to carry out the purpose of the FRF.

2. Summary of Significant Accounting Policies

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

Allowance for Loss on Receivables and Corporate Assets. The FRF records, as a receivable, the amounts advanced for assisting and closing thrift institutions, and as an asset, the amounts advanced for the purchasing of corporate assets. An allowance for loss is established to represent the difference between the amounts advanced and the expected repayment, based on the estimated cash recoveries from the assets of the assisted or failed thrift institution, net of all estimated liquidation costs.

Liabilities for Estimated Assistance. The FRF recognizes an estimated liability for probable future assistance payable to acquirers of troubled thrifts under its financial assistance agreements. Such estimates are presented on a discounted basis. In addition, the FRF recognizes estimated adjustments to its promissory notes to acquirers of troubled thrifts when draft inventory audit reports verifying the required final note amount are received. Such estimates are presented in the "Liabilities for estimated assistance" line item until a revised note is issued.

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

Assessment Revenue Recognition. The FRF recognizes as assessment revenue only that portion of SAIF member assessments not claimed by the FICO or the REFCORP.

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

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Furniture, Fixtures and Equipment. 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 FRF 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 FRF financial statements.

Wholly-Owned Subsidiary. The Federal Asset Disposition Association (FADA) is a wholly-owned subsidiary of the FRF. FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF, FADA's sole stockholder, will not be made until such time as FADA's litigation liability, if any, is determined. The investment in FADA is accounted for using the equity method and is included in the financial statement line item "Other assets." The value of the investment has been adjusted for projected expenses relating to the liquidation of FADA.

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 descriptions of related party transactions are disclosed throughout the financial statements and related footnotes.

3. Cash and Cash Equivalents

The FRF 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. Cash and cash equivalents as of December 31 consisted of the following (in thousands of dollars):

	1990	1989
Cash	$ 1,018,643	$ 1,236,144
Cash Equivalents	237,423	339,983
	$ 1,256,066	**$ 1,576,127**

4. Net Receivables from Assistance and Failures

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

	1990	1989
Receivables from Open Thrift Assistance:		
Collateralized loans	$ 650,000	$ 740,000
Other loans	282,860	357,608
Capital Instruments	289,403	328,178
Preferred stock from assistance transactions	511,686	572,216
Accrued interest	19,668	19,939
Allowance for losses (Note 9)	(547,014)	(404,687)
	$1,206,603	**$1,613,254**
Receivables from Thrift Failures:		
Subrogated accounts	$ 12,827,137	$ 14,337,803
Collateralized advances/loans	385,898	730,407
Accrued interest, net	-0-	2,025
Other receivables	327,392	3,110
Allowance for losses (Note 9)	(9,729,618)	(9,515,047)
	3,810,809	**5,558,298**
	$ 5,017,412	**$ 7,171,552**

Capital Instruments Program:

As part of its default prevention activities, the FSLIC purchased capital instruments such as Income Capital Certificates (ICCs) and Net Worth Certificates (NWCs) from insured institutions. Generally, the FSLIC would purchase these certificates in a non-cash exchange by issuing a note payable of equal value; however, some certificates were acquired by cash payments. The total amount of ICCs outstanding as of December 31, 1990 and 1989 is $175,152,765 and $293,153,000, respectively. Likewise, the total amount of NWCs outstanding as of December 31, 1990 and 1989 is $148,250,000 and $158,950,000, respectively.

For financial statement purposes, capital instruments purchased by the issuance of notes payable and for which no losses are expected have been netted against their corresponding payables. Losses established against certain outstanding NWCs require the presentation of related gross asset, allowance, and liability balances in the accompanying footnotes. The FRF financial statements as of December 31, 1990 and 1989 excluded ICCs of $9,000,000. Likewise, the FRF financial statements as of December 31, 1990 and 1989 excluded NWCs of $25,000,000 and $114,925,000, respectively.

The FRF pays interest in cash on the notes payable to the assisted institution, while the institution only accrues interest expense on the certificates to the FRF. If the institution is profitable, it will pay interest to the FRF. The FRF recognizes interest revenue when received from an institution. Once an allowance for loss is established against a certificate, the offset financial statement presentation of the certificate and related note payable (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.

5. Corporate Owned Assets, Net

The FSLIC acquired assets from problem institutions in its efforts to merge and/or sell failing thrifts. The vast majority of these assets are real estate and mortgage loans. Corporate Owned Assets, Net as of December 31 were as follows (in thousands of dollars):

	1990	1989
Corporate owned assets	$ 3,701,828	$ 3,956,361
Allowance for losses	(2,673,899)	(2,673,899)
	$1,027,929	**$1,282,462**

6. Other Assets

Other Assets as of December 31 consisted of the following (in thousands of dollars):

	1990	1989
Investment in FADA, net	$ 15,781	$ 15,781
Accounts receivable, net	64,391	15,551
	$ 80,172	**$ 31,332**

7. Liabilities Incurred from Assistance and Failures

The FSLIC had issued promissory notes and entered into assistance agreements in order to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Under FIRREA, the FRF has assumed these obligations. The FRF presents its notes payable and its obligation for assistance agreement payments incurred but not yet paid as a component of the line item "Liabilities incurred from assistance and failures". Estimated future assistance payments to acquirers required under its assistance agreements are presented as a component of the line item "Liabilities for estimated assistance" (Note 8).

From time to time, the RTC, on behalf of the FRF, may renegotiate some of these notes payable and assistance agreements with terms that are more favorable to the FRF. In addition, results of inventory audits performed in accordance with terms of certain existing assistance agreements may also alter the amount of promissory notes outstanding.

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

	1990	1989
Notes payable to FHLB/Treasury	$ 650,000	$ 774,800
Notes payable to acquirers of failed institutions	775,112	779,400
Capital Instruments (Note 4)	150,935	136,826
Assistance agreement notes	18,096,731	19,074,723
Accrued assistance agreement costs	2,929,623	2,213,847
Accrued interest	437,783	551,421
Other liabilities to savings institutions	484,950	410,528
	$23,525,134	**$23,941,545**

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
$4,164,866	$556,111	$2,157,835	$367,535	$615,178	$15,663,609

Actual payments incurred for estimated future assistance through August 1991 can be found in Footnote 14 titled "Subsequent Events".

8. Liabilities for Estimated Assistance

The "Liabilities for estimated assistance" line item represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The discount rate applied as of December 31, 1990 was 8.25% based on U. S. money rates for federal funds. The discount rate applied as of December 31, 1989 was 7.98% based on U. S. Treasury 7-year constant maturities.

Future assistance stems from the FRF's obligation to: (1) fund losses inherent in assets covered under the assistance agreement (e.g., by subsidizing asset write-downs, capital losses and goodwill amortization) and (2) supplement the actual yield earned from covered assets as necessary for the acquirer to achieve a specified yield (the "guaranteed yield"). Estimated total assistance costs recognized for current assistance agreements with institutions involving covered assets include estimates for the loss expected on the assets based on their appraised values. The FRF is obligated to fund any losses sustained by the institutions on the sale of the assets. If asset losses are incurred in excess of those recognized, the possible cash requirements and the accounting loss could be as high as $16 billion, should all underlying assets prove to be of no value. The costs and related cash requirements associated with the maintenance of covered assets are calculated using market interest rates and would change proportionately with any change in market rates.

Except for the possible renegotiations and note adjustments described in Notes 7 and 14, there will be no new assistance agreements or modifications. There were 156 assistance agreements outstanding as of December 31, 1990 the last of which currently expires in December 1998.

As discussed in Note 7, the results of inventory audits may alter the amount of certain promissory notes outstanding. Estimated notes payable adjustments based on draft audit reports are first reported as a component of the "Liabilities for estimated assistance" line item until the notes are actually reissued, at which time the actual adjustments are then reported in the line item "Liabilities incurred from assistance and failures". As of December 31, 1990 and 1989, estimated notes payable adjustments included in this line item were $33.8 million and $1.4 billion, respectively.

The estimated assistance liabilities are affected by several factors including expected notes payable adjustments, the terms of the assistance agreements outstanding, and, in particular, the salability of the related covered assets. The variable nature of the FRF assistance agreements will cause the cost requirements to fluctuate. This fluctuation will impact both the timing and amount of eventual cash payments. Although the "Liabilities for estimated assistance" line item is presented on a discounted basis, the following schedule details the projected timing of the future cash payments (in thousands of dollars) as of December 31, 1990 on a nominal dollar basis:

1991	1992	1993	1994	1995	1996/Thereafter
$10,282,824	$3,028,134	$2,292,561	$1,401,398	$974,869	$2,607,521

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

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

	1990				
Allowance for Losses	**Beginning Balance Jan 1**	**Provision For Losses**	**Net Cash Payments**	**Adjustments**	**Ending Balance Dec 31**
Due from receiverships	$ 9,515,047	$ 171,059	$ -0-	$ 43,512	$ 9,729,618
Due from insured institutions	404,687	235,827	-0-	(93,500)	547,014
Corporate owned assets	2,673,899	41,215	-0-	(41,215)	2,673,899
Other assets	-0-	26	-0-	-0-	26
Investment in FADA	9,219	-0-	-0-	-0-	9,219
Total Allowances	**12,602,852**	**448,127**	**-0-**	**(91,203)**	**12,959,776**
Estimated Liabilities					
Liabilities for estimated assistance	20,047,694	3,858,710	(5,516,900)	(550,237)	17,839,267
Liabilities for estimated litigation losses	103,000	4,845	-0-	-0-	107,845
Total Liabilities	**20,150,694**	**3,863,555**	**(5,516,900)**	**(550,237)**	**17,947,112**
Total Allowances/ Liabilities	**$32,753,546**	**$4,311,682**	**$(5,516,900)**	**$(641,440)**	**$30,906,888**

			1989			
Allowance for Losses	**Beginning Balance Aug 9**	**Provision For Losses**	**Net Cash Payments**	**Adjustments**	**Ending Balance Dec 31**
Due from receiverships	$ 9,529,783	$ (13,207)	$ -0-	$ (1,529)	$ 9,515,047
Due from insured institutions	214,401	190,286	-0-	-0-	404,687
Corporate owned assets	2,667,533	-0-	-0-	6,366	2,673,899
Investment in FADA	5,874	3,345	-0-	-0-	9,219
Total Allowances	**12,417,591**	**180,424**	**-0-**	**4,837**	**12,602,852**
Estimated Liabilities					
Liabilities for estimated assistance	19,920,542	5,195,757	(1,882,428)	(3,186,177)	20,047,694
Liabilities for estimated litigation losses	-0-	103,000	-0-	-0-	103,000
Total Liabilities	**19,920,542**	**5,298,757**	**(1,882,428)**	**(3,186,177)**	**20,150,694**
Total Allowances/ Liabilities	**$32,338,133**	**$5,479,181**	**$(1,882,428)**	**$(3,181,340)**	**$32,753,546**

The adjustments column includes necessary adjustments to allowance for losses and estimated liabilities for reclassifications, transfers and audit adjustments. The majority of the 1990 adjustments to "Liabilities for estimated assistance" includes reclassifications to the statement of financial position line item "Liabilities incurred from assistance and failures" for notes payable and accrued assistance agreement costs.

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10. Resolution Equity

Resolution Equity as of December 31 consisted of the following (in thousands of dollars):

	Contributed Capital	Accumulated Deficit
Balance August 9, 1989	$ -0-	$ (29,794,191)
Net Loss	-0-	(6,092,203)
Issuance of capital certificates	670,000	-0-
Treasury payments	1,159,000	-0-
Balance December 31, 1989	**$1,829,000**	**$(35,886,394)**
Net Loss	-0-	(5,979,972)
Treasury payments	5,924,000	-0-
Balance December 31, 1990	**$7,753,000**	**$(41,866,366)**

The Accumulated Deficit includes $7.5 billion in non-redeemable capital certificates and redeemable capital stock issued by the FSLIC. Capital instruments have been issued by the FSLIC and the FRF to the FICO as a means of obtaining capital. However, due to the availability of U. S. Treasury payments to satisfy FRF obligations, no additional borrowings from the FICO are anticipated. Furthermore, the implementation of FIRREA has effectively removed the redemption characteristics of the capital stock issued by the FSLIC.

11. Assessments

1990 SAIF member assessments of $28 million previously claimed by REFCORP were transferred to the FRF on January 22, 1991. REFCORP did not require the funds because they have no further plans for public debt issuance. FRF is next in line to claim assessments not required by FICO or REFCORP. A receivable and corresponding credit to revenue were posted to reflect entitlement to the assessment.

Secondary Reserve Offset. The Federal Deposit Insurance Act authorizes insured savings institutions to offset against any assessment premiums their pro rata share of amounts that were previously part of the FSLIC's "Secondary Reserve". FIRREA limits the allowable offset to 20 percent of an institution's remaining pro rata share for any calendar year beginning before 1993. After calendar year 1992, there is no limitation on the remaining offset amount. FIRREA also requires the FRF to pay in cash (or reduce an outstanding indebtedness) the remaining portion of the savings institution's full pro rata distribution when the institution loses its insured status or goes into receivership. The FRF establishes a payable to that institution or its receiver with a corresponding charge to expense. As of December 31, 1990 and 1989, the Secondary Reserve payable, included in the line item "Accounts payable, accrued liabilities and other" was $1,068,988 and $765,119, respectively. The total remaining Secondary Reserve credit at December 31, 1990 and December 31, 1989 was $359,121,133 and $521,284,758, respectively. This amount will be reduced in future years by offsets against assessment premiums, forfeited amounts due to mergers, and by payments to savings institutions who lose their insured status.

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Pension Benefits and Savings Plans expenses for the period ending December 31, 1990 and for the period August 9, 1989 through December 31, 1989 consisted of the following (in thousands of dollars):

	1990	1989
Civil Service Retirement System (CSRS)	$ 725	$ 277
Federal Employee Retirement System (FERS) (Basic Benefit)	2,659	1188
FDIC - 401K Plan	619	17
Thrift Savings Plan (TSP)	593	91
	$4,596	**$1,573**

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

Although the FRF contributes a portion of pension benefits for eligible employees and makes the necessary payroll withholdings from them, the FRF 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 FRF liability to employees for accrued annual leave is approximately $4,829,000 and $1,053,000 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:

FDIC Health Insurance Plan	1990	1989
Premiums Paid	$ 277,548	$ 218,372
Participating retirees	110	98
FDIC Dental Insurance Plan		
Premiums Paid	$ 23,235	$ 21,232
Participating retirees	136	122

The life insurance program is underwritten by Metropolitan Life Insurance Company and provides for basic coverage at no cost to retirees 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.

13. Commitments

The FRF lease agreement commitments for office space are $13,500,000 for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. Leased space expense was $14,821,000 for year ended December 31, 1990 and $3,966,000 for the period August 9, 1989 through December 31, 1989.

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
$8,369	$2,270	$1,638	$1,016	$199	$8

14. Subsequent Events

Public Law #101-507, which was passed November 5, 1990, appropriated $22 billion to the FRF for the fiscal year ending September 30, 1991. The funds may be used to prepay notes payable, accelerate write-downs of covered assets, purchase covered assets, and/or renegotiate assistance contracts to reduce projected costs to the FRF. As of August 1991, $14.9 billion has been received from Treasury with the remaining $7 billion to be requested for September 1991. At this time, it is estimated that $13.7 billion of the FY 91 appropriation will be used for note prepayment, and the remainder to purchase covered assets, renegotiate assistance contracts, and make normal assistance agreement payments.

Through August 1991, $7.9 billion was expended for note prepayments, $3.8 billion for accelerated write-downs of covered assets, and $2.7 billion for normal assistance payments which includes note interest payments.

Currently the FRF request for a FY 92 appropriation of $15.57 billion is before the Senate Appropriations Committee. It is expected to be signed into law sometime in September 1991.

15. Significant Concentration of Credit Risk

The FRF is counterparty to a group of financial instruments with entities located throughout regions of the United States which are experiencing significant problems in both loans and real estate.

The exposure to possible FRF accounting loss should each counterparty to the financial instruments in these regional concentrations fail to perform and any underlying assets proved to be of no value is as follows (in millions of dollars):

	South East	South West	North East	Mid West	Central	West	Total
Net Receivables from Assistance & Failures	$ 773	$ 1,521	$ 425	$ 214	$ 164	$ 1,925	$ 5,022
Corporate Owned Assets	-0-	1,011	-0-	-0-	17	-0-	1,028
Assistance Agreements Covered Assets - Off Balance Sheet	180	9,469	1	154	552	5,552	15,908
NWCs/ICCs - Off Balance Sheet	15	2	3	7	7	-0-	34
Total	**$ 968**	**$ 12,003**	**$ 429**	**$ 375**	**$ 740**	**$ 7,477**	**$ 21,992**

16. Supplementary Information Relating to the Statement of Cash Flows

Reconciliation of net loss to net cash used by operating activities for the period ending December 31, 1990 and for the period August 9, 1989 through December 31, 1989 consisted of the following (in thousands of dollars):

	1990	1989
Net Loss	$ (5,979,972)	$(6,092,204)
Adjustments to reconcile net loss to net cash used by operating activities		
Provision for losses	4,311,682	5,479,181
Decrease (Increase) in other assets	100,326	(38,783)
Decrease in accounts payable, accrued liabilities and other	(24,826)	(30,448)
Net cash disbursed for assistance and failures not affecting income	(3,678,009)	(1,490,893)
Accrual of assets and liabilities from assistance and failures	104,859	280,174
Net cash used by operating activities	**$(5,165,940)**	**$(1,892,973)**

Non-cash financing activities for the year ended December 31, 1990 include: (1) canceled notes payable (NWCs) $10,700,000; and (2) canceled notes payable (ICCs) $18,000,000.

Non-cash financing activities for the year ended December 31, 1989 include: (1) canceled notes payable (NWC's) $3,375,000; and (2) canceled notes payable (FHLB) $60,000,000.

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