FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds’ 2008 and 2007 Financial Statements

What GAO Found

In GAO’s opinion, FDIC fairly presented, in all material respects, the 2008 and 2007 financial statements for the two funds it administers—DIF and FRF. Also, in GAO’s opinion, FDIC had effective internal control over financial reporting and compliance with laws and regulations. Further, GAO did not find any reportable instances of noncompliance with the laws and regulations it tested.

The banking industry faced increased challenges in 2008. Deteriorating economic conditions exerted significant stress on banking industry performance, contributing to the failure of some institutions and threatening the viability of others. In 2008, the DIF incurred $18 billion in estimated losses from the failure of 25 insured institutions, and recognized additional estimated losses of $24 billion for insured institutions the banking regulators believe are likely to fail. FDIC identified additional risk that could result in $25.1 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 May 20, 2009, 33 institutions failed at an estimated cost to the DIF of $4.5 billion.

At December 31, 2008, the DIF’s fund balance was $17.3 billion, and its ratio of reserves to insured deposits was 0.36 percent. Consistent with the Federal Deposit Insurance Reform Act of 2005, FDIC adopted a plan to restore DIF’s reserves to the minimum ratio of 1.15 percent of insured deposits through increased premium assessments on insured institutions. In addition to DIF’s existing resources, FDIC can borrow up to $100 billion through the Federal Financing Bank and, until recently, up to $30 billion from the U.S. Treasury to carry out DIF’s insurance functions, subject to a statutory limit. At December 31, 2008, this limit was $69 billion. Recently enacted legislation increased FDIC’s borrowing authority with the Treasury to up to $100 billion.

During 2008, the federal government acted to counter the systemwide crisis in the nation’s financial sector. This resulted in the creation of two guarantee programs, with combined exposure to FDIC at December 31, 2008, totaling $904 billion. FDIC charges fees to participants which are to be used to cover any losses under both programs. The federal government took additional actions in 2009 intended to further stabilize the financial sector. These actions included providing assistance to two large financial institutions and establishing a program to remove troubled real-estate loans from the balance sheets of financial institutions. These actions created additional exposure to FDIC and the DIF, but the magnitude of this exposure is unknown at this time.

GAO noted other less significant matters involving FDIC’s internal controls and will be reporting separately to FDIC management on these matters.

May 2009

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View GAO-09-535 or key components.

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United States Government Accountability Office