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Report to the Congress

June 1997

FINANCIAL AUDIT

Federal Deposit Insurance Corporation's 1996 and 1995 Financial Statements

GAO/AIMD-97-111

GAO

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

Comptroller General
of the United States

B-275155

June 30, 1997

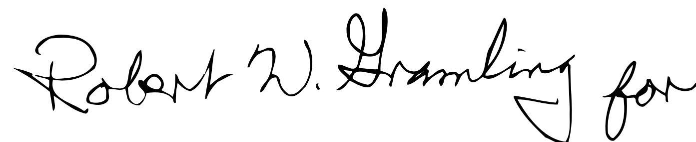
To the President of the Senate and the
Speaker of the House of Representatives

This report presents our opinions on the financial statements of the Bank Insurance Fund and the Savings Association Insurance Fund for the years ended December 31, 1996 and 1995, and our opinion on the financial statements of the FSLIC Resolution Fund for the year ended December 31, 1996. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC), the administrator of the three funds. This report also presents (1) our opinion on FDIC management's assertions regarding the effectiveness of its internal control as of December 31, 1996, and (2) our evaluation of FDIC's compliance with laws and regulations during 1996. In addition, it discusses FDIC's progress in correcting internal control weaknesses and presents our recommendations for further improvement. The report also highlights the impact of legislation in 1996 on the capitalization of the Savings Association Insurance Fund and the status of the FSLIC Resolution Fund's liquidation activities and funding.

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.

We are sending copies of this report to the Acting Chairman of the Board of Directors of the Federal Deposit Insurance Corporation; the Chairman of the Board of Governors of the Federal Reserve System; the Comptroller of the Currency; the Acting Director of the Office of Thrift Supervision; the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking and Financial Services; the Secretary of the Treasury; the Director of the Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Audits and Standards. Other major contributors to this report are listed in appendix II.



James F. Hinchman
Acting Comptroller General
of the United States

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Abbreviations

BIF	Bank Insurance Fund
DIFA	Deposit Insurance Funds Act of 1996
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FICO	Financing Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FMFIA	Federal Managers' Financial Integrity Act
FRF	FSLIC Resolution Fund
FSLIC	Federal Savings and Loan Insurance Corporation
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund

GAO

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Accounting and Information
Management Division

B-275155

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 1996 and 1995, of the two deposit insurance funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance, and the statements of cash flows for the years then ended. We have also audited the statements of financial position as of December 31, 1996, and January 1, 1996, of the FSLIC Resolution Fund, which is also administered by FDIC, and the related statement of income and accumulated deficit and the statement of cash flows for the year ended December 31, 1996.

In our audits of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), we found

- the financial statements of each fund were reliable in all material respects;
- although certain internal controls should be improved, FDIC management fairly stated that internal controls in place on December 31, 1996, were effective in safeguarding assets from material loss, assuring material compliance with relevant laws and regulations, and assuring that there were no material misstatements in the financial statements of the three funds administered by FDIC; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss our conclusions in more detail. They also discuss (1) the scope of our audits, (2) additional information including recent legislation affecting SAIF and an update on the current status of FRF liquidation activities and funding, (3) FDIC's progress in addressing reportable conditions[1] identified during our 1995 audits, and reportable conditions identified during our 1996 audits, (4) recommendations from our 1996 audits, and (5) the Corporation's comments on a draft of this report and our evaluation.

[1]Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with management's authority and in accordance with laws and regulations, and (3) properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets. A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

Opinion on Bank Insurance Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Bank Insurance Fund's financial position as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended.

Opinion on Savings Association Insurance Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the Savings Association Insurance Fund's financial position as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended.

Opinion on FSLIC Resolution Fund's Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with generally accepted accounting principles, the FSLIC Resolution Fund's financial position as of December 31, 1996, and January 1, 1996, and the results of its operations and its cash flows for the year ended December 31, 1996.

As discussed in notes 1 and 2 of FRF's financial statements, on January 1, 1996, FRF assumed responsibility for liquidating the assets and satisfying the obligations of the Resolution Trust Corporation (RTC).[2] This statutorily-mandated merger resulted in a significant one-time transfer of assets and liabilities into FRF on January 1, 1996. For this reason, FDIC concluded that providing year-end 1995 comparative information on FRF would not be practical on a fully consistent basis of accounting, and therefore only presented FRF's financial statements for 1996. Additionally, the transfer of RTC's assets and liabilities into FRF required FDIC to make certain adjustments and reclassifications to 1996 opening balances on FRF's statement of financial position to ensure consistent treatment in presentation. For this reason, certain amounts on FRF's January 1, 1996, statement of financial position will not be readily traceable to the

[2]The Resolution Trust Corporation was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage and resolve all troubled savings associations that were previously insured by FSLIC and for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. This period was extended to September 30, 1993, by the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 and was further extended on December 17, 1993, to a date not earlier than January 1, 1995, nor later than July 1, 1995, by the Resolution Trust Corporation Completion Act of 1993 (RTC Completion Act). The RTC Completion Act stated that the final date would be determined by the Chairperson of the Thrift Depositor Protection Oversight Board. On December 5, 1994, the Chairperson made the determination that RTC would continue to resolve failed thrift institutions through June 30, 1995. Finally, the RTC Completion Act required RTC to terminate its operations no later than December 31, 1995.

combined year-end 1995 balances reported on FRF's and RTC's statements of financial position.

As discussed in note 8 of FRF's financial statements, there are approximately 120 pending lawsuits which stem from legislation that resulted in the elimination of supervisory goodwill and other forbearances from regulatory capital. These lawsuits assert various legal claims including breach of contract or an uncompensated taking of property resulting from the FIRREA provisions regarding minimum capital requirements for thrifts and limitations as to the use of supervisory goodwill to meet minimum capital requirements. One case has resulted in a final judgment of $6 million against FDIC, which was paid by FRF, and another case to which FDIC is a party defendant and where a judgment of $26.9 million (plus post judgment interest) has been entered is currently on appeal. FDIC has established a reserve on FRF's financial statements for this second judgment. The remainder of these cases are pending in the Court of Federal Claims with the United States as the named defendant.

On July 1, 1996, the United States Supreme Court concluded that the government is liable for damages in three other cases, consolidated for appeal to the Supreme Court, in which the changes in regulatory treatment required by FIRREA led the government to not honor its contractual obligations. However, because the lower courts had not determined the appropriate measure or amount of damages, the Supreme Court returned the cases to the Court of Federal Claims for further proceedings. As of May 20, 1997 — the end of our fieldwork — only one of these three cases had gone to trial, and the trial was still ongoing. Until the amount of damages are determined by the court the amount of additional costs from these three cases is uncertain. Further, with respect to the other pending cases, the outcome of each case and the amount of any possible damages will depend on the facts and circumstances, including the wording of agreements between thrift regulators and acquirers of troubled savings and loan institutions.

As discussed in note 8 of FRF's financial statements, FDIC believes that judgments in such cases are properly paid from the Judgment Fund.[3] The extent to which FRF will be the source for paying other judgments in such cases is uncertain.

[3]The Judgment Fund is a permanent, indefinite appropriation established by 31 U.S.C. Sec. 1304, and is administered by the Department of the Treasury.

Opinion on FDIC Management's Assertions About the Effectiveness of Internal Controls

For the three funds administered by FDIC, we evaluated FDIC management's assertions about the effectiveness of its internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with provisions of selected laws and regulations that have a direct and material effect on the financial statements of the three funds; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

FDIC management fairly stated that those controls in place on December 31, 1996, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. FDIC management made this assertion based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FDIC management, in making its assertion, also fairly stated the need to improve certain internal controls.

Our work also identified the need to improve certain internal controls, as described in a later section of this report. These weaknesses in internal controls, although not considered material weaknesses, represent significant deficiencies in the design or operation of internal controls which could have adversely affected FDIC's ability to fully meet the internal control objectives listed above. While these weaknesses did not significantly affect the financial statements of the three funds, misstatements may nevertheless occur in other FDIC-reported financial information as a result of these internal control weaknesses. These weaknesses are discussed in detail in a later section of this report.

Compliance With Laws and Regulations

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audits was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

FDIC's management is responsible for

- preparing the annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and evaluating the internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are free of material misstatement and presented fairly, in all material respects, in conformity with generally accepted accounting principles and (2) FDIC management's assertion about the effectiveness of internal controls is fairly stated, in all material respects, based upon the criteria established under FMFIA. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information in FDIC's annual financial report.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the internal control related to safeguarding assets, compliance with laws and regulations, including the execution of transactions in accordance with management's authority, and financial reporting;
- tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls; and
- tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended; the Chief Financial Officers Act of 1990; and the Federal Home Loan Bank Act, as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control, losses, noncompliance, or misstatements may

nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We conducted our audits between July 1996 and May 1997. Our audits were conducted in accordance with generally accepted government auditing standards.

FDIC provided comments on a draft of this report. FDIC's comments are discussed and evaluated in a later section of this report and are included in appendix I.

Additional Information on SAIF's Capitalization and FRF's Liquidation Activities

The following sections discuss (1) the affect of 1996 legislation on SAIF's capitalization and (2) FRF's liquidation activities and status of funding at year-end 1996.

1996 Legislation Resulted in SAIF's Capitalization

In our 1995 audit report, we noted that a significant differential in premium rates charged by BIF and SAIF developed in 1995 after BIF achieved its designated capitalization level and FDIC lowered premium rates charged to BIF-insured institutions.[4] We reported that, absent a legislative solution, this premium rate differential would likely remain for many years. We noted that, while SAIF's reserves continued to increase during 1995, its ratio of reserves to insured deposits was still substantially below its designated capitalization level. We also noted that such a differential in premium rates could result in further decreases to SAIF's assessment base beyond those already being experienced. We reported that this could jeopardize the stability of the Fund and increase the risk of a default on the thrift industry's obligation to pay the annual interest on 30-year bonds issued by

[4]We had previously reported on the potential for a significant differential in premium rates to develop between BIF and SAIF in 1995, as well as the potential consequences of such a differential, in Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/AIMD-95-84, March 3, 1995).

the Financing Corporation (FICO) in an earlier attempt to resolve the thrift crisis of the 1980s.[5]

As discussed in notes 1 and 7 of SAIF's financial statements, on September 30, 1996, the Congress enacted the Deposit Insurance Funds Act of 1996 (DIFA). DIFA included provisions to capitalize SAIF to its designated ratio of reserves to insured deposits. SAIF was fully capitalized through a special assessment totaling $4.5 billion against SAIF-assessable deposits. The special assessment was sufficient to increase SAIF's reserves to the Fund's designated reserve ratio of $1.25 for each $100 of insured deposits effective as of October 1, 1996. DIFA also provided that banks bear part of the cost of the future annual FICO bond interest, which previously had been paid from SAIF-member assessments. The DIFA provisions resulting in the capitalization of SAIF and the spreading of the annual FICO bond interest between banks and thrifts effectively addressed the insurance premium disparity between BIF and SAIF. The legislation also provides for the merger of BIF and SAIF on January 1, 1999, if no thrift institution exists on that date.[6]

Status of FRF's Liquidation Activities and Funding

As discussed earlier, on January 1, 1996, FRF assumed responsibility for the assets and liabilities of the former RTC. During 1996, FDIC continued its liquidation activities for FSLIC-related assets and liabilities, as well as those of the former RTC. As shown in table 1, the majority of FRF's losses from liquidation activities have been realized as of December 31, 1996.

Table 1: FRF's Realized and Unrealized Losses as of December 31, 1996

Dollars in billions

	FRF-RTC	FRF-FSLIC	Total FRF
Realized losses	$82.5	$41.5	$124.0
Unrealized losses	3.9	1.0	4.9
Total realized and unrealized losses	**$86.4**	**$42.5**	**$128.9**

[5]FICO was established in 1987 to recapitalize the Federal Savings and Loan Insurance Fund, the former insurance fund for thrifts. FICO was funded mainly through the issuance of public debt offerings which were initially limited to $10.8 billion but were later effectively capped at $8.2 billion by the RTC Refinancing, Restructuring, and Improvement Act of 1991. Neither FICO's bond obligations or the interest on these obligations are obligations of the United States nor are they guaranteed by the United States. The annual FICO interest obligation, on average, equals approximately $780 million.

[6]The Deposit Insurance Funds Act directs the Secretary of the Treasury to conduct a study of issues relevant to developing a common charter for all insured depository institutions and the abolition of separate and distinct charters between banks and savings associations, and to make recommendations with respect to establishing a common charter.

Losses are realized when failed financial institution assets at receiverships are disposed of and the proceeds from the asset dispositions are not sufficient to repay amounts disbursed by FRF to receiverships and are recorded on FRF's financial statements as receivables from thrift resolutions. Losses are also realized when assets FRF purchases from terminating receiverships (investments in corporate-owned assets) are later disposed of for less than the price FRF paid when it purchased the assets from the receiverships. Uncertainties still exist with regard to the unrealized losses, as the amount will not be known with certainty until all remaining assets and liabilities are liquidated.

In total, the Congress made available $149.2 billion in funding to cover liabilities and losses associated with the former FSLIC and RTC resolution activities, of which $105 billion was made available to the former RTC.[7] Of the $105 billion in funding available, $91.3 billion was received by RTC through December 31, 1995, the date of RTC's termination, to cover losses and expenses associated with failed institutions from its caseload. FRF received $44.2 billion to cover the liabilities and losses associated with the former FSLIC activities. In total, $135.5 billion was received to cover liabilities and losses associated with the former FSLIC and RTC resolution activities.

As shown in table 2, after reducing the total amount of funding received by the amount of estimated funds needed, $6.6 billion in available funds will remain.

Table 2: Estimated Unused Funds After Completion of FRF's Liquidation Activities

Dollars in billions

	FRF-RTC	FRF-FSLIC	Total FRF
Total funds received	$91.3	$44.2	$135.5
Less: estimated funds needed	86.4	42.5	128.9
Estimated unused funds	$ 4.9	$ 1.7	$ 6.6

The final amount of unused funds will not be known with certainty until all of FRF's remaining assets and liabilities are liquidated. Further, $13.7 billion in loss funds not received by RTC prior to RTC's termination are available until December 31, 1997, for losses incurred by the SAIF, if the conditions

[7]FIRREA provided an initial $50 billion to RTC. The Resolution Trust Corporation Funding Act of 1991 provided an additional $30 billion. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 provided $25 billion in December 1991, which was only available for obligation until April 1, 1992. In December 1993, the RTC Completion Act removed the April 1, 1992, deadline, thus making the balance of the $25 billion that was not obligated prior to April 1, 1992, $18.3 billion, available to RTC for resolution activities.

set forth in the Resolution Trust Corporation Completion Act are met.[8] Also, according to the act, unused loss funds will be returned to the general fund of the Treasury.

Reportable Conditions

The following sections discuss (1) FDIC's progress in addressing reportable conditions identified during our 1995 audits and (2) reportable conditions found during our 1996 audits.

Progress on Weaknesses Identified in Previous Audits

In our 1995 audit report on the three funds administered by FDIC, we identified reportable conditions which affected FDIC's ability to ensure that internal control objectives were achieved.[9] These weaknesses related to FDIC's internal controls designed to ensure that (1) estimated recoveries for failed institution assets were determined in accordance with FDIC's estimation methodology, were supported by asset file information, and incorporated the impact of events through year-end, (2) time and attendance reporting procedures were effective, and (3) electronic data processing controls were effective. During 1996, FDIC's actions addressed the weaknesses we identified in our 1995 audit report.

For example, during our 1995 audits, we identified weaknesses in FDIC's controls to ensure that recovery estimates for assets acquired from failed financial institutions complied with FDIC's revised asset recovery estimation methodology, including being supported by asset file documentation, and weaknesses in the cut-off date for asset recovery information used by FDIC in its year-end allowance for loss estimation process. FDIC's implementation of the Standard Asset Valuation Estimation methodology and related Asset Loss Reserve project in 1996 have addressed our previously identified weaknesses surrounding FDIC's use of noncurrent asset recovery values and the lack of adherence to its asset recovery estimation methodology. Additionally, although we continued to find instances where relevant file documentation was not always used in estimating asset recovery values during our 1996 audits, these problems did not affect the financial statements, and appear to be a result of

[8]The RTC Completion Act makes available to SAIF, during the 2-year period beginning on the date of RTC's termination, any of the $18.3 billion in appropriated funds made available by the RTC Completion Act and not needed by RTC. However, prior to receiving such funds, FDIC must first certify, among other things, that SAIF cannot fund insurance losses through industry premium assessments or Treasury borrowings without adversely affecting the health of its member institutions and causing the government to incur greater losses.

[9]Financial Audit: Federal Deposit Insurance Corporation's 1995 and 1994 Financial Statements (GAO/AIMD-96-89, July 15, 1996).

first-year implementation issues. We will continue to review individual asset recovery estimates during 1997.

During our 1995 audits, we also continued to identify weaknesses in FDIC's time and attendance reporting process. We reported that we had continued to identify deficiencies in adherence to required procedures in preparing time and attendance reports, separation of duties between timekeeping and data entry functions, and reconciliation of payroll reports to time cards. During 1996, FDIC implemented new time and attendance reporting procedures to address these deficiencies. The new procedures were intended to streamline and improve the time and attendance reporting process by focusing accountability for verifying the accuracy of time reports with supervisors, segregating the timekeeping and data entry functions, and redefining post-audit responsibilities for time and attendance reporting. We found that the implementation of these new procedures effectively addressed the internal control issues we identified in the time and attendance reporting process in our prior year audits.

During our 1995 audits, we also identified a weakness related to FDIC's electronic data processing general controls. This weakness, because of its sensitive nature, was communicated in a separate correspondence to FDIC management, along with our recommendations for corrective action. During 1996, FDIC took action which effectively addressed the issue we raised in this separate correspondence. Additionally, in our final audit of the Resolution Trust Corporation's (RTC) 1995 financial statements,[10] we identified weaknesses related to general controls over RTC's computerized information systems which required corrective actions. During our 1996 audits, we found that FDIC took action to address a number of these general control weaknesses. Several other general control related issues had not been fully addressed by FDIC at the time of completion of our 1996 audits. However, we believe the issues are not significant enough to be considered a reportable condition.

Reportable Conditions Identified in 1996

The following reportable conditions represent significant deficiencies in FDIC's internal controls and should be corrected by FDIC management.

1. Controls over the integrity of information used to calculate the allowance for losses on receivables from resolution activities and investment in corporate-owned assets need to be improved. Specifically,

[10]Financial Audit: Resolution Trust Corporation's 1995 and 1994 Financial Statements (GAO/AIMD-96-123, July 2, 1996).

FDIC did not have effective procedures in place to ensure that data used in the calculation of the year-end allowance for losses was adequately reviewed for accuracy prior to inclusion in the year-end calculation.

FDIC estimates recoveries on assets acquired from failed financial institutions and uses these estimates to calculate the allowance for losses on receivables from resolution activities and investment in corporate-owned assets. FDIC uses multiple data sources to calculate the estimated recoveries from these assets. Much of the data are gathered from decentralized sources and some of the operations performed on the data are handled in a decentralized manner. Consequently, it is critical that procedures be in place to ensure the accuracy and quality of the data and that such procedures clearly require review for accuracy and quality of the data used in the year-end allowance for losses calculation. However, during our 1996 audits, we found deficiencies in FDIC's procedures for reviewing the compiled data and the related calculations. As a result, FDIC management did not consistently have assurance that the estimated recoveries were properly recorded, processed, and reliable.

For example, FDIC personnel made errors in calculating the estimated recoveries for a portfolio of equity investments. The resulting error of about $97 million was not detected by FDIC. In addition, FDIC made a number of errors in the process of updating the June 30, 1996, estimated recoveries for assets maintained at failed institution receiverships. The estimated recoveries for many of these assets were erroneously changed and some were inadvertently deleted. In addition, FDIC did not always follow its procedures for discounting recovery estimates during its update process, resulting in improper discount rates being used to derive the updated values for a number of assets. Finally, we also found instances where FDIC personnel did not review the integrity of the estimated recoveries on securities assets prior to including these recoveries in the allowance for losses calculations.

The nature of these errors was such that, had an effective process been in place for reviewing the compiled data and related calculations, FDIC could have identified and corrected the errors. The errors we identified generally caused estimated asset recoveries to be understated and the related allowance for losses to be overstated at December 31, 1996. While the effect of these misstatements was not material, misstatements in future financial statements could occur if corrective action is not taken.

FDIC has proposed enhanced review procedures for 1997 which, if properly implemented, should reduce the risk of future errors or misstatements. We will assess the effectiveness of these review procedures during our 1997 audits.

2. FDIC's oversight of asset servicers contracted to manage and dispose of failed financial institution assets needs to be strengthened. During our 1996 audits, we found that FDIC had limited assurance that contracted asset servicers properly safeguarded failed institution assets and accurately reported financial information to FDIC because of deficiencies in FDIC's contractor oversight program. Specifically, FDIC's contractor oversight personnel did not always ensure that (1) contracted asset servicers have adequate controls over daily collections and bank reconciliations, (2) servicers' fees and reimbursable expenses are valid, accurate and complete, and (3) servicers' loan system calculations relating to the allocation of principal and interest are accurate.

As of December 31, 1996, approximately $4.8 billion of the $8.7 billion (about 55 percent) in FDIC's inventory of failed financial institution assets was serviced by contracted asset servicers. These servicers accounted for over $3.7 billion of the $5.9 billion (about 63 percent) in FDIC's collections during 1996 related to asset management and disposition activities. Consequently, it is critical that FDIC maintain an effective contractor oversight program.

FDIC attributes some of the problems noted above to reorganizations and realignments of responsibilities as a result of the merging of RTC activities into FDIC during 1996 coupled with the continued downsizing of the Corporation. Division of Finance (DOF) officials informed us that they intend to implement a full visitation program which will include oversight procedures addressing each of the deficiencies noted above. DOF anticipates having its revised visitation program begin operation in July 1997. Additionally, DOF and the Division of Resolutions and Receiverships (DRR) have established a task force to develop Memorandums of Understanding to more clearly define their oversight roles, with concurrence from the Division of Administration. We will assess the adequacy of FDIC's corrective actions during our 1997 audits.

In addition to the weaknesses discussed above, we noted other less significant matters involving FDIC's system of internal accounting controls and its operations which we will be reporting separately to FDIC.

Recommendations

To address weaknesses identified in this year's audits in the process for calculating the allowance for losses on receivables from resolution activities and investment in corporate-owned assets, we recommend that the Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Resolutions and Receiverships and the Division of Finance to implement formal procedures for reviewing data used in the allowance for losses calculations. Such procedures should provide for

- a thorough review of all data elements used in the allowance for loss calculations to ensure that the data are accurate, current, and reliable; and
- a clear designation and assignment of review responsibilities to ensure that all major sources of data used in the calculations are reviewed and verified.

To address weaknesses identified in this year's audits in contracted asset servicer oversight, we recommend that the Chairman of the Federal Deposit Insurance Corporation direct the heads of the Division of Resolutions and Receiverships and Division of Finance to enhance their contractor oversight program to ensure that their procedures for overseeing contracted asset servicers are followed. Such procedures should ensure

- routine monitoring of contracted asset servicers' controls over daily collections, such as opening mail containing monetary items under dual control, the preparation and maintenance of control totals, and the reconciliation of collections processed and deposited to the control totals;
- routine review of contracted asset servicers' bank reconciliations to ensure no unresolved differences exist between the servicers' reported cash balances and those reflected on the servicers' bank statements, and to ensure that funds collected are remitted to FDIC in accordance with contractual requirements;
- routine verification of the validity, accuracy, and completeness of contracted asset servicers' fees and reimbursable expenses; and
- verification that contracted asset servicers are accurately applying loan payments between principal and interest.

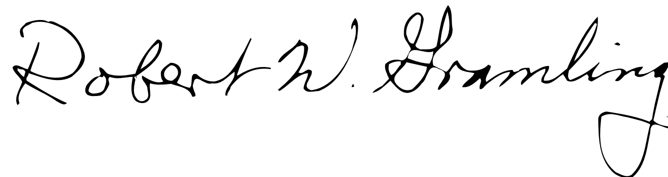
Corporation Comments and Our Evaluation

In commenting on a draft of this report, FDIC acknowledged the internal control weaknesses cited in the report and commented on initiatives it has underway to address the issues raised regarding the allowance for losses calculation and oversight of contracted asset servicers. We plan to

evaluate the adequacy and effectiveness of these corrective actions as part of our 1997 financial audits.

FDIC's comments also discuss the changing environment the Corporation faced during 1996 and continues to face today, the condition of FDIC-insured institutions and the deposit insurance funds, and progress made by the Corporation in addressing internal control weaknesses identified in our 1995 financial audits.

The complete text of FDIC's response to our report is included in appendix I.



Robert W. Gramling
Director, Corporate Audits
and Standards

May 20, 1997

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1996	December 31 1995
Assets		
Cash and cash equivalents	$ 258,132	$ 531,308
Investment in U.S. Treasury obligations, net (Note 3) (Market value of investments at December 31, 1996 and December 31, 1995 was $22.1 billion and $20.9 billion, respectively)	22,083,494	20,762,046
Interest receivable on investments and other assets, net	384,824	406,804
Receivables from bank resolutions, net (Note 4)	4,341,154	4,143,040
Investment in corporate owned assets, net (Note 5)	63,406	180,293
Property and buildings, net (Note 6)	148,400	151,740
Total Assets	**$ 27,279,410**	**$ 26,175,231**
Liabilities and the Fund Balance		
Accounts payable and other liabilities	$ 240,185	$ 224,626
Estimated Liabilities for: (Notes 8 and 9)		
Anticipated failure of insured institutions	75,000	279,000
Assistance agreements	50,817	55,941
Asset securitization guarantees	44,279	126,151
Litigation losses	14,750	35,815
Total Liabilities	**425,031**	**721,533**
Commitments and contingencies (Notes 13 and 14)		
Fund Balance	**26,854,379**	**25,453,698**
Total Liabilities and the Fund Balance	**$ 27,279,410**	**$ 26,175,231**

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

Statements of Income and the Fund Balance

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31	
	1996	**1995**
Revenue		
Assessments (Note 10)	$ 72,662	$ 2,906,943
Interest on U.S. Treasury investments	1,267,134	1,068,395
Revenue from corporate owned assets	69,879	58,585
Other revenue (Note 7)	245,585	55,176
Total Revenue	**1,655,260**	**4,089,099**
Expenses and Losses		
Operating expenses	505,299	470,625
Reduction in provision for insurance losses (Note 9)	(325,206)	(33,167)
Corporate owned asset expenses	73,819	73,599
Interest and other insurance expenses	667	(27,874)
Total Expenses and Losses	**254,579**	**483,183**
Net Income	**1,400,681**	**3,605,916**
Fund Balance - Beginning	**25,453,698**	**21,847,782**
Fund Balance - Ending	**$ 26,854,379**	**$ 25,453,698**

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

Statements of Cash Flows

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31 1996	1995
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$ 73,961	$ 2,796,114
Interest on U.S. Treasury investments	1,303,629	875,226
Recoveries from bank resolutions	624,502	5,059,751
Recoveries from corporate owned assets	355,913	211,691
Miscellaneous receipts	34,329	36,084
Cash used for:		
Operating expenses	(489,372)	(442,101)
Disbursements for bank resolutions	(632,930)	(1,596,391)
Disbursements for corporate owned assets	(205,775)	(159,299)
Miscellaneous disbursements	(16,810)	(23,929)
Net Cash Provided by Operating Activities (Note 16)	**1,047,447**	**6,757,146**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity of U.S. Treasury obligations	7,550,000	3,830,000
Cash used for:		
Purchase of U.S. Treasury obligations	(8,870,623)	(11,675,925)
Net Cash Used by Investing Activities	**(1,320,623)**	**(7,845,925)**
Cash Flows from Financing Activities		
Cash used for:		
Repayments of indebtedness incurred from bank resolutions	0	(1,369)
Net Cash Used by Financing Activities	**0**	**(1,369)**
Net Decrease in Cash and Cash Equivalents	**(273,176)**	**(1,090,148)**
Cash and Cash Equivalents - Beginning	**531,308**	**1,621,456**
Cash and Cash Equivalents - Ending	**$ 258,132**	**$ 531,308**

Notes to Financial Statements

Notes to Financial Statements
Bank Insurance Fund
December 31, 1996 and 1995

1. Legislative History and Operations of the Bank Insurance Fund

Legislative History
The U.S. Congress created the Federal Deposit Insurance Corporation (FDIC) through enactment of the Banking Act of 1933. The FDIC was created to restore and maintain public confidence in the nation's banking system.

More recently, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF) and the FSLIC Resolution Fund (FRF). It also designated the FDIC as the administrator of these three funds. All three funds are maintained separately to carry out their respective mandates.

The BIF and SAIF are insurance funds responsible for protecting depositors in operating banks and thrift institutions from loss due to failure of the institution. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to FIRREA, an active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of BIF-member institutions are mostly insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve. Deposits of SAIF-member institutions are mostly insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). The Oakar amendment to the Federal Deposit Insurance Act (FDI Act) allows BIF and SAIF members to acquire deposits insured by the other insurance fund without changing insurance fund coverage for the acquired deposits.

Other significant legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 10) and borrowing authority (see "Operations of the BIF" below). The FDICIA also requires the FDIC to: 1) resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds and 2) maintain the insurance funds at 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

Recent Legislation
The Deposit Insurance Funds Act of 1996 (DIFA 1996) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the Financing Corporation (FICO) to include all FDIC-insured institutions, i.e., banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate for BIF-assessable deposits that is one-fifth of that paid by SAIF-assessable deposits; 4) the payment of the approximately $790 million annual FICO interest obligation on a pro rata basis between banks and thrifts on the earlier of December 31, 1999 or the date on which the last savings association ceases to exist; 5) the refund of amounts in the BIF in excess of the designated reserve ratio with such refund not to exceed the previous semi-annual assessment; 6) authorization of BIF assessments only if needed to maintain the fund at the designated reserve ratio; and 7) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date.

The FICO, established under the Competitive Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

Operations of the BIF
The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured banks and 2) resolve failed banks, including managing and liquidating their assets. In addition, the FDIC, acting on behalf of the BIF, examines state-chartered banks that are not members of the Federal Reserve System and provides and monitors assistance to troubled banks.

The BIF is primarily funded from the following sources: 1) interest earned on investments in U.S. Treasury obligations; 2) BIF assessment premiums; 3) income earned on and funds received from the management and disposition of assets acquired from failed banks; and 4) U.S. Treasury and Federal Financing Bank (FFB) borrowings, if necessary.

The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the BIF and the SAIF. The FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the BIF and the SAIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the BIF, known as the maximum obligation limitation (MOL). At December 31, 1996, the MOL for the BIF was $49 billion.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations and cash flows of the BIF and are presented in accordance with generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed banks for which the BIF acts as receiver or liquidating agent. Periodic and final accountability reports of the BIF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

Use of Estimates
The preparation of the BIF's financial statements in conformity with GAAP requires FDIC management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash and Cash Equivalents
The BIF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

U.S. Treasury Obligations
Securities are intended to be held to maturity and are shown at book value. Book value is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity. Interest is calculated on a daily basis and recorded monthly using the effective interest method.

Allowance for Losses on Receivables from Bank Resolutions and Investment in Corporate Owned Assets
The BIF records as a receivable the amounts advanced and/or obligations incurred for resolving troubled and failed banks. The BIF also records as an asset the amounts advanced for investment in corporate owned assets. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from assets of assisted or failed banks, net of all estimated liquidation costs.

Litigation Losses
The BIF accrues, as a charge to current period operations, an estimate of probable losses from litigation. The FDIC's Legal Division recommends these estimates on a case-by-case basis. The litigation loss estimates related to the BIF in its corporate capacity are included in the "Estimated liabilities for: Litigation losses." The litigation loss estimates related to receiverships are included in the allowance for losses for "Receivables from bank resolutions, net."

Receivership Operations
The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the BIF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds. 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 BIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the BIF, the SAIF and the FRF. The BIF funds its liabilities for these benefits directly to the entity.

Disclosure about Recent Financial Accounting Standards Board Pronouncements
The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in June 1996, effective for transactions occurring after December 31, 1996. The BIF will generally be unaffected by its provisions since most transactions subject to SFAS 125 occur at the receivership level and not at the fund level. To the extent that the BIF may be affected, the FDIC's current accounting practices are consistent with the rules contained in SFAS 125. Other recent pronouncements issued by the FASB have been adopted or are either not applicable or not material to the financial statements.

Depreciation
The FDIC has designated the BIF administrator of buildings owned and used in its operations. Consequently, the BIF includes the cost of these assets in its financial statements and provides the necessary funding for them. The BIF charges other funds a rental fee representing an allocated share of its annual depreciation expense.

The Washington, D.C., office buildings and the L. William Seidman Center in Arlington, Virginia, are depreciated on a straight-line basis over a 50-year estimated life. The San Francisco condominium offices are depreciated on a straight-line basis over a 35-year estimated life.

Related Parties
The nature of related parties and a description of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1995 financial statements to conform to the presentation used in 1996.

3. Investment in U.S. Treasury Obligations, Net

All cash received by the BIF is invested in U.S. Treasury obligations with maturities exceeding three months unless the cash is used: 1) to defray operating expenses; 2) for outlays related to assistance to banks and liquidation activities; or 3) for investments in U.S. Treasury one-day special certificates which are cash equivalents.

U.S. Treasury Obligations at December 31, 1996

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year	6.02%	$ 5,805,090	$ 15,032	$(6,934)	$ 5,813,188	$ 5,800,000
1-3 years	5.62%	8,339,386	8,499	(37,429)	8,310,456	8,320,000
3-5 years	6.10%	4,811,582	21,306	(30,560)	4,802,328	4,770,000
5-10 years	6.51%	3,127,436	38,415	(328)	3,165,523	3,100,000
Total		**$22,083,494**	**$ 83,252**	**$ (75,251)**	**$ 22,091,495**	**$21,990,000**

U.S. Treasury Obligations at December 31, 1995

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year (a)	5.53%	$ 6,750,414	$ 19,934	$ (5,262)	$ 6,765,086	$ 6,750,000
1-3 years	5.88%	12,318,436	147,762	(24,776)	12,441,422	12,350,000
3-5 years	5.59%	1,693,196	15,613	0	1,708,809	1,690,000
Total		**$20,762,046**	**$ 183,309**	**$ (30,038)**	**$ 20,915,317**	**$20,790,000**

(a) Includes a $400 million Treasury note which matured on Sunday, December 31, 1995. Settlement occurred on the next business day, January 2, 1996.

In 1996, the unamortized discount, net of unamortized premium, was $93 million. In 1995, the unamortized premium, net of unamortized discount, was $28 million.

4. Receivables from Bank Resolutions, Net

The FDIC resolution process results in different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover the institution's obligation to insured depositors and represent a claim by the BIF against the receiverships' assets.

The FDIC, as receiver for failed banks, engages in a variety of strategies at the time of failure to maximize the return from the sale or disposition of assets and to minimize realized losses. A failed bank acquirer can purchase selected assets at the time of resolution and assume full ownership,

benefit and risk related to such assets. The receiver may also engage in other types of transactions as circumstances warrant. As described in Note 2, an allowance for loss is established against the receivable from bank resolutions.

As of December 31, 1996 and 1995, the BIF, in its receivership capacity, held assets with a book value of $7 billion and $10 billion, respectively. These assets represent a significant source of repayment of receivables from bank resolutions. The estimated cash recoveries from the management and disposition of these assets (excluding cash and miscellaneous receivables of $3.9 billion at December 31, 1996 and $2.1 billion at December 31, 1995) used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The potential sampling error is not material to the BIF's financial statements. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could affect the BIF's and other claimants' actual recoveries from the level currently estimated.

Receivables from Bank Resolutions, Net

Dollars in Thousands	December 31 1996	December 31 1995
Assets from Open Bank Assistance	$ 142,267	$ 158,000
Allowance for losses (Note 9)	(49,580)	(57,405)
	92,687	**100,595**
Receivables from Closed Banks	23,563,609	25,073,165
Allowance for losses (Note 9)	(19,315,142)	(21,030,720)
	4,248,467	**4,042,445**
Total	**$ 4,341,154**	**$ 4,143,040**

5. Investment in Corporate Owned Assets, Net

The BIF acquires assets in certain troubled and failed bank cases by either purchasing an institution's assets outright or purchasing the assets under the terms specified in each resolution agreement. In addition, the BIF can purchase assets remaining in a receivership to facilitate termination. The majority of corporate owned assets are real estate and mortgage loans.

The methodology used to derive the allowance for losses for corporate owned assets is the same as that for receivables from bank resolutions.

The BIF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

Investment in Corporate Owned Assets, Net

Dollars in Thousands	December 31 1996	December 31 1995
Investment in corporate owned assets	$ 873,458	$ 939,756
Allowance for losses (Note 9)	(810,052)	(759,463)
Total	**$ 63,406**	**$ 180,293**

6. Property and Buildings, Net

Dollars in Thousands	December 31 1996	December 31 1995
Land	$ 29,631	$ 29,631
Office buildings	151,442	151,442
Accumulated depreciation	(32,673)	(29,333)
Total	**$ 148,400**	**$ 151,740**

7. Other Revenue

Dollars in Thousands	For the Year Ended December 31 1996	For the Year Ended December 31 1995
Interest on subrogated claims and advances	$ 230,871	$ 37,771
Income from assistance transactions	5,980	9,234
Other miscellaneous income	8,734	8,171
Total	**$ 245,585**	**$ 55,176**

The interest on subrogated claims and advances to financial institutions includes $205 million in post-insolvency interest. There are a number of BIF receiverships that have residual funds remaining after paying all regular claims. Once those claims have been paid, the BIF and other claimants are eligible to receive interest on their claims against the receivers on a pro rata basis. Due to the uncertainty of collection, post-insolvency interest is recognized when received.

8. Estimated Liabilities for:

Anticipated Failure of Insured Institutions
The BIF records an estimated liability and loss provision for banks that are likely to fail in the foreseeable future (absent some favorable event such as obtaining additional capital or merging). The estimated liability and corresponding reduction in provision for insurance losses are recorded in the period when the liability is deemed probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1996 and 1995, were $75 million and $279 million, respectively. The estimated liability is derived in part from estimates of recoveries from the management and disposition of the assets of these probable bank failures. Therefore, they are subject to the same uncertainties as those affecting the BIF's receivables from bank resolutions (see Note 4). This could affect the ultimate costs to the BIF from probable bank failures.

There are other banks where the risk of failure is less certain, but still considered reasonably possible. Should these banks fail the BIF would incur additional losses of about $160 million.

The accuracy of these estimates will largely depend on future economic conditions. In addition, FDIC considers probable losses in setting assessment rates and, as circumstances warrant, may increase assessment rates to recover some or all losses due to anticipated bank failures.

Assistance Agreements
The estimated liabilities for assistance agreements resulted from several large transactions where problem assets were purchased by an acquiring institution under an agreement that calls for the FDIC to absorb credit losses and to pay related costs for funding and asset administration plus an incentive fee.

Asset Securitization Guarantee
As part of the FDIC's efforts to maximize the return from the sale or disposition of assets and minimize losses from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the FDIC's BIF provided Limited Guarantees to cover certain losses on the securitized assets up to a specified maximum. In exchange for backing the limited guarantee, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantee. The deals were initially structured so that the BIF would neither profit nor suffer a loss as a result of the limited guarantees.

At December 31, 1996 and 1995, the BIF had an estimated liability under the guarantees of $44 million and $126 million, respectively.

During 1996 the BIF returned to receiverships $91.6 million in cash (including interest of $8.4 million) received for backing the limited guarantee. The BIF made this refund as a result of lowering the estimate of expected exposure under one of the guarantees. The following chart summarizes the BIF's remaining potential exposure under the guarantees.

Asset Securitization Guarantees (cumulative inception-to-date balances)

Dollars in Thousands

	Maximum Exposure Under the Guarantee Obligations	Guarantee Claims Paid through December 31	Maximum Remaining Potential Obligations at December 31
1996	$481,313	$8,651	$472,662
1995	$247,748	$2,406	$245,342

Litigation Losses
The BIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be probable in occurrence and reasonably estimable in amount. In addition to the amount recorded, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $307 million are reasonably possible. This includes $18 million in losses for the BIF in its corporate capacity and $289 million in losses for the BIF related to receiverships (see Note 2).

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

The reduction in provision for insurance losses includes the normal, recurring changes in estimates for prior year, current, and anticipated bank resolutions. In the following charts, transfers include reclassifications from "Estimated Liabilities for: anticipated failure of insured institutions" to "Closed banks." Terminations represent final adjustments to the estimated cost figures for those bank resolutions that were completed.

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1996

Dollars in Millions	Beginning Balance 01/01/96	Provision for Insurance Losses Current Year	Prior Years	Total	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/96
Allowance for Losses:							
Open bank assistance	$ 57	$ 0	$ (4)	$ (4)	$ 0	$ (3)	$ 50
Corporate owned assets	759	0	51	51	0	0	810
Closed banks	21,031	(95)	(33)	(128)	0	(1,588)	19,315
Total Allowance for Losses	**21,847**	**(95)**	**14**	**(81)**	**0**	**(1,591)**	**20,175**
Estimated Liabilities for:							
Anticipated failure of insured institutions	279	(204)	0	(204)	0	0	75
Assistance agreements	56	0	(4)	(4)	(1)	0	51
Asset securitization guarantee	126	(15)	0	(15)	(81)	14	44
Litigation losses	36	0	(21)	(21)	0	0	15
Total Estimated Liabilities	**497**	**(219)**	**(25)**	**(244)**	**(82)**	**14**	**185**
Reduction in Provision for Insurance Losses		**$(314)**	**$ (11)**	**$ (325)**			

Analysis of Changes in Allowance for Losses and Estimated Liabilities - 1995

Dollars in Millions	Beginning Balance 01/01/95	Provision for Insurance Losses Current Year	Prior Years	Total	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/95
Allowance for Losses:							
Open bank assistance	$ 1,156	$ 0	$(140)	$ (140)	$ 0	$ (959)	$ 57
Corporate owned assets	660	0	99	99	0	0	759
Closed banks	22,354	(52)	464	412	0	(1,735)	21,031
Total Allowance for Losses	**24,170**	**(52)**	**423**	**371**	**0**	**(2,694)**	**21,847**
Estimated Liabilities for:							
Anticipated failure of insured institutions	875	131	(570)	(439)	0	(157)	279
Assistance agreements	163	0	14	14	(101)	(20)	56
Asset securitization guarantee	128	0	0	0	(2)	0	126
Litigation losses	15	0	21	21	0	0	36
Total Estimated Liabilities	**1,181**	**131**	**(535)**	**(404)**	**(103)**	**(177)**	**497**
Increase/(Reduction) in Provision for Insurance Losses		**$ 79**	**$ (112)**	**$ (33)**			

10. Assessments

The 1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for BIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for BIF-member institutions as needed to ensure that funds are available to satisfy the BIF's obligations; and 3) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

In May 1995, the BIF reached the FDICIA mandated capitalization level of 1.25 percent of insured deposits.

The DIFA 1996 (see Note 1) provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act, and for the expansion of the assessment base for payments on the interest on obligations issued by FICO to include all FDIC-insured institutions, including banks. Beginning January 1, 1997, banks will start paying a FICO-assessment. The FICO-assessment rate on BIF-assessable deposits will be one-fifth of the rate paid on SAIF-assessable deposits. On the earlier of December 31, 1999, or the date on which the last savings association ceases to exist, the approximately $790 million annual FICO interest obligation will be paid on a pro rata basis between banks and thrifts.

The FICO assessment will have no financial effect on the BIF since the FICO claim will be assessed separately from the regular assessment, and the FICO assessment is imposed on banks and not on the BIF. The FDIC as administrator of the BIF is acting solely as an agent for the FICO to collect and remit the FICO assessment to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the BIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The FDIC Board of Directors (Board) reviews premium rates semiannually. The average assessment rate for 1996 was 0.24 cents per $100 of insured deposits.

On November 26, 1996, the FDIC Board of Directors voted to retain the BIF assessment schedule of 0 to 27 cents per $100 of insured deposits (annual rates) for the first semiannual period of 1997.

11. Pension Benefits, Savings Plans, Postemployment Benefits and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees also may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

Although the BIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The BIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

Due to a substantial decline in the FDIC's workload, the Corporation developed a staffing reduction program, a component of which is a voluntary separation incentive plan, or buyout. To date, two corporate-wide buyout plans have been offered to eligible employees. The first buyout plan did not have a material financial effect on the BIF, and management believes the second buyout plan will also not have a material financial effect on the fund.

The liability to employees for accrued annual leave is approximately $38.9 million and $43.4 million at December 31, 1996 and 1995, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	For the Year Ended December 31	
	1996	1995
Civil Service Retirement System	$ 9,113	$ 9,411
Federal Employee Retirement System (Basic Benefit)	34,989	36,741
FDIC Savings Plan	19,474	20,545
Federal Thrift Savings Plan	12,195	10,264
Total	**$ 75,771**	**$ 76,961**

12. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

The BIF expensed $6.1 million and $18.8 million for net periodic postretirement benefit costs for the years ended December 31, 1996 and 1995, respectively. For measurement purposes for 1996, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1996 of 10.75 percent (inclusive of general inflation of 3.00 percent), decreasing to an ultimate rate in 2000 of 7.75 percent; and 4) an increase in dental costs for 1997 and thereafter of 4.00 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1996, would have increased by 20.4 percent. The effect of this change on the aggregate of service and interest cost for 1996 would be an increase of 26.2 percent.

Net Periodic Postretirement Benefit Cost		
Dollars in Thousands	**For the Year Ended December 31**	
	1996	**1995**
Service cost (benefits attributed to employee service during the year)	$ 15,575	$ 22,574
Interest cost on accumulated postretirement benefit obligation	16,258	14,706
Net total of other components	(7,369)	(3,567)
Return on plan assets	(18,402)	(14,907)
Total	**$ 6,062**	**$ 18,806**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the BIF, the SAIF, and the FRF. The BIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation and Funded Status		
Dollars in Thousands	**December 31**	
	1996	**1995**
Retirees	$ 136,730	$ 79,370
Fully eligible active plan participants	12,724	22,401
Other active participants	152,993	182,408
Total Obligation	**302,447**	**284,179**
Less: Plan assets at fair value (a)	335,439	317,037
(Over) Funded Status	**(32,992)**	**(32,858)**
Unrecognized prior service cost	46,136	57,242
Unrecognized net gain	26,846	11,954
Postretirement Benefit Liability Recognized in the Statements of Financial Position	**$ 39,990**	**$ 36,338**

(a) Invested in U.S. Treasury instruments

13. Commitments

The BIF's allocated share of FDIC's lease commitments totals $138.8 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of FDIC's future lease commitments is based upon current relationships of the workloads among BIF, SAIF and FRF. Changes in the relative workloads among the three funds in future years could change the amount of FDIC's lease payments which will be allocated to BIF. The BIF recognized leased space expense of $39.9 million and $42.7 million for the years ended December 31, 1996 and 1995, respectively.

Leased Space Fees

Dollars in Thousands

1997	1998	1999	2000	2001	2002 and Thereafter
$38,355	$25,004	$19,390	$16,597	$15,748	$23,742

14. Concentration of Credit Risk

As of December 31, 1996, the BIF had $23.7 billion and $873 million in gross receivables from bank resolutions and investment in corporate owned assets, respectively. An allowance for loss of $19.4 billion and $810 million, respectively, has been recorded against these receivables. The receivables arose from bank resolutions. The BIF's maximum exposure to possible accounting loss for these receivables is shown in the table below.

Concentration of Credit Risk at December 31, 1996

Dollars in Millions

	South-east	South-west	North-east	Mid-west	Central	West	Total
Receivables from bank resolutions, net and Investment in corporate owned assets, net	$89	$297	$3,145	$230	$8	$631	$4,400

(a) The net receivable excludes $2.3 million and $1.9 million, respectively, of the SAIF's allocated share of maximum credit loss exposure from the resolutions of Olympic National Bank, Los Angeles, CA, and the First National Bank of the Panhandle, Panhandle, TX. There is no risk that the SAIF will not meet these obligations.

Insured Deposits
As of December 31, 1996, the total deposits insured by the BIF is approximately $2 trillion. This would be the accounting loss if all depository institutions fail and the assets acquired as a result of the resolution process provided no recoveries.

15. Disclosures about the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, accounts payable and liabilities incurred from bank resolutions approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

The net receivable from bank resolutions primarily involves the BIF's subrogated claim arising from payments to insured depositors. The receivership assets which will ultimately be used to pay the corporate subrogated claim are valued using discount rates which include consideration of market risk. These discounts ultimately affect the BIF's allowance for loss against the net receivable from bank resolutions. Therefore the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets, such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the BIF on the subrogated claim do not necessarily correspond with the timing of collections on receivership assets. Therefore the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from bank resolutions.

The majority of the net investment in corporate owned assets (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed banks. Like receivership assets, corporate owned assets are valued using discount rates which include consideration of

market risk. However, corporate owned assets do not involve the unique aspects of the corporate subrogated claim, and therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

16. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31	
	1996	1995
Net Income	**$ 1,400,681**	**$ 3,605,916**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Reduction in provision for insurance losses	(325,206)	(33,167)
Amortization of U.S. Treasury securities	(826)	(19,266)
Depreciation on buildings	3,339	3,339
Change in Assets and Liabilities:		
Decrease (Increase) in interest receivable on investments and other assets	21,981	(146,102)
(Increase) Decrease in receivables from bank resolutions	(66,359)	3,659,128
Decrease (Increase) in corporate owned assets	66,298	(37,452)
Increase (Decrease) in accounts payable and other liabilities	15,560	(112,148)
(Decrease) in estimated liabilities for anticipated failure of insured institutions	0	(157,000)
(Decrease) in estimated liabilities for assistance agreements	(721)	(4,048)
(Decrease) in estimated liabilities for asset securitization guarantees	(67,300)	(2,054)
Net Cash Provided by Operating Activities	**$ 1,047,447**	**$ 6,757,146**

17. Subsequent Events

In the first quarter of 1997, management negotiated with the National Treasury Employees Union (NTEU) a change in employee health benefits. This change involves a conversion from the FDIC health plan to the Federal Employees Health Benefits (FEHB) plan. This conversion will involve all employees with five or more years until retirement eligibility. Assuming enabling legislation is also passed, the conversion will also affect all retirees and employees within five years of retirement. Management does not expect the conversion, which will become effective on January 1, 1998, to result in an accounting loss to the BIF.

Savings Association Insurance Fund's Financial Statements

Statements of Financial Position

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position

Dollars in Thousands	December 31 1996	1995
Assets		
Cash and cash equivalents (see Note 4 for restrictions)	$ 387,953	$ 911,810
Investment in U.S. Treasury obligations, net (Note 3) (Market value of investments at December 31, 1996 and December 31, 1995 was $8.7 billion and $2.8 billion, respectively)	8,764,092	2,832,919
Entrance and exit fees receivable, net (Note 4)	3,517	8,821
Interest receivable on investments and other assets	124,534	48,634
Receivables from thrift resolutions, net (Note 5)	19,266	51
Total Assets	**$ 9,299,362**	**3,802,235**
Liabilities and the Fund Balance		
Accounts payable and other liabilities	$ 179,367	$ 117,628
Estimated liability for anticipated failure of insured institutions (Note 6)	4,000	111,000
Total Liabilities	**183,367**	**228,628**
Commitments and contingencies (Notes 11 and 12)		
SAIF-Member Exit Fees and Investment Proceeds Held in Escrow (Note 4)	**227,574**	**215,760**
Fund Balance	**8,888,421**	**3,357,847**
Total Liabilities and the Fund Balance	**$ 9,299,362**	**$ 3,802,235**

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

Statements of Income and the Fund Balance

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Income and the Fund Balance

Dollars in Thousands	For the Year Ended December 31 1996	1995
Revenue		
Assessments (Note 7)	$ 5,221,560	$ 970,027
Interest on U.S. Treasury investments	253,868	169,101
Other revenue (Note 8)	26,256	788
Total Revenue	**5,501,684**	**1,139,916**
Expenses and Losses		
Operating expenses	62,618	39,777
Reduction in provision for insurance losses	(91,636)	(321,000)
Interest and other insurance expenses	128	7
Total Expenses and Losses	**(28,890)**	**(281,216)**
Net Income	**5,530,574**	**1,421,132**
Fund Balance - Beginning	**3,357,847**	**1,936,715**
Fund Balance - Ending	**$ 8,888,421**	**$ 3,357,847**

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

Statements of Cash Flows

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Cash Flows

Dollars in Thousands	For the Year Ended December 31	
	1996	1995
Cash Flows from Operating Activities		
Cash provided from:		
Assessments	$5,293,722	$1,060,829
Interest on U.S. Treasury investments	192,053	152,622
Interest on exit fees	7,739	8,449
Entrance and exit fee collections (Note 4)	6,000	29,757
Recoveries from thrift resolutions	24,478	17,149
Miscellaneous receipts	367	437
Cash used for:		
Operating expenses	(78,726)	(18,487)
Reimbursement to the FSLIC Resolution Fund for thrift resolutions	(33,137)	(15,881)
Disbursements for thrift resolutions	(500)	(1,142)
Miscellaneous disbursements	(49)	1
Net Cash Provided by Operating Activities (Note 14)	**5,411,947**	**1,233,734**
Cash Flows from Investing Activities		
Cash provided from:		
Maturity and sale of U.S. Treasury obligations	1,885,000	1,385,000
Cash used for:		
Purchase of U.S. Treasury obligations	(7,820,804)	(1,787,124)
Net Cash Used by Investing Activities	**(5,935,804)**	**(402,124)**
Net Increase in Cash and Cash Equivalents	**(523,857)**	**831,610**
Cash and Cash Equivalents - Beginning	**911,810**	**80,200**
Cash and Cash Equivalents - Ending	**$ 387,953**	**$ 911,810**

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

Notes to Financial Statements

Notes to Financial Statements
Savings Association Insurance Fund
December 31, 1996 and 1995

1. Legislative History and Operations of the Savings Association Insurance Fund

Legislative History
The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. The FIRREA created the Savings Association Insurance Fund (SAIF), the Bank Insurance Fund (BIF), and the FSLIC Resolution Fund (FRF). It also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of these three funds. All three funds are maintained separately to carry out their respective mandates.

The SAIF and the BIF are insurance funds responsible for protecting depositors in operating banks and thrift institutions from loss due to failure of the institution. The FRF is a resolution fund responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC) and liquidating the assets and liabilities transferred from the former Resolution Trust Corporation (RTC).

Pursuant to the Resolution Trust Corporation Completion Act of 1993 (1993 RTC Act), resolution responsibility transferred from the RTC to the SAIF on July 1, 1995. Prior to that date, thrift resolutions were the responsibility of the RTC (January 1, 1989 through June 30, 1995) or the FSLIC (prior to 1989).

Pursuant to FIRREA, an active institution's insurance fund membership and primary federal supervisor are generally determined by the institution's charter type. Deposits of SAIF-member institutions are mostly insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). Deposits of BIF-member institutions are mostly insured by the BIF; BIF members are predominantly commercial and savings banks supervised by the FDIC, the Office of the Comptroller of the Currency, or the Federal Reserve.

The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. Effective December 12, 1991, as provided by the Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 (1991 RTC Act), the FICO's ability to serve as a financing vehicle for new debt was terminated. Assessments paid on SAIF-insured deposits (excluding "Sasser" and BIF-member "Oakar" banks) are subject to draws by FICO for payment of interest on their outstanding debt through maturity of this debt in 2019. "Sasser" banks are SAIF members that converted to a state bank charter in accordance with Section 5(d)(2)(G) of the Federal Deposit Insurance Act (FDI Act). "Oakar" banks are described in a following section, "Operations of the SAIF".

Other significant legislation includes the Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act) and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). These acts made changes to the FDIC's assessment authority (see Note 7) and borrowing authority (see "Operations of the SAIF" below). The FDICIA also requires the FDIC to: 1) resolve troubled institutions in a manner that will result in the least possible cost to the deposit insurance funds; and 2) maintain the insurance funds at 1.25 percent of insured deposits or a higher percentage as circumstances warrant.

Recent Legislation
The Deposit Insurance Funds Act of 1996 (DIFA 1996) was enacted to provide for: 1) the capitalization of the SAIF to its designated reserve ratio of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits; 2) the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions, i.e., banks and thrifts; 3) beginning January 1, 1997, the imposition of a FICO assessment rate for SAIF-assessable deposits that is five times the rate for BIF-assessable deposits; 4) the payment of the approximately $790 million annual FICO interest obligation on a pro rata basis between banks and thrifts on the earlier of December 31, 1999 or the date on which the last savings association ceases to exist; 5) authorization of assessments only if needed to maintain the SAIF at the designated

reserve ratio; and 6) the merger of the BIF and the SAIF on January 1, 1999, if no insured depository institution is a savings association on that date.

Additionally, DIFA provides: 1) exemptions from the special assessment for certain institutions; 2) a 20 percent adjustment of the special assessment for certain Oakar banks and certain other institutions; and 3) assessment rates for SAIF members not lower than the assessment rates for BIF members with comparable risk.

Operations of the SAIF
The primary purpose of the SAIF is to: 1) insure the deposits and protect the depositors of SAIF-insured institutions; and 2) resolve failed SAIF-insured institutions. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and BIF-member banks designated as Oakar banks.

The Oakar bank provisions are found in Section 5 (d) (3) of the FDI Act. The provisions allow, with approval of the appropriate federal regulatory authority, any insured depository institution to merge, consolidate or transfer the assets and liabilities of an acquired institution without changing insurance coverage for the acquired deposits. Such acquired deposits continue to be either SAIF-insured deposits and assessed at the SAIF assessment rate or BIF-insured deposits and assessed at the BIF assessment rate. In addition, any losses resulting from the failure of these institutions are to be allocated between the BIF and the SAIF based on the respective dollar amounts of the institution's BIF-insured and SAIF-insured deposits.

The SAIF is primarily funded from the following sources: 1) SAIF assessments from BIF-member Oakar banks; 2) other SAIF assessments that are not required for the FICO, including assessments from Sasser banks; 3) interest earned on unrestricted investments in U.S. Treasury obligations; 4) U.S. Treasury payments not to exceed $8 billion for losses for fiscal years 1994 through 1998 contingent upon appropriations from the U.S. Treasury; 5) U.S. Treasury payments from unused appropriations to the RTC for losses for two years after the date of the RTC termination, December 31, 1995; and 6) borrowings from Federal Home Loan Banks, the U.S. Treasury and the Federal Financing Bank (FFB).

The 1993 RTC Act places significant restrictions on funding from sources 4) and 5) above. Among other restrictions, before appropriated funds from either source are used, the FDIC must certify to Congress that: 1) SAIF-insured institutions are unable to pay premiums sufficient to cover insurance losses or to repay amounts borrowed from the U.S. Treasury without adversely affecting their ability to raise and maintain capital or to maintain the assessment base and 2) an increase in premiums could reasonably be expected to result in greater losses to the government.

The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the SAIF and the BIF. FDICIA increased the FDIC's authority to borrow for insurance losses from the U.S. Treasury, on behalf of the SAIF and the BIF, from $5 billion to $30 billion.

The FDICIA also established a limitation on obligations that can be incurred by the SAIF, known as the maximum obligation limitation (MOL). At December 31, 1996, the MOL for the SAIF was $16.9 billion.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations and cash flows of the SAIF and are presented in accordance with generally accepted accounting principles (GAAP). These statements do not include reporting for assets and liabilities of closed thrift institutions for which the SAIF acts as receiver or liquidating agent. Periodic and final accountability reports of the SAIF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

Use of Estimates
The preparation of the SAIF's financial statements in conformity with GAAP require FDIC management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash and Cash Equivalents
The SAIF considers cash and cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

U.S. Treasury Obligations
Securities are intended to be held to maturity and are shown at book value. Book value is the face value of securities plus the unamortized premium or less the unamortized discount. Amortizations are computed on a daily basis from the date of acquisition to the date of maturity. Interest is calculated on a daily basis and recorded monthly using the effective interest method.

Allowance for Losses on Receivables from Thrift Resolutions
The SAIF records as a receivable the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on the estimates of discounted cash recoveries from assets of assisted or failed thrifts, net of all estimated liquidation costs.

Litigation Losses
The SAIF accrues, as a charge to current period operations, an estimate of probable losses from litigation. The FDIC's Legal Division recommends these estimates on a case-by-case basis. Any litigation loss estimates related to the SAIF in its corporate capacity would be included in "Estimated liabilities for: Litigation losses." Any litigation loss estimates related to receiverships would be included in the allowance for losses for "Receivables from thrift resolutions, net."

Receivership Operations
The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the SAIF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of buildings used in operations in the BIF's financial statements. The BIF charges SAIF a rental fee representing an allocated share of its annual depreciation. 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 SAIF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the SAIF, the BIF and the FRF. The SAIF funds its liabilities for these benefits directly to the entity.

Disclosure about Recent Financial Accounting Standards Board Pronouncements
The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in June 1996, effective for transactions occurring after December 31, 1996. The SAIF will generally be unaffected by its provisions since most transactions subject to SFAS 125 occur at the receivership level and not at the fund level. To

the extent that the SAIF may be affected, the FDIC's current accounting practices are consistent with the rules contained in SFAS 125. Other recent pronouncements issued by the FASB have been adopted or are either not applicable or not material to the financial statements.

Related Parties
The nature of related parties and descriptions of related party transactions are disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 1995 financial statements to conform to the presentation used in 1996.

3. Investment in U.S. Treasury Obligations, Net

All cash received by the SAIF is invested in U.S. Treasury obligations with maturities exceeding three months unless the cash is used: 1) to defray operating expenses; 2) for outlays related to liquidation activities; or 3) for investments in U.S. Treasury one-day special certificates which are cash equivalents. In both 1996 and 1995, $190 million were restricted and invested in U.S. Treasury notes (see Note 4). The related interest earned on these invested funds was also held as restricted funds.

U.S. Treasury Obligations at December 31, 1996

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year	5.7%	$1,740,792	$ 3,276	$ 0	$ 1,744,069	$ 1,740,000
1-3 years	5.9%	3,305,270	6,930	8,326	3,303,873	3,290,000
3-5 years	6.0%	3,718,030	0	21,546	3,696,484	3,670,000
Total		**$ 8,764,092**	**$ 10,206**	**$ 29,872**	**$ 8,744,426**	**$ 8,700,000**

U.S. Treasury Obligations at December 31, 1995

Dollars in Thousands

Maturity	Yield at Purchase	Book Value	Unrealized Holding Gains	Unrealized Holding Losses	Market Value	Face Value
Less than one year	5.8%	$ 1,785,035	$ 6,708	$ 535	$ 1,791,208	$ 1,785,000
1-3 years	5.7%	588,968	5,744	0	594,712	590,000
3-5 years	5.4%	458,916	1,584	0	460,500	450,000
Total		**$ 2,832,919**	**$ 14,036**	**$ 535**	**$ 2,846,420**	**$ 2,825,000**

In 1996, the unamortized premium, net of unamortized discount, was $64.1 million. In 1995, the unamortized premium, net of unamortized discount, was $7.9 million.

4. Entrance and Exit Fees Receivable, Net

The SAIF receives entrance and exit fees for conversion transactions when an insured depository institution converts from the BIF to the SAIF (resulting in an entrance fee) or from the SAIF to the BIF (resulting in an exit fee). Regulations approved by the FDIC's Board of Directors and published in the *Federal Register* on March 21, 1990, directed that exit fees paid to the SAIF be held in escrow. The FDIC and the Secretary of the Treasury will determine when it is no longer necessary to escrow such funds for the payment of interest on obligations previously issued by the FICO. These escrowed exit fees are invested in U.S. Treasury securities pending determination of ownership. The interest earned is also held in escrow. Interest on these investments was $11.1 million and $9.1 million for 1996 and 1995, respectively. Restricted assets included: $31 million in cash and cash equivalents, $190 million of investments in U.S. Treasury obligations, net, and $7 million in exit fees and interest receivable. For 1995, restricted assets included: $12.5 million in cash and cash equivalents, $190 million of investments in U.S. Treasury obligations, net, and $13 million in Exit Fees and interest receivable.

Within specified parameters, the regulations allow an institution to pay its entrance/exit fees interest free, in equal annual installments over a maximum period of not more than five years. When an institution elects such a payment plan, the SAIF records the entrance or exit fee receivable at its present value. The discount rate used to determine the present value of the funds for 1996 and 1995 was 5 percent and 3 percent, respectively.

Entrance and Exit Fees Receivable, Net - 1996

Dollars in Thousands	Beginning Balance 01/01/96	New Receivables	Collections	Net Change Unamortized Discount	Ending Balance 12/31/96
Entrance fees	$ 11	$ 0	$ (8)	$ 0	$ 3
Exit fees	8,810	442	(5,992)	254	3,514
Total	$ 8,821	$ 442	$ (6,000)	$ 254	$ 3,517

Entrance and Exit Fees Receivable, Net - 1995

Dollars in Thousands	Beginning Balance 01/01/95	New Receivables	Collections	Net Change Unamortized Discount	Ending Balance 12/31/95
Entrance fees	$ 6	$ 11	$ (6)	$ 0	$ 11
Exit fees	35,686	1,117	(29,751)	1,758	8,810
Total	$ 35,692	$ 1,128	$ (29,757)	$ 1,758	$ 8,821

5. Receivables from Thrift Resolutions, Net

The FDIC resolution process results in different types of transactions depending on the unique facts and circumstances surrounding each failing or failed institution. Payments to prevent a failure are made to operating institutions when cost and other criteria are met. Such payments may facilitate a merger or allow a troubled institution to continue operations. Payments for institutions that fail are made to cover insured depositors' claims and represent a claim against the receiverships' assets. For 1996, one thrift failed, and was resolved in a transaction whereby an acquirer purchased certain assets and assumed the insured deposits of the failed thrift.

The FDIC, as receiver for failed thrifts, engages in a variety of strategies at the time of failure to maximize the return from the management and disposition of assets and to minimize realized losses. A failed thrift acquirer can purchase selected assets at the time of resolution and assume full ownership, benefit and risk related to such assets. The receiver may also engage in other types of transactions as circumstances warrant. As described in Note 2, the allowance

for losses is established against the receivable from thrift resolutions.

As of December 31, 1996 and 1995, the SAIF, in its receivership capacity, held assets with a book value of $78.2 and $37.2 million, respectively. These assets represent a significant source of repayment of receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets (excluding cash and miscellaneous receivables of $42.3 million at December 31, 1996 and $30.9 million at December 31, 1995) used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The potential sampling error is not material to the SAIF's financial statements. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could affect the SAIF's and other claimants' actual recoveries from the level currently estimated.

6. Estimated Liabilities for:

Anticipated Failure of Insured Institutions
The SAIF records an estimated liability and loss provision for thrifts as well as Oakar and Sasser banks that are likely to fail in the foreseeable future (absent some favorable event such as obtaining additional capital or merging). The estimated liability and corresponding reduction in the fund balance are recorded in the period when the liability is deemed probable and reasonably estimable.

The estimated liabilities for anticipated failure of insured institutions as of December 31, 1996 and 1995, were $4 million and $111 million, respectively. The estimated liability is derived in part from estimates of recoveries from the sale of the assets of these probable failures. Therefore, they are subject to the same uncertainties as those affecting the SAIF's receivables from thrift resolutions (see Note 5). This could affect the ultimate costs to the SAIF from probable failures.

There are other institutions where the risk of failure is less certain, but still considered reasonably possible. Should these institutions fail the SAIF would incur additional losses of about $20 million.

The accuracy of these estimates will largely depend on future economic conditions. In addition, FDIC considers probable losses in setting assessment rates and, as circumstances warrant, may increase assessment rates to recover some or all losses due to anticipated thrift failures.

Litigation Losses
As stated in Note 2, the SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered to be probable in occurrence and reasonably estimable in amount. For 1996 and 1995, FDIC identified no legal cases that met the criteria for recognition in the financial statements. The FDIC's Legal Division has determined that losses from unresolved legal cases totaling $7 million and $11 million are reasonably possible at December 31, 1996 and 1995, respectively.

7. Assessments

1990 OBR Act removed caps on assessment rate increases and authorized the FDIC to set assessment rates for SAIF members semiannually, to be applied against a member's average assessment base. The FDICIA: 1) required the FDIC to implement a risk-based assessment system; 2) authorized the FDIC to increase assessment rates for SAIF-member institutions as needed to ensure that funds are available to satisfy the SAIF's obligations; 3) required the FDIC to build the reserves in the insurance funds to 1.25 percent of insured deposits; and 4) authorized the FDIC to increase assessment rates more frequently than semiannually and impose emergency special assessments as necessary to ensure that funds are available to repay U.S. Treasury borrowings.

The DIFA 1996 (see Note 1) provided, among other things, for the capitalization of the SAIF to its designated reserve ratio of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. Effective October 1, 1996, SAIF achieved its required capitalization by means of a $4.5 billion special assessment.

Prior to January 1, 1997, the FICO had priority over the SAIF for receiving and utilizing SAIF assessments to ensure availability of funds for interest on FICO's debt obligations. Accordingly, the SAIF recognized as assessment revenue only that portion of SAIF assessments not required by the FICO. Assessments on the SAIF-insured deposits held by BIF-member Oakar or SAIF-member Sasser institutions prior to January 1, 1997 were not subject to draws by FICO and, thus, were retained in SAIF in their entirety. FICO assessments collected during 1996 and 1995 were $808 million and $718 million, respectively.

The DIFA 1996 expanded the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions, (including banks, thrifts, Oakars and Sassers), and made the FICO assessment separate from regular assessments, effective January 1, 1997.

Beginning in 1997, the FICO assessment will have no financial effect on the SAIF since the FICO claim will be assessed separately from the regular assessment, and the FICO assessment is imposed on thrifts and not on the SAIF. The FDIC as administrator of the SAIF is acting solely as an agent for the FICO to collect and remit the FICO assessment to the FICO.

The FDIC uses a risk-based assessment system that charges higher rates to those institutions that pose greater risks to the SAIF. To arrive at a risk-based assessment for a particular institution, the FDIC places each institution in one of nine risk categories using a two-step process based first on capital ratios and then on other relevant information. The FDIC Board of Directors (Board) reviews premium rates semiannually.

From 1993 through 1995, each thrift paid an assessment rate of between 23 and 31 cents per $100 of domestic deposits, depending on risk classification.

In December, 1996, the Board lowered SAIF assessment rates to a range of 0 to 27 cents per $100 of insured deposits (annual rates). The new rates, which are identical to those previously approved for BIF members, were effective October 1, 1996 for Sasser and Oakar institutions, and effective on January 1, 1997 for all other SAIF-insured institutions. For calendar year 1996, the assessment rate averaged approximately 20.4 cents per $100 of domestic deposits. As of December 31, 1996, the SAIF's reserve ratio is 1.30 percent of insured deposits.

The SAIF refunded $219 million (includes $2.9 million in interest) to Sasser/Oakar banks during the fourth quarter of 1996. Refunds were necessary because fourth quarter assessment rates were set prior to SAIF's capitalization. Total assessment revenue for 1996 and 1995 was $5.2 billion and $970 million, respectively. 1996 assessment revenue includes the one-time special assessment of $4.5 billion required to capitalize SAIF.

8. Other Revenue

Dollars in Thousands	For the Year Ended December 31	
	1996	1995
Interest on subrogated claims	$ 24,476	$ 0
Other miscellaneous income	1,780	788
Total	**$ 26,256**	**$ 788**

The interest on subrogated claims represents post-insolvency interest. There is an Oakar bank receivership that has residual funds remaining after paying all claimants. Once claimants have been paid, the SAIF and other claimants are eligible to receive interest on their claims against the receivers on a pro rata basis. Due to the uncertainty of collection, post-insolvency interest is recognized when received.

9. Pension Benefits, Savings Plans, Postemployment Benefits and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees also may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

Although the SAIF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The SAIF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

Due to a substantial decline in the FDIC's workload, the Corporation developed a staffing reduction program, a component of which is a voluntary separation incentive plan, or buyout. To date, two corporate-wide buyout plans have been offered to eligible employees. The first buyout plan did not have a material financial effect on the SAIF, and management believes the second buyout plan will also not have a material financial effect on the fund.

The liability to employees for accrued annual leave is approximately $4,031 million and $757 thousand at December 31, 1996 and 1995, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	For the Year Ended December 31	
	1996	1995
Civil Service Retirement System	$ 613	$ 549
Federal Employee Retirement System (Basic Benefit)	1,821	1,394
FDIC Savings Plan	1,111	895
Federal Thrift Savings Plan	641	486
Total	**$ 4,186**	**$ 3,324**

10. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by

OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

The SAIF expensed $168 thousand and $226 thousand for net periodic postretirement benefit costs for the years ended December 31, 1996 and 1995, respectively. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1997 of 9.75 percent, decreasing to an ultimate rate in the year 2000 of 7.75 percent; and 4) an increase in dental costs in 1996 and thereafter of 4 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1996, would have increased by 20.4 percent. The effect of this change on the aggregate of service and interest cost for 1996 would be an increase of 26.2 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands	For the Year Ended December 31	
	1996	1995
Service cost (benefits attributed to employee service during the year)	$ 432	$ 431
Interest cost on accumulated postretirement benefit obligation	457	281
Net total of other components	(204)	(68)
Return on plan assets	(517)	(418)
Total	**$ 168**	**$ 226**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the SAIF, the BIF and the FRF. The SAIF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation and Funded Status

Dollars in Thousands	December 31	
	1996	1995
Retirees	$ 3,686	$ 2,230
Fully eligible active plan participants	343	629
Other active participants	4,125	5,124
Total Obligation	**8,154**	**7,983**
Less: Plan assets at fair value (a)	9,421	8,904
(Over) Funded Status	**(1,267)**	**(921)**
Unrecognized prior service cost	1,280	1,305
Unrecognized net gain	745	273
Postretirement Benefit Liability Recognized in the Statements of Financial Position	**$ 758**	**$ 657**

(a) Invested in U.S. Treasury instruments

11. Commitments

The SAIF's allocated share of FDIC's lease commitments totals $10.1 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of FDIC's future lease commitments is based upon current relationships of the workloads among SAIF, BIF and FRF. Changes in the relative workloads among the three funds in future years could change the amount of the FDIC's lease payments which will be allocated to SAIF. The SAIF recognized leased space expense of $2.2 million and $1.6 million for the years ended December 31, 1996 and 1995, respectively.

Leased Space Fees

Dollars in Thousands

1997	1998	1999	2000	2001	2002/Thereafter
$2,862	$1,982	$1,468	$1,225	$1,119	$1,492

12. Concentration of Credit Risk

Insured Deposits

As of December 31, 1996, the total deposits insured by the SAIF is approximately $682 billion. This would be the accounting loss if all the depository institutions fail and the assets acquired as a result of the resolution process provided no recoveries.

13. Disclosures about the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The fair market value of the investment in U.S. Treasury obligations is disclosed in Note 3 and is based on current market prices. The carrying amount of interest receivable on investments, short-term receivables, and accounts payable and other liabilities approximates their fair market value. This is due to their short maturities or comparison with current interest rates. As explained in Note 4, entrance and exit fees receivable are net of discounts calculated using an interest rate comparable to U.S. Treasury Bill or Government bond/note rates at the time the receivables are accrued.

The net receivable from thrift resolutions primarily involves the SAIF's subrogated claim arising from payments to insured depositors. The receivership assets which will ultimately be used to pay the corporate subrogated claim are valued using discount rates which include consideration of market risk. These discounts ultimately affect the SAIF's allowance for loss against the net receivable from thrift resolutions. Therefore the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets, such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the SAIF on the subrogated claim do not necessarily correspond with the timing of collections on receivership assets. Therefore the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from thrift resolutions.

14. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Dollars in Thousands	For the Year Ended December 31 1996	1995	
Net Income	**$ 5,530,574**	**$1,421,132**	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Income Statement Items:			
Provision for insurance losses	(91,636)	(321,000)	
Amortization of U.S. Treasury securities (unrestricted)	4,788	(8,114)	
Change in Assets and Liabilities:			
(Increase) in amortization of U.S. Treasury securities (restricted)	(157)	(450)	
Decrease in entrance and exit fees receivable	5,305	26,871	
(Increase) in interest receivable on investments and other assets	(75,900)	(9,771)	
(Increase) Decrease in receivables from thrift resolutions	(33,260)	6,841	
Increase in accounts payable and other liabilities	60,419	105,198	(a)
Increase in exit fees and investment proceeds held in escrow	11,814	13,027	
Net Cash Provided by Operating Activities	**$ 5,411,947**	**$1,233,734**	

(a) SAIF Transferred $169 million to the FRF

15. Subsequent Events

In the first quarter of 1997, management negotiated with the National Treasury Employees Union (NTEU) a change in employee health benefits. This change involves a conversion from the FDIC health plan to the Federal Employees Health Benefits (FEHB) plan. This conversion will involve all employees with five or more years until retirement eligibility. Assuming enabling legislation is also passed, the conversion will also affect all retirees and employees within five years of retirement. Management does not expect the conversion, which will become effective on January 1, 1998, to result in an accounting loss to the SAIF.

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position

Dollars in Thousands

	December 31 1996	January 1 1996
Assets		
Cash and cash equivalents	$ 1,103,921	$ 1,511,254
Receivables from thrift resolutions, net (Note 3)	4,454,776	12,876,647
Securitization Reserve Fund (Note 14)	5,804,062	0
Investment in corporate owned assets, net (Note 4)	182,827	1,005,147
Other assets, net (Note 5)	6,747	10,366
Total Assets	**$ 11,552,333**	**$ 15,403,414**
Liabilities		
Accounts payable and other liabilities	$ 154,347	$ 204,991
Notes payable - Federal Financing Bank borrowings (Note 7)	4,617,147	10,498,042
Liabilities incurred from thrift resolutions (Note 6)	143,725	248,539
Estimated Liabilities for: (Note 8)		
Assistance agreements	16,120	81,340
Litigation losses	39,294	163,636
Total Liabilities	**4,970,633**	**11,196,548**
Commitments and contingencies (Notes 14 and 15)		
Resolution Equity (Note 10)		
Contributed capital	135,501,023	135,501,248
Accumulated deficit	(128,919,323)	(131,294,382)
Total Resolution Equity	**6,581,700**	**4,206,866**
Total Liabilities and Resolution Equity	**$ 11,552,333**	**$ 15,403,414**

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

Statement of Income and Accumulated Deficit

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Income and Accumulated Deficit

Dollars in Thousands		For the Year Ended December 31 1996
Revenue		
Interest on Securitization Reserve Fund	$	82,103
Interest on U.S. Treasury investments		26,452
Revenue from corporate owned assets		228,274
Limited partnership revenue (Note 11)		54,600
Interest on advances and other revenue		127,117
Total Revenue		**518,546**
Expenses and Losses		
Operating expenses		26,074
Interest expense on FFB debt and other notes payable		386,064
Corporate owned asset expenses		128,826
Reduction in provision for losses (Note 9)		(2,400,366)
Other expenses		2,889
Total Expenses and Losses		**(1,856,513)**
Net Income		**2,375,059**
Accumulated Deficit - Beginning		**(131,294,382)**
Accumulated Deficit - Ending	$	**(128,919,323)**

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

Statement of Cash Flows

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statement of Cash Flows

Dollars in Thousands		For the Year Ended December 31 1996
Cash Flows from Operating Activities		
Cash provided from:		
Interest on U.S. Treasury investments	$	26,541
Recoveries from thrift resolutions		6,152,927
Recoveries from securitization reserve		95,067
Recoveries from corporate owned assets		608,620
Miscellaneous receipts		12,174
Cash used for:		
Operating expenses		(42,882)
Interest paid on notes payable		(352,767)
Disbursements for thrift resolutions		(772,301)
Disbursements for corporate owned assets		(169,463)
Miscellaneous disbursements		(19,714)
Net Cash Provided by Operating Activities (Note 17)		**5,538,202**
Cash Flows from Financing Activities		
Cash used for:		
Repayments of Federal Financing Bank borrowings		(5,913,975)
Payments of indebtedness incurred from thrift resolutions		(31,560)
Net Cash Used for Financing Activities		**(5,945,535)**
Net Decrease in Cash and Cash Equivalents		**(407,333)**
Cash and Cash Equivalents - Beginning		**1,511,254**
Cash and Cash Equivalents - Ending	**$**	**1,103,921**

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

Notes to Financial Statements
FSLIC Resolution Fund
December 31 and January 1, 1996

1. Legislative History and Operations of the FSLIC Resolution Fund

Legislative History
The U.S. Congress created the Federal Savings and Loan Insurance Corporation (FSLIC) through the enactment of the National Housing Act of 1934.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent FSLIC, created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF (except those assets and liabilities transferred to the RTC), effective August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

FIRREA was enacted to reform, recapitalize and consolidate the federal deposit insurance system. In addition to the FRF, FIRREA created the Resolution Trust Corporation (RTC), the Bank Insurance Fund (BIF), and the Savings Association Insurance Fund (SAIF). FIRREA also designated the Federal Deposit Insurance Corporation (FDIC) as the administrator of the FRF, BIF, and SAIF. All three funds are maintained separately to carry out their respective mandates.

The RTC was created to manage and resolve all thrifts previously insured by the FSLIC for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. In order to provide funds to the RTC for use in thrift resolutions, FIRREA established the Resolution Funding Corporation (REFCORP).

RTC's resolution responsibility was extended through subsequent legislation from the original termination date of August 8, 1992. Resolution responsibility transferred from the RTC to the SAIF on July 1, 1995.

The RTC Completion Act of 1993 (1993 RTC Act) terminated the RTC as of December 31, 1995. All remaining assets and liabilities of the RTC were transferred to the FRF on January 1, 1996. The FDIC must transfer to the REFCORP the net proceeds from the FRF's sale of RTC assets, once all liabilities of the RTC have been paid. Any such funds transferred to the REFCORP pay the interest on the REFCORP bonds issued to fund the early RTC resolutions. Any such payments benefit the Treasury, which would otherwise be obligated to pay the interest on the bonds.

Operations of the FRF
The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon the dissolution of the FRF, any funds remaining (after payments to REFCORP, if any) will be paid to the U.S. Treasury.

The FRF has been primarily funded from the following sources: 1) U.S. Treasury appropriations; 2) amounts borrowed by the RTC from the Federal Financing Bank (FFB); 3) funds received from the management and disposition of assets of the FRF; 4) the FRF's portion of liquidating dividends paid by FRF receiverships; and 5) interest earned on one-day U.S. Treasury investments purchased with proceeds of 3) and 4). If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in amounts necessary, as are appropriated by Congress, to carry out the objectives of the FRF.

To facilitate efforts to wind up the resolution activity of the FRF, Public Law 103-327 provides $827 million in funding to be available until expended. The FRF received $165 million under this appropriation on November 2, 1995. In addition, Public Law 104-208 authorized the use by the Department of Justice of $26.1 million of the original $827 million in funding, thus reducing the amount available to be expended to $635.9 million.

FIRREA established an Inspector General for the RTC and authorized appropriations necessary for the operation of the Office of the Inspector General (OIG). These appropriated funds are used to offset the operating expenses incurred by the OIG, which totalled $1.6 million during 1996. The appropriation authority expired as of September 30, 1996. The OIG received $152.3 million of appropriated funds from the U.S. Treasury since it was established.

2. Summary of Significant Accounting Policies

General
These financial statements pertain to the financial position, results of operations and cash flows of the FRF and are presented in accordance with generally accepted accounting principles (GAAP). 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.

The statutorily-mandated merger of the RTC into the FRF as of January 1, 1996 resulted in a significant, one-time transfer of assets and liabilities. For this reason, providing comparative information would be impractical on a fully consistent basis of accounting. Accordingly, we have presented FRF financial statements for 1996 only.

Use of Estimates
The preparation of the FRF's financial statements in conformity with GAAP requires FDIC management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Where it is reasonably possible that changes in estimates will cause a material change in the financial statements in the near term, the nature and extent of such changes in estimates have been disclosed.

Cash and Cash Equivalents
The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less.

Allowance for Losses on Receivables from Thrift Resolutions and Investment in Corporate Owned Assets
The FRF records as a receivable the amounts advanced and/or obligations incurred for resolving troubled and failed thrifts. The FRF also records as an asset the amounts advanced for investment in corporate owned assets. Any related allowance for loss represents the difference between the funds advanced and/or obligations incurred and the expected repayment. The latter is based on estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Estimated Liabilities for Assistance Agreements
The FRF establishes an estimated liability for probable future assistance payable to acquirers of troubled thrifts under its financial assistance agreements.

Litigation Losses
The FRF accrues, as a charge to current period operations, an estimate of probable losses from litigation. The FDIC's Legal Division recommends these estimates on a case-by-case basis. The litigation loss estimates related to the FRF in its corporate capacity are included in the "Estimated liability for: Litigation losses." The litigation loss estimates related to receiverships are included in the allowance for losses for "Receivables from thrift resolutions, net."

Receivership Operations
The FDIC is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against them, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the FRF on behalf of the receiverships are recovered from those receiverships.

Cost Allocations Among Funds
Certain operating expenses (including personnel, administrative and other indirect expenses) not directly charged to each fund under the FDIC's management are allocated on the basis of the relative degree to which the operating expenses were incurred by the funds.

The FDIC includes the cost of buildings used in operations in the BIF's financial statements. The BIF charges the FRF a rental fee representing an allocated share of its annual depreciation. 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 because of their immaterial amounts.

Postretirement Benefits Other Than Pensions
The FDIC established an entity to provide the accounting and administration of postretirement benefits on behalf of the FRF, the BIF, and the SAIF. The FRF funds its liabilities for these benefits directly to the entity.

Disclosure about Recent Financial Accounting Standards Board Pronouncements
The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in June 1996, effective for transactions occurring after December 31, 1996. The FRF will generally be unaffected by its provisions since most transactions subject to SFAS 125 occur at the receivership level and not at the fund level. To the extent that the FRF may be affected, the FDIC's current accounting practices are consistent with the rules contained in SFAS 125. Other recent pronouncements issued by the FASB have been adopted or are either not applicable or not material to the financial statements.

Wholly Owned Subsidiary
The Federal Asset Disposition Association (FADA) is a wholly owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until the FADA's litigation is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in "Other assets, net" (Note 6).

Related Parties
National Judgements, Deficiencies, and Charge-offs Joint Venture Program. The former RTC purchased assets from receiverships, conservatorships, and their subsidiaries to facilitate the sale and/or transfer of selected assets to several Joint Ventures in which the former RTC retained a financial interest.

Limited Partnership Equity Interests. Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs which included the National Land Fund, Multiple Investor Fund, N-Series and S-Series programs.

The nature of other related parties and descriptions of other related party transactions are disclosed throughout the financial statements and footnotes.

3. Receivables from Thrift Resolutions, Net

As of December 31 and January 1, 1996, the FRF, in its receivership capacity, held assets with a book value of $7.3 and $20.5 billion, respectively. These assets represent a significant source of repayment of receivables from thrift resolutions. The estimated cash recoveries from the management and disposition of these assets (excluding cash and miscellaneous receivables of $2.9 billion at December 31, 1996 and $12.6 billion at January 1, 1996) used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. The potential sampling error is not material to the FRF's financial statements. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of changing economic conditions. These factors could affect the FRF's and other claimants' actual recoveries from the level currently estimated.

Receivables from Thrift Resolutions, Net

Dollars in Thousands

	December 31 1996	January 1 1996
Assets from Open Thrift Assistance:		
Collateralized advances/loans	$ 45,154	$ 46,054
Notes receivable	64,790	130,420
Subordinated debt instruments	17,920	14,301
Capital instruments	65,001	65,001
Preferred stock	1,016,186	417,733
Interest receivable	2,851	3,369
Allowance for losses (Note 9)	(444,873)	(446,514)
	767,029	**230,364**
Receivables from Closed Thrifts:		
Depositor claims paid	73,205,133	86,158,346
Collateralized advances/loans	6,685,111	7,359,370
Other receivables	324,041	371,901
Accrued interest, net	94,801	253,385
Allowance for losses (Note 9)	(76,621,339)	(81,496,719)
	3,687,747	**12,646,283**
Total	**$ 4,454,776**	**$ 12,876,647**

4. Investment in Corporate Owned Assets, Net

The FRF's investment in corporate owned assets is comprised of amounts that: 1) the former FSLIC and the former RTC paid to purchase assets from troubled or failed thrifts and 2) the FRF pays to acquire receivership assets, terminate receiverships and purchase assets covered under assistance agreements. The majority of these assets are real estate and mortgage loans.

The methodology used to derive the allowance for losses for corporate owned assets is the same as that for receivables from thrift resolutions.

The FRF recognizes income and expenses on these assets. Income consists primarily of the portion of collections on performing mortgages related to interest earned. Expenses are recognized for administering the management and liquidation of these assets.

Investment in Corporate Owned Assets, Net

Dollars in Thousands

	December 31 1996	January 1 1996
Investment in corporate owned assets	$ 3,570,852	$ 4,240,285
Allowance for losses (Note 9)	(3,388,025)	(3,235,138)
Total	**$ 182,827**	**$ 1,005,147**

5. Other Assets, Net

Dollars in Thousands

	December 31 1996	January 1 1996
Investment in FADA (Note 2)	$ 15,000	$ 15,000
Allowance for loss (Note 9)	(11,074)	(11,074)
Investment in FADA, Net	**3,926**	**3,926**
Accounts receivable	527	5,994
Due from other government entities	2,294	446
Total	**$ 6,747**	**$ 10,366**

6. Liabilities Incurred from Thrift Resolutions

The FSLIC issued promissory notes and entered into assistance agreements 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 the FIRREA, the FRF assumed these obligations. Notes payable and obligations for assistance agreement payments incurred but not yet paid are in "Liabilities incurred from thrift resolutions." Estimated future assistance payments are included in "Estimated liabilities for: Assistance agreements" (see Note 8).

Liabilities Incurred from Thrift Resolutions

Dollars in Thousands

	December 31 1996	January 1 1996
Capital instruments	$ 725	$ 725
Assistance agreement notes payable	126,240	157,800
Interest payable	1,856	2,600
Other liabilities to thrift institutions	14,904	87,414
Total	**$ 143,725**	**$ 248,539**

Maturities of Liabilities

Dollars in Thousands

1997	1998
$49,045	$94,680

7. Notes Payable - Federal Financing Bank Borrowings

Working capital was made available to the RTC under an agreement with the Federal Financing Bank (FFB) to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding note matures on January 1, 2010; however, all or any portion of the outstanding principal amount may be repaid anytime as excess funds become available. The note payable carries a floating rate of interest which is adjusted quarterly. FFB establishes the interest rate which ranged between 5.5% and 5.18% during 1996. As of December 31 and January 1, 1996, there were $4.6 billion and $10.5 billion, respectively, in borrowings and accrued interest outstanding from the FFB. As of December 31, 1995, the RTC's authority to receive additional borrowings from the FFB ceased.

8. Estimated Liabilities for:

Assistance Agreements
The "Estimated liabilities for: Assistance agreements" represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The dollar amount before discounting was $18 million and $91 million, as of December 31 and January 1, 1996, respectively. The discount rates applied as of December 31 and January 1, 1996 were 5.6 percent and 5.5 percent, respectively, based on U.S. money rates for federal funds.

The number of assistance agreements outstanding as of December 31 and January 1, 1996 were 36 and 47, respectively. The last agreement is scheduled to expire in July 2000.

Litigation Losses
The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered to be probable in occurrence and reasonably estimable in amount. In addition, the FDIC's Legal Division has determined that losses from unresolved legal cases totaling $265 million are reasonably possible. This includes $12 million in losses for the FRF in its corporate capacity and $253 million in losses for the FRF related to receiverships (see Note 2).

There exists an additional category of contingencies with respect to FRF that arises from supervisory goodwill and other capital forbearances granted to the acquirers of troubled thrifts by the Federal Home Loan Bank Board in the 1980's. Subsequently, FIRREA imposed minimum capital requirements on thrifts and limited the use of supervisory goodwill and other forbearances to meet these capital requirements. There are currently approximately 120 cases pending which result from the elimination of supervisory goodwill and forbearances.

To date, one of these cases litigated in the district court has resulted in a final judgment of $6 million against FDIC, which FDIC paid from FRF in accordance with the court's order. There is a second district court case to which FDIC is a party defendant where a judgment of $26.9 million (plus post judgment interest) has been entered and for which a reserve has been established (the judgment is on appeal to the court of appeals). The remainder of these cases are pending in the court of Federal Claims with the United States as the named defendant. FDIC believes that judgments in such cases are properly paid from the Judgment Fund, a permanent, indefinite appropriation established by 31 U.S.C. 1304. However, whether and the extent to which FRF will be the source for paying other judgments in such cases is uncertain.

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

In the following charts, transfers primarily include reclassifications from "Estimated liabilities for: Assistance agreements" to "Liabilities incurred from thrift resolutions" for notes payable and related accrued assistance agreement costs. Terminations represent final adjustments to the estimated cost figures for those thrift resolutions that were completed.

Analysis of Changes in Allowance for Losses and Estimated Liabilities

Dollars in Millions

Allowance for Losses:	Beginning Balance 01/01/96	Provision for Losses	Net Cash Payments	Adjustments/ Transfers/ Terminations	Ending Balance 12/31/96
Open thrift assistance	$ 446	$ (745)	$ 0	$ 743	$ 444
Closed thrifts	81,496	(1,633)	0	(3,242)	76,621
Corporate owned assets	3,222	256	0	(89)	3,389
Investment in FADA	11	0	0	0	11
Securitization Credit Reserve	14	(92)	0	580	502
Total Allowance for Losses	**85,189**	**(2,214)**	**0**	**(2,008)**	**80,967**
Estimated Liabilities for:					
Assistance agreements	81	(53)	(5)	(7)	16
Litigation losses	164	(124)	0	0	40
Total Estimated Liabilities	**$ 245**	**(177)**	**$ (5)**	**$ (7)**	**$ 56**
Purchase Discount Valuation		(9)			
Provision for Losses		**$ (2,400)**			

10. Resolution Equity

Resolution Equity

Dollars in Thousands

	Beginning Balance 01/01/96	Net Income	Obligated OIG Funds	Ending Balance 12/31/96
Contributed capital	$ 135,501,248	$ 0	$ (225)	$ 135,501,023
Accumulated deficit	(131,294,382)	2,375,059	0	(128,919,323)
Total	**$ 4,206,866**	**$ 2,375,059**	**$ (225)**	**$ 6,581,700**

11. Limited Partnership Revenue

During 1993, in order to achieve a least cost resolution, the FRF secured a limited partnership interest in two partnerships, Mountain AMD and Brazos Partners. The FRF has collected its entire original investment in the partnerships. However, funds in excess of the original investment continue to be collected by the FRF. As of December 31, 1996, Limited Partnership Revenue is $54.6 million.

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan, which is offset with the Social Security System in certain cases. Plan benefits are determined on the basis of years of creditable service and compensation levels. The CSRS-covered employees also can contribute to the tax-deferred Federal Thrift Savings Plan (TSP).

The FERS is a three-part plan consisting of a basic defined benefit plan that provides benefits based on years of creditable service and compensation levels, Social Security benefits and the TSP. Automatic and matching employer contributions to the TSP are provided up to specified amounts under the FERS.

Eligible FDIC employees also may participate in an FDIC-sponsored tax-deferred savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. The FRF also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management. The liability to employees for accrued annual leave is approximately $13.7 million and $26.1 million at December 31 and January 1, 1996, respectively.

Pension Benefits and Savings Plans Expenses

Dollars in Thousands	**For the Year Ended December 31, 1996**
Civil Service Retirement System	$ 2,534
Federal Employee Retirement System (Basic Benefit)	13,391
FDIC Savings Plan	7,463
Federal Thrift Savings Plan	4,369
Total	**$ 27,757**

13. Postretirement Benefits Other than Pensions

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for health and/or life insurance coverage are those who have qualified due to: 1) immediate enrollment upon appointment or five years of participation in the plan and 2) eligibility for an immediate annuity. Dental coverage is provided to all retirees eligible for an immediate annuity.

The FDIC is self-insured for hospital/medical, prescription drug, mental health and chemical dependency coverage. Additional risk protection was purchased from Aetna Life Insurance Company through stop-loss and fiduciary liability insurance. All claims are administered on an administrative services only basis with the hospital/medical claims administered by Aetna Life Insurance Company, the mental health and chemical dependency claims administered by

OHS Foundation Health Psychcare Inc., and the prescription drug claims administered by Caremark.

The life insurance program, underwritten by Metropolitan Life Insurance Company, provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental care is underwritten by Connecticut General Life Insurance Company and provides coverage at no cost to retirees.

The FRF expensed $3.1 million for net periodic postretirement benefit costs for the year ended December 31, 1996. For measurement purposes, the FDIC assumed the following: 1) a discount rate of 5.75 percent; 2) an average long-term rate of return on plan assets of 5.75 percent; 3) an increase in health costs in 1996 of 10.75 percent (inclusive of general inflation of 3.00 percent), decreasing to an ultimate rate in the year 2000 of 7.75 percent; and 4) an increase in dental costs in 1996 and thereafter of 4.00 percent (in addition to general inflation). Both the assumed discount rate and health care cost rate have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1996, would have increased by 20.4 percent. The effect of this change on the aggregate of service and interest cost for 1996 would be an increase of 26.2 percent.

Net Periodic Postretirement Benefit Cost

Dollars in Thousands	**For the Year Ended December 31,1996**
Service cost (benefits attributed to employee service during the year)	$ 6,621
Interest cost on accumulated postretirement benefit obligation	3,102
Net total of other components	(3,132)
Return on plan assets	(3,511)
Total	**$ 3,080**

As stated in Note 2, the FDIC established an entity to provide accounting and administration on behalf of the FRF, the BIF, and the SAIF. The FRF funds its liability and these funds are being managed as "plan assets."

Accumulated Postretirement Benefit Obligation and Funded Status

Dollars in Thousands	**December 31 1996**	**January 1 1996**
Retirees	$ 23,602	$ 15,143
Fully eligible active plan participants	2,196	4,274
Other active participants	26,409	34,801
Total Obligation	**52,207**	**54,218**
Less: Plan assets at fair value (a)	64,002	60,491
(Over) Funded Status	**(11,795)**	**(6,273)**
Unrecognized prior service cost	19,613	19,396
Unrecognized net gain	11,412	4,051
Postretirement Benefit Liability Recognized in the Statements of Financial Position	**$ 19,230**	**$ 17,174**

(a) Invested in U.S. Treasury instruments

14. Commitments

Securitization Reserve Fund
In order to maximize the return from the sale or disposition of assets and to minimize the realized loss, RTC engaged in numerous securitization transactions. Through 1996, the RTC sold through its mortgage-backed securities program $42.4 billion of receivership, conservatorship and Corporate loans to various trusts which issued regular pass-through certificates.

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular pass-through certificates, and thus the marketability of such certificates, a portion of the proceeds from the sale of the certificates was placed in credit enhancement reserve funds (reserve funds) to cover future credit losses with respect to the loans underlying the certificates. The reserve funds' structure limits the receivership exposure from credit losses on loans sold through the FRF securitization program to the balance of the reserve funds. The initial balances of the reserve funds are reduced for claims paid and recovered reserves.

In October 1996, the reserve funds and related allowance to cover future estimated losses on the reserve were transferred from the receiverships to FRF in its corporate capacity. The $5.4 billion transferred to FRF was exactly offset by amounts owed by the receiverships to FRF; thus, there was no change in FRF's net assets as a result of this transaction.

Through December 1996, the amount of claims paid was approximately 14% of the initial reserve funds. At December 31 and January 1, 1996, reserve funds related to the RTC securitization program totalled $6.3 billion and $6.8 billion, respectively. At December 31 and January 1, 1996, the allowance for estimated future losses which would be paid from the securitization fund totalled $.5 billion and $1.1 billion, respectively.

Representations and Warranties
The RTC provided guarantees, representations and warranties on approximately $114 billion in unpaid principal balance of loans sold and approximately $157 billion in unpaid principal balance of loans under servicing right contracts which had been sold.

In 1996, the FRF estimated Corporate losses related to the representations and warranties claims as part of the FRF's allowances for losses. The allowance for these losses was $494 and $810 million as of December 31, 1996 and January 1, 1996, respectively. Future losses on representations and warranties could significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as 20 years.

Letters of Credit
The RTC had adopted special policies for outstanding conservatorship and receivership collateralized letters of credit. These policies enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were used to guarantee tax exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1996, there were pledged securities as collateral of $130 million to honor these letters of credit. The corporation established an estimated liability against this pledged collateral of $25 million.

Leases
The FRF's allocated share of FDIC's lease commitments totals $61.9 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of FDIC's future lease commitments is based upon current relationships of the workloads among FRF, BIF and SAIF. Changes in the relative workloads among the three funds in future years could change the amount of FDIC's lease payments which will be allocated to FRF. The FRF recognized leased space expense of $32.8 million for the year ended December 31, 1996.

Leased Space Fees					
Dollars in Thousands					
1997	**1998**	**1999**	**2000**	**2001**	**2002/Thereafter**
$16,139	$8,797	$7,623	$7,623	$7,890	$13,848

15. Concentration of Credit Risk

As of December 31, 1996, the FRF had $81.3 and $3.6 billion in gross receivables from thrift resolutions and investment in corporate owned assets, respectively. An allowance for loss of $76.9 and $3.4 billion, respectively, has been recorded against these receivables. Of the total receivables, $29 billion was attributable to institutions in Texas, $11.4 billion was attributable to institutions located in California, $5.7 billion was attributable to institutions located in Florida and $5.1 billion was attributable to institutions located in Arizona. The liquidating entities' ability to make repayments to FRF is largely influenced by the economy of the area in which they are located.

Additionally, the FRF had $13 million in assistance agreement covered assets, net of estimated capital loss.

16. Disclosures about the Fair Value of Financial Instruments

Cash equivalents are short-term, highly liquid investments and are shown at current value. The carrying amount of short-term receivables, accounts payable, liabilities incurred from thrift resolutions and the estimated liabilities for assistance agreements approximates their fair market value. This is due to their short maturities or comparisons with current interest rates.

The net receivable from thrift resolutions primarily involves the FRF's subrogated claim arising from payments to insured depositors. The receivership assets which will ultimately be used to pay the corporate subrogated claim are valued using discount rates which include consideration of market risk. These discounts ultimately affect the FRF's allowance for loss against the net receivable from thrift resolutions. Therefore the corporate subrogated claim indirectly includes the effect of discounting and should not be viewed as being stated in terms of nominal cash flows.

Although the value of the corporate subrogated claim is influenced by valuation of receivership assets, such receivership valuation is not equivalent to the valuation of the corporate claim. Since the corporate claim is unique, not intended for sale to the private sector, and has no established market, it is not practicable to estimate its fair market value.

The FDIC believes that a sale to the private sector of the corporate claim would require indeterminate, but substantial discounts for an interested party to profit from these assets because of credit and other risks. In addition, the timing of receivership payments to the FRF on the subrogated claim do not necessarily correspond with the timing of collections on receivership assets. Therefore the effect of discounting used by receiverships should not necessarily be viewed as producing an estimate of market value for the net receivables from thrift resolutions.

Like the corporate subrogated claim, the securitization credit reserves involve an asset which is unique, not intended for sale to the private sector, and has no established market. There, it is not practicable to estimate the fair market value of the securitization credit reserves. These reserves are carried at their net realizable value which is the book value of the reserves less the related allowance for loss. See Note 14.

The majority of the net investment in corporate owned assets (except real estate) is comprised of various types of financial instruments (investments, loans, accounts receivable, etc.) acquired from failed thrifts. Like receivership assets, corporate owned assets are valued using discount rates which include consideration of market risk. However, corporate owned assets do not involve the unique aspects of the corporate subrogated claim, and

therefore the discounting can be viewed as producing a reasonable estimate of fair market value.

17. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash (Used by) Provided by Operating Activities

Dollars in Thousands		For the Year Ended December 31 1996
Net Income	**$**	**2,375,059**
Adjustments to Reconcile Net Income to Net Cash (Used by) Provided by Operating Activities		
Income Statement Item:		
Increase in accrued interest on notes payable		33,080
Provision for losses		(2,400,365)
OIG income recognized		(225)
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions		10,055,201
(Increase) in securitization reserve fund		(5,712,446)
Decrease in investment in corporate owned assets		575,502
(Increase) in other assets		(5,403)
(Decrease) in accounts payable and other liabilities		(41,676)
(Decrease) in liabilities incurred from thrift resolutions		(73,253)
Increase in estimated liabilities for assistance agreements		732,728
Net Cash (Used by) Provided by Operating Activities	**$**	**5,538,202**

18. Subsequent Events

In the first quarter of 1997, management negotiated with the National Treasury Employees Union (NTEU) a change in employee health benefits. This change involves a conversion from the FDIC health plan to the Federal Employees Health Benefits (FEHB) plan. This conversion will involve all employees with five or more years until retirement eligibility. Assuming enabling legislation is also passed, the conversion will also affect all retirees and employees within five years of retirement. Management does not expect the conversion, which will become effective on January 1, 1998, to result in an accounting loss to the FRF.

Comments From the Federal Deposit Insurance Corporation

FDIC
Federal Deposit Insurance Corporation
801 17th Street, N.W., Washington, D.C. 20434

Office of the Director of Finance
and Chief Financial Officer

June 18, 1997

Gene L. Dodaro
Assistant Comptroller General
General Accounting Office
Washington, D.C. 20548

Re: Comments on the GAO Audit of FDIC 1996 and 1995 Financial Statements - GAO/AIMD-97-111

Dear Mr. Dodaro:

We appreciate the opportunity to comment on the General Accounting Office (GAO) report on its audit of the financial statements of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) for the years ended December 31, 1996 and 1995, and the FSLIC Resolution Fund (FRF) for the year ended December 31, 1996. We are pleased that the GAO has found these statements to be fairly presented in all material respects and that the GAO determined management's assertion on the effectiveness of the FDIC's internal controls to be fair and appropriate. Although certain internal control weaknesses are noted by GAO, we believe that significant progress has been made to correct weaknesses identified in the 1996 report, and appreciate GAO's acknowledgment of management's efforts to address these matters.

Changing Environment

For FDIC, 1996 was a year of major transition. The remaining systems, organizational structures, and workload of the RTC transitioned to the FDIC on January 1, 1996, and were successfully integrated into the Corporation. Due to continued improvement in the health of financial institutions and declining workload, downsizing initiatives were ongoing during the year. FDIC initiatives included a new buyout/early retirement program, expanded out-placement assistance, non-renewal of temporary appointments, and office mergers and field consolidations, including directed reassignment of employees.

On January 2, 1997, the FDIC successfully implemented a single automated general ledger system that integrates 100 separate systems, including systems integrated from the RTC operations taken over by the FDIC. The FDIC is one of the few large federal agencies to have implemented a single general ledger incorporating all income and expense flows. In addition, the consolidation of financial processing functions at the Field Finance Center in Dallas represents a multi-year effort to house all field financial processing functions into a single location. This consolidation began in 1996 and is expected to be completed by October of this year.

These major changes have challenged FDIC management in ensuring that the internal control systems are properly maintained. At the same time that FDIC is facing significant environmental changes, the Corporation is benefitting from unprecedented favorable conditions of both the industry and the deposit insurance funds.

Condition of FDIC-Insured Institutions

The number of bank failures declined for eight consecutive years. Only five commercial banks and one savings institution failed in 1996. Also, commercial banks recorded three of the four best quarterly earnings totals in the history of the industry. As a result, bank earnings were 7.5 percent higher than in 1995 and the average return on assets was 1.19 percent. That is just below the record 1.20 percent in 1993, and an increase over the 1.17 percent in 1995.

Condition of the Deposit Insurance Funds

The balances of the BIF and SAIF have increased to record levels. Since year-end 1995, the BIF balance increased $1.4 billion to $26.9 billion at December 31, 1996, and the SAIF balance increased $5.5 billion to $8.9 billion at December 31, 1996. These fund balances translate to reserve ratios of 1.34 percent and 1.30 percent for BIF and SAIF, respectively. SAIF's fund balance is at a record level principally because of legislation enacted on September 30, 1996, to fully capitalize the SAIF through a special assessment of SAIF-insured institutions. This legislation was the solution long sought by FDIC to the undercapitalization of the SAIF. Although the fund balances are at record levels and the fund ratios are above the designated reserve ratio of 1.25 percent, FDIC's focus remains on identifying and addressing potential risks to the banking and thrift industries and deposit insurance funds rather than resolving failed institutions.

FDIC's Progress in Responding to Internal Control Weaknesses Identified in the GAO's 1995 Financial Statement Audits

Management continued its progress related to internal control weaknesses identified in the GAO's 1995 Financial Statement Audits. The implementation of the Standard Asset Valuation Estimation (SAVE) methodology and related Asset Loss Reserve (ALR) project in 1996 continued to improve controls over the asset valuation process. FDIC's implementation of time and attendance reporting procedures have effectively addressed the internal control issues identified in the audit. FDIC took action to address a number of the general control weaknesses related to FDIC's electronic data processing. FDIC's accomplishments were acknowledged by GAO in its report.

Discussion of Reportable Conditions Identified in the GAO's 1996 Financial Statement Audits

1. FDIC Asset Recovery Estimation Procedures

The GAO identified that controls over the integrity of information used to calculate the allowance for losses on receivables from resolution activities and investment in corporate-owned assets need to be improved. Specifically, the report states that FDIC did not have effective procedures in place to ensure

that data used in the calculation of the year-end allowance for losses was adequately reviewed for accuracy prior to inclusion in the year-end calculation.

Management recognizes that while the effect of these weaknesses is not material, FDIC has undertaken initiatives to enhance its systems and improve its review and documentation of the allowance for losses activities to improve the quality of the data used and the manner in which the data is processed.

2. Contractor Oversight

GAO noted that the FDIC's oversight of asset servicers contracted to manage and dispose of failed financial institutions' assets needs to be strengthened. Specifically, the GAO report states that FDIC's contractor oversight personnel did not always ensure that (1) contracted asset servicers have adequate controls over daily collections and bank reconciliations, (2) servicers' fees and reimbursable expenses are valid, accurate and complete, and (3) servicers' loan system calculations relating to the allocation of principal and interest are accurate.

FDIC management believes that the risks to assets were minimal; however, FDIC recognizes that internal controls need to be periodically reviewed and strengthened to reflect program or environmental changes. The Division of Resolution and Receiverships and the Division of Finance are working together to draft a Memorandum of Understanding to clarify the roles and responsibilities relating to contractor oversight. In addition, a visitation program, that at a minimum addresses each of the specific areas of internal control weaknesses identified by GAO, will commence operation in the third quarter of 1997.

Conclusion

The GAO's audits have identified issues which will assist management in its efforts to improve the operations of the FDIC. The FDIC is committed to the importance of strong internal controls and regular monitoring and improvement of our control environment, including implementing recommendations from audit reports of the GAO. The full implementation of these recommendations will continue to strengthen our internal controls and risk management. The cooperative working relationship between FDIC and GAO helps to improve the effectiveness and efficiency of the Corporation. We are committed to assuring the proper administration of the BIF, SAIF, and FRF as well as the effectiveness of the ongoing regulatory and supervisory responsibilities of the FDIC.

Sincerely,

Paul L. Sachtleben
Director, Division of Finance
and Chief Financial Officer

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