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Report to the Congress

May 2002

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2001 and 2000 Financial Statements

GAO-02-633

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Accountability * Integrity * Reliability

Comptroller General
of the United States

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

May 21, 2002

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

This report presents our opinions on whether the financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund, and the FSLIC Resolution Fund (FRF) are presented fairly for the years ended December 31, 2001 and 2000. 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 the effectiveness of FDIC's internal control as of December 31, 2001, (2) our evaluation of FDIC's compliance with laws and regulations during 2001, and (3) a reportable weakness in information system controls detected during our 2001 audits. In addition, it discusses BIF's reserve ratio and the future activities of FRF.

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 U.S. generally accepted government auditing standards.

We are sending copies of this report to the chairman and ranking minority member of the Senate Committee on Banking, Housing and Urban Affairs; the chairman and ranking minority member of the House Committee on Financial Services; the 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 director of the Office of Thrift Supervision; the secretary of the treasury; the director of the Office of Management and Budget; and other interested parties.

David M. Walker
Comptroller General
of the United States

To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the statements of financial position as of December 31, 2001 and 2000, for the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance (accumulated deficit), and the statements of cash flows for the years then ended. 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 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain internal controls should be improved, FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- no reportable noncompliance with the laws and regulations that we tested.

The following sections discuss our conclusions in more detail. They also present information on (1) the scope of our audits, (2) a reportable condition[1] related to information system control weaknesses, (3) BIF's reserve ratio, (4) the future activities of FRF, and (5) our evaluation of the FDIC's comments on a draft of this report.

Opinion on BIF's Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, BIF's financial position as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended.

[1]Reportable conditions involve matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control and could adversely affect FDIC's ability to meet the control objectives described in this report.

Opinion on SAIF's Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, SAIF's financial position as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended.

Opinion on FRF's Financial Statements

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, FRF's financial position as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended.

Opinion on Internal Control

Although certain internal controls should be improved, FDIC management maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of December 31, 2001, that provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the FDIC funds' financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 [Federal Managers' Financial Integrity Act (FMFIA)].

Our work identified weaknesses in FDIC's information system controls, which we describe as a reportable condition in a later section of this report. The weakness in information system controls, although not considered material, represents a significant deficiency in the design or operations of internal control that could adversely affect FDIC's ability to meet its internal control objectives. Although the weakness did not materially affect the funds' 2001 financial statements, misstatements may nevertheless occur in other FDIC-reported financial information as a result of the internal control weakness.

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 U.S. 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 (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are

- financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and

- compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

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 internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;

- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered FDIC's process for evaluating and reporting on internal control based on criteria established by FMFIA; and
- tested compliance with selected provisions of the Federal Deposit Insurance Act, as amended and the Chief Financial Officers Act of 1990.

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 controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance 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 did not test compliance with all laws and regulations applicable to FDIC. We limited our tests of compliance to those deemed applicable to the funds' financial statements for the year ended December 31, 2001. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

FDIC provided comments on a draft of this report. They are discussed and evaluated in a later section of this report and are reprinted in appendix I.

Reportable Condition

As part of the funds' financial statement audits, we reviewed FDIC's information system controls. The primary objectives of information system controls are to safeguard data, protect computer application programs, provide for the integrity of system software, and ensure continued computer operations in case of unexpected interruption. These controls include the corporatewide security management program, access controls, system software, application development and change control, segregation of duties, and service continuity controls.

During 2001, we found that FDIC progressed in improving information system control weaknesses we had previously identified and has taken other steps to improve security. Nevertheless, we identified additional weaknesses in FDIC's corporatewide security management program, access controls, system software, segregation of duties, and service continuity controls. Specifically, FDIC did not adequately limit the scope of access granted to authorized users or secure its network from unauthorized access. Further, FDIC had not fully established a comprehensive program to routinely oversee and monitor access to its computer facilities and data and to identify unusual or suspicious access patterns that could indicate unauthorized access.

The effect of these weaknesses in information system controls places FDIC's financial information at risk of unauthorized disclosure or loss and its critical financial operations at risk of disruption. It should also be noted that because computer systems identified at risk contain other sensitive information such as personnel data and bank examinations related to financial institutions insured by FDIC, this information is at risk of being compromised.

As we have previously reported to FDIC's Board of Directors, the primary reason for its information system control weaknesses has been that FDIC had not fully developed and implemented a comprehensive corporatewide security management program. An effective program would include assessing risks, establishing appropriate policies and related controls, raising awareness of prevailing risks and mitigating controls, and evaluating the effectiveness of established controls. While FDIC has implemented a security awareness program, updated its security policies and guidance, and taken other actions to improve security management, it still needs to take additional steps to fully implement a comprehensive corporatewide security management program.

We determined that other management controls mitigated the effect of the information system control weaknesses on the preparation of the funds' financial statements. Because of their sensitive nature, the details surrounding these weaknesses are being reported separately to FDIC management, along with our recommendations for corrective actions.

BIF's Reserve Ratio

During 2001, as table 1 shows, BIF's reserve ratio decreased from 1.35 percent to 1.26 percent. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires FDIC to maintain the BIF fund balance at a designated reserve ratio of at least 1.25 percent of estimated insured deposits.[2] BIF's reserve ratio was significantly below the designated reserve ratio in 1991 and did not reach the designated reserve ratio of 1.25 percent of estimated insured deposits until May 1995.[3] This is the first time since 1995 that the BIF's ratio has come so close to the designated reserve ratio.

Table 1 shows BIF's reserve ratio, fund balance, and estimated insured deposits from December 31, 1991 through 2001.

Table 1: BIF's Reserve Ratios from December 31, 1991, through December 31, 2001

Dollars in millions

December 31,	Reserve ratio (%)	Fund balance	Estimated insured deposits
1991	(.36)	$(7,028)	$1,957,722
1992	(.01)	(101)	1,945,623
1993	.69	13,122	1,906,885
1994	1.15	21,848	1,896,060
1995	1.30	25,454	1,952,543
1996	1.34	26,854	2,007,447
1997	1.38	28,293	2,055,874
1998	1.38	29,612	2,141,268
1999	1.36	29,414	2,157,536
2000	1.35	30,975	2,301,604
2001	1.26	30,439	2,408,878

[2]Section 302 of FDICIA amended section 7(b) of the Federal Deposit Insurance Act. FDICIA requirements are the same for both BIF and SAIF. SAIF reached the designated reserve ratio in 1996, and as of December 31, 2001, SAIF's reserve ratio was 1.36 percent.

[3] If the reserve ratio falls below 1.25 percent of estimated insured deposits, FDICIA requires FDIC's Board of Directors to set semiannual assessment rates for BIF members that are sufficient to increase the reserve ratio to the designated reserve ratio not later than 1 year after such rates are set, or in accordance with a recapitalization schedule of 15 years or less.

Under FDIC’s required risk-based insurance system, as long as BIF’s reserve ratio is at or above 1.25 percent, FDIC does not charge premiums to most institutions that are well-capitalized and highly rated by supervisors. Currently over 90 percent of the industry does not pay for deposit insurance. Most of BIF’s income comes from the interest earned on investments with the U.S. Treasury.

BIF’s fund balance and level of estimated insured deposits are the factors used to calculate BIF’s reserve ratio. Accordingly, changes in fund balance or insured deposits can cause the reserve ratio to increase or decrease. Table 1 shows that during 2001 the estimated insured deposits increased by over $100 billion. To illustrate the sensitivity of this reserve ratio calculation, if the amount of estimated insured deposits had increased by an additional $26 billion during 2001, BIF’s reserve ratio would have declined to the designated reserve ratio of 1.25 percent at December 31, 2001.

Regarding the other key variable in the calculation, BIF’s fund balance declined about $500 million during 2001. This $500 million net loss for 2001 is largely attributable to recording $1.8 billion of estimated losses for anticipated failures of insured institutions. Assuming the December 31, 2001, level of estimated insured deposits, if BIF had incurred an additional $328 million of losses to the fund balance during 2001, its reserve ratio would have declined to the designated reserve ratio of 1.25 percent at December 31, 2001.

Currently, there is proposed legislation in Congress to reform the federal deposit insurance system. Among other things, this legislation proposes changes to the designated reserve ratio requirements.

Future Activities of FRF

FDIC, as administrator of FRF, is responsible for completing the liquidation of the assets and liabilities of the former Federal Savings and Loan Insurance Corporation (FSLIC) and Resolution Trust Corporation (RTC).[4] Under current legislation, FRF will continue its operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. As shown in table 2, FRF has made significant progress in liquidating its assets and liabilities since 1996. FDIC expects continued rapid decline in the remaining FRF assets during 2002. After providing for all outstanding RTC liabilities, FDIC must also transfer the net proceeds from the sale of RTC-related assets to the Resolution Funding Corporation (REFCORP).[5] During 2001, FRF transferred $1.4 billion to REFCORP.

Table 2: FRF's Assets and Liabilities as of January 1, 1996, and December 31, 2001

Dollars in billions

	January 1, 1996	December 31, 2001	Percent increase (decrease)
Cash and cash equivalents	$1.5	$3.5	133
Assets not yet liquidated	13.9	1.4	(90)
Total assets	$15.4	$4.9	(68)
Total liabilities	$11.2	$0.02	(99)

[4]On January 1, 1996, FRF assumed responsibility for all remaining assets and liabilities of the former RTC.

[5]The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 established REFCORP to provide part of the initial funds used by RTC for thrift resolutions.

Two major components of the assets not yet liquidated are receivables from thrift resolutions (about $0.3 billion) and investments in securitization-related assets (nearly $1.1 billion). Most of the receivables from thrift resolutions represent amounts advanced and/or obligations incurred for resolving troubled and failed insured thrifts. FDIC manages and disposes of the assets from failed thrifts through receiverships.[6] Most of the remaining assets in these receiverships are cash. FDIC is pursuing the complete liquidation of these receiverships during the year 2002 with the exception of those involved in goodwill litigation.[7]

FDIC has conducted an extensive review and cataloging of FRF's residual assets and liabilities and is beginning to explore approaches for concluding FRF's activities. The following are some of the issues and items remaining in FRF:

- Over 900 criminal restitution orders in the amount of $548 million are outstanding. These may remain open for up to 20 more years. The actual amount that will ultimately be collected is unknown.[8] During 2001, FDIC collected $6.6 million from these outstanding restitution orders.

- About 80 litigation claims and judgments—which were obtained against officers and directors and other professionals responsible for causing thrift losses—are outstanding. These items have an estimated recoverable value of approximately $59 million. These judgments are renewable based on individual state law. Generally, the renewals vary from 5 to 10 years and are renewable more than once.[9] During 2001 FDIC recovered $19.2 million in such claims.

[6]The assets held by receiverships, and the claims against them, are accounted for separately from FRF's assets and liabilities to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations.

[7]See note 7 of FRF's financial statements for a description of goodwill litigation and its impact.

[8]U.S. generally accepted accounting principles state that contingencies that may ultimately result in gains are usually not reflected in the financial statements to avoid recognizing revenue prior to its realization.

[9]See footnote 8 of this report.

- Numerous assistance agreements entered into by the former FSLIC will remain open for many years as those assisted institutions share with FRF their tax savings that result from the tax-free nature of FSLIC assistance.[10] During 2001, FRF recovered over $163 million as its share of these tax savings.

- Various litigation cases are outstanding. FRF remains involved in approximately 760 cases.[11] The most numerous, and substantial in terms of potential liability, involve goodwill litigation.[12] To date, approximately 120 lawsuits have been filed against the U.S. government. Because of appeals and differences in awarding damages in the cases thus far, the final outcome in the cases and the amount of any possible damages remain uncertain. Also, there is litigation in which FRF is the plaintiff for itself or is acting in a fiduciary manner on behalf of the receiverships resulting from failed financial institutions. These pending cases may take years to settle, and many of the goodwill cases are still pending from the early 1990s.

- Numerous potential liabilities may exist due to representations and warranties made to support the sale of assets including loans and servicing rights.[13] These potential liabilities could be incurred over the remaining life of the loans.

Only when the remaining asset and liability issues, some of which are highlighted above, are resolved can the FRF fund be formally dissolved. FDIC is considering whether enabling legislation or other measures may be needed to liquidate the remaining FRF assets and liabilities.

[10]See footnote 8 of this report.

[11]Whereas FRF is involved in over 700 cases, FDIC records losses for only those cases where the loss is considered probable and reasonably estimable. FDIC also discloses losses that are reasonably possible. See note 7 of FRF's financial statements.

[12]See note 7 of FRF's financial statements for a description of goodwill litigation and its impact.

[13]See note 7 of FRF's financial statements for a description of representations and warranties.

FDIC Comments and Our Evaluation

In commenting on a draft of this report, FDIC's chief financial officer (CFO) was pleased to receive unqualified opinions on BIF's, SAIF's, and FRF's 2001 and 2000 financial statements. FDIC's CFO also acknowledged the information system weaknesses we identified and plans to continue with its efforts to strengthen its information system program and to incorporate GAO's recommendations into its security plans for 2002. We plan to evaluate the effectiveness of the corrective actions as part of our 2002 audit of FDIC funds' financial statements and internal control.

David M. Walker
Comptroller General
of the United States

April 5, 2002

Bank Insurance Fund's Financial Statements

Statements of Financial Position

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

		2001		2000
Assets				
Cash and cash equivalents	$	1,436,613	$	156,396
Investment in U.S. Treasury obligations, net: (Note 3)				
Held-to-maturity securities		20,477,568		22,510,892
Available-for-sale securities		9,685,367		7,421,597
Interest receivable on investments and other assets, net		547,101		564,398
Receivables from bank resolutions, net (Note 4)		79,155		349,589
Property and equipment, net (Note 5)		303,969		303,438
Total Assets	**$**	**32,529,773**	**$**	**31,306,310**
Liabilities				
Accounts payable and other liabilities	$	134,990	$	165,972
Contingent liabilities for: (Note 6)				
Anticipated failure of insured institutions		1,911,000		141,355
Litigation losses		37,123		21,922
Other contingencies		7,835		1,839
Total Liabilities		**2,090,948**		**331,088**
Commitments and off-balance-sheet exposure (Note 10)				
Fund Balance				
Accumulated net income		30,192,903		30,755,569
Unrealized gain on available-for-sale securities, net (Note 3)		245,922		219,653
Total Fund Balance		**30,438,825**		**30,975,222**
Total Liabilities and Fund Balance	**$**	**32,529,773**	**$**	**31,306,310**

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

Statements of Income and Fund Balance

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

	2001	2000
Revenue		
Interest on U.S. Treasury obligations	$ 1,834,768	$ 1,827,404
Assessments (Note 7)	47,777	45,091
Realized gain on sale of U.S. Treasury obligations	78,227	0
Other revenue	35,964	33,369
Total Revenue	**1,996,736**	**1,905,864**
Expenses and Losses		
Operating expenses	785,855	772,918
Provision for insurance losses (Note 8)	1,756,321	(152,962)
Interest and other insurance expenses	17,226	25,289
Total Expenses and Losses	**2,559,402**	**645,245**
Net (Loss)/Income	**(562,666)**	**1,260,619**
Unrealized gain on available-for-sale securities, net (Note 3)	26,269	300,420
Comprehensive (Loss)/Income	**(536,397)**	**1,561,039**
Fund Balance - Beginning	**30,975,222**	**29,414,183**
Fund Balance - Ending	**$ 30,438,825**	**$ 30,975,222**

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

Statements of Cash Flows

Bank Insurance Fund

Federal Deposit Insurance Corporation

Bank Insurance Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2001	2000
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 1,913,936	$ 1,775,552
Recoveries from bank resolutions	368,603	755,936
Assessments	47,075	48,518
Miscellaneous receipts	38,422	58,349
Cash used by:		
Operating expenses	(729,635)	(742,733)
Disbursements for bank resolutions	(84,651)	(388,276)
Miscellaneous disbursements	(21,696)	(24,968)
Net Cash Provided by Operating Activities (Note 13)	**1,532,054**	**1,482,378**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	3,320,000	2,560,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	2,398,572	430,000
Cash used by:		
Purchase of property and equipment	(61,189)	(60,761)
Purchase of U.S. Treasury obligations, held-to-maturity	(1,418,875)	(1,239,157)
Purchase of U.S. Treasury obligations, available-for-sale	(4,490,345)	(3,180,519)
Net Cash Used by Investing Activities	**(251,837)**	**(1,490,437)**
Net Increase (Decrease) in Cash and Cash Equivalents	**1,280,217**	**(8,059)**
Cash and Cash Equivalents - Beginning	**156,396**	**164,455**
Cash and Cash Equivalents - Ending	**$ 1,436,613**	**$ 156,396**

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

Notes to Financial Statements

Notes to the Financial Statements
Bank Insurance Fund
December 31, 2001 and 2000

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.

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 funds. All three funds are maintained separately to carry out their respective mandates.

The BIF and the SAIF are insurance funds responsible for protecting insured bank and thrift depositors from loss due to institution failures. 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 generally 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 Board. Deposits of SAIF-member institutions are generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision.

In addition to traditional banks and thrifts, several other categories of institutions exist. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation
The Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds Act of 1996 (DIFA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing 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 estimated insured deposits or a higher percentage as circumstances warrant.

The Gramm-Leach-Bliley Act (GLBA) was enacted on November 12, 1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial services providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

Recent Legislative Initiatives

Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The legislative proposals include merging BIF and SAIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. These provisions may have a significant impact on the BIF and the SAIF, if enacted into law. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

Operations of the BIF

The primary purpose of the BIF is to: 1) insure the deposits and protect the depositors of BIF-insured institutions and 2) resolve failed institutions, including managing and disposing of 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.

The BIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are 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 established a limitation on obligations that can be incurred by the BIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2001 and December 31, 2000, the MOL for the BIF was $55.4 billion and $53.2 billion, respectively.

Receivership Operations

The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from BIF assets and liabilities to ensure that receivership 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. Expenses paid by the BIF on behalf of the receiverships are recovered from those receiverships.

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 FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates
FDIC management makes 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 Equivalents
Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

Investments in U.S. Treasury Obligations
BIF investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost 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, except for callable U.S. Treasury securities, which are amortized, to the first anticipated call date. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statements of Income and Fund Balance as components of Net Income. Interest on both types of securities is calculated on a daily basis and recorded monthly using the effective interest method.

Allowance for Losses on Receivables From Bank Resolutions
The BIF records a receivable for the amounts advanced and/or obligations incurred for resolving failing and failed banks. 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 banks, net of all applicable estimated liquidation costs.

Cost Allocations Among Funds
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Disclosure About Recent Accounting Pronouncements
Recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements as presented.

Depreciation
The FDIC has designated the BIF as administrator of property and equipment 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 the other funds usage fees

representing an allocated share of its annual depreciation expense. These usage fees are recorded as cost recoveries, which reduce operating expenses.

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. Leasehold improvements are capitalized and depreciated over the lesser of the remaining life of the lease or the estimated useful life of the improvements, if determined to be material. Capital assets depreciated on a straight-line basis over a five-year estimated life include mainframe equipment; furniture, fixtures, and general equipment; and internal-use software. Personal computer equipment is depreciated on a straight-line basis over a three-year estimated life.

Related Parties
The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 2000 financial statements to conform to the presentation used in 2001.

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

Cash not required to meet the liquidity needs of the BIF is invested in U.S. Treasury obligations with maturities exceeding three months. As of December 31, 2001 and December 31, 2000, the book value of investments in U.S. Treasury obligations, net, was $30.2 billion and $29.9 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities. As of December 31, 2001, the FDIC held $5.5 billion of Treasury inflation-indexed securities (TIIS) for the BIF. These securities are indexed to increases or decreases in the Consumer Price Index (CPI).

During 2001, FDIC purchased $1.1 billion of callable U.S. Treasury securities for the BIF. These securities are designated as either held-to-maturity or available-for-sale, with the premiums being amortized to the first call date. Callable U.S. Treasury bonds may be called five years prior to the respective bonds' stated maturity on their semi-annual coupon payment dates upon 120 days notice. On February 15, 2002, $525 million of these securities were called at par, with no loss to the BIF.

In 2001, the BIF reported a gross realized gain of $78 million on the sale of securities designated as available-for-sale. Proceeds from the sales were $1.5 billion. Specific identification was used to determine cost of the securities sold in computing the realized gain.

Bank Insurance Fund

U.S. Treasury Obligations at December 31, 2001

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	5.77%	$ 3,625,000	$ 3,666,801	$ 71,147	$ (25)	$ 3,737,923
After 1 year through 5 years	6.40%	10,345,000	10,516,640	752,345	(2,193)	11,266,792
After 5 years through 10 years	5.24%	6,101,008	6,294,127	208,045	0	6,502,172
Total		$ 20,071,008	$ 20,477,568	$ 1,031,537	$ (2,218)	$ 21,506,887
Available-for-Sale						
Within 1 year	4.57%	$ 1,050,000	$ 1,056,197	$ 10,721	$ 0	$ 1,066,918
After 1 year through 5 years	5.54%	3,385,000	3,454,666	156,271	0	3,610,937
After 5 years through 10 years	3.78%	4,911,545	4,928,582	103,950	(25,020)	5,007,512
Total		$ 9,346,545	$ 9,439,445	$ 270,942	$ (25,020)	$ 9,685,367
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 29,417,553**	**$ 29,917,013**	**$ 1,302,479**	**$ (27,238)**	**$ 31,192,254**

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

Bank Insurance Fund

U.S. Treasury Obligations at December 31, 2000

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	5.73%	$ 3,320,000 (b)	$ 3,324,498	$ 8,686	$ (598)	$ 3,332,586
After 1 year through 5 years	6.37%	10,620,000	10,898,837	367,352	(169)	11,266,020
After 5 years through 10 years	5.64%	8,068,506	8,287,557	266,541	(26,826)	8,527,272
Total		$ 22,008,506	$ 22,510,892	$ 642,579	$ (27,593)	$ 23,125,878
Available-for-Sale						
Within 1 year	5.73%	$ 925,000	$ 925,962	$ 1,493	$ (1,053)	$ 926,402
After 1 year through 5 years	6.35%	2,125,000	2,126,357	67,223	0	2,193,580
After 5 years through 10 years	4.80%	4,254,527	4,149,625	151,990	0	4,301,615
Total		$ 7,304,527	$ 7,201,944	$ 220,706	$ (1,053)	$ 7,421,597
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 29,313,033**	**$ 29,712,836**	**$ 863,285**	**$ (28,646)**	**$ 30,547,475**

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

(b) Includes one Treasury note totaling $200 million which matured on Sunday, December 31, 2000. Settlement occurred on the next business day, January 2, 2001.

As of December 31, 2001 and 2000, the unamortized premium, net of the unamortized discount, was $499 million and $400 million, respectively.

4. Receivables From Bank Resolutions, Net

The bank resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the BIF against the receiverships' assets. There were three bank failures in 2001 and six in 2000, with assets at failure of $54 million and $378 million, respectively, and BIF outlays of $49.5 million and $301.7 million, respectively.

Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. As of December 31, 2001 and 2000, BIF receiverships held assets with a book value of $154.6 million and $510.9 million, respectively (including cash and miscellaneous receivables of $71.9 million and $337 million at December 31, 2001 and 2000, respectively). The estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the BIF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Bank Resolutions, Net at December 31

Dollars in Thousands

	2001	2000
Receivables from closed banks	$ 5,368,970	$ 9,083,357
Allowance for losses	(5,289,815)	(8,733,768)
Total	**$ 79,155**	**$ 349,589**

5. Property and Equipment, Net

Property and Equipment, Net at December 31

Dollars in Thousands

	2001	2000
Land	$ 29,631	$ 29,631
Buildings	175,265	168,996
Application software (includes work-in-process)	131,104	109,975
Furniture, fixtures, and equipment	93,593	76,729
Accumulated depreciation	(125,624)	(81,893)
Total	**$ 303,969**	**$ 303,438**

The depreciation expense was $44.7 million and $28.8 million for 2001 and 2000, respectively.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions

The BIF records a contingent liability and a loss provision for banks (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and historical loss rates to groups of institutions with certain shared characteristics. In addition, institution-specific analysis is performed on those banks where failure is imminent absent institution management resolution of existing problems. As of December 31, 2001 and 2000, the contingent liabilities for anticipated failure of insured institutions were $1.9 billion and $141 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified increasing risk in the financial services industry that could result in a material loss to the BIF should the potentially vulnerable financial institutions ultimately fail. This risk is evidenced by higher levels of problem bank assets, deteriorating credit quality, weaker supervisory ratings, and the increased presence of various new banking business models that have not been tested in a recession.

Due to increased risk in the industry and uncertainty surrounding future economic and financial conditions, there are other banks for which the risk of failure is less certain, but still considered reasonably possible. Should these banks fail, the BIF could incur additional estimated losses up to $5.1 billion.

The accuracy of these estimates will largely depend on future economic conditions. The FDIC's Board of Directors has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

Litigation Losses
The BIF records an estimated loss for unresolved legal cases to the extent that those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable the FDIC has determined that losses totaling $74 million from unresolved legal cases are reasonably possible.

Additionally, two cases are currently pending before the U.S. Court of Federal Claims against the United States for actions taken by the FDIC in supervising two BIF-insured, state chartered mutual savings banks. These cases allege that the FDIC's conduct in supervising these institutions breached agreements, which in turn caused state regulators to close these institutions. Although the court has yet to rule on whether any agreements were breached, the BIF has conservatively recorded a small probable loss for one of the cases. At this time, it is not possible to estimate a potential loss to the BIF from the second case.

Other Contingencies

Representations and Warranties
As part of the FDIC's efforts to maximize the return from the sale of assets from bank resolutions, representations and warranties, and guarantees were offered on loan sales. The total amount of loans sold subject to representations and warranties, and guarantees were $5.1 billion as of December 31, 2001. The estimated losses for the contingent liability from all outstanding claims asserted in connection with representations and warranties was $1.5 million at December 31, 2001.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 20 years. Consequently, the FDIC believes it is possible that additional losses may be incurred by the BIF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the BIF from outstanding contracts with unasserted representation and warranty claims.

7. 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; 3) required the FDIC to build and maintain the reserves in the insurance funds to 1.25 percent of estimated 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 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 assessment rate averaged approximately 0.14 cents per $100 of assessable deposits for both 2001 and 2000. On October 23, 2001, the Board voted to retain the BIF assessment schedule at the annual rate of 0 to 0.27 cents per $100 of assessable deposits for the first semiannual period of 2002. The Board reviews premium rates semiannually.

As stated above, the FDICIA requires the FDIC to maintain the insurance funds at a designated reserve ratio (DRR) of 1.25 percent of estimated insured deposits (or a higher percentage as circumstances warrant). As of December 31, 2001, the BIF was 1.26 percent of estimated insured deposits. The FDICIA authorizes and mandates BIF assessments if needed to maintain the fund at the DRR or to return the fund to the DRR if it falls below the DRR. The FDIC is required to set semiannual assessment rates that are sufficient to increase the reserve ratio to the DRR not later than one year after such rates are set, or in accordance with a recapitalization schedule of fifteen years or less.

The DIFA provided, among other things, for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions (including banks, thrifts, and Oakar and Sasser financial institutions), and it made the FICO assessment separate from regular assessments, effective on January 1, 1997.

BIF-insured banks began paying a FICO assessment on January 1, 1997. From January 1, 1997, through December 31, 1999, the FICO assessment rate on BIF-assessable deposits was one-fifth the rate for SAIF-assessable deposits. Beginning on January 1, 2000, the annual FICO interest obligations of approximately $790 million are paid on a pro rata basis using the same rate for banks and thrifts.

The FICO assessment has no financial impact on the BIF. The FICO assessment is separate from the regular assessments and is imposed on banks and thrifts, not on the insurance funds. The FDIC, as administrator of the BIF and the SAIF, is acting solely as a collection agent for the FICO. During 2001 and 2000, $627 million and $635 million, respectively, was collected from banks and remitted to the FICO.

8. Provision for Insurance Losses

Provision for insurance losses was $1.8 billion for 2001 and negative $153 million for 2000. The following chart lists the major components of the provision for insurance losses.

Bank Insurance Fund

Provision for Insurance Losses for the Years Ended December 31				
Dollars in Thousands				
		2001		2000
Valuation Adjustments:				
Open bank assistance	$	(856)	$	(2,956)
Closed banks		(41,106)		(20,098)
Other assets		(72)		336
Total Valuation Adjustments		**(42,034)**		**(22,718)**
Contingent Liabilities Adjustments:				
Anticipated failure of insured institutions		1,776,645		(133,645)
Litigation losses		16,095		3,964
Other contingencies		5,615		(563)
Total Contingent Liabilities Adjustments		**1,798,355**		**(130,244)**
Total	**$**	**1,756,321**	**$**	**(152,962)**

9. Employee Benefits

Pension Benefits and Savings Plans

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees 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.

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 on and accounted for by the U.S. Office of Personnel Management.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The BIF pays its share of the employer's portion of all related costs.

Bank Insurance Fund

Pension Benefits and Savings Plans Expenses for the Years Ended December 31

Dollars in Thousands

	2001	2000
Civil Service Retirement System	$ 11,205	$ 11,503
Federal Employees Retirement System (Basic Benefit)	29,562	30,454
FDIC Savings Plan	18,254	19,202
Federal Thrift Savings Plan	11,871	12,154
Total	**$ 70,892**	**$ 73,313**

Accrued Annual Leave

The BIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $35.3 million and $36.0 million at December 31, 2001 and 2000, respectively.

Postretirement Benefits Other Than Pensions

The FDIC provides certain dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for 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 life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity and at no cost to retirees. At December 31, 2001 and 2000, the BIF's prepaid postretirement benefit cost recognized in the "Interest receivable on investments and other assets, net" line item in the Statements of Financial Position was $3.6 million.

10. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leases

The BIF's allocated share of the FDIC's lease commitments totals $132 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the BIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the BIF, the SAIF, and the FRF. Changes in the relative workloads could cause the amounts allocated to the BIF in the future to vary from the amounts shown below. The BIF recognized leased space expense of $38.5 million and $38.1 million for the years ended December 31, 2001 and 2000, respectively.

Bank Insurance Fund

Lease Commitments

Dollars in Thousands

2002	2003	2004	2005	2006	2007/Thereafter
$38,250	$29,322	$20,451	$15,012	$13,172	$15,749

Off-Balance-Sheet Exposure:

Asset Securitization Guarantees

As part of the FDIC's efforts to maximize the return from the sale or disposition of assets from bank resolutions, the FDIC has securitized some receivership assets. To facilitate the securitizations, the BIF provided limited guarantees to cover certain losses on the securitized assets up to a specified maximum. In exchange for backing the limited guarantees, the BIF received assets from the receiverships in an amount equal to the expected exposure under the guarantees. The table below gives the maximum off-balance-sheet exposure the BIF has under these guarantees.

Asset Securitization Guarantees at December 31

Dollars in Thousands

	2001	2000
Maximum exposure under the limited guarantees	$ 330,936	$ 406,690
Less: Guarantee claims paid (inception-to-date)	(34,756)	(33,730)
Less: Amount of exposure recognized as a contingent liability	(3,966)	(1,605)
Maximum Off-Balance-Sheet Exposure Under the Limited Guarantees	**$ 292,214**	**$ 371,355**

Deposit Insurance

As of December 31, 2001, deposits insured by the BIF totaled approximately $2.4 trillion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

11. Concentration of Credit Risk

Financial instruments that potentially subject the BIF to credit risk consist primarily of gross receivables from bank resolutions totaling $5.4 billion. The receivables from bank resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the BIF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for closed BIF-insured institutions are the main source of repayment of the BIF's receivables from closed banks. An allowance for loss of $5.3 billion, or 99% of the gross receivable, was recorded as of December 31, 2001. Of the remaining one percent of the gross receivable, the amount of credit risk is limited since 59% of the receivership assets consist of cash and cash equivalents.

12. 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, due to their short maturities and/or comparability with current interest rates.

The net receivables from bank resolutions primarily include the BIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the BIF's allowance for loss against the net receivables 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 (see Note 4), 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 does 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.

Bank Insurance Fund

13. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

	2001	2000
Net (Loss)/Income	**$ (562,666)**	**$ 1,260,619**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations	160,763	128,875
TIIS inflation adjustment	(96,064)	(93,204)
Gain on sale of U.S. Treasury obligations	(78,227)	0
Depreciation on property and equipment	44,723	28,799
Retirement of capitalized equipment	1,568	1,152
Change in Assets and Liabilities:		
Decrease (Increase) in interest receivable on investments and other assets	17,273	(77,258)
Decrease in receivables from bank resolutions	270,434	393,422
(Decrease) Increase in accounts payable and other liabilities	(16,591)	5,244
Increase (Decrease) in contingent liabilities for anticipated failure of insured institutions	1,769,645	(165,645)
Increase (Decrease) in other contingencies	5,995	(11,548)
Increase in contingent liabilities for litigation losses	15,201	11,922
Net Cash Provided by Operating Activities	**$ 1,532,054**	**$ 1,482,378**

Savings Association Insurance Fund's Financial Statements

Statements of Financial Position

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Financial Position at December 31

Dollars in Thousands

		2001		2000
Assets				
Cash and cash equivalents	$	276,507	$	149,988
Cash and other assets: Restricted for SAIF-member exit fees (Note 3) *(Includes cash and cash equivalents of $71.9 million and $40.2 million at December 31, 2001 and December 31, 2000, respectively)*		299,374		283,780
Investment in U.S. Treasury obligations, net: (Note 4)				
Held-to-maturity securities		6,718,418		7,950,849
Available-for-sale securities		2,745,476		2,708,965
Interest receivable on investments and other assets, net		156,126		188,473
Receivables from thrift resolutions, net (Note 5)		1,285,150		4,147
Total Assets	**$**	**11,481,051**	**$**	**11,286,202**
Liabilities				
Accounts payable and other liabilities	$	8,111	$	7,748
Contingent liabilities for: (Note 6)				
Anticipated failure of insured institutions		233,000		234,083
Litigation losses		5,642		1,943
SAIF-member exit fees and investment proceeds held in escrow (Note 3)		299,374		283,780
Total Liabilities		**546,127**		**527,554**
Commitments and off-balance-sheet exposure (Note 10)				
Fund Balance				
Accumulated net income		10,845,515		10,676,477
Unrealized gain on available-for-sale securities, net (Note 4)		89,409		82,171
Total Fund Balance		**10,934,924**		**10,758,648**
Total Liabilities and Fund Balance	**$**	**11,481,051**	**$**	**11,286,202**

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

Statements of Income and Fund Balance

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Income and Fund Balance for the Years Ended December 31

Dollars in Thousands

		2001		2000
Revenue				
Interest on U.S. Treasury obligations	$	633,725	$	644,222
Assessments (Note 7)		35,402		19,237
Realized gain on sale of U.S. Treasury obligations		51,630		0
Other revenue		12,364		621
Total Revenue		**733,121**		**664,080**
Expenses and Losses				
Operating expenses		101,591		110,920
Provision for insurance losses (Note 8)		443,103		180,805
Other insurance expenses		19,389		8,293
Total Expenses and Losses		**564,083**		**300,018**
Net Income		**169,038**		**364,062**
Unrealized gain on available-for-sale securities, net (Note 4)		7,238		113,914
Comprehensive Income		**176,276**		**477,976**
Fund Balance - Beginning		**10,758,648**		**10,280,672**
Fund Balance - Ending	$	**10,934,924**	$	**10,758,648**

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

Statements of Cash Flows

Savings Association Insurance Fund

Federal Deposit Insurance Corporation

Savings Association Insurance Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2001	2000
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 674,636	$ 606,521
Assessments	35,554	19,829
Entrance and exit fees, including interest on exit fees (Note 3)	3,984	14,414
Recoveries from thrift resolutions	246,535	88,451
Miscellaneous receipts	2,615	60
Cash used by:		
Operating expenses	(102,429)	(107,137)
Disbursements for thrift resolutions	(1,976,964)	(39,753)
Miscellaneous disbursements	(352)	(17)
Net Cash (Used by) Provided by Operating Activities (Note 13)	**(1,116,421)**	**582,368**
Cash Flows From Investing Activities		
Cash provided by:		
Maturity of U.S. Treasury obligations, held-to-maturity	2,049,512	1,630,000
Maturity and sale of U.S. Treasury obligations, available-for-sale	875,245	150,000
Cash used by:		
Purchase of U.S. Treasury obligations, held-to-maturity	(826,788)	(1,522,399)
Purchase of U.S. Treasury obligations, available-for-sale	(823,265)	(819,316)
Net Cash Provided by (Used by) Investing Activities	**1,274,704**	**(561,715)**
Net Increase in Cash and Cash Equivalents	**158,283**	**20,653**
Cash and Cash Equivalents - Beginning	**190,141**	**169,488**
Unrestricted Cash and Cash Equivalents - Ending	**276,507**	**149,988**
Restricted Cash and Cash Equivalents - Ending	**71,917**	**40,153**
Cash and Cash Equivalents - Ending	**$ 348,424**	**$ 190,141**

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

Notes to Financial Statements

Notes to the Financial Statements
Savings Association Insurance Fund
December 31, 2001 and 2000

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 funds. All three funds are maintained separately to carry out their respective mandates.

The SAIF and the BIF are insurance funds responsible for protecting insured thrift and bank depositors from loss due to institution failures. 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 (RTC Completion 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 generally insured by the SAIF; SAIF members are predominantly thrifts supervised by the Office of Thrift Supervision (OTS). Deposits of BIF-member institutions are generally 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 Board.

In addition to traditional thrifts and banks, several other categories of institutions exist. The Federal Deposit Insurance Act (FDI Act), Section 5(d)(3), provides that a member of one insurance fund may, with the approval of its primary federal supervisor, merge, consolidate with, or acquire the deposit liabilities of an institution that is a member of the other insurance fund without changing insurance fund status for the acquired deposits. These institutions with deposits insured by both insurance funds are referred to as Oakar financial institutions. The FDI Act, Section 5(d)(2)(G), allows SAIF-member thrifts to convert to a bank charter and retain their SAIF membership. These institutions are referred to as Sasser financial institutions. The Home Owners' Loan Act (HOLA), Section 5(o), allows BIF-member banks to convert to a thrift charter and retain their BIF membership. These institutions are referred to as HOLA thrifts.

Other Significant Legislation
The Competitive Equality Banking Act of 1987 established the Financing Corporation (FICO) as a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC.

The Omnibus Budget Reconciliation Act of 1990 (1990 OBR Act), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the Deposit Insurance Funds

Act of 1996 (DIFA) made changes to the FDIC's assessment authority (see Note 7) and borrowing authority. The FDICIA also requires the FDIC to: 1) resolve failing 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 estimated insured deposits or a higher percentage as circumstances warrant.

The Gramm Leach Bliley Act (GLBA) was enacted on November 12, 1999, in order to modernize the financial services industry (banks, brokerages, insurers, and other financial service providers). The GLBA lifts restrictions on affiliations among banks, securities firms, and insurance companies. It also expands the financial activities permissible for financial holding companies and insured depository institutions, their affiliates and subsidiaries.

Recent Legislative Initiatives
Legislation on deposit insurance reform was introduced during February 2002 in the House and Senate. The legislative proposals include merging SAIF and BIF, modifying restrictions on charging risk-based insurance premiums, implementing assessment credits and rebates, changing the designated reserve ratio from a fixed 1.25 percent of estimated insured deposits to a range, increasing deposit insurance coverage for all accounts (including higher coverage for retirement accounts), and indexing the insurance limit to inflation. These provisions may have a significant impact on the SAIF and the BIF, if enacted into law. FDIC management, however, cannot predict which provisions, if any, will ultimately be enacted.

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 institutions, including disposing of their assets. In this capacity, the SAIF has financial responsibility for all SAIF-insured deposits held by SAIF-member institutions and by BIF-member banks designated as Oakar financial institutions.

The SAIF is primarily funded from: 1) interest earned on investments in U.S. Treasury obligations and 2) deposit insurance assessments. Additional funding sources are borrowings from the U.S. Treasury, the Federal Financing Bank (FFB), and the Federal Home Loan Banks, if necessary. The 1990 OBR Act established the FDIC's authority to borrow working capital from the FFB on behalf of the SAIF and the BIF. The 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 established a limitation on obligations that can be incurred by the SAIF, known as the Maximum Obligation Limitation (MOL). As of December 31, 2001 and December 31, 2000, the MOL for the SAIF was $18.8 billion and $18.4 billion, respectively.

Receivership Operations
The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from SAIF assets and liabilities to ensure that receivership 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. Expenses paid by the SAIF on behalf of the receiverships are recovered from those receiverships.

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 FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates
FDIC management makes 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 Equivalents
Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of Special U.S. Treasury Certificates.

Investments in U.S. Treasury Obligations
SAIF's investments in U.S. Treasury obligations are either classified as held-to-maturity or available-for-sale. Securities designated as held-to-maturity are shown at amortized cost. Amortized cost 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. Securities designated as available-for-sale are shown at market value, which approximates fair value. Unrealized gains and losses are included in Comprehensive Income. Realized gains and losses are included in the Statements of Income and Fund Balance as components of Net Income. Interest on both types of securities 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 a receivable for the amounts advanced and/or obligations incurred for resolving failing 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 estimates of discounted cash recoveries from the assets of assisted or failed thrifts, net of all applicable estimated liquidation costs.

Cost Allocations Among Funds
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Disclosure About Recent Accounting Pronouncements
Recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements as presented.

Related Parties
The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

3. Cash and Other Assets: Restricted for SAIF-Member Exit Fees

The SAIF collects 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 (Board) 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. There were no conversion transactions during 2001 and 2000 that resulted in an exit fee to the SAIF.

Cash and Other Assets: Restricted for SAIF-Member Exit Fees at December 31

Dollars in Thousands

	2001	2000
Cash and cash equivalents	$ 71,917	$ 40,154
Investment in U.S. Treasury obligations, net	223,213	239,088
Interest receivable on U.S. Treasury obligations	4,244	4,535
Exit fees receivable	0	3
Total	**$ 299,374**	**$ 283,780**

Savings Association Insurance Fund

U.S. Treasury Obligations at December 31, 2001 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Maturity	Yield at Purchase	Held-to-Maturity Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Within 1 year	5.95%	$ 100,000	$ 100,027	$ 2,364	$ 0	$ 102,391
After 1 year through 5 years	6.10%	75,000	76,764	3,814	0	80,578
After 5 years through 10 years	5.03%	44,000	46,422	893	0	47,315
Total		**$ 219,000**	**$ 223,213**	**$ 7,071**	**$ 0**	**$ 230,284**

U.S. Treasury Obligations at December 31, 2000 (Restricted for SAIF-Member Exit Fees)

Dollars in Thousands

Maturity	Yield at Purchase	Held-to-Maturity Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Within 1 year	5.52%	$ 15,000	$ 15,093	$ 0	$ (20)	$ 15,073
After 1 year through 5 years	6.07%	$ 155,000	$ 156,020	$ 2,467	$ 0	$ 158,487
After 5 years through 10 years	5.20%	64,000	67,975	454	(373)	68,056
Total		**$ 234,000**	**$ 239,088**	**$ 2,921**	**$ (393)**	**$ 241,616**

The unamortized premium, net of the unamortized discount, was $4.2 million and $5.1 million at December 31, 2001 and 2000, respectively.

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

Cash not required to meet the liquidity needs of the SAIF is invested in U.S. Treasury obligations with maturities exceeding three months. As of December 31, 2001 and December 31, 2000, the book value of investments in U.S. Treasury Obligations, net, was $9.5 billion and $10.7 billion, respectively. The book value is computed by adding the amortized cost of the held-to-maturity securities to the market value of the available-for-sale securities. In 2001, the FDIC held $1.9 billion of Treasury inflation-indexed securities (TIIS) for the SAIF. These securities are indexed to increases or decreases in the Consumer Price Index (CPI).

In 2001, the SAIF reported a gross realized gain of $52 million on the sale of securities designated as available-for-sale. Proceeds from the sales were $795 million. Specific identification was used to determine cost of the securities sold in computing the realized gain.

Savings Association Insurance Fund

U.S. Treasury Obligations at December 31, 2001 (Unrestricted)

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	5.91%	$ 970,000	$ 973,251	$ 15,735	$ 0	$ 988,986
After 1 year through 5 years	6.17%	2,540,000	2,592,612	162,155	0	2,754,767
After 5 years through 10 years	5.53%	3,125,012	3,152,554	142,863	0	3,295,417
Total		$ 6,635,012	$ 6,718,417	$ 320,753	$ 0	$ 7,039,170
Available-for-Sale						
Within 1 year	6.44%	$ 75,000	$ 74,412	$ 3,213	$ 0	$ 77,625
After 1 year through 5 years	6.18%	930,000	942,449	55,065	0	997,514
After 5 years through 10 years	3.84%	1,642,564	1,639,207	36,592	(5,461)	1,670,338
Total		$ 2,647,564	$ 2,656,068	$ 94,870	$ (5,461)	$ 2,745,477
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 9,282,576**	**$ 9,374,485**	**$ 415,623**	**$ (5,461)**	**$ 9,784,647**

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

Savings Association Insurance Fund

U.S. Treasury Obligations, Net at December 31, 2000 (Unrestricted)

Dollars in Thousands

Maturity	Yield at Purchase (a)	Face Value	Net Carrying Amount	Unrealized Holding Gains	Unrealized Holding Losses	Market Value
Held-to-Maturity						
Within 1 year	6.00%	$ 2,034,500 (b)	$ 2,036,981	$ 3,172	$ (52)	$ 2,040,101
After 1 year through 5 years	6.25%	2,435,000	2,473,164	70,074	0	2,543,238
After 5 years through 10 years	5.64%	3,380,394	3,440,704	117,935	(5,768)	3,552,871
Total		$ 7,849,894	$ 7,950,849	$ 191,181	$ (5,820)	$ 8,136,210
Available-for-Sale						
Within 1 year	5.17%	$ 80,000	$ 80,269	$ 0	$ (181)	$ 80,088
After 1 year through 5 years	6.29%	1,255,000	1,275,120	44,860	0	1,319,980
After 5 years through 10 years	4.43%	1,288,270	1,271,405	37,492	0	1,308,897
Total		$ 2,623,270	$ 2,626,794	$ 82,352	$ (181)	$ 2,708,965
Total Investment in U.S. Treasury Obligations, Net						
Total		**$ 10,473,164**	**$ 10,577,643**	**$ 273,533**	**$ (6,001)**	**$ 10,845,175**

(a) For TIIS, the yields in the above table include their real yields at purchase, not their effective yields. Effective yields on TIIS include a weighted average of Bloomberg's calculation of yield with a long-term inflation assumption of 2.5% annually, as measured by the Consumer Price Index (CPI).

(b) Includes two Treasury notes totaling $150 million which matured on Sunday, December 31, 2000. Settlement occurred on the next business day, January 2, 2001.

As of December 31, 2001 and 2000, the unamortized premium, net of the unamortized discount, was $91.9 million and $104.5 million, respectively.

5. Receivables From Thrift Resolutions, Net

The thrift resolution process takes different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that fail are made to cover obligations to insured depositors and represent claims by the SAIF against the receiverships' assets. There was one thrift failure in both 2001 and 2000, with assets at failure of $2.2 billion and $30 million, respectively, and SAIF outlays of $1 billion and $29 million, respectively. In addition, as part of the FDIC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on loan sales. The total amount of loans sold subject to representations and warranties, and guarantees were $373 million as of December 31, 2001.

Receivables from thrift resolutions increased by $1.281 billion due to the failure of Superior Bank, FSB, Hinsdale, Illinois. On July 27, 2001, the FDIC was named receiver of this failed institution and conservator of a newly chartered, full-service mutual savings bank. The Superior resolution represented a new liquidation approach for the SAIF by establishing a conservatorship to enhance franchise value and to liquidate assets as a going concern. When the majority of the assets are sold, the conservatorship will terminate and the proceeds will transfer back to the Superior receivership.

As part of this transaction, the FDIC extended a $1.5 billion line of credit to the conservatorship for liquidity purposes. As of December 31, 2001, the conservatorship had drawn $1.0 billion from this line of credit and repaid $859 million, leaving $163 million of the line of credit unpaid. The FDIC estimated a loss of $440 million to the SAIF for this institution as of year end 2001.

Assets held by the FDIC in its receivership capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from closed thrifts. As of December 31, 2001 and 2000, SAIF receiverships held assets with a book value of $210 million and $56.1 million, respectively (including cash and miscellaneous receivables of $16 million and $48.2 million at December 31, 2001, and 2000, respectively). Generally, the estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based, in part, on a statistical sampling of receivership assets. For recent and significant failures, such as Superior, a separate evaluation is performed on the majority of assets within the conservatorship and receivership to determine an appropriate allowance for loss estimate to the SAIF. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the SAIF's and other claimants' actual recoveries to vary from the level currently estimated.

6. Contingent Liabilities for:

Anticipated Failure of Insured Institutions
The SAIF records a contingent liability and a loss provision for thrifts (including Oakar and Sasser financial institutions) that are likely to fail within one year of the reporting date, absent some favorable event such as obtaining additional capital or merging, when the liability becomes probable and reasonably estimable.

The contingent liability is derived by applying expected failure rates and historical loss rates to groups of institutions with certain shared characteristics. In addition, institution-specific analysis is performed on those thrifts where failure is imminent absent institution management resolution of existing problems. As of December 31, 2001 and 2000, the contingent liabilities for anticipated failure of insured institutions were $233 million and $234 million, respectively.

In addition to these recorded contingent liabilities, the FDIC has identified increasing risk in the financial services industry that could result in a material loss to the SAIF should the potentially vulnerable financial institutions ultimately fail. This risk is evidenced by higher levels of problem thrift assets, deteriorating credit quality, weaker supervisory ratings, and the increased presence of various new thrift business models that have not been tested in a recession.

Due to increased risk in the industry and uncertainty surrounding future economic and financial conditions, there are other thrifts for which the risk of failure is less certain, but still considered reasonably possible. Should these thrifts fail, the SAIF could incur additional estimated losses up to $1.8 billion.

The accuracy of these estimates will largely depend on future economic conditions. The FDIC's Board of Directors has the statutory authority to consider the contingent liability from anticipated failures of insured institutions when setting assessment rates.

Litigation Losses
The SAIF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $921 thousand are reasonably possible.

In addition, two cases are currently pending in the U.S. District Court against the FDIC alleging that the FDIC's calculation of a special assessment exceeded the amounts due pursuant to the Deposit Insurance Funds Act of 1996 (DIFA). The DIFA authorized the FDIC to make a one-time special assessment for the purpose of fully capitalizing the SAIF to its designated reserve ratio (DRR) of 1.25%. The plaintiffs seek refunds of special assessment overpayments and interest from the date of the overpayments. The FDIC believes the probability of refunds is remote and therefore no estimate of loss is recorded or disclosed.

7. Assessments

The 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 and maintain the reserves in the insurance funds to 1.25 percent of estimated 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 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 assessment rate averaged approximately 0.41 cents and 0.24 cents per $100 of assessable deposits for 2001 and 2000, respectively. On October 23, 2001, the Board voted to retain the SAIF assessment schedule at the annual rate of 0 to 0.27 cents per $100 of assessable deposits for the first semiannual period of 2002. The Board reviews premium rates semiannually.

The DIFA provided, among other things, for the capitalization of the SAIF to its DRR of 1.25 percent by means of a one-time special assessment on SAIF-insured deposits. The SAIF achieved its required capitalization by means of a $4.5 billion special assessment effective October 1, 1996. Since October 1996, the SAIF has maintained a capitalization level at or higher than the DRR of 1.25 percent of insured deposits. As of December 31, 2001, the capitalization level for the SAIF is 1.36 percent of estimated insured deposits.

The DIFA provided for the elimination of the mandatory minimum assessment formerly provided for in the FDI Act. It also provided for the expansion of the assessment base for payments of the interest on obligations issued by the FICO to include all FDIC-insured institutions (including thrifts, banks, and Oakar and Sasser financial institutions), and it made the FICO assessment separate from regular assessments, effective on January 1, 1997.

The FICO assessment has no financial impact on the SAIF. The FICO assessment is separate from the regular assessments and is imposed on thrifts and banks, not on the insurance funds. The FDIC, as administrator of the SAIF and the BIF, is acting solely as a collection agent for the FICO. During 2001 and 2000, $164 million and $158 million, respectively, was collected from SAIF-member institutions and remitted to the FICO.

8. Provision for Insurance Losses

Provision for insurance losses was $443.1 million and $180.8 million for December 31, 2001 and December 31, 2000, respectively. The following chart lists the major components of the provision for insurance losses.

Provision for Insurance Losses for the Years Ended December 31

Dollars in Thousands

		2001		2000
Valuation Adjustments:				
Closed thrifts	$	440,487	$	(7,221)
Total Valuation Adjustments		**440,487**		**(7,221)**
Contingent Liabilities Adjustments:				
Anticipated failure of insured institutions		(1,083)		186,083
Litigation losses		3,699		1,943
Total Contingent Liabilities Adjustments		**2,616**		**188,026**
Total	$	**443,103**	$	**180,805**

9. Employee Benefits

Pension Benefits and Savings Plan

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees 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.

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 on and accounted for by the U.S. Office of Personnel Management.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The SAIF pays its share of the employer's portion of all related costs.

Pension Benefits and Savings Plans Expenses for the Years Ended December 31

Dollars in Thousands

	2001	2000
Civil Service Retirement System	$ 1,561	$ 1,603
Federal Employees Retirement System (Basic Benefit)	4,043	4,092
FDIC Savings Plan	2,508	2,594
Federal Thrift Savings Plan	1,622	1,631
Total	**$ 9,734**	**$ 9,920**

Accrued Annual Leave

The SAIF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $4.6 million and $5.0 million at December 31, 2001 and 2000, respectively.

Postretirement Benefits Other Than Pensions

The FDIC provides certain dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries, and covered dependents. Retirees eligible for 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 life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity and at no cost to retirees. At December 31, 2001 and 2000, the SAIF's prepaid postretirement benefit cost recognized in the "Interest receivable on investment and other assets, net" line item in the Statements of Financial Position was $148 thousand and $101 thousand, respectively.

10. Commitments and Off-Balance-Sheet Exposure

Commitments:

Leases

The SAIF's allocated share of the FDIC's lease commitments totals $17.1 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the SAIF of the FDIC's future lease commitments is based upon current relationships of the workloads among the SAIF, the BIF, and the FRF. Changes in the relative workloads could cause the amounts allocated to the SAIF in the future to vary from the amounts shown below. The SAIF recognized leased space expense of $5.8 million and $5.7 million at December 31, 2001 and 2000, respectively.

Lease Commitments

Dollars in Thousands

2002	2003	2004	2005	2006	2007/Thereafter
$4,965	$3,806	$2,654	$1,948	$1,710	$2,044

Off-Balance-Sheet Exposure:

Deposit Insurance

As of December 31, 2001, deposits insured by the SAIF totaled approximately $802 billion. This would be the accounting loss if all depository institutions were to fail and the acquired assets provided no recoveries.

Asset Putbacks

Certain asset sales from the Superior conservatorship have been sold with agreement that specific assets may be resold, or "putback," to the receivership. The values and time limits for these assets to be putback are defined within each agreement. It is possible that the SAIF could be called upon to fund the purchase of any or all of the "unexpired putbacks" at any time prior to expiration. The FDIC's estimate of the volume of assets subject to repurchase under existing agreements is $488 million. The actual amount subject to repurchase should be significantly lower because the estimate does not reflect subsequent collections on or sales of assets kept by the acquirer. It also does not reflect any decrease due to acts by the acquirers which might disqualify assets from repurchase eligibility. Repurchase eligibility is determined by the FDIC when the purchaser initiates the asset putback procedures. The FDIC projects that a total of $5.5 million in book value of assets will be putback.

11. Concentration of Credit Risk

Financial instruments that potentially subject the SAIF to credit risk consist primarily of gross receivables from bank resolutions totaling $1.7 billion. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships/conservatorships to provide working capital, and receivables for expenses paid by the SAIF on behalf of receiverships. Assets held by the FDIC in its receivership or conservatorship capacity for closed SAIF-insured institutions are the main source of repayment of the SAIF's receivables from resolutions. Most of the gross receivable and related allowance for loss of $446 million is attributable to the failure of Superior Bank. The credit risk related to the Superior resolution is limited because most of the net receivable is expected to be paid in the second quarter of 2002.

12. 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 Notes 3 and 4 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, due to their short maturities and/or comparability with current interest rates.

The net receivables from thrift resolutions primarily include the SAIF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the SAIF's allowance for loss against the net receivables 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 (see Note 5), 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 does 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.

13. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

	2001	2000
Net Income	**$ 169,038**	**$ 364,062**
Adjustments to Reconcile Net Income to Net Cash (Used by) Provided by Operating Activities		
Income Statement Items:		
Amortization of U.S. Treasury obligations (unrestricted)	32,503	32,317
TIIS inflation adjustment	(37,407)	(36,930)
Gain on sale of U.S. Treasury obligations	(51,630)	0
Change in Assets and Liabilities:		
Decrease in amortization of U.S. Treasury obligations (restricted)	863	887
Decrease (Increase) in entrance and exit fees receivable, including interest receivable on investments and other assets	32,641	(34,240)
(Increase) Decrease in receivables from thrift resolutions	(1,281,002)	58,096
Increase in accounts payable and other liabilities	362	2,860
(Decrease) Increase in contingent liability for anticipated failure of insured institutions	(1,083)	178,083
Increase in contingent liability for litigation losses	3,699	1,943
Increase in exit fees and investment proceeds held in escrow	15,595	15,290
Net Cash (Used by) Provided by Operating Activities	**$ (1,116,421)**	**$ 582,368**

FSLIC Resolution Fund's Financial Statements

Statements of Financial Position

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Financial Position at December 31

Dollars in Thousands

		2001		2000
Assets				
Cash and cash equivalents	$	3,490,396	$	3,514,541
Receivables from thrift resolutions, net (Note 3)		286,455		416,376
Investment in securitization-related assets acquired from receiverships (Note 4)		1,087,102		1,811,442
Other assets, net (Note 5)		29,697		50,741
Total Assets	**$**	**4,893,650**	**$**	**5,793,100**
Liabilities				
Accounts payable and other liabilities	$	14,787	$	41,088
Liabilities from thrift resolutions (Note 6)		0		74,872
Contingent liabilities for litigation losses and other (Note 7)		5,304		4,575
Total Liabilities		**20,091**		**120,535**
Commitments and concentration of credit risk (Note 12 and Note 13)				
Resolution Equity (Note 10)				
Contributed capital		128,073,030		129,484,926
Accumulated deficit		(123,505,818)		(124,267,778)
Unrealized gain on available-for-sale securities, net (Note 4)		306,347		455,417
Accumulated deficit, net		(123,199,471)		(123,812,361)
Total Resolution Equity		**4,873,559**		**5,672,565**
Total Liabilities and Resolution Equity	**$**	**4,893,650**	**$**	**5,793,100**

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

Statements of Income and Accumulated Deficit

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Income and Accumulated Deficit for the Years Ended December 31

Dollars in Thousands

	2001	2000
Revenue		
Interest on securitization-related assets acquired from receiverships	$ 32,758	$ 85,511
Interest on U.S. Treasury obligations	99,488	145,063
Interest on advances and subrogated claims (Note 8)	18,447	158,865
Realized gain on investment in securitization-related assets acquired from receiverships (Note 4)	352,179	91,487
Other revenue	78,166	41,247
Total Revenue	**581,038**	**522,173**
Expenses and Losses		
Operating expenses	74,683	74,102
Provision for losses (Note 9)	(368,987)	(438,642)
Expenses for goodwill settlements and litigation (Note 1)	60,380	94,159
Interest expense on notes payable and other expenses	29,461	23,247
Realized loss on investment in securitization-related assets acquired from receiverships (Note 4)	23,541	37,485
Total Expenses and Losses	**(180,922)**	**(209,649)**
Net Income	**761,960**	**731,822**
Unrealized (loss)/gain on available-for-sale securities, net (Note 4)	(149,070)	75,247
Comprehensive Income	**612,890**	**807,069**
Accumulated Deficit - Beginning	**(123,812,361)**	**(124,619,430)**
Accumulated Deficit - Ending	**$ (123,199,471)**	**$ (123,812,361)**

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

Statements of Cash Flows

FSLIC Resolution Fund

Federal Deposit Insurance Corporation

FSLIC Resolution Fund Statements of Cash Flows for the Years Ended December 31

Dollars in Thousands

	2001	2000
Cash Flows From Operating Activities		
Cash provided by:		
Interest on U.S. Treasury obligations	$ 99,488	$ 145,063
Interest on securitization-related assets acquired from receiverships	36,148	89,417
Recoveries from thrift resolutions	476,678	1,392,486
Miscellaneous receipts	53,351	87,530
Cash used by:		
Operating expenses	(83,342)	(78,978)
Disbursements for thrift resolutions	(27,315)	(121,176)
Disbursements for goodwill settlements and litigation expenses	(60,380)	(94,159)
Miscellaneous disbursements	(9,279)	(38,198)
Net Cash Provided by Operating Activities (Note 15)	**485,349**	**1,381,985**
Cash Flows From Investing Activities		
Cash provided by:		
Investment in securitization-related assets acquired from receiverships	902,402	1,027,943
Net Cash Provided by Investing Activities	**902,402**	**1,027,943**
Cash Flows From Financing Activities		
Cash provided by:		
U.S. Treasury payments for goodwill settlements	0	25
Cash used for:		
Return of U.S. Treasury payments (Note 10)	(5,300)	(394,593)
Payments to Resolution Funding Corporation (Note 10)	(1,406,596)	(1,448,957)
Net Cash Used by Financing Activities	**(1,411,896)**	**(1,843,525)**
Net (Decrease)/Increase in Cash and Cash Equivalents	**(24,145)**	**566,403**
Cash and Cash Equivalents - Beginning	**3,514,541**	**2,948,138**
Cash and Cash Equivalents - Ending	**$ 3,490,396**	**$ 3,514,541**

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

Notes to Financial Statements

Notes to the Financial Statements
FSLIC Resolution Fund
December 31, 2001 and 2000

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 Resolution Trust Corporation (RTC)-effective on August 9, 1989. The FRF is responsible for winding up the affairs of the former FSLIC.

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

The FIRREA also created the RTC 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. The FIRREA established the Resolution Funding Corporation (REFCORP) to provide part of the initial funds used by the RTC for thrift resolutions. Additionally, funds were appropriated for RTC resolutions pursuant to FIRREA; the RTC Funding Act of 1991; the RTC Refinancing, Restructuring and Improvement Act of 1991; and the RTC Completion Act of 1993.

The 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 (RTC Completion 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. Today, the FRF consists of two distinct pools of assets and liabilities: one composed of the assets and liabilities of the FSLIC transferred to the FRF upon the dissolution of the FSLIC on August 9, 1989 (FRF-FSLIC), and the other composed of the RTC assets and liabilities transferred to the FRF on January 1, 1996 (FRF-RTC). The assets of one pool are not available to satisfy obligations of the other.

The RTC Completion Act also made available approximately $18 billion worth of additional funding to the RTC, of which the RTC actually drew down $4.6 billion. The RTC Completion Act requires the FDIC to return to the U.S. Treasury any funds that were transferred to the RTC pursuant to the RTC Completion Act but not needed by the RTC. This appropriation was fully repaid in 2000.

The FDIC must transfer to the REFCORP the net proceeds from the FRF's sale of RTC assets, after providing for all outstanding RTC liabilities. 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 U.S. Treasury, which would otherwise be obligated to pay the interest on the bonds. During 2001, the FRF-RTC transferred $1.4 billion to the REFCORP.

FSLIC Resolution Fund

Operations of the FRF
The FRF will continue operations until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Any funds remaining in the FRF-FSLIC will be paid to the U.S. Treasury. Any remaining funds of the FRF-RTC will be distributed to the REFCORP to pay the interest on the REFCORP bonds.

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) amounts received from the issuance of capital certificates to REFCORP; 4) funds received from the management and disposition of assets of the FRF; 5) the FRF's portion of liquidating dividends paid by FRF receiverships; and 6) interest earned on Special U.S. Treasury Certificates purchased with proceeds of 4) and 5). 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 appropriated by Congress, to carry out the objectives of the FRF.

Public Law 103-327 provided $827 million in funding to be available until expended to facilitate efforts to wind up the resolution activity of the FRF-FSLIC. The FRF received $165 million under this appropriation on November 2, 1995. In addition, Public Law 104-208 and Public Law 105-61 authorized the use by the U.S. Department of Justice (DOJ) of $26.1 million and $33.7 million, respectively, from the original $827 million in funding, thus reducing the amount available to be expended to $602.2 million. The funding made available to DOJ covers the reimbursement of reasonable expenses of litigation incurred in the defense of claims against the United States arising from the goodwill litigation cases.

Additional goodwill litigation expenses incurred by DOJ are paid directly from the FRF-FSLIC based on a Memorandum of Understanding (MOU) dated October 2, 1998, between the FDIC and DOJ. Under the terms of the MOU, the FRF-FSLIC paid $66.8 million and $96.9 million to DOJ for fiscal years 2002 and 2001, respectively. DOJ returns any unused fiscal year funding to the FRF unless special circumstances warrant these funds be carried over and applied against current fiscal year charges. At September 30, 2001, DOJ had $39.6 million in unused FY 2001 funds that were applied against FY 2002 charges of $106.4 million. Separate funding for goodwill judgments and settlements is available through Public Law 106-113 (see Note 7).

Receivership Operations
The FDIC is responsible for managing and disposing of the assets of failed institutions in an orderly and efficient manner. The assets held by receivership entities, and the claims against them, are accounted for separately from FRF assets and liabilities to ensure that receivership 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. Expenses paid by the FRF on behalf of the receiverships are recovered from those receiverships.

FSLIC Resolution Fund

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 thrift institutions for which the FDIC acts as receiver. Periodic and final accountability reports of the FDIC's activities as receiver are furnished to courts, supervisory authorities, and others as required.

Use of Estimates
FDIC management makes 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 Equivalents
Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consist of Special U.S. Treasury Certificates.

Investment in Securitization-Related Assets Acquired From Receiverships
The investment in securitization-related assets acquired from receiverships is classified as available-for-sale and is shown at fair value with unrealized gains and losses included in Resolution Equity. Realized gains and losses are included in the Statements of Income and Accumulated Deficit as components of Net Income.

Allowance for Losses on Receivables From Thrift Resolutions
The FRF records a receivable for 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 estimates of discounted cash recoveries from the assets of assisted or failed thrift institutions, net of all applicable estimated liquidation costs. Estimated cash recoveries also include dividends and gains on sales from equity instruments acquired in resolution transactions.

Cost Allocations Among Funds
Operating expenses not directly charged to the funds are allocated to all funds administered by the FDIC using workload-based-allocation percentages. These percentages are developed during the annual corporate planning process and through supplemental functional analyses.

Disclosure About Recent Accounting Pronouncements

Recent accounting pronouncements were evaluated and deemed to be not applicable to the financial statements as presented.

Related Parties
Limited Partnership Equity Interests. Former RTC receiverships were holders of limited partnership equity interests as a result of various RTC sales programs that included the National Land Fund; Multiple Investor Fund; N-Series; S-Series; and Judgements, Deficiencies, and Charge-offs programs. The majority of the limited partnership equity interests have been transferred from the receiverships to the FRF. These assets are included in the "Other assets, net" line item in the FRF's Statements of Financial Position.

The nature of related parties and a description of related party transactions are discussed in Note 1 and disclosed throughout the financial statements and footnotes.

Reclassifications
Reclassifications have been made in the 2000 financial statements to conform to the presentation used in 2001.

3. Receivables From Thrift Resolutions, Net

The thrift resolution process took different forms depending on the unique facts and circumstances surrounding each failing or failed institution. Payments for institutions that failed were made to cover obligations to insured depositors and represent claims by the FRF against the receiverships' assets. Payments to prevent a failure were made to operating institutions when cost and other criteria were met.

Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are a significant source of repayment of the FRF's receivables from thrift resolutions. As of December 31, 2001 and 2000, FRF receiverships held assets with a book value of $448 million and $712 million, respectively (including cash and miscellaneous receivables of $264 million and $493 million at December 31, 2001 and 2000, respectively). For the year ending December 2000, the estimated cash recoveries from the management and disposition of these assets that are used to derive the allowance for losses are based in part on a statistical sampling of receivership assets. Due to the significant reduction of the receivership asset portfolio, non-statistical sampling was used to estimate cash recoveries for the year ending December 2001. This non-statistical sample, based primarily on asset book values, provided 94% coverage of the entire portfolio's book value. These estimated recoveries are regularly evaluated, but remain subject to uncertainties because of potential changes in economic conditions. Such uncertainties could cause the FRF's and other claimants' actual recoveries to vary from the level currently estimated.

Receivables From Thrift Resolutions, Net at December 31

Dollars in Thousands

	2001	2000
Assets from open thrift assistance	$ 384,885	$ 384,882
Allowance for losses	(374,885)	(371,557)
Net Assets From Open Thrift Assistance	**10,000**	**13,325**
Receivables from closed thrifts	32,534,350	37,883,574
Allowance for losses	(32,257,895)	(37,480,523)
Net Receivables From Closed Thrifts	**276,455**	**403,051**
Total	**$ 286,455**	**$ 416,376**

4. Investment in Securitization-Related Assets Acquired From Receiverships

In order to maximize the return from the sale or disposition of assets, the RTC engaged in numerous securitization transactions. The RTC sold $42.4 billion of receivership, conservatorship, and corporate loans to various trusts that issued regular pass-through certificates through its mortgage-backed securities program.

A portion of the proceeds from the sale of the certificates was placed in credit enhancement reserves (escrow accounts) to cover future credit losses with respect to the loans underlying the certificates. In addition, the escrow accounts were established to increase the likelihood of full and timely distributions of interest and principal to the certificate holders and thus increase the marketability of the certificates. The FRF's exposure from credit losses on loans sold through the program is limited to the balance of the escrow accounts. The FRF is entitled to any proceeds remaining in the escrow accounts at termination of the securitization transactions. The FRF also receives periodic returns of portions of the escrow account balances during the life of the transactions, if the trustee deems the funds held to be excessive. In certain Pooling and Servicing Agreements (PSA), there is a clause stipulating that losses experienced by the escrow accounts over the life of the transactions would be reimbursed from proceeds expected from the residual certificates. At the end of 2001, seven deals were structured with PSA clauses stipulating reimbursement from the proceeds of the residual certificates.

As part of the securitization transactions, the receiverships received a participation in the residual pass-through certificates (residual certificates) issued through its mortgage-backed securities program. The residual certificates entitle the holder to any cash flow from the sale of collateral remaining in the trust after the regular pass-through certificates and actual termination expenses are paid.

In 1996 and 1998, the escrow accounts and residual certificates were transferred from the receiverships to the FRF for $5.7 billion and $1.4 billion, respectively. Both transfers were offset by amounts owed by the receiverships to the FRF.

The FRF received $851 million in proceeds from terminations during 2001 and $413 million during 2000. Realized gains and losses are recorded based upon the difference between the proceeds at termination of the deal and the book value of the investment. Realized gains and losses are calculated on both the escrow account and the related residual certificate. Additionally, realized losses are recognized on the credit enhancement reserve for a decline in fair value that is judged to be an other-than-temporary impairment. Unrealized gains and losses are computed on a quarterly basis using a cash flow model that calculates the estimated fair value of the assets at termination. This model is updated with current data supplied by the trustees, which includes prepayment speed, delinquency rates, and market pricing. Additionally, the FRF earned interest income on the credit enhancement reserve of $32.8 million during 2001 and $85.5 million during 2000.

FSLIC Resolution Fund

Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2001 Dollars in Thousands	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 553,673	$ 153,567	$ (20,686)	$ 686,554
Residual certificates	227,082	173,466	0	400,548
Total	**$ 780,755**	**$ 327,033**	**$ (20,686)**	**$ 1,087,102**

Investment in Securitization-Related Assets Acquired From Receiverships at December 31, 2000 Dollars in Thousands	Cost	Unrealized Holding Gains	Unrealized Holding Losses	Fair Value
Credit enhancement reserve	$ 799,518	$ 248,731	$ (43,645)	$ 1,004,604
Residual certificates	556,507	252,419	(2,088)	806,838
Total	**$ 1,356,025**	**$ 501,150**	**$ (45,733)**	**$ 1,811,442**

5. Other Assets, Net

Other Assets, Net at December 31 Dollars in Thousands	2001	2000
Accounts receivable, net	$ 1,555	$ 4,815
Due from FDIC funds	500	309
Assets acquired by the Corporation, net	21,784	34,616
Limited partnership equity interests	5,858	11,001
Total	**$ 29,697**	**$ 50,741**

6. Liabilities From Thrift Resolutions

In 2001, liabilities from thrift resolutions decreased by $75 million primarily as a result of settling a litigation matter in connection with a 1988 FSLIC assistance agreement. Under the terms of the settlement and termination agreement, which was entered into on October 12, 2001, the FRF received a net cash payment of $41.5 million that represented the difference between the settlement amount less amounts owed to, or otherwise withheld from, the acquiring institution.

7. Contingent Liabilities for:

Litigation Losses

The FRF records an estimated loss for unresolved legal cases to the extent those losses are considered probable and reasonably estimable. In addition to the amount recorded as probable, the FDIC has determined that losses from unresolved legal cases totaling $13 million are reasonably possible.

FSLIC Resolution Fund

Additional Contingency
In *United States v. Winstar Corp.*, 518 U.S. 839 (1996), the Supreme Court held that when it became impossible following the enactment of FIRREA in 1989 for the Federal Home Loan Bank Board to perform certain agreements to count goodwill toward regulatory capital, the plaintiffs were entitled to recover damages from the United States. To date, approximately 120 lawsuits have been filed against the United States based on alleged breaches of these agreements (Goodwill Litigation).

On July 23, 1998, the U.S. Treasury determined, based on an opinion of the DOJ's Office of Legal Counsel (OLC) dated July 22, 1998, that the FRF is legally available to satisfy all judgments and settlements in the Goodwill Litigation involving supervisory action or assistance agreements. The U.S. Treasury further determined that the FRF is the appropriate source of funds for payments of any such judgments and settlements.

The OLC opinion concluded that the nonperformance of these agreements was a contingent liability that was transferred to the FRF on August 9, 1989, upon the dissolution of the FSLIC. Under the analysis set forth in the OLC opinion, as liabilities transferred on August 9, 1989, these contingent liabilities for future nonperformance of prior agreements with respect to supervisory goodwill were transferred to the FRF-FSLIC, which is that portion of the FRF encompassing the obligations of the former FSLIC. The FRF-RTC, which encompasses the obligations of the former RTC and was created upon the termination of the RTC on December 31, 1995, is not available to pay any settlements or judgments arising out of the Goodwill Litigation.

The lawsuits comprising the Goodwill Litigation are against the United States and as such are defended by the DOJ. On January 25, 2002, the DOJ again informed the FDIC that it is "unable at this time to provide a reasonable estimate of the aggregate loss to the FRF from the Winstar-related cases." This uncertainty arises, in part, from the existence of significant unresolved issues pending at the appellate or trial court level, as well as the unique circumstances of each case.

The FDIC believes that it is probable that additional amounts, possibly substantial, may be paid from the FRF-FSLIC as a result of judgments and settlements in the Goodwill Litigation. However, based on the response from the DOJ, the FDIC is unable to estimate a range of loss to the FRF-FSLIC from the Goodwill Litigation, or determine whether any such loss would have a material effect on the financial condition of the FRF-FSLIC.

Section 110 of the Department of Justice Appropriations Act, 2000 (Public Law 106-113, Appendix A, Title I, 113 Stat. 1501A-3, 1501A-20) provides to the FRF-FSLIC such sums as may be necessary for the payment of judgments and compromise settlements in the Goodwill Litigation, to remain available until expended. Because an appropriation is available to pay such judgments and settlements, any liabilities for the Goodwill Litigation should have no material impact on the financial condition of the FRF-FSLIC.

Paralleling the goodwill cases are eight similar cases alleging that the government breached agreements regarding tax benefits associated with certain FSLIC-assisted acquisitions. These agreements contained the promise of tax deductions for losses incurred on the sale of certain thrift assets purchased by plaintiffs, from the FSLIC, even though the FSLIC provided them with tax-exempt reimbursement. A provision in the Omnibus Budget Reconciliation Act of 1993 (popularly referred to as the "Guarini legislation") eliminated the tax deductions for these losses.

To date, there have been liability determinations in three of the "Guarini cases". Decisions on liability have not yet been made in the other five.

The FDIC believes that it is possible that substantial amounts may be paid from the FRF-FSLIC as a result of the judgments and settlements from the "Guarini litigation". However, because of the uncertainty surrounding the method of computing damages, the amount of the damages is not estimable at this time.

Representations and Warranties
As part of the RTC's efforts to maximize the return from the sale of assets from thrift resolutions, representations and warranties, and guarantees were offered on loan sales. The total amount of the loans sold subject to representations and warranties, and guarantees were $176.3 billion as of December 31, 2001. The estimated losses for the contingent liability from all outstanding claims asserted in connection with representations and warranties were $ 2.3 million and $ 1.6 million for 2001 and 2000, respectively.

In addition, future losses on representations and warranties, and guarantees could be incurred over the remaining life of the loans sold, which is generally 23 years. Consequently, the FDIC believes it is possible that additional losses may be incurred by the FRF from the universe of outstanding contracts with unasserted representation and warranty claims. However, because of the uncertainties surrounding the timing of when claims may be asserted, the FDIC is unable to reasonably estimate a range of loss to the FRF from outstanding contracts with unasserted representation and warranty claims.

8. Interest on Advances and Subrogated Claims

During 2001, the FRF received $108.4 million in cash from RTC receiverships for interest on claims owed RTC arising out of thrift failures, of which $90 million was recognized as accrued interest at year end 2000. Accrual of interest on the Corporate claim is recognized when the receiverships' ability to pay is probable. At year end 2001, no accrual of interest on the corporate claim was recognized.

9. Provision for Losses

The provision for losses was a negative $369 million and a negative $439 million for 2001 and 2000, respectively. In 2001, the negative provision was primarily due to: 1) recoveries of $163 million of net tax benefits sharing from assistance agreements and 2) recoveries of $120 million from receiverships with positive equity where the FRF-FSLIC is entitled to the positive value of the receivership to reduce the overall cost of resolving the institutions. The negative provision in 2000 resulted primarily from: 1) the elimination of the reserve for the estimated future costs associated with liquidating the assets of failed thrifts of $223.5 million and 2) cash recoveries from assistance agreements of $86 million for net tax benefits sharing collections and $36 million for the redemption of stock warrants.

FSLIC Resolution Fund

Provision for Losses for the Years Ended December 31		
Dollars in Thousands		
	2001	**2000**
Valuation Adjustments:		
Open thrift assistance	$ (23,652)	$ (38,049)
Tax benefits sharing recoveries	(163,111)	(86,001)
Closed thrifts	(93,710)	(14,585)
Estimated cost associated with liquidating assets	0	(223,500)
Miscellaneous receivables	(88,758)	(70,893)
Total Valuation Adjustments	**(369,231)**	**(433,028)**
Contingent Liabilities Adjustments:		
Litigation losses	(2,015)	(7,139)
Representations and warranties	2,259	1,525
Total Contingent Liabilities Adjustments	**244**	**(5,614)**
Total	**$ (368,987)**	**$ (438,642)**

10. Resolution Equity

As stated in the Legislative History section of Note 1, the FRF is comprised of two distinct pools: the FRF-FSLIC and the FRF-RTC. The FRF-FSLIC consists of the assets and liabilities of the former FSLIC. The FRF-RTC consists of the assets and liabilities of the former RTC. Pursuant to legal restrictions, the two pools are maintained separately and the assets of one pool are not available to satisfy obligations of the other.

The following table shows the contributed capital, accumulated deficit, and resulting resolution equity for each pool.

FSLIC Resolution Fund

Resolution Equity at December 31, 2001

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,157,025	$ 85,327,901	$ 129,484,926
Less: U.S. Treasury repayments	0	(5,300)	(5,300)
Less: REFCORP payments	0	(1,406,596)	(1,406,596)
Contributed capital - ending	**44,157,025**	**83,916,005**	**128,073,030**
Accumulated deficit	(41,372,610)	(82,133,208)	(123,505,818)
Less: Unrealized gain on available-for-sale securities	0	306,347	306,347
Accumulated deficit, net	**(41,372,610)**	**(81,826,861)**	**(123,199,471)**
Total	**$ 2,784,415**	**$ 2,089,144**	**$ 4,873,559**

Resolution Equity at December 31, 2000

Dollars in Thousands

	FRF-FSLIC	FRF-RTC	FRF Consolidated
Contributed capital - beginning	$ 44,157,000	$ 87,171,499	$ 131,328,499
Miscellaneous payments/adjustments	25	(48)	(23)
Less: U.S. Treasury repayments	0	(394,593)	(394,593)
Less: REFCORP payments	0	(1,448,957)	(1,448,957)
Contributed capital - ending	**44,157,025**	**85,327,901**	**129,484,926**
Accumulated deficit	(41,738,151)	(82,529,627)	(124,267,778)
Less: Unrealized gain on available-for-sale securities	0	455,417	455,417
Accumulated deficit, net	**(41,738,151)**	**(82,074,210)**	**(123,812,361)**
Total	**$ 2,418,874**	**$ 3,253,691**	**$ 5,672,565**

Contributed Capital

To date, the FRF-FSLIC and the former RTC received $43.5 billion and $60.1 billion from the U.S. Treasury, respectively. These payments were used to fund losses from thrift resolutions prior to July 1, 1995. Additionally, the FRF-FSLIC issued $670 million in capital certificates to the FICO and the RTC issued $31.3 billion of these instruments to the REFCORP. FIRREA prohibited the payment of dividends on any of these capital certificates. Through December 31, 2001, as described in Note 1, the FRF-RTC has returned $4.556 billion to the U.S. Treasury and made payments of $2.856 billion to the REFCORP. These actions serve to reduce contributed capital.

Accumulated Deficit

The accumulated deficit represents the cumulative excess of expenses over revenue for activity related to the FRF-FSLIC and the FRF-RTC. Approximately $29.7 billion and $87.9 billion were brought forward from the former FSLIC and the former RTC on August 9, 1989, and January 1, 1996, respectively. The FRF-FSLIC accumulated deficit has increased by $11.6 billion, whereas the FRF-RTC accumulated deficit has decreased by $6.1 billion, since their dissolution dates.

11. Employee Benefits

Pension Benefits and Savings Plans

Eligible FDIC employees (permanent and term employees with appointments exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees 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.

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 on and accounted for by the U.S. Office of Personnel Management.

Eligible FDIC employees also may participate in a FDIC-sponsored tax-deferred 401(k) savings plan with matching contributions. The FRF pays its share of the employer's portion of all related costs.

Pension Benefits and Savings Plans Expenses for the Years Ended December 31

Dollars in Thousands

	2001	2000
Civil Service Retirement System	$ 1,055	$ 1,152
Federal Employees Retirement System (Basic Benefit)	2,966	3,708
FDIC Savings Plan	1,748	2,186
Federal Thrift Savings Plan	1,131	1,408
Total	**$ 6,900**	**$ 8,454**

Accrued Annual Leave

The FRF's pro rata share of the Corporation's liability to employees for accrued annual leave is approximately $4.1 million and $5.2 million at December 31, 2001 and 2000, respectively.

Postretirement Benefits Other Than Pensions

The FDIC provides certain dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Retirees eligible for 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 life insurance program provides basic coverage at no cost to retirees and allows converting optional coverages to direct-pay plans. Dental coverage is provided to all retirees eligible for an immediate annuity and at no cost to retirees. At December 31, 2001 and 2000, the FRF's prepaid postretirement benefit cost recognized in the "Other assets, net" line item in the Statements of Financial Position was $232 thousand and $347 thousand, respectively.

12. Commitments

Leases

The FRF's allocated share of the FDIC's lease commitments totals $10.9 million for future years. The lease agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The allocation to the FRF of the FDIC's future lease commitments is based upon current relationships of the workloads among the FRF, the BIF, and the SAIF. Changes in the relative workloads could cause the amounts allocated to the FRF in the future to vary from the amounts shown below. The FRF recognized leased space expense of $5.5 million and $5.0 million for the years ended December 31, 2001 and 2000, respectively.

Lease Commitments

Dollars in Thousands

2002	2003	2004	2005	2006	2007/Thereafter
$3,199	$2,308	$1,503	$1,236	$1,304	$1,309

13. Concentration of Credit Risk

Financial instruments that potentially subject the FRF to credit risk consist primarily of: 1) gross receivables from thrift resolutions totaling $32.9 billion and 2) an investment in securitization-related assets acquired from receiverships totaling $1.1 billion. The receivables from thrift resolutions include payments made to cover obligations to insured depositors, advances to receiverships to provide working capital, and receivables for expenses paid by the FRF on behalf of receiverships. Assets held by the FDIC in its receivership capacity for the former FSLIC and SAIF-insured institutions are the main source of repayment of the FRF's receivables from thrift resolutions. An allowance for loss of $32.6 billion, or 99% of the gross receivable, was recorded as of December 31, 2001. Of the remaining one percent of the gross receivable, the amount of credit risk is limited since 85% of the receivership assets consist of cash, cash equivalents, and marketable securities.

The value of the investment in securitization-related assets is influenced by the economy of the area relating to the underlying loans. Of this investment, $554.6 million of the underlying mortgages are located in California and $104.4 million of loans are located in Florida. No other state accounted for a material portion of the investment.

14. 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 and accounts payable and other liabilities approximates their fair market value, due to their short maturities and/or comparability with current interest rates.

FSLIC Resolution Fund

The net receivables from thrift resolutions primarily include the FRF's subrogated claim arising from payments to insured depositors. The receivership assets that will ultimately be used to pay the corporate subrogated claim are valued using discount rates that include consideration of market risk. These discounts ultimately affect the FRF's allowance for loss against the net receivables 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 (see Note 3), 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 does 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.

The investment in securitization-related assets acquired from receiverships is adjusted to fair value at each reporting date using a valuation model that estimates the present value of estimated expected future cash flows discounted for the various risks involved, including both market and credit risks, as well as other attributes of the underlying assets (see Note 4).

15. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of Net Income to Net Cash Provided by Operating Activities for the Years Ended December 31

Dollars in Thousands

	2001	2000
Net Income	**$ 761,960**	**$ 731,822**
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Income Statement Items:		
Prior year appropriation adjustments	0	(48)
Change in Assets and Liabilities:		
Decrease in receivables from thrift resolutions	129,921	920,379
(Increase) in securitization-related assets acquired from receiverships	(327,132)	(38,895)
Decrease in other assets	21,044	20,414
(Decrease) in accounts payable and other liabilities	(26,301)	(28,156)
(Decrease) in liabilities from thrift resolutions	(74,872)	(221,945)
Increase in contingent liabilities for litigation losses	729	(1,247)
(Decrease) in contingent liabilities for assistance agreements	0	(339)
Net Cash Provided by Operating Activities	**$ 485,349**	**$ 1,381,985**

Comments from the Federal Deposit Insurance Corporation

FDIC
Federal Deposit Insurance Corporation
550 17th St. NW Washington DC, 20429

Office of the Chief Financial Officer

May 2, 2002

Mr. David M. Walker
Comptroller General of the United States
U. S. General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Re: FDIC Management Response on the GAO 2001 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U. S. General Accounting Office's (GAO) draft audit report titled, Financial Audit: Federal Deposit Insurance Corporation's 2001 and 2000 Financial Statements, GAO-02-633. The report presents GAO's opinions on the calendar year 2001 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF). The report also presents GAO's opinion on the effectiveness of FDIC's internal control as of December 31, 2001 and GAO's evaluation of FDIC's compliance with laws and regulations.

We are pleased to accept GAO's unqualified opinions on the BIF, SAIF, and FRF financial statements and to note that there were no material weaknesses identified during the 2001 audits. The GAO reported that the funds' financial statements were presented fairly in conformity with U. S. generally accepted accounting principles; FDIC had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and there were no instances of noncompliance with selected provisions of laws and regulations.

GAO identified the need to improve internal control over FDIC's information systems (IS) and issued a reportable condition. Although GAO identified a weakness in FDIC's IS control, the weakness did not materially affect the 2001 financial statements. We believe that FDIC has made significant progress in its commitment to addressing IS general control weaknesses. The FDIC implemented numerous components of its information security strategic plan and updated the plan to reflect the current security environment. The FDIC completed security plans, independent security reviews, and management authorizations for major applications and general support systems, and all FDIC employees and contractors who access FDIC systems completed security awareness training. The FDIC will continue efforts to strengthen its IS program and to incorporate GAO's recommendations into its security plans for 2002.

If you have any questions or concerns, please let me know.

Sincerely,

Chris Sale

Chris K. Sale
Chief Financial Officer

GAO Contacts and Staff Acknowledgements

GAO Contacts

Jeanette M. Franzel (202) 512-9406
Lynda E. Downing (202) 512-9168

Acknowledgements

In addition to those named above, the following staff made key contributions to this report: Gary P. Chupka, Dennis L. Clarke, John C. Craig, Bronwyn E. Hughes, and Timothy J. Murray.

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