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Highlights

Highlights of GAO-11-412, a report to congressional committees

Why GAO Did This Study

Created in 1933 to insure bank deposits and promote sound banking practices, the Federal Deposit Insurance Corporation (FDIC) plays an important role in maintaining public confidence in the nation's financial system. FDIC administers the Deposit Insurance Fund (DIF), which protects bank and savings deposits, and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF), which was created to close out the business of the former FSLIC.

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

What GAO Recommends

GAO is not making recommendations in this report, but will be reporting separately on matters identified during its audit, along with recommendations for strengthening the corporation's internal controls. In commenting on a draft of this report, FDIC discussed its efforts to resolve the previously reported material weakness and significant deficiency, and emphasized its dedication to sound financial management.

View GAO-11-412 or key components.
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March 2011

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2010 and 2009 Financial Statements

What GAO Found

In GAO's opinion, FDIC fairly presented, in all material respects, the 2010 and 2009 financial statements for the two funds it administers—DIF and FRF. Also, in GAO's opinion, FDIC had effective internal control over financial reporting. Further, GAO did not find any reportable instances of noncompliance with provisions of the laws and regulations it tested.

The slowly recovering economy continued to challenge the soundness of many DIF-insured institutions. In 2010, 157 banks with combined assets of approximately $93 billion failed, costing the DIF an estimated $24 billion. FDIC identified additional risk that could result in up to $25 billion in further estimated losses to the DIF should potentially vulnerable insured institutions fail. FDIC continues to evaluate the risks to affected institutions and the effect of such risks on the DIF. Actual losses, if any, will largely depend on future economic conditions and could differ materially from FDIC's estimates. From January 1 through March 14, 2011, 25 institutions failed.

As of December 31, 2010, the DIF had a negative fund balance of $7.4 billion, and it had a negative 0.12 percent ratio of reserves to estimated insured deposits. In contrast, at December 31, 2009, the DIF had a negative fund balance of $20.9 billion, and its ratio of reserves to estimated insured deposits was a negative 0.39 percent. The improvement in 2010 was primarily attributable to lower losses from 2010 bank failures than projected at December 31, 2009, and lower estimates of losses from anticipated failures at December 31, 2010. During 2010, FDIC continued the use of loss-share agreements with acquirers of failed institutions as a mean of both conserving the initial cash outlay and as a longer-term means of attempting to further minimize losses to the DIF. In addition to the DIF's existing resources, which include advanced assessments FDIC charged the industry in 2009, FDIC can borrow up to $100 billion each from the U.S. Treasury and the Federal Financing Bank, subject to statutory limits.

The Dodd-Frank Act, enacted in July 2010, contains significant provisions related to assessments and capitalization of the DIF. Such provisions include redefining the assessment base; increasing the statutory minimum designated reserve ratio from 1.15 percent to not less than 1.35 percent; increasing the standard deposit insurance coverage from $100,000 to $250,000 and extending unlimited deposit insurance coverage for noninterest-bearing transaction accounts to the end of 2012; and authorizing FDIC to undertake enforcement actions against depository institution holding companies if their conduct or threatened conduct poses a risk of loss to the DIF.

During 2010, FDIC took corrective actions that effectively resolved a material weakness in its internal control related to estimating losses on loss-share agreements and a significant deficiency in internal control related to security over its information systems, both of which GAO reported in its audit of the FDIC funds' 2009 financial statements. Nonetheless, GAO identified areas in which FDIC's internal controls could be further improved and will be reporting separately to FDIC management on these matters.