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Report to Congressional Committees

September 1993

DEPOSIT INSURANCE FUNDS

Compliance With Obligation and Repayment Requirements as of 9/30/92 and 12/31/92

150006

GAO

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

Accounting and Information
Management Division

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September 30, 1993

The Honorable Donald W. Riegle, Jr.
Chairman
The Honorable Alfonse M. D'Amato
Ranking Minority Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Henry B. Gonzalez
Chairman
The Honorable Jim Leach
Ranking Minority Member
Committee on Banking, Finance
and Urban Affairs
House of Representatives

This is the third of our required reports on the Federal Deposit Insurance Corporation's (FDIC) quarterly compliance with the maximum obligation limitation established by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). This obligation limitation applies separately to both the Bank Insurance Fund (BIF), insurer of commercial bank deposits, and the Savings Association Insurance Fund (SAIF), insurer of thrift deposits, and is designed to provide assurance that each fund's assets and other funding sources are sufficient to fund its obligations. FDIC administers both insurance funds.

FDICIA also requires us to report on BIF's and SAIF's ability to repay amounts borrowed from the Department of the Treasury for insurance losses and to analyze data related to the sale of assets of failed institutions. As agreed upon with your respective offices, the latter requirement was modified to include an assessment of whether BIF's total collections from the management and disposition of assets acquired from failed institutions would be sufficient to repay its existing working capital borrowings.

Results in Brief

FDIC's maximum obligation limitation calculations show that as of September 30, 1992, and December 31, 1992, (1) BIF's assets and other funding sources exceeded its obligations by $40 billion and $37 billion, respectively, and (2) SAIF's assets and other funding sources exceeded its obligations by $245 million and $280 million, respectively. Based on our review of FDIC's calculations and explanatory notes for both BIF and SAIF, nothing came to our attention that would lead us to question the reasonableness of the amounts reported as of September 30, 1992, and December 31, 1992. For the third and fourth quarters of calendar year 1992, FDIC allocated the entire amount of Treasury borrowing authority to BIF based on BIF's projected funding needs when funding legislation was first proposed.

As of December 31, 1992, neither BIF nor SAIF had borrowed funds for insurance losses from the U.S. Treasury. However, the need for future borrowings for insurance losses, and each fund's ability to repay any such borrowings, depends on the impact of future economic conditions on financial institution failures, the cost of these failures to the insurance funds, future assessment revenues, and other funding alternatives.

As of December 31, 1992, FDIC had borrowed approximately $10.2 billion from the Federal Financing Bank (FFB) for BIF's working capital needs. These working capital borrowings are to be repaid primarily with proceeds from the management and disposition of failed bank assets. FDIC estimated that net future collections from BIF's December 31, 1992, inventory of failed bank assets would be about $14.4 billion. On August 6, 1993, FDIC repaid the outstanding FFB balance of BIF's working capital borrowings.

Background

Section 15(c) of the Federal Deposit Insurance (FDI) Act, as amended by FDICIA, requires that FDIC determine the limitation on outstanding obligations for BIF and SAIF based on a maximum obligation limitation formula. In general, the formula involves comparing the assets and liabilities of each of the two insurance funds to ensure that at any particular point in time, each fund's assets are sufficient to cover its liabilities. The obligation limitation precludes FDIC's issuing or incurring obligations for BIF or SAIF if, after doing so, total outstanding obligations of each fund, considered separately, would exceed the sum of its available funding sources. The obligation formula is designed to provide assurance that the obligations of each fund are adequately supported by its assets and available funding sources and to alert the Congress to FDIC's funding needs.

FDICIA defines funding sources for each fund as (1) its cash and cash equivalents, (2) the amount equal to 90 percent of the fair market value of its assets other than cash and cash equivalents, and (3) its allocated portion of the total amount authorized to be borrowed from Treasury under section 14(a) of the FDI Act, as amended by FDICIA. Section 14(a) of the FDI Act, as amended by FDICIA, provided FDIC with $30 billion in borrowing authority with Treasury to cover insurance losses. The borrowing authority is available for both BIF and SAIF, but FDICIA does not specify how the $30 billion should be allocated between the two funds. In defining obligations, the act requires that FDIC identify all guarantees (excluding deposit guarantees), any amounts borrowed from Treasury or FFB pursuant to section 14 of the FDI Act, and any other obligations for which the funds have a direct or contingent liability.[1]

Objectives, Scope, and Methodology

The objectives of this review were to determine whether (1) BIF and SAIF have complied with the statutory maximum obligation limitation specified in FDICIA for the quarters ending September 30, 1992, and December 31, 1992, (2) BIF and SAIF have borrowed from the U.S. Treasury for insurance losses and what factors may affect the need for future borrowings, as well as BIF's and SAIF's ability to meet established repayment schedules when borrowings occur, and (3) BIF will generate sufficient proceeds from the management and disposition of failed bank assets to repay working capital borrowings. See appendix I for details on the scope and methodology of our work.

We performed our work at FDIC's headquarters offices in Washington, D.C., and Arlington, Virginia, from April through August 1993. We performed our work in accordance with generally accepted government auditing standards. However, the scope of our work was substantially less than that of a financial audit and, as such, did not include a review of FDIC's internal control structure. Also, we did not test or verify FDIC's books and records or the data contained in appendixes II and III, except for the procedures detailed in appendix I. Our review of compliance with laws and regulations was limited to BIF's and SAIF's compliance with the maximum obligation limitation established by FDICIA. While we did not obtain written comments on this report, we discussed its contents with cognizant FDIC officials and have incorporated their comments where appropriate.

[1]As agreed to by the Senate and House Banking Committees, FDIC's estimated liability for future financial institution failures or assistance transactions is excluded in determining each fund's total obligations where there is no contractual agreement between FDIC and the troubled institutions comprising the estimated liability.

FDIC Reports BIF and SAIF Complied With Their Maximum Obligation Limitations

FDIC's maximum obligation limitation calculations for BIF and SAIF show that as of September 30, 1992, and December 31, 1992, BIF's assets and other funding sources exceeded its obligations by $40 billion and $37 billion,[2] respectively, and SAIF's assets and other funding sources exceeded its obligations by $245 million and $280 million, respectively. This excess is described in the calculations as "Remaining Obligation Authority." The obligation limitation calculations and explanatory notes for BIF and SAIF are included as appendixes II and III, respectively.

Based on our review of FDIC's third and fourth quarter 1992 calculations and explanatory notes for BIF and SAIF, nothing came to our attention that would lead us to question the reasonableness of the amounts reported.

Allocation of Treasury Borrowing Authority

In our report on FDIC's compliance with FDICIA's obligation and repayment requirements as of June 30, 1992,[3] we noted that FDIC had not finalized a policy for allocating Treasury borrowing authority between BIF and SAIF. This condition persisted throughout 1992. As in the two previous quarters, FDIC allocated all $30 billion of its Treasury borrowing authority to BIF for the third and fourth quarters of 1992 based on projections of BIF's funding needs when funding legislation was first proposed. At that time, projections of bank failures and their cost to the insurance fund indicated that BIF would need about $30 billion to cover insurance losses.

While nothing in FDICIA or its legislative history indicates how the $30 billion should be allocated between the two funds, the impact of subsequent events and future uncertainties upon both insurance funds could warrant a reallocation of the $30 billion between BIF and SAIF. Although FDIC's calculation for SAIF shows that it is in compliance with FDICIA's limitation on outstanding obligations as of September 30, 1992, and December 31, 1992, SAIF's future ability to incur additional obligations is tenuous, given its impending thrift resolution responsibilities. SAIF is scheduled to take over full resolution responsibility from the Resolution

[2]BIF is able to incur additional obligations despite its deficit fund balance of $101 million at December 31, 1992, primarily because the maximum obligation limitation formula includes FDIC's allocation of the Treasury borrowing authority and excludes BIF's estimated liability for future bank failures and assistance transactions.

[3]Deposit Insurance Funds: Compliance with Obligation and Repayment Requirements as of June 30, 1992 (GAO/AFMD-93-64, May 27, 1993).

Trust Corporation (RTC) on October 1, 1993.[4] Prior to that time, SAIF may also incur resolution costs related to certain institutions.[5] Additionally, in the event RTC does not receive the funding it estimates it will need to resolve troubled thrifts identified by the Office of Thrift Supervision before RTC's authority to take control of additional thrifts expires on September 30, 1993, SAIF could face a backlog of troubled thrifts awaiting resolution on October 1, 1993. If SAIF reaches its maximum obligation limitation, it would be prohibited from incurring any additional obligations and potentially limited in its ability to fulfill its resolution responsibilities without some of the $30 billion currently allocated to BIF.

FDIC amended its statement of accounting policy for calculating the maximum obligation limitation to incorporate guidance on how to allocate Treasury borrowing authority in August 1993. Under this guidance, Treasury borrowing authority will be allocated based on funding needs identified in recapitalization schedules FDIC prepares for BIF and SAIF. FDIC prepares these schedules semiannually when it proposes the semiannual assessment rates to be charged to insured institutions. According to the guidance in the amended policy statement, any Treasury borrowing authority exceeding projected funding needs identified in the recapitalization schedules will be allocated based on the proportion of the insured deposit base of each fund to the total combined deposit base of the two funds. In addition, any alternative funding source already committed at the time the maximum obligation limitation calculation is made will be factored into the allocation process.

[4]FIRREA established the RTC to resolve thrifts whose deposits had been insured by the Federal Savings and Loan Insurance Corporation that were placed into conservatorship or receivership from January 1, 1989, through August 8, 1992. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (Public Law 102-233), enacted on December 12, 1991, extended RTC's resolution authority to thrifts placed into conservatorship or receivership through September 30, 1993. However, in accordance with the provisions of Public Law 102-233, any thrift requiring resolution after September 30, 1993, which had previously been under RTC conservatorship or receivership, may be transferred back to RTC for resolution.

[5]Section 5(d)(3) of the FDI Act, as amended by FIRREA, generally allows bank holding companies to merge their SAIF-insured subsidiaries into their BIF-insured bank subsidiaries. The resulting banks would continue to pay a portion of their premiums to SAIF based on the amount of thrift deposits acquired. Accordingly, in the event of failure or assistance, any loss would be allocated between BIF and SAIF in proportion to the institution's deposits insured by each fund. FDICIA expanded on the FIRREA amendment to allow an insured bank or thrift to acquire, merge, or assume the deposit liabilities of the other type of insured depository institution. As with the FIRREA amendment, insurance premiums and loss expenses are to be allocated between BIF and SAIF.

Several Factors Will Affect FDIC's Treasury Borrowing Needs

To date, FDIC has not borrowed funds from Treasury to cover insurance losses for either BIF or SAIF. The timing and extent to which such funding may be needed will depend on a number of factors, including (1) the effect of future economic conditions on financial institution failures and the cost of these failures to the insurance funds and (2) future revenue streams available to the funds. These factors will also affect FDIC's ability to rebuild the insurance funds' reserves to designated levels.

FDICIA prohibits Treasury borrowing unless Treasury and FDIC have an agreement which provides a repayment schedule and demonstrates that income for BIF or SAIF will be sufficient to repay principal and interest on Treasury borrowings within the period established in the repayment schedule. Separate agreements must be established for BIF and SAIF.

According to the recent cash flow projections FDIC submitted to the Office of Management and Budget (OMB), FDIC does not anticipate that BIF will need to borrow from Treasury for insurance losses through fiscal year 1998. However, FDIC anticipates that SAIF may need to borrow about $1 billion from Treasury in fiscal year 1994 and another $1.7 billion in fiscal year 1995 for estimated insurance losses. While resolution costs are anticipated to be higher than the total amount FDIC anticipates SAIF may need to borrow from Treasury, FDIC projects that assessment income of about $3.1 billion between fiscal years 1993 and 1995 will also be available to SAIF to help cover the costs associated with SAIF's resolution activity.

FDIC has cautioned that its projections of financial institution failures are subject to variables beyond its control and that the reliability of the projections declines as the time period covered by the forecast increases. For example, FDIC's cash flow projections are influenced in part by changes in economic conditions and fluctuations in interest rates. These factors can affect the timing of financial institution failures and the closure of institutions by the regulators.

FDIC also considers assessment revenues in projecting its borrowing needs. For premiums due in the semiannual period beginning on January 1, 1993, and thereafter, FDIC adopted a risk-based premium system. Under this system, banks and thrifts posing higher risks of loss to the insurance funds are charged higher premiums. The assessment rates charged to federally insured institutions range from 23 cents to 31 cents per $100 of domestic deposits. Recent FDIC estimates show the average assessments charged to BIF-insured institutions to be 24.8 cents per $100 of domestic deposits, an increase of about 8 percent over the assessment rate of 23 cents per $100 of domestic deposits in effect through calendar year 1992. FDIC's estimates show the average assessments charged to SAIF-insured institutions to be 25.3 cents per $100 of domestic deposits, an increase of about 10 percent over the assessment rate charged in 1992.

Similar Factors Could Affect Efforts to Rebuild the Insurance Funds

Resolution costs and assessment revenues are also significant factors to be considered in projecting BIF's and SAIF's future fund balances. In an effort to achieve a level of self-sufficiency, FDICIA requires FDIC to develop a recapitalization plan for BIF that specifies target ratios of reserves to insured deposits at semiannual intervals, culminating in a reserve ratio equal to the designated 1.25 percent reserve ratio in no more than 15 years.

At December 31, 1992, FDIC reported that BIF had a deficit fund balance of $101 million. The most recent FDIC projections contained in FDIC's revised BIF recapitalization schedule show that BIF will achieve the designated ratio by the year 1998, within the 15-year period stipulated in FDICIA. However, these projections are subject to significant uncertainties. Forecasting bank failures and their costs to BIF over the long term is a highly imprecise process. Additionally, assumptions about the level of bank failures, growth in industry assets and insured deposits, and BIF's assessment revenues over extended periods are subject to considerable fluctuations due to future economic conditions, further industry consolidation, and the implementation of regulatory reforms mandated by FDICIA.

Section 7(b) of the FDI Act also establishes SAIF's designated reserve ratio at 1.25 percent of estimated insured deposits and stipulates that this ratio is to be achieved within a "reasonable period of time." As of December 31, 1992, FDIC reported that SAIF had a fund balance of $279 million, making its ratio of reserves to insured deposits negligible. However, the FDI Act, as amended, also provides for Treasury payments to SAIF. To the extent that insurance assessments deposited in SAIF do not total $2 billion a year, section 11(a)(6) of the FDI Act requires Treasury to fund the difference for each fiscal year from 1993 to 2000 with funds specifically appropriated for that purpose. Assuming that such funds are appropriated, SAIF is assured of at least $16 billion in either assessment income or Treasury payments during this 8-year period. Section 11(a)(6) also requires Treasury to make annual payments out of appropriated funds as necessary to ensure that SAIF has a specified net worth, ranging from zero during fiscal year 1992 to $8.8 billion during fiscal year 2000. The cumulative amounts of the net worth payments cannot exceed $16 billion. Section 11(a)(6) authorizes funds to be appropriated to the Secretary of the Treasury for these payments. To date, however, none of these funds have been appropriated for fiscal years 1993 or 1994.

FDIC Repaid Working Capital Borrowings During 1993

FDIC has authority to borrow funds for BIF's working capital needs from FFB, but the amount of its outstanding working capital borrowings is subject to BIF's maximum obligation limitation. As of December 31, 1992, BIF had outstanding approximately $10.2 billion in FFB borrowings. On the basis of its historical collection experience, FDIC estimated that BIF's net future collections from the liquidation of its asset inventory at December 31, 1992, should equal about $14.4 billion.[6] We reviewed FDIC's calculation for estimating future collections and nothing came to our attention that caused us to question the reasonableness of FDIC's methodology.

During 1992 and through August 1993, conditions in the banking industry improved, resulting in substantially fewer bank failures than in recent years and, consequently, in lower disbursements to fund resolution activity. At the same time, BIF's funding from the liquidation of assets from its failed institution asset inventory and from its premium assessments increased. As a result, on August 6, 1993, FDIC repaid BIF's outstanding FFB borrowings.[7] Additionally, FDIC's recent cash flow projections submitted to OMB indicate that FDIC does not anticipate the need to borrow from FFB for BIF's working capital needs in the next 5 years. As noted earlier, however, the reliability of such projections declines as the time period covered by the forecast increases.

We are sending copies of this report to the Acting Chairman of the Board of Directors, Federal Deposit Insurance Corporation; the Director, Office of Management and Budget; and the Secretary of the Treasury.

[6]FDIC's analysis and estimates did not address when recoveries would occur. As discussed in our previous maximum obligation limitation reports, estimates of future recoveries derived from historical collection experience are subject to significant uncertainties.

[7]Between December 31, 1992, and August 6, 1993, FDIC repaid portions of BIF's outstanding FFB borrowings. By August 6, 1993, the outstanding balance had been reduced to $2.5 billion.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits, who may be reached on (202) 512-9406 if you or your staffs have any questions. Other major contributors are listed in appendix IV.

Donald H. Chapin
Assistant Comptroller General

Contents

Abbreviations

BIF	Bank Insurance Fund
FDI	Federal Deposit Insurance
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991
FFB	Federal Financing Bank
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FSLIC	Federal Savings and Loan Insurance Corporation
LAMIS	Liquidation Asset Management Information System
OMB	Office of Management and Budget
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund

Scope and Methodology

To determine whether BIF and SAIF complied with the statutory maximum obligation limitation specified in FDICIA for the quarters ending September 30 and December 31, 1992, we reviewed the completeness and reasonableness of the components and explanatory notes in FDIC's third and fourth quarter calendar year 1992 maximum obligation limitation reports for BIF and SAIF. For this review, we performed procedures more limited in scope than those conducted in an actual financial statement audit of the insurance funds. For example, we only reviewed the activity that occurred in the third quarter of 1992. To obtain assurance as to the reasonableness of third quarter 1992 opening balances, we relied on the results of the review procedures performed on the June 30, 1992, balances in our second quarter 1992 maximum obligation limitation reports for BIF and SAIF. For the fourth quarter 1992, we relied on the work performed in connection with our audit of BIF's and SAIF's 1992 financial statements.[1] We believe our procedures provide us with sufficient assurance to draw conclusions regarding FDIC's third and fourth quarter 1992 compliance with its maximum obligation limitation.

Our review work for the third quarter 1992 included the following:

- We compared the components of FDIC's maximum obligation limitation calculations for BIF and SAIF to the provisions of FDICIA and to each fund's September 30, 1992, Statement of Financial Position and corporate general ledger trial balance.
- We performed analytical procedures on the individual accounts that comprised each of the maximum obligation limitation calculation's line item components to identify (1) the dollar and percentage change in the account balances from June 30, 1992, to September 30, 1992, and (2) any unusual account balances.
- We developed criteria to identify accounts that required detailed review procedures. These criteria considered the account's materiality as it relates to the balance of the line item in which it is grouped, and the extent to which the account balance changed from quarter to quarter. For accounts meeting these criteria, we performed the following additional procedures: (1) obtained explanations for any large or unusual fluctuations in the account balances from appropriate FDIC officials, (2) obtained and reviewed supporting documentation for those accounts exhibiting large or unusual fluctuations for which FDIC officials did not provide sufficient explanation, (3) obtained and reviewed account reconciliations as of September 30, 1992, for specific accounts and verified

[1]Financial Audit: Federal Deposit Insurance Corporation's 1992 and 1991 Financial Statements (GAO/AIMD-93-5, June 30, 1993).

the adequacy of these reconciliations, (4) confirmed balances for specific accounts, and (5) selected a judgmental sample of transactions for certain accounts and traced these transactions to supporting documentation.

For the fourth quarter 1992, we compared the components of FDIC's maximum obligation limitation calculations for BIF and SAIF to the provisions of FDICIA and to each fund's December 31, 1992, audited Statement of Financial Position and corporate general ledger trial balance.

To determine whether BIF and SAIF had borrowed from the U.S. Treasury for insurance losses, what factors may affect the need for future borrowings, and whether BIF and SAIF will be able to meet established repayment schedules, we reviewed the status of FDIC borrowings from Treasury as of December 31, 1992. We also discussed anticipated borrowing needs with FDIC officials and reviewed FDIC's most recent projections of potential funding needs for BIF and SAIF.

To determine whether BIF will generate sufficient proceeds from the management and disposition of failed bank assets to repay working capital borrowings, we gained an understanding of FDIC's collection processes. We reviewed FDIC's estimates of future collections, which were based on FDIC's historical experience in generating funds for BIF from the management and disposition of assets acquired from failed financial institutions through December 31, 1992. As agreed upon with your respective offices, our work was limited to an analysis of FDIC's historical collection experience to determine whether FDIC can generate sufficient funds for BIF from the management and disposition of failed bank assets to repay the Fund's existing working capital borrowings; we did not audit the collection and loss information provided.

BIF Maximum Obligation Limitation Calculation and Notes as of September 30 and December 31, 1992

BANK INSURANCE FUND
MAXIMUM OBLIGATION LIMITATION
(dollars in millions)

	September 30 1992	December 31 1992
Funding Sources		
Cash and Cash Equivalents	$ 2,649	$ 3,593
Governmental Receivables	1	26
Investments in U.S. Treasury Obligations and Accrued Interest	2,151	1,730
Estimated Fair Market Value (FMV) of Other Assets:		
Other Assets @ 90%	44	38
Net Receivables from Bank Resolutions @ 90%	19,042	26,357
U.S. Treasury Borrowing Authority	30,000	30,000
Total Funding Sources	**53,887**	**61,744**
Obligations		
Accounts Payable, Accrued and Other Liabilities	152	408
Notes Payable – Federal Financing Bank (FFB) Borrowings	10,256	10,233
Notes Payable – U.S. Treasury Borrowings	0	0
Liabilities Incurred from Bank Resolutions	3,413	13,496
Estimated Liabilities for Litigation Losses	19	19
Lease Commitments	84	94
Total Obligations	**13,924**	**24,250**
Remaining Obligation Authority	**$ 39,963**	**$ 37,494**

The accompanying notes are an integral part of this Maximum Obligation Limitation Calculation

Federal Deposit Insurance Corporation
Bank Insurance Fund
Maximum Amount Limitation on Outstanding Obligations
Explanatory Notes
September 30 and December 31, 1992

A. FUNDING SOURCES

1. Cash and Cash Equivalents

Cash and cash equivalents are included as defined in Statement of Financial Accounting Standards (SFAS) No. 95. SFAS No. 95 defines cash and cash equivalents as short-term, highly liquid investments that are both (a) readily convertible to cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under this definition. This component includes $2.6 billion and $3.5 billion in Overnight Treasury Investments and $85 million and $72 million in cash, for September 30 and December 31, 1992, respectively.

2. Governmental Receivables

This component primarily represents amounts due from the Savings Association Insurance Fund (SAIF), the FSLIC Resolution Fund (FRF) and the Resolution Trust Corporation (RTC). These receivables are highly liquid and therefore presented at 100 percent.

3. Investments in U.S. Treasury Obligations and Accrued Interest

This component represents the acquisition cost of the investments, net of unamortized premiums or accreted discounts, and the accrued interest receivable on these investments. The investments and interest are treated similar to cash equivalents for purposes of the maximum obligation limitation calculation because the FDIC intends to hold these investments to maturity. Accordingly, the risk factor associated with these investments is not considered significant.

Included in this component are $2.1 billion and $1.7 billion in U.S. Treasury bills, notes and bonds (acquisition cost net of $5 million and $40 million in unamortized premiums and accreted discounts, respectively) and $60 million and $38 million of accrued interest at September 30 and December 31, 1992, respectively.

4. Estimated FMV of Other Assets (90%)

The maximum obligation limitation calculation includes the total of all non-cash assets at 90 percent of their fair market value in accordance with Section 15(c) of the Federal Deposit Insurance Act as amended by Section 102(a) of the FDIC Improvement Act of 1991. For these non-cash assets, reported amounts will be considered full fair market value. This adjustment was applied to the third and fourth quarter calculations as follows:

	September 30 1992	December 31 1992
Other Assets		
Unadjusted Balance	$49 million	$42 million
Calculated @ 90%	$44 million	$38 million
Net Receivables from Bank Resolutions		
Unadjusted Balance	$21 billion	$29 billion
Calculated @ 90%	$19 billion	$26 billion

Since the FDIC does not intend to liquidate its capitalized assets to satisfy its obligations, property and buildings were excluded from the "other assets" classification.

5. Net Receivables from Bank Resolutions (90%)

This component includes the net realizable value of: 1) subrogated claims on closed banks; 2) corporate purchases; and 3) amounts due from open bank assistance. The net realizable value accounts for estimated total losses to the FDIC for resolved cases, including expenses incurred to manage and dispose of assets. The net realizable values as of September 30 and December 31, 1992, were as follows:

	September 30 1992	December 31 1992
	----Unadjusted	Balance----
Subrogated Claims on Closed Banks	$19.2 billion	$27.2 billion
Corporate Purchases	$ 1.6 billion	$ 1.5 billion
Amounts Due from Open Bank Assistance	$ 400 million	$ 668 million
Total	$21.2 billion	$29.4 billion

An allowance for loss is established for the Fund's receivables from bank resolutions. The allowance for loss represents the difference between amounts advanced and the expected repayment, based upon the estimated cash recoveries from the assets of the assisted or failed bank, net of all estimated liquidation costs. An estimate of losses on assets likely to be returned to the FDIC's on-balance sheet serviced asset pools under put agreements is included in the allowance for losses on claims against serviced asset pools.

6. U.S. Treasury Borrowing Authority

The FDIC Improvement Act of 1991 provides the FDIC with $30 billion in Treasury borrowing authority for use by both the BIF and the SAIF. However, the Act does not specify a methodology for allocating the $30 billion between the two funds. Currently, the FDIC has allocated all $30 billion in Treasury borrowing authority to the BIF. The allocation could change in subsequent periods.

B. OBLIGATIONS

7. Accounts Payable, Accrued and Other Liabilities

This component represents the full face value of routine, current liabilities such as accounts payable and accrued liabilities.

Effective January 1, 1992, the FDIC implemented the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." This new standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. As part of adopting SFAS No. 106, the FDIC recognized in BIF's December 31, 1992, maximum obligation limitation calculation the BIF's postretirement benefit obligation. Of the $408 million in accounts payable, accrued and other liabilities at December 31, 1992, $239 million is attributable to the BIF's liability for postretirement benefits.

Unearned assessments are excluded because these liabilities are not considered obligations. Unearned assessments are advance payments, which are deferred, and subsequently recognized by the passage of time.

8. Notes Payable - FFB and U.S. Treasury Borrowings

These components represent the full face value of all FFB and U.S. Treasury borrowings and the accrued interest thereon. The FDIC has not yet borrowed funds from the U.S. Treasury. The FFB outstanding borrowings component consisted of $10.2 billion in notes issued to the FFB and $96 million and $73 million in accrued interest as of September 30 and December 31, 1992, respectively. Interest rates are based on the U.S. Treasury bill auction rate in effect during the quarter plus 12.5 basis points.

On September 30, 1992, the FDIC repaid $5 billion, leaving an outstanding FFB balance of $10.3 billion which was rolled over into a new note on October 1, 1992.

9. Liabilities Incurred from Bank Resolutions

Escrowed funds from resolution transactions ($3.2 billion and $12.9 billion) comprised the major portion of this component as of September 30 and December 31, 1992, respectively. In various resolution transactions, the BIF pays the acquirer the difference between failed bank liabilities assumed and assets purchased, plus or minus any premium or discount. The BIF considers the amount of the deduction for assets purchased by acquiring institutions to be funds held on behalf of the receivership. Accordingly, escrowed funds represents the difference in the amount that the BIF pays to an acquirer for failed bank liabilities and assets purchased, adjusted for any premium or discount.

An adjustment has been added to this component for the contingent liabilities relating to assets likely to be returned to the FDIC under put agreements related to off-balance sheet pools.

10. Estimated Liabilities for Litigation Losses

This contingent liability represents the expected cost of those pending or threatened litigations, claims or assessments where an estimated loss to the FDIC in its Corporate capacity is both probable and reasonably estimable.

11. Lease Commitments

This component, which is an off-balance sheet item, represents the non-cancelable portion of multi-year lease commitments for space in Washington, D.C., and other locations.

12. **Exclusions**

As agreed upon by the Congressional Banking Committees, total obligations exclude the FDIC's estimated liability for unresolved cases (future bank failure and/or assistance transactions) where there is no contractual agreement between the FDIC and the troubled institutions comprising the estimated liability. The estimated liability for unresolved cases as of September 30 and December 31, 1992, was $15 billion and $10.8 billion, respectively.

SAIF Maximum Obligation Limitation Calculation and Notes as of September 30 and December 31, 1992

SAVINGS ASSOCIATION INSURANCE FUND
MAXIMUM OBLIGATION LIMITATION
(dollars in millions)

	September 30 1992	December 31 1992
Funding Sources		
Cash and Cash Equivalents	$ 251	$ 248
Governmental Receivables	1	45
Estimated Fair Market Value (FMV) of Other Assets		
Entrance Fees Receivable @ 90%	0	0
Other Assets @ 90%	0	0
U.S. Treasury Borrowing Authority	0	0
Total Funding Sources	252	293
Obligations		
Accounts Payable, Accrued and Other Liabilities	3	10
Notes Payable – Federal Financing Bank (FFB) Borrowings	0	0
Notes Payable – U.S. Treasury Borrowings	0	0
Lease Commitments	4	3
Total Obligations	7	13
Remaining Obligation Authority	$ 245	$ 280

The accompanying notes are an integral part of this Maximum Obligation Limitation Calculation

Federal Deposit Insurance Corporation
Savings Association Insurance Fund
Maximum Amount Limitation on Outstanding Obligations
Explanatory Notes
September 30 and December 31, 1992

A. FUNDING SOURCES

1. Cash and Cash Equivalents

Cash and cash equivalents are included as defined in Statement of Financial Accounting Standards (SFAS) No. 95. SFAS No. 95 defines cash and cash equivalents as short-term, highly liquid investments that are both (a) readily convertible to cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under this definition. Excluded is $90 million and $93 million in Overnight Treasury Investments representing exit fees which are restricted and consequently are not funding sources as of September 30 and December 31, 1992, respectively.

2. Governmental Receivables

This component primarily represents amounts due from the FSLIC Resolution Fund (FRF), the Bank Insurance Fund (BIF) and the Resolution Trust Corporation (RTC). These receivables are highly liquid and therefore presented at 100 percent.

3. Estimated FMV of Other Assets (90%)

The maximum obligation limitation calculation includes the total of all non-cash assets at 90 percent of their fair market value in accordance with Section 15(c) of the Federal Deposit Insurance Act as amended by Section 102(a) of the FDIC Improvement Act of 1991. For these non-cash assets, reported amounts will be considered full fair market value.

4. Entrance Fees Receivable (90%)

The SAIF will receive entrance fees for conversion transactions in which an insured depository institution converts from the BIF to the SAIF. The SAIF records entrance fees as a receivable and related revenue once the BIF-to-SAIF conversion transaction is consummated.

5. U.S. Treasury Borrowing Authority

The FDIC Improvement Act of 1991 provides the FDIC with $30 billion in Treasury borrowing authority for use by both the BIF and the SAIF. However, the Act does not specify a methodology for allocating the $30 billion between the two funds. Currently, the FDIC has allocated all $30 billion in Treasury borrowing authority to the BIF. The allocation could change in subsequent periods.

B. OBLIGATIONS

6. Accounts Payable, Accrued and Other Liabilities

This component represents the full face value of routine, current liabilities such as accounts payable and accrued liabilities.

Effective January 1, 1992, the FDIC implemented the requirements of the Statement of Financial Accounting Standards (SFAS) No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." This new standard mandates the accrual method of accounting for postretirement benefits other than pensions based on actuarially determined costs to be recognized during employees' years of active service. As part of adopting SFAS No. 106, the FDIC recognized in SAIF's December 31, 1992, maximum obligation limitation calculation the SAIF's postretirement benefit obligation. Of the $10 million in accounts payable, accrued and other liabilities at December 31, 1992, $6.2 million is attributable to the SAIF's liability for postretirement benefits.

Unearned assessments are excluded because these liabilities are not considered obligations. Unearned assessments are advance payments, which are deferred, and subsequently recognized by the passage of time.

7. Notes Payable - FFB and U.S. Treasury Borrowings

These components represent the full face value of all FFB and U.S. Treasury borrowings and the accrued interest thereon. The FDIC has not yet borrowed funds from either the FFB or the U.S. Treasury on behalf of the SAIF.

8. Lease Commitments

This component, which is an off-balance sheet item, represents the non-cancelable portion of multi-year lease commitments for space in Washington, D.C., and other locations.

9. <u>Exclusions</u>

Pursuant to an FDIC-approved regulation, exit fees paid to the SAIF are to be held in a reserve account until such time as the FDIC and the U.S. Treasury determine that it is no longer necessary to reserve for the payment of interest on the obligations of the Financing Corporation. This regulation allows the exit fees to be paid over a five-year period. The SAIF recognizes a receivable and a reserve for the principal due. Since these fees are not considered to be funds for the SAIF, as their availability has been restricted by the regulation, the exit fee reserve account activity is excluded from the maximum obligation limitation calculation.

As agreed upon by the Congressional Banking Committees, total obligations exclude the FDIC's estimated liability for unresolved cases (future bank failure and/or assistance transactions) where there is no contractual agreement between the FDIC and the troubled institutions comprising the estimated liability. The estimated liability for unresolved cases as of September 30 and December 31, 1992, was $10 million and $3.7 million, respectively.

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