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Report to Congressional Committees

November 1994

DEPOSIT INSURANCE FUNDS

Compliance With Obligation and Repayment Requirements as of March 31, 1994

GAO/AIMD-95-15

GAO

United States
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Accounting and Information Management Division

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November 4, 1994

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 seventh 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 savings association 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 with your respective offices, the latter requirement was modified to include an assessment of whether total collections from the management and disposition of assets acquired from failed institutions would be sufficient to repay any existing working capital borrowings.

On September 23, 1994, the President signed into law the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103-325). The act modifies our reporting requirement under FDICIA by requiring GAO to report quarterly on FDIC's compliance with the maximum obligation limitation for BIF and SAIF only for those quarters in which BIF or SAIF have outstanding borrowings for losses or working capital pursuant to section 14 of the Federal Deposit Insurance (FDI) Act, as amended. As of September 30, 1994, FDIC had no outstanding borrowings for losses or working capital for BIF or SAIF. Accordingly, this report on FDIC's compliance with the obligation limit is our final report unless such borrowings occur.

Results in Brief

FDIC's maximum obligation limitation calculations show that as of March 31, 1994, (1) BIF's assets and other funding sources exceeded its obligations by $48 billion and (2) SAIF's assets and other funding sources exceeded its obligations by $1.6 billion.[1] 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 March 31, 1994.

As of March 31, 1994, neither BIF nor SAIF had borrowed funds for insurance losses from the U.S. Treasury. 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 the number of financial institution failures, the cost of these failures to the insurance funds, future assessment revenues, and other funding alternatives. Currently, FDIC's projections through fiscal year 1999 indicate that neither BIF nor SAIF will need to borrow funds from Treasury to cover insurance losses. Additionally, FDIC anticipates that BIF will achieve its designated ratio of reserves to insured deposits of 1.25 percent before the end of 1995 and that SAIF will achieve its designated ratio of reserves to insured deposits of 1.25 percent by 2002.

FDIC borrowed no funds from the Federal Financing Bank (FFB) for working capital needs during the quarter ending March 31, 1994. FDIC repaid the outstanding balance of BIF's previous FFB borrowings on August 6, 1993.

Background

Section 15(c) of the 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 by fund its assets and liabilities to ensure that at any point in time, each fund's assets are sufficient to cover its liabilities. The

[1]As discussed in our report, Deposit Insurance Funds: Compliance With Obligation and Repayment Requirements as of December 31, 1993 (GAO/AIMD-94-162, August 17, 1994), at December 31, 1993, BIF's and SAIF's assets and other funding sources also exceeded their obligations by $44 billion and $1.2 billion, respectively.

obligation limitation precludes FDIC from issuing or incurring obligations for BIF or SAIF if, after doing so, total 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.[2]

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 quarter ending March 31, 1994, and (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. See appendix I for the 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 August through October 1994. 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. 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

[2]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.

on this report, we discussed its contents with cognizant FDIC officials and have incorporated their comments where appropriate.

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 March 31, 1994, BIF's assets and other funding sources exceeded its obligations by $48 billion, and SAIF's assets and other funding sources exceeded its obligations by $1.6 billion. 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 first quarter 1994 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 August 1993, FDIC amended its statement of accounting policy for calculating the maximum obligation limitation to incorporate guidance on how to allocate its Treasury borrowing authority. 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.

Through March 31, 1994, FDIC allocated all $30 billion of its Treasury borrowing authority to BIF. This is in accordance with FDIC's written procedures for implementing its allocation policy statement. According to these procedures, no portion of the $30 billion in Treasury borrowing authority is allocated to SAIF unless SAIF (1) has full resolution responsibility as of the date of the maximum obligation calculation or (2) is projected to have borrowing needs over the next year to resolve troubled institutions for which it currently has resolution responsibility.

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 of such funding and extent to which it 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, (2) the impact of legislation, and (3) future revenue streams available to the funds. These factors, which are outside of FDIC's control, 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 through fiscal year 1999 that 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. FDIC also cautions 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's borrowing needs can also be affected by legislative action. For example, until recently, SAIF was scheduled to assume full responsibility for resolving troubled savings associations from the Resolution Trust Corporation (RTC) on October 1, 1993.[3] However, the Resolution Trust Corporation Completion Act (Public Law 103-204, enacted on December 17, 1993) extended RTC's resolution authority and provided RTC additional funding to resolve troubled institutions identified by the Office of Thrift Supervision. The act also modified SAIF's available sources of funding for insurance losses.

[3]The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established RTC to resolve institutions whose deposits had been insured by the Federal Savings and Loan Insurance Corporation (FSLIC) 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 institutions placed into conservatorship or receivership through September 30, 1993.

Specifically, the act extended RTC's resolution authority through a date to be determined by the Chairman of the Thrift Depositor Protection Oversight Board but no earlier than January 1, 1995, and no later than July 1, 1995.[4] The act also restored to RTC $18.3 billion[5] to resolve troubled savings associations and provided that any of these funds not used by RTC would become available for SAIF's insurance losses during the 2-year period beginning on the date of RTC's termination.[6] Additionally, the act amended section 11(a) of the FDI Act by authorizing up to $8 billion to SAIF to cover losses incurred by SAIF in fiscal years 1994 through 1998. However, prior to receiving funds from either source, FDIC must certify, among other things, that SAIF is unable to cover its losses through insurance premiums or through available Treasury borrowing without adversely affecting the health of its member institutions and thus causing the government to incur greater losses.

According to the recent cash flow projections through fiscal year 1999 that FDIC submitted to OMB, FDIC does not anticipate that SAIF will need to borrow from Treasury for insurance losses. As with its cash flow projections for BIF, FDIC cautions 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.

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, federally insured institutions posing higher risks of loss to the insurance funds are charged higher premiums. The assessment rates

[4]However, any institution requiring resolution after the expiration of RTC's resolution authority which had previously been under RTC conservatorship or receivership may be transferred back to RTC for resolution. Through the expiration of RTC's resolution authority, SAIF is responsible for the resolution costs of any federally insured savings association that was not previously insured by FSLIC. SAIF may also incur resolution costs related to certain other institutions prior to assuming full resolution responsibility. 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 savings association 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 savings association 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.

[5]The act amended section 21A(i) of the Federal Home Loan Bank Act by removing the April 1, 1992, deadline for obligating $25 billion provided to RTC by Public Law 102-233 for resolution activity. Through April 1, 1992, RTC had obligated $6.7 billion of the $25 billion.

[6]Under the act, RTC will terminate on or before December 31, 1995.

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 in 1994 to be 23.8 cents per $100 of domestic deposits, an increase of about 3 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 in 1994 to be 24.5 cents per $100 of domestic deposits, an increase of about 6.5 percent over the assessment rate of 23 cents per $100 of domestic deposits 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 March 31, 1994, BIF had an unaudited fund balance of $15.2 billion. The most recent FDIC projections contained in FDIC's revised BIF recapitalization schedule show that BIF will achieve the designated ratio before the end of 1995, well within the 15-year period stipulated in FDICIA.

SAIF's designated reserve ratio is also 1.25 percent of insured deposits. Until January 1, 1998, FDIC must set assessment rates at a level that will enable SAIF to achieve the designated reserve ratio within a reasonable period of time. Beginning January 1, 1998, FDIC must set assessment rates at a level sufficient for SAIF to meet the designated reserve ratio according to a 15-year schedule.[7] As of March 31, 1994, SAIF had an unaudited fund balance of $1.4 billion. FDIC's most recent projections show that SAIF will achieve the designated reserve ratio by the year 2002. However, such long-range projections are subject to significant uncertainties. Assumptions concerning the level and cost of future financial institution failures, changes in levels of industry assets and deposits, and future assessment revenues are subject to considerable fluctuation due to such factors as future economic conditions, interest rates, and legislative action.

[7]FDIC may extend the date specified in the schedule to a later date that it determines will, over time, maximize the amount of assessments received by SAIF, net of insurance losses incurred by SAIF.

FDIC Has No Outstanding Working Capital Borrowings

FDIC also has authority to borrow funds for BIF's or SAIF's working capital needs from FFB, but the amount of its outstanding working capital borrowings is subject to each fund's maximum obligation limitation.

During the first quarter of 1994, FDIC borrowed no funds from FFB for either BIF's or SAIF's working capital needs. FDIC repaid the remaining balance of previous FFB borrowings on behalf of BIF on August 6, 1993, and has not borrowed from FFB on behalf of SAIF.

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

Please contact me at (202) 512-9406 if you or your staffs have any questions concerning the report. Other major contributors are listed in appendix IV.

Robert W. Gramling

Robert W. Gramling
Director, Corporate Financial Audits

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
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 quarter ending March 31, 1994, we reviewed the completeness and reasonableness of the components and explanatory notes in FDIC's first quarter calendar year 1994 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 first quarter of 1994. To obtain assurance as to the reasonableness of first quarter 1994 opening balances, we relied on the results of the audit procedures performed on the December 31, 1993, balances in our 1993 BIF and SAIF financial statement audits.[1] We believe our procedures provide us with sufficient assurance to draw conclusions regarding FDIC's first quarter 1994 compliance with its maximum obligation limitation.

Our review work 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 March 31, 1994, 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 December 31, 1993, to March 31, 1994, 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 component 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 for specific accounts and verified 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.

[1]Financial Audit: Federal Deposit Insurance Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-135, June 24, 1994).

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 March 31, 1994. We also discussed anticipated borrowing needs with FDIC officials and reviewed FDIC's most recent projections of potential funding needs for BIF and SAIF.

BIF Maximum Obligation Limitation Calculation and Notes as of March 31, 1994

BANK INSURANCE FUND
MAXIMUM OBLIGATION LIMITATION
(DOLLARS IN MILLIONS)

	March 31 1994
Funding Sources	
Cash and Cash Equivalents	$ 3,243
Governmental Receivables	10
Investments in U.S. Treasury Obligations and Accrued Interest	7,030
Estimated Fair Market Value (FMV) of Other Assets:	
Other Assets @ 90%	18
Net Receivables from Bank Resolutions @ 90%	10,322
U.S. Treasury Borrowing Authority	30,000
Total Funding Sources	**50,623**
Obligations	
Accounts Payable, Accrued and Other Liabilities	99
Notes Payable – Federal Financing Bank (FFB) Borrowings	0
Notes Payable – U.S. Treasury Borrowings	0
Liabilities Incurred from Bank Resolutions	2,628
Estimated Liabilities for Litigation Losses	19
Lease Commitments	171
Total Obligations	**2,917**
Remaining Obligation Authority	**$ 47,706**

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
March 31, 1994

FUNDING SOURCES

1. Cash and Cash Equivalents

Cash and cash equivalents are defined in Statement of Financial Accounting Standards (SFAS) No. 95 as short-term, highly liquid investments that are both readily convertible to cash and 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 $3.2 billion in Overnight Treasury Investments.

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 investments, net of unamortized discounts or premiums, 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 $6.9 billion in U.S. Treasury bills and notes (acquisition cost of $6.7 billion plus $204 million in net unamortized premiums and discounts) and $126 million of accrued interest.

1

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 first quarter calculation as follows:

	March 31 1994
Other Assets	
Unadjusted Balance	$20 million
Calculated @ 90%	$18 million

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

5. Net Receivables from Bank Resolutions (90%)

As discussed in Note 4, non-cash assets will be included at 90 percent of their fair market value. This component includes the net realizable value of: 1) receivables from closed banks; 2) investment in corporate-owned assets; and 3) amounts due from open bank assistance. The net realizable value includes estimated losses to the FDIC for resolved cases, including expenses incurred to manage and dispose of assets. The net realizable value is as follows:

	March 31 1994
Receivables from Closed Banks	$10.8 billion
Investment in Corporate-Owned Assets	$ 552 million
Receivables from Open Bank Assistance	$ 24 million
Total	**$11.5 billion**
Calculated @ 90%	$10.3 billion

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An allowance for loss is established for the Bank Insurance Fund's (BIF) 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 putback 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. The Act does not specify a methodology for allocating the $30 billion between the two funds. The FDIC has developed a methodology to allocate the Treasury borrowing authority between the BIF and the SAIF. Based upon these procedures, all $30 billion in Treasury borrowing authority is presently allocated to the BIF. The allocation may change in subsequent periods.

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.

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

8. Notes Payable - Federal Financing Bank (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 borrowed funds from the U.S. Treasury. On August 6, 1993, the FDIC repaid all outstanding FFB borrowings.

9. Liabilities Incurred from Bank Resolutions

Escrowed funds from resolution transactions of $2.5 billion comprise the major portion of this component. 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.

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

10. Estimated Liabilities for Litigation Losses

This contingent liability represents the expected cost of pending or threatened litigation, 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. An actual amount was not available for March. The $171 million from the 1993 financial statements was chosen and is considered the most conservative estimate due to the ongoing FDIC regional reorganization.

12. Exclusions

As agreed upon by the Congressional Banking Committees, total obligations exclude the FDIC's estimated liability for unresolved cases (future bank failures 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 is $2.6 billion.

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SAIF Maximum Obligation Limitation Calculation and Notes as of March 31, 1994

SAVINGS ASSOCIATION INSURANCE FUND
MAXIMUM OBLIGATION LIMITATION
(DOLLARS IN MILLIONS)

	March 31 1994
Funding Sources	
Cash and Cash Equivalents	$ 516
Governmental Receivables	0
Investments in U.S. Treasury Obligations and Accrued Interest	1,152
Estimated Fair Market Value (FMV) of Other Assets	
Other Assets @ 90%	4
Entrance Fees Receivable @ 90%	0
Net Receivables from Thrift Resolutions @ 90%	148
U.S. Treasury Borrowing Authority	0
Total Funding Sources	1,820
Obligations	
Accounts Payable, Accrued and Other Liabilities	3
Due to the FRF	166
Notes Payable – Federal Financing Bank (FFB) Borrowings	0
Notes Payable – U.S. Treasury Borrowings	0
Lease Commitments	3
Total Obligations	172
Remaining Obligation Authority	$ 1,648

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
March 31, 1994

FUNDING SOURCES

1. Cash and Cash Equivalents

Cash and cash equivalents are defined in Statement of Financial Accounting Standards (SFAS) No. 95 as short-term, highly liquid investments that are both readily convertible to cash and 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 $74.6 million in Overnight Treasury Investments representing exit fees and related interest which are restricted and consequently are not funding sources as of March 31. See Note 12.

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

This component represents the acquisition cost of investments, net of unamortized discounts or premiums, 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 $1.1 billion in U.S. Treasury bills and notes (acquisition cost of $1.1 billion and $789 thousand in unamortized premiums and unamortized discounts) and $11.5 million of accrued interest.

1

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 first quarter calculation as follows:

	March 31 1994
Other Assets	
Unadjusted Balance	$4.5 million
Calculated @ 90%	$4.1 million

5. Entrance Fees Receivable (90%)

As discussed in Note 4, non-cash assets will be included at 90 percent of their fair market value. 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.

6. Net Receivables from Thrift Resolutions (90%)

As discussed in Note 4, non-cash assets will be included at 90 percent of their fair market value. The FDIC was appointed receiver of Heartland by the Office of Thrift Supervision on October 8, 1993. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF due to an assistance agreement between Heartland and the FRF's predecessor, the FSLIC, and represents a claim against the receivership's assets. The receiver will reimburse the FRF as claims are satisfied through the liquidation process.

	March 31 1994
Net Receivables	
Unadjusted Balance	$164 million
Calculated @ 90%	$148 million

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7. 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. The Act does not specify a methodology for allocating the $30 billion between the two funds. The FDIC developed a methodology for allocating the borrowing authority between the BIF and the SAIF. Based upon these procedures, all $30 billion in Treasury borrowing authority is allocated to the BIF. The allocation may change in subsequent periods.

OBLIGATIONS

8. Accounts Payable, Accrued and Other Liabilities

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

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

9. Due to the FRF

The FDIC was appointed receiver of Heartland by the Office of Thrift Supervision on October 8, 1993. Payment to the acquirers of Heartland to cover insured depositors' claims was funded by the FRF due to an assistance agreement between Heartland and the FRF's predecessor, the FSLIC, and represents a claim against the receivership's assets. The receiver will reimburse the FRF as claims are satisfied through the liquidation process. As of March 31, 1994, the receiver owes the FRF $166 million.

10. Notes Payable - Federal Financing Bank (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.

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. An actual amount was not available for March. The $3 million from the 1993 financial statements was chosen and is considered the most conservative estimate due to the ongoing FDIC regional reorganization.

12. Exclusions

Pursuant to an FDIC-approved regulation, exit fees paid to the SAIF are to be held in escrow 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, exit fee receivables totaling $46.3 million were excluded from the maximum obligation limitation calculation.

The investment in U.S. Treasury obligations totaling $70.2 million and the related accrued interest receivable totaling $485 thousand were excluded because the long-term notes were purchased with exit fee principal and interest collections.

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 is $18 million.

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