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Report to the Congress

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FINANCIAL AUDIT

FSLIC Resolution Fund's 1991 and 1990 Financial Statements

GAO/AFMD-92-75

GAO

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

Comptroller General
of the United States

B-244576

June 30, 1992

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

This report presents the results of our audit of the financial statements of the FSLIC Resolution Fund for the years ended December 31, 1991 and 1990. These financial statements are the responsibility of the Federal Deposit Insurance Corporation (FDIC)—the Fund's administrator. Our audit disclosed that the Fund's statement of financial position as of December 31, 1991, and its statement of cash flows for the year ended December 31, 1991, present fairly, in all material respects, the financial position of the Fund and its cash flows in conformity with generally accepted accounting principles. We do not express an opinion on the Fund's statement of income and accumulated deficit for the year ended December 31, 1991.

We were able to give the Fund an unqualified opinion on its 1991 statement of financial position because, over the past 3 years, FDIC has gained additional experience and made significant improvements in its procedures for estimating the Fund's future assistance payments, increasing the reliability of this estimate. Furthermore, the Fund's exposure to material losses should its estimated assistance payments or estimated asset recoveries prove inaccurate has significantly decreased. Although we believe the Fund's estimates are reasonable as of December 31, 1991, uncertainties still exist regarding general economic conditions and assistance agreement cost saving actions that may result in assistance payments and asset recoveries different from those the Fund has estimated.

Our reports on the Fund's internal control structure and its compliance with laws and regulations are also presented. Our report on the Fund's internal control structure includes a material weakness regarding significant deficiencies in the integrity of data maintained in FDIC's asset management information system. We conducted our audit pursuant to the provisions of section 17(d) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1827(d)), and in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs; the Chairman of the Federal Deposit Insurance Corporation; the Secretary of the Treasury; the Director of the Office of Management and Budget; and the Director of the Office of Thrift Supervision.

Charles A. Bowsher

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Comptroller General
of the United States

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Abbreviations

DACS	Division of Accounting and Corporate Services
FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FSLIC	Federal Savings and Loan Insurance Corporation
GCR	Gross Cash Recovery
LAMIS	Liquidation Asset Management Information System
RTC	Resolution Trust Corporation

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To the Board of Directors
Federal Deposit Insurance Corporation

We have audited the accompanying statements of financial position of the FSLIC Resolution Fund[1] as of December 31, 1991 and 1990, and the related statements of income and accumulated deficit and statements of cash flows for the years then ended. These financial statements are the responsibility of the management of the Federal Deposit Insurance Corporation (FDIC), the Fund's administrator. Our responsibility is to express an opinion on these financial statements based on our audits. In addition, we are reporting on our consideration of FDIC's internal control structure and its compliance with laws and regulations as they relate to the Fund.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Fund's statement of financial position as of December 31, 1991, and its statements of cash flows for the years ended December 31, 1991 and 1990, present fairly, in all material respects, the financial position of the FSLIC Resolution Fund and its cash flows for the periods then ended in conformity with generally accepted accounting principles.

In our previous report,[2] we did not express an opinion on the Fund's statement of financial position as of December 31, 1990, or its statement of income and accumulated deficit for the year then ended, largely due to the potential material effect of economic factors on the Fund's estimated

[1] The FSLIC Resolution Fund (Fund) was established on August 9, 1989, by section 215 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage the assets and pay the debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation (FSLIC).

[2] Financial Audit: FSLIC Resolution Fund's 1990 and 1989 Financial Statements (GAO/AFMD-92-22, December 17, 1991).

payments under its assistance agreements and on the Fund's estimated recoveries from its sale of receivership and corporate owned assets. These factors, which were beyond FDIC's control, included the instabilities in local real estate markets and fluctuations in future interest rates. In addition, the Fund's estimated assistance payments did not reflect the potential impact of using appropriated funds to achieve cost savings under the assistance agreements.

While the above factors will continue to influence the Fund's future assistance payments and asset recoveries, we believe the effects of the factors were more determinable and supported by historical data at the end of 1991, enabling more reasonable estimates by FDIC. In addition, over the past 3 years, FDIC has made significant improvements in its procedures for estimating the Fund's future assistance payments, increasing the reliability of this estimate. Furthermore, the Fund's exposure to material losses should its estimated assistance payments or estimated asset recoveries prove inaccurate has significantly decreased.

The Fund's 1991 statement of income and accumulated deficit includes $1.7 billion in losses as a result of increases in the estimated liability accounts and allowance for loss accounts included in the Fund's statement of financial position from 1990 to 1991. These losses are largely attributable to an increase in the Fund's estimated assistance payments and a decrease in the Fund's estimated recoveries on receivership and corporate owned assets since the end of 1990.[3] In our 1990 report, we questioned the reliability of using 1989 asset recovery rates in calculating receivership asset recovery values at December 31, 1990. We were unable to examine sufficient evidence to determine the reliability of these values at December 31, 1990, or whether a portion of the 1991 changes in allowance for loss accounts should have been recorded in 1990. Because of this limitation on the scope of our work, we are not expressing an opinion on the Fund's statement of financial position as of December 31, 1990, and statements of income and accumulated deficit for the years ended December 31, 1991 and 1990.

Although we believe the Fund's estimated future assistance payments and its estimated recoveries from asset sales are reasonable as of December 31, 1991, uncertainties still exist regarding general economic conditions,

[3]The Fund's total estimated liability for assistance agreements decreased from 1990 to 1991 due to assistance payments made during 1991. See footnote 9 to the financial statements for an analysis of the changes in the Fund's allowance for losses and estimated liabilities.

especially in regard to real estate markets and interest rates. These factors may ultimately result in assistance payments and asset recoveries different from those the Fund has estimated as of December 31, 1991. In addition, the use of appropriations to achieve cost savings under the Fund's assistance agreements will also affect future assistance payments.

Uncertainties Affect Future Assistance Payments

FSLIC entered into assistance agreements to facilitate the merger, acquisition, or stabilization of insolvent thrifts. Under FIRREA, the FSLIC Resolution Fund is responsible for making all payments required by these assistance agreements. In January 1991, FDIC transferred management and oversight responsibility for the assistance agreements to the Resolution Trust Corporation (RTC). FDIC continues to perform the accounting function for these agreements.

The larger assistance agreements generally provided assisted thrifts with the following three main types of assistance.[4]

- Negative net worth coverage was generally provided in the form of interest-bearing notes equal to the acquired thrifts' negative equity at the date of the assistance agreement.
- Capital loss coverage guarantees the recorded values (usually historical cost) of poor-quality assets taken over by the assisted thrift. Under this coverage, assisted thrifts are compensated for the difference when they sell a covered asset for less than its guaranteed value.
- Yield maintenance coverage guarantees the financial performance of the covered assets. This coverage guarantees that each agreement's covered assets will collectively yield a specified rate which varies in accordance with the terms of the agreement and with market conditions. If covered assets do not generate the amount of income specified by the agreement, the Fund pays the assisted thrift the difference.

As of December 31, 1991, RTC estimated that the Fund would pay more than $8 billion over the remaining life of the assistance agreements (7 years for the larger agreements) largely as a result of the capital loss

[4]See Thrift Resolutions: Estimated Costs of FSLIC's 1988 and 1989 Assistance Agreements Subject to Change (GAO/AFMD-90-81, September 13, 1990) for a more detailed discussion of these and other assistance agreement provisions.

and yield maintenance guarantees.[5] To estimate future capital loss and yield maintenance assistance payments, RTC makes assumptions with regard to losses resulting from covered asset dispositions, the timing of these asset dispositions, and future interest rates. RTC revises its estimates four times a year based on changes in the above assumptions and historical experience.

Although RTC has produced its future assistance payment estimates from the best available information, these payments remain subject to (1) instabilities in local real estate markets, which in part will be affected by RTC's discounting policy, (2) interest rate fluctuations, and (3) RTC's future use of appropriated funds to achieve additional cost savings under these agreements.

Uncertainties in Real Estate Markets

Continued uncertainties surrounding economic conditions and the over-built real estate markets affect estimated recovery values on the assets covered by the agreements. The aggregate covered asset pool for all agreements was about $14 billion as of December 31, 1991, over 88 percent of which was real estate related. Projected capital loss payments, which comprised about 52 percent of the Fund's total December 31, 1991, estimated liability for assistance agreements, were based on appraisals of covered assets. However, appraisals, which generally estimate value based on recent sales of similar assets, might not reliably indicate future values because local real estate markets could significantly change prior to asset disposition. RTC, FDIC, and other public and private sector entities currently are holding a large portfolio of troubled assets, including large amounts of real estate related assets. Nonetheless, over the past year, local real estate markets were able to absorb over $2 billion in assisted thrifts' real estate assets covered by the agreements. In addition, RTC sold about $7 billion in similar assets from failed thrifts through December 31, 1991. As more experience is gained through sales of troubled assets and local markets stabilize, estimated capital loss payments should be more precise.

[5]This estimate, which is reported in the financial statement line item "Estimated Liability for Assistance Agreements" at its present value of $7.4 billion, also includes less significant amounts for reimbursable goodwill on assets acquired under the agreements but not covered by capital loss and yield maintenance provisions, and legal indemnifications provided for under the agreements. Future negative net worth note payments are not included in this estimated liability because these note payments have already been determined based on the notes' terms. The Fund presents its future note payments determined but not yet paid as a component of the financial statement line item "Liabilities Incurred From Thrift Resolutions."

A factor that may help reduce uncertainty in local real estate markets, due to competing governmental agencies holding large amounts of real estate related assets, is the adoption of RTC's discounting policy for marketing real estate assets covered by the assistance agreements. In July 1991, RTC adopted its policy that enables the real estate assets covered by assistance agreements to be marketed at the more deeply discounted prices that RTC uses to dispose of assets acquired from failed thrifts. Consequently, where this marketing strategy is used by both assisted thrifts and for sales of similar assets from failed thrifts, the assisted thrifts should be able to market these assets without a competitive disadvantage regarding sales prices, which may help reduce uncertainty in local markets.

RTC also modified its estimation procedures to reflect this discounting policy strategy. Prior estimates of capital losses were calculated based on 100 percent of the assets' appraisal values without regard to expected disposition dates. This new policy calculates capital loss for real estate assets using asset values discounted from 20 percent to 50 percent. The discounts are dependent on expected asset disposition dates. While marketing of covered assets may be facilitated by RTC's discounting policy, its implementation adds to the complexity of estimating future capital losses. However, depending on the accuracy of estimated asset disposition dates and the extent to which this policy is used, it may result in more reliable estimates.

While the Fund's future capital loss payments are subject to uncertainties, the Fund's exposure to additional capital losses beyond what it has already recognized as of December 31, 1991, has significantly decreased over the past 2 years. Specifically, the Fund's remaining exposure to additional capital losses has decreased from $24.6 billion at the end of 1989 to $9.4 billion at the end of 1991.

Market conditions will also affect the amount of yield maintenance payments, which comprised about 25 percent of the Fund's total December 31, 1991, estimated liability for assistance agreements. For example, when market conditions result in increased rental income, yield maintenance payments are reduced. This is because such income offsets the amount the Fund must pay to meet the assisted thrifts' guaranteed yield. Similarly, real estate market conditions that decrease rental income would increase the level of assistance payments.

Uncertain Impact of Future Interest Rate Fluctuations

Uncertainties in future interest rates affect the reliability of projected yield maintenance payments. Even small fluctuations of from 0.5 percent to 1.0 percent in interest rates would produce changes of from $70 million to $140 million, respectively, per year in yield maintenance payments, based on the Fund's December 31, 1991, guaranteed value of the covered asset pool. RTC's projection of future assistance payments decreased over the past year, in part, because relevant interest rates dropped by .86 percent to 3.25 percent. These rates decreased steadily from October 31, 1990, through December 31, 1991.

Effect of Cost Saving Measures Uncertain

RTC is responsible for actively reviewing all means by which it can reduce costs under the assistance agreements. To carry out this responsibility, RTC developed a plan to prepay notes, renegotiate large assistance agreements, buy out small agreements, write down guaranteed asset values, and offer selected pools of covered assets to other private sector asset managers under long-term repurchase agreements. The successful implementation of RTC's plan would reduce assistance agreement payments.

For example, prepaying notes would save interest costs because the interest rate on federal borrowing would typically be lower than the rate on the notes over the term of the agreements. Renegotiating the agreements would result in savings if lower yield maintenance and capital loss coverage are negotiated in return for the Fund's equity interests in the assisted thrifts. Buying out assistance agreements would eliminate all future payments and would result in savings if the government's costs of borrowing the cash needed for the buyouts were less than the estimated payments that would be eliminated. Writing down covered assets to their fair market value would reduce the amount of future yield maintenance assistance since this assistance is based on the assets' guaranteed value. Offering selected pools of covered assets to other private sector asset managers would result in savings if payments under such repurchase agreements were lower than payments projected for the current assistance agreements.

As of March 31, 1992, RTC has used a total of $23.4 billion in appropriated funds to execute cost saving actions, which RTC estimates will achieve cost savings of $1.2 billion on a present value basis.[6] The majority of the estimated savings is attributable to interest cost savings as a result of prepaying negative net worth notes, which does not affect the Fund's estimated future assistance payments—capital loss and yield maintenance payments. However, as of March 31, 1992, FDIC estimated that about $9.5 billion of the Fund's fiscal year 1992 appropriation remained available for additional cost-saving actions.[7] RTC plans more renegotiations and covered asset write-downs to reduce future capital loss and yield maintenance payments. The Fund expects to receive a fiscal year 1993 appropriation of $6.8 billion, a portion of which may be available to further reduce assistance agreement costs.

Improvements in Estimating Future Assistance Payments

In the last 3 years, FDIC and RTC have made significant improvements in formalizing their policies, procedures, and systems that are used to estimate the Fund's future assistance payments. Since the end of 1989, FDIC and RTC have developed written guidelines for preparing and reviewing estimates of future assistance payments. These written guidelines, which were enhanced during 1991, help ensure consistency in this estimation process. In addition, during 1990, FDIC implemented an automated system to track assistance payments by assistance agreement and assistance payment type. This system readily provides historical information, on both actual and estimated assistance payments, for RTC to use in estimating future payments. While the uncertainties surrounding these estimates make it difficult to precisely predict actual future assistance payments, FDIC's and RTC's improvements to their estimating procedures, coupled with the experience gained over the last 3 years in preparing these estimates, increase the reliability of the Fund's estimated liability for assistance agreements as of December 31, 1991.

[6]This cost-savings estimate of $1.2 billion takes into account government borrowing costs and thus reflects the potential cost savings for the government as a whole. We will be reporting the details of RTC's cost saving actions in a separate report on the FSLIC 1988 and 1989 assistance agreement costs, to be issued later this year.

[7]As of March 31, 1992, a total of $10.4 billion of the Fund's fiscal year 1992 appropriation remained available. FDIC expects to use a portion of this amount to pay current obligations and administrative costs.

Uncertainties Affect Ultimate Recoveries From Assets in Receivership and Owned by the Fund

As part of its resolution activities, FSLIC placed failed thrifts into receivership and paid out funds required to settle depositors' claims. However, FDIC expects to recover some portion of these paid claims by managing and selling the failed thrifts' assets that remain in receivership. As of December 31, 1991, the Fund's claim against receiverships totaled about $11.9 billion. Receivership assets associated with those claims totaled about $7 billion, and FDIC estimated it would recover only $2 billion from these assets. In addition, the Fund has about $3.6 billion in assets that were purchased to improve the marketability (and, thus facilitate the sale) of certain troubled thrifts and to terminate receiverships. These assets are commonly referred to as corporate owned assets. As of December 31, 1991, FDIC estimated the Fund would recover approximately $600 million from the management and liquidation of its corporate owned assets.

FDIC records the amounts FSLIC paid to close failed thrifts as a receivable from thrift resolutions and records the amounts FSLIC paid to purchase assets from troubled or failed thrifts as an investment in corporate owned assets. FDIC establishes an allowance for loss against the receivable and investment, which represents the difference between amounts paid and the expected repayment. The expected repayment is based on the estimated recoveries from the sale of the receivership and corporate owned assets, net of all estimated liquidation costs. At December 31, 1991, the allowance for losses for the Fund's receivable from thrift resolutions and investment in corporate owned assets were about $9.9 billion, and $3 billion, respectively.

For assets in liquidation, FDIC maintains a management information system which provides information on estimated recoveries from the assets' management and sale. These estimated recoveries are used to derive the allowance for losses. Because of material internal control weaknesses we identified in this system, we designed alternative audit procedures to test the reasonableness of the allowance for losses reported on the Fund's financial statements. These procedures, which consisted of analyzing FDIC's collection experience on assets in liquidation to assess the reasonableness of the estimated recoveries on the Fund's existing asset inventory, provided us with reasonable assurance that the Fund's net receivable from thrift resolutions and its net investment in corporate owned assets reported on the Fund's financial statements were fairly stated.

Even though FDIC has assumed that the Fund's receivership and corporate owned assets will sell for considerably less than their book value, any worsening of the economy or real estate markets could result in recoveries even lower than currently anticipated. While the Fund's recoveries from asset sales remain subject to economic uncertainties, the Fund's exposure to further losses should its receivership and corporate owned assets prove worthless is only $2.6 billion, significantly less than its exposure of $6.8 billion at the end of 1989. This decrease is primarily attributable to sales and increasing loss allowances on the remaining assets. The Fund's exposure to additional asset losses will continue to decrease as the Fund's inventory of assets decreases.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 11, 1992

Report on Internal Control Structure

We have audited the financial statements of the FSLIC Resolution Fund as of December 31, 1991 and 1990, and have issued our opinion thereon. This report pertains only to our consideration of the Federal Deposit Insurance Corporation's (FDIC) internal control structure as it relates to the Fund for the calendar year ended December 31, 1991. The report on our consideration of FDIC's internal control structure as it relates to the Fund for the calendar year ended December 31, 1990 is presented in GAO/AFMD-92-22, dated December 17, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit, we considered the internal control structure of FDIC as it relates to the Fund in order to determine the auditing procedures needed for purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

FDIC's management is responsible for establishing and maintaining an internal control structure over the FSLIC Resolution Fund. In fulfilling this responsibility, estimates and judgments by management are necessary to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of the inherent limitations of any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we classified FDIC's significant internal control structure policies and procedures, including those related to applicable laws and regulations, for the Fund into the following categories:

- assistance to troubled institutions, consisting of policies and procedures related to assistance agreement payments and to estimates of the future costs of the Fund's assistance programs;
- assistance to closed institutions, consisting of policies and procedures related to management, valuation, and liquidation activities for receiverships and corporate owned assets;
- treasury/revenue, consisting of policies and procedures related to cash disbursements, cash receipts, and investing activities;
- expenses, consisting of policies and procedures related to disbursements for administrative and supervisory expenses; and
- financial reporting, consisting of policies and procedures related to the form, content, and preparation of the Fund's financial statements.

For each of the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation. Also, we assessed control risk. We performed limited tests of selected control procedures for each of the categories listed; however, we found it more efficient to rely solely on substantive audit tests to determine if related financial statement balances and disclosures were fairly stated. For all categories, we performed audit tests to substantiate account balances associated with each control category. Such tests can also serve to identify weaknesses in the internal control structure.

Reportable Conditions

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

There are basically two levels of reportable conditions—those that are considered material weaknesses,[8] which could affect the fair presentation of the financial statements, and those, that while not material to the financial statements, are significant matters which merit management's attention. We identified one condition involving FDIC's internal control structure and its operation which we consider to be a material weakness.

[8]A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

This condition concerns significant deficiencies in the integrity of data maintained in FDIC's asset management information system.

Through substantive testing and alternate auditing procedures, we satisfied ourselves that this condition did not have a material effect on the fair presentation of the Fund's 1991 financial statements. However, the existence of this condition greatly increases the risk that related balances may become materially misstated in the future if action is not taken to correct this problem. We also noted one matter that we consider to be a non-material reportable condition as defined above. This condition concerns lack of adherence to prescribed procedures over time and attendance reporting.

Weak Controls Over FDIC's Asset Management Information System Result in Data Integrity Problems

Controls to ensure the integrity of data in FDIC's primary system for estimating recoveries from the management and disposition of the FSLIC Resolution Fund's and the Bank Insurance Fund's assets acquired from troubled or failed financial institutions are inadequate. The lack of effective maintenance and updating of data files within the system has resulted in a significant number of errors in system-generated information concerning the estimated recoveries and related data concerning the condition of assets acquired from troubled and failed financial institutions. This, in turn, could result in material misstatements in the valuation allowance established against the FSLIC Resolution Fund's reported balances of receivables from thrift resolutions and investments in corporate owned assets.[9]

The Liquidation Asset Management Information System (LAMIS) is FDIC's primary system for managing the FSLIC Resolution Fund's and Bank Insurance Fund's assets acquired from troubled and failed financial institutions. It serves as a subsidiary system of the Funds' general ledger, which is maintained by FDIC's Financial Information System. LAMIS controls, accounts for, and reports upon the acquisition, management, and ultimate disposition of assets acquired by FDIC as a result of resolution activity. LAMIS also provides estimates of recoveries to be received from the management and disposition of these assets, known as the Gross Cash Recovery (GCR), to FDIC's Division of Accounting and Corporate Services (DACS). For assets with book values of $250,000 or more, the GCRs are

[9]Corporate owned assets refer to the assets purchased from troubled and failed thrifts to improve the marketability (and, thus, facilitate the sale) of certain troubled thrifts and to terminate receiverships.

estimated and input into LAMIS by responsible account officers. Assets with book values below $250,000 are assigned formula generated values by LAMIS based on historical collection experience with assets of similar status and type. DACS uses these estimates to derive the allowance for losses on the FSLIC Resolution Fund's receivable from thrift resolutions and on its investment in corporate owned assets.

As of December 31, 1991, FDIC had approximately 136,000 assets with a total book value of $33 billion and a total GCR value of $23 billion recorded in LAMIS. The FSLIC Resolution Fund's portion of these assets consisted of 13,800 with a total book value of $9.3 billion and a total GCR value of $4.6 billion; the remaining portion of assets belong to the Bank Insurance Fund. The magnitude and nature of the information processed by LAMIS and the manner in which it is used make the integrity of the data it generates critical to the accuracy of the FSLIC Resolution Fund's financial statements and the management of the Fund's inventory of assets in liquidation.

For FDIC as a whole, we conducted testing of information in LAMIS on estimated recoveries and related data on the condition of assets at four FDIC consolidated receivership offices representing all four FDIC regional offices. We selected a judgmental sample of assets and tested LAMIS information on their existence, classification, and valuation against asset file documentation. Our sample of assets selected included both assets with GCRs estimated by account officers (individually appraised assets) and assets with GCRs developed by LAMIS (formula appraised assets). Of the items tested, 61 were individually appraised and 113 were formula appraised.

Of the 61 individually appraised assets we selected for testing, file documentation for 16 (26 percent) did not support recorded GCR values. These included: (1) 11 assets with an aggregate GCR overstatement of about $2.4 million, (2) 2 assets with an aggregate GCR understatement of about $400,000, and (3) 3 assets for which we could not locate documentation in the asset files to support their GCR values, but whose LAMIS-recorded value was about $187,000.

In addition, 2 assets remained recorded in LAMIS after they had been sold, 2 were double-counted and, for 1 asset, documentation in the asset file did not support the book value of the asset as reflected in LAMIS. These error rates are a matter of concern because individually appraised assets accounted for $28 billion (85 percent) of the $33 billion total book value and $21 billion (91 percent) of the $23 billion total GCR value of assets recorded in LAMIS as of December 31, 1991.

Of the 113 formula appraised assets we tested, file documentation did not support the recorded GCR for 33 (29 percent). Because formula driven GCR estimates are based on historical experience rather than actual individual assessment of an asset's value, we would expect some differences between the formula generated estimates of the recovery values for individual assets and those estimates that could be derived from documentation in the asset files, including both understatements and overstatements. Of the 33 exceptions found, files supporting 13 assets reflected values greater than those recorded in LAMIS, and files supporting 20 assets reflected values below those recorded in LAMIS.

However, the use of formula-generated recovery estimates based on historical experience in a period of economic uncertainty carries with it the risk that asset values will become misstated due to the application of outdated formulas. In addition, use of formula generated estimates is also prone to other types of errors that can result in misstated asset recovery values. For example, in addition to the 33 errors noted above, we found 8 assets (7 percent) that were misclassified as to their asset type. As a result, LAMIS utilized an incorrect formula to generate a recovery value for these assets.

We also selected 45 asset files in three regions to determine if the assets were, in fact, recorded in LAMIS. Of these 45 files, 3 (7 percent) were found not to have been recorded at the time of our audit.

FDIC's Office of the Inspector General conducted an audit of LAMIS between September 1991 and January 1992.[10] This audit identified many of the same problems we identified in our audit, as well as a number of additional concerns. The Inspector General's audit, which was also conducted at four FDIC consolidated receivership offices, found that high error rates in LAMIS files compromised the accuracy of management and financial information generated by the system. Additionally, the Inspector General found that (1) LAMIS limitations and errors have eroded user confidence and reduced its effectiveness as an operational and management tool, (2) LAMIS security controls are weak, and (3) LAMIS responsibilities are not clearly defined.

[10] Information Systems Audit of LAMIS (March 31, 1992).

The Inspector General reported that the pervasive data integrity problems that plague LAMIS are primarily due to erroneous data input and maintenance, rather than inaccurate calculations by the system itself. These problems are traceable to a variety of causes, including inadequate training of system users, improper organization and content of physical asset files, data conversion and maintenance errors, inadequate review procedures, and a lack of centralized direction and control. Over time, these problems have been perpetuated and magnified by declining user interest in system maintenance as data quality has deteriorated and users have increasingly turned to alternate systems to serve their needs. The Inspector General concluded that the system of internal controls associated with LAMIS processing is inadequate and, by itself, cannot be relied upon to ensure accurate and timely processing and reporting of financial and management data. To correct these problems, the Inspector General recommended a number of actions addressing (1) the high error rates in LAMIS, (2) functional limitations and declining user confidence in the system, (3) weak security controls, and (4) the lack of definition of responsibilities.

Because of the weaknesses we identified and those reported by the Inspector General, we were unable to rely upon the data generated by LAMIS as a basis for estimates of future recoveries. As an alternate auditing procedure, we conducted an analysis of FDIC's actual experience in collections from the management and disposition of assets acquired from troubled and failed financial institutions. The purpose of this analysis was to assess the reasonableness of the aggregate recovery estimates and, consequently, the valuation of the assets in the Fund's asset inventory. Through this analysis, we were able to obtain reasonable assurance that FDIC's estimates of future collections were reasonable as of December 31, 1991. However, there remains a risk of material misstatement in the future if the weaknesses identified by our work and the work of the Inspector General are not corrected.

In the report on our study of the internal control structure of the Bank Insurance Fund for the year ended December 31, 1991 (GAO/AFMD-92-73), we recommended that FDIC (1) conduct, on a quarterly basis, an analysis of collection experience as a compensating control for evaluating the reasonableness of aggregate loss reserves on an ongoing basis and (2) implement procedures to ensure that the estimated recovery values of all assets in liquidation are promptly and continually updated to reflect current events, such as actual appraisal results, and asset sales. These recommendations are in addition to those recommended by the Inspector General.

Internal Controls Over Payroll Transactions Need to Be Enforced

Although FDIC has policies and procedures governing its time and attendance reporting process, FDIC is not consistently following these procedures. Because FDIC allocates payroll expenses among the three funds it administers, lack of adherence to procedures over the time and attendance reporting process could lead to incorrect allocations among the funds and, consequently, to misstatements in each fund's payroll expense.

FDIC is responsible for administering and separately accounting for the FSLIC Resolution Fund, the Bank Insurance Fund, and the Savings Association Insurance Fund. FDIC allocates overhead expenses, including payroll expenses, among these three funds based on the percentage of time employees report having worked on activities pertaining to a particular fund. FDIC employees are responsible for determining and documenting on their time cards the hours worked on each fund.

We statistically selected 60 time cards submitted by FDIC employees during the first 9 months of 1991 and examined them for evidence of proper signatures and agreement with various payroll reports. We also reviewed the time cards and related payroll reports for conformance with FDIC's Time and Attendance Reporting Directive. Our review disclosed significant weaknesses over FDIC's time and attendance reporting process including (1) payroll reports missing and/or not signed by the supervisor, (2) time card data changed by timekeepers without the approval of the employee or the employee's supervisor, (3) payroll reports not reconciled to time cards, and (4) employees not provided time and attendance reports documenting their time card data that had been input into the payroll system.

The FSLIC Resolution Fund's 1991 payroll expenses are not material to the financial statements of the Fund taken as a whole. However, since FDIC employees perform functions for all three funds and are responsible for allocating their time charges to the proper fund, it is essential that FDIC implement the necessary procedures and controls to ensure employees' time charges are valid and to decrease the likelihood that payroll expenses are charged to the wrong fund. In the report on our study of the internal control structure of the Savings Association Insurance Fund for the year ended December 31, 1991 (GAO/AFMD-92-72), we recommended that FDIC enforce the policies and procedures contained in its Time and Attendance Reporting Directive to ensure that employees' time charges are valid and to decrease the likelihood that payroll expenses will be charged to the wrong fund.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the FSLIC Resolution Fund as of December 31, 1991 and 1990, and have issued our opinion thereon. This report pertains only to our review of the Federal Deposit Insurance Corporation's (FDIC) compliance with laws and regulations as they relate to the FSLIC Resolution Fund for the year ended December 31, 1991. Our report on FDIC's compliance with laws and regulations as it relates to the Fund for the year ended December 31, 1990, is presented in GAO/AFMD-92-22, dated December 17, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

FDIC's management is responsible for compliance with laws and regulations applicable to the FSLIC Resolution Fund. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we selected and tested transactions and records to verify FDIC's compliance with certain provisions of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1811 et. seq.) and the Federal Home Loan Bank Act, as amended (12 U.S.C. 1421 et. seq.) which, if not complied with, could have a material effect on the Fund's financial statements. Our work included tests of FDIC's compliance with certain provisions contained in 12 U.S.C. 1821a, 1823, and 1441. However, it should be noted that our objective was not to provide an opinion on the overall compliance with such provisions. Accordingly, we do not express such an opinion. Also, because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which FDIC must comply.

The results of our tests indicate that, with respect to the transactions tested, FDIC complied, in all material respects, with those provisions of laws and regulations that could have a material effect on the Fund's financial statements. With respect to transactions not tested, nothing came to our attention that caused us to believe that FDIC had not complied, in all material respects, with those provisions.

Financial Statements

Statements of Financial Position

(dollars in thousands)

	December 31 1991	December 31 1990
Assets		
Cash and cash equivalents (Note 3)	$ 767,339	$ 1,256,066
Net receivables from thrift resolutions (Note 4)	2,932,774	5,051,412
Investment in corporate-owned assets, net (Note 5)	586,970	1,027,929
Other assets (Note 6)	14,864	80,172
	4,301,947	**7,415,579**
Liabilities		
Accounts payable, accrued and other liabilities (Note 2)	172,432	39,592
Liabilities incurred from thrift resolutions (Note 7)	11,810,096	23,559,134
Estimated Liabilities for:		
Assistance agreements (Note 8)	7,410,621	17,839,267
Litigation losses (Note 9)	167,585	107,845
Total Liabilities	**19,560,734**	**41,545,838**
Resolution Equity (Note 10)		
Contributed capital	28,235,000	7,753,000
Accumulated deficit	(43,493,787)	(41,883,259)
Total Resolution Equity	(15,258,787)	(34,130,259)
	$ 4,301,947	**$ 7,415,579**

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

Statements of Income and Accumulated Deficit

(dollars in thousands)

	For the Year Ended December 31	
	1991	**1990**
Revenue		
Assessments earned (Note 11)	$ 1,038,527	$ 10,599
Interest on U.S. Treasury obligations	29,599	45,277
Other interest	13,826	10,541
Revenue from corporate-owned assets	188,257	310,392
Other revenue	29,138	80,949
	1,299,347	457,758
Expenses and Losses		
Administrative expenses	42,004	86,822
Interest expense	968,774	1,869,216
Operating expenses for corporate-owned assets	117,923	124,071
Provision for losses (Note 9)	1,669,366	4,311,682
Other expenses	69,446	6,744
	2,867,513	6,398,535
Net (Loss) Before Funding Transfer	(1,568,166)	(5,940,777)
Funding Transfer to Savings Association Insurance Fund (Note 1)	(42,362)	(56,088)
Net (Loss)	(1,610,528)	(5,996,865)
Accumulated Deficit - Beginning	(41,883,259)	(35,886,394)
Accumulated Deficit - Ending	$(43,493,787)	$(41,883,259)

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

Statements of Cash Flows

(dollars in thousands)

	For the Year Ended December 31	
	1991	1990
Cash Flows From Operating Activities		
Cash inflows from:		
Assessments	$ 1,050,275	$ -0-
Interest on U.S. Treasury obligations	30,031	45,278
Recoveries from thrift resolutions	1,923,914	2,047,069
Recoveries from corporate-owned assets	493,506	675,639
Miscellaneous receipts	148,490	91,141
Cash outflows for:		
Administrative expenses	60,657	89,342
Disbursements for thrift resolutions	10,126,068	6,629,108
Disbursements for corporate-owned assets	117,055	124,071
Interest paid on indebtedness incurred from thrift resolutions	1,262,472	1,126,458
Net Cash Used by Operating Activities Before Funding Transfer	(7,920,036)	(5,109,852)
Funding transfer to the Savings Association Insurance Fund (Note 1)	40,650	56,088
Net Cash Used by Operating Activities (Note 16)	(7,960,686)	(5,165,940)
Cash Flows Provided From Investing Activities	-0-	-0-
Cash Flows From Financing Activities		
Cash inflows from:		
U.S. Treasury payments	20,482,000	5,924,000
Cash outflows for:		
Payments of indebtedness incurred from thrift resolutions	13,010,041	1,078,121
Net Cash Provided by Financing Activities	7,471,959	4,845,879
Net Decrease in Cash and Cash Equivalents	(488,727)	(320,061)
Cash and Cash Equivalents - Beginning	1,256,066	1,576,127
Cash and Cash Equivalents - Ending	$ 767,339	$ 1,256,066

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

Notes to the Financial Statements

DECEMBER 31, 1991 and 1990

1. Legislative History and Reform

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was enacted to reform, recapitalize and consolidate the federal deposit insurance system. FIRREA designated the Federal Deposit Insurance Corporation (FDIC) as administrator of the Bank Insurance Fund (BIF), which insures the deposits of all BIF-member institutions (normally commercial banks), and the Savings Association Insurance Fund (SAIF), which insures the deposits of all SAIF-member institutions (normally thrifts). Both insurance funds are maintained separately to carry out their respective mandates. The FDIC also administers the FSLIC Resolution Fund (FRF) which is responsible for winding up the affairs of the former Federal Savings and Loan Insurance Corporation (FSLIC).

FIRREA created the Resolution Trust Corporation (RTC), which manages and resolves all thrifts previously insured by the FSLIC for which a conservator or receiver is appointed during the period January 1, 1989 through August 8, 1992. The Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991 (1991 RTC Act) extended the RTC's general resolution authority through September 30, 1993, and beyond that date for those institutions previously placed under RTC control.

The Resolution Funding Corporation (REFCORP) was established by FIRREA to provide funds to the RTC for use in the thrift industry bailout. The Financing Corporation (FICO), established under the Competitive Equality Banking Act of 1987, is a mixed-ownership government corporation whose sole purpose was to function as a financing vehicle for the FSLIC. However, effective December 12, 1991, as provided by the Resolution Trust Corporation Thrift Depositor Protection Reform Act of 1991, the FICO's authority to issue obligations as a means of financing for the FRF was terminated.

Operations of the FRF. The primary purpose of the FRF is to liquidate the assets and contractual obligations of the now defunct FSLIC. FRF will complete the resolution of all thrifts that failed before January 1, 1989 or were assisted before August 9, 1989. FIRREA provided that the RTC manage any receivership resulting from thrift failures that occurred after January 1989 but prior to the enactment of FIRREA. There were seven such receiverships that are included in the FRF financial statements because the FRF remains financially responsible for the losses associated with these resolution cases.

The FRF is funded from the following sources, to the extent funds are needed, in this order: 1) income earned on, and proceeds from the disposition of, assets of the FRF; 2) liquidating dividends and payments made on claims received by the FRF from receiverships to the extent such funds are not required by the REFCORP or the FICO; 3) amounts borrowed by the FICO; and 4) amounts assessed against SAIF-members by the FDIC that are not claimed by the FICO or by the REFCORP during the period from inception (August 9, 1989) through December 31, 1992. Excluded are assessments paid by BIF-member banks (so called "Oakar" banks, created pursuant to the "Oakar amendment" provisions found in Section 5(d)(3) of the FDIC Act) on SAIF-insured deposits. If these sources are insufficient to satisfy the liabilities of the FRF, payments will be made from the U.S. Treasury in such amounts as are necessary, as approved by the Congress, to carry out the purpose of the FRF.

The 1991 RTC Act amended the FDI Act by extending the FRF funding of the SAIF administrative and supervisory expenses through September 30, 1992. Upon termination of the RTC (not later than December 31, 1996), all assets and liabilities of the RTC will be transferred to the FRF, after which all future net proceeds from the sale of such assets will be transferred to the REFCORP for interest payments. The FRF will continue until all of its assets are sold or otherwise liquidated and all of its liabilities are satisfied. Upon the dissolution of the FRF, any funds remaining will be paid to the U.S. Treasury. Any administrative facilities and supplies will be transferred to the SAIF.

2. Summary of Significant Accounting Policies

General. These financial statements pertain to the financial position, results of operations and cash flows of the FRF. These statements do not include reporting for assets and liabilities of closed insured thrift institutions for which the FRF acts as receiver or liquidating agent. Periodic and final accountability reports of the FRF's activities as receiver or liquidating agent are furnished to courts, supervisory authorities and others as required.

Allowance for Loss on Receivables and Investment in Corporate-Owned Assets. The FRF records as a receivable the amounts advanced for assisting and closing thrift institutions. The FRF records as an asset the amounts advanced for investment in assets. Any related allowance for loss represents the difference between the funds advanced and the expected repayment. The latter is based on the estimated cash recoveries from the assets of the assisted or failed thrift institution, net of all estimated liquidation costs.

Estimated Liabilities for Assistance Agreements. The FRF establishes an estimated liability for probable future assistance payable to acquirers of troubled thrifts under its financial assistance agreements. Such estimates are presented on a discounted basis.

Litigation Losses. The FRF accrues, as a charge to current period operations, an estimate of loss from litigation against the FRF in both its corporate and receivership capacities. The FDIC Legal Division recommends these estimates on a case-by-case basis.

Receivership Administration. The FRF is responsible for controlling and disposing of the assets of failed institutions in an orderly and efficient manner. The assets, and the claims against those assets, are accounted for separately to ensure that liquidation proceeds are distributed in accordance with applicable laws and regulations. Costs and expenses relating to specific receiverships are directly charged to those receiverships. The FRF also recovers indirect liquidation expenses from the receiverships.

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

The cost of furniture, fixtures and equipment purchased by the FDIC on behalf of the three Funds under its administration is allocated among these Funds on a pro rata basis. The FRF expenses its share of these allocated costs at the time of acquisition because of their immaterial amounts.

Assessment Revenue Recognition. FIRREA directed that the FICO, the REFCORP and the FRF have priority over the SAIF for receiving and utilizing SAIF-member assessments to ensure availability of funds for specific operational activities. Accordingly, the FRF recognizes as assessment revenue only that portion of SAIF-member assessments not claimed by the FICO or the REFCORP. Assessments paid by "Oakar" banks on the SAIF-insured deposits are retained in the SAIF and, thus, are not subject to draws by the FICO, the REFCORP or the FRF (see Notes 1, 11 and 17).

Wholly-Owned Subsidiary. The Federal Asset Disposition Association (FADA) is a wholly-owned subsidiary of the FRF. The FADA was placed in receivership on February 5, 1990. However, due to outstanding litigation, a final liquidating dividend to the FRF will not be made until such time as the FADA's litigation liability is settled or dismissed. The investment in the FADA is accounted for using the equity method and is included in the financial statement line item "Other assets" (Note 6). The value of the investment has been adjusted for projected expenses relating to the liquidation of the FADA. The FADA's estimate of probable litigation losses range from $2 million to $3.6 million. Accordingly, a $2 million litigation loss has been recognized as a reduction in the value of FRF's investment in the FADA. Additional litigation losses considered reasonably possible are estimated to be from $4 million to $45 million and remain unrecognized. In addition, losses from two potential lawsuits and/or claims against the FADA cannot be estimated at this time.

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

Restatement. The 1990 financial statements have been restated for the following reasons: 1) the presentation of net receivables from thrift resolutions and liabilities incurred from thrift resolutions was changed from including income capital certificates and net worth certificates as off-balance sheet disclosure to presenting the effect of these certificates directly on the statements; 2) Assessment revenue earned and accounts payable, accrued and other liabilities were restated to comply with the requirements of FIRREA (see Notes 10, 11 and 17); and 3) Administrative operating expense decreased by $107,000 due to a prior period adjustment.

Reclassifications. Reclassifications have been made in the 1990 Financial Statements to conform to the presentation used in 1991.

3. Cash and Cash Equivalents

The FRF considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. In 1991, cash restrictions included $2.5 million for health insurance payable and $35.4 million for funds held in trust. Cash and cash equivalents as of December 31 consisted of the following (in thousands of dollars):

	1991	1990
Cash	$ 233,875	$ 1,018,643
Cash equivalents	533,464	237,423
	$ 767,339	**$ 1,256,066**

4. Net Receivables from Thrift Resolutions

Net Receivables from Thrift Resolutions as of December 31 consisted of the following (in thousands of dollars):

	1991	1990
Receivables from Operating Thrifts:		
Collateralized loans	$ 560,000	$ 650,000
Other loans	267,880	282,860
Capital instruments	289,471	323,403
Preferred stock from assistance transactions	445,659	511,686
Accrued interest receivable	21,190	19,668
Allowance for losses (Note 9)	(659,869)	(547,014)
	924,331	**1,240,603**
Receivables from Closed Thrifts:		
Resolution transactions	11,361,828	12,827,137
Collateralized advances/loans	329,682	385,898
Other receivables	249,187	327,392
Allowance for losses (Note 9)	(9,932,254)	(9,729,618)
	2,008,443	**3,810,809**
	$ 2,932,774	**$ 5,051,412**

As of December 31, 1991 and 1990, the FRF, in its receivership capacity, held assets of $7 billion and $10.2 billion, respectively. The estimated cash recoveries from the sale of these assets (excluding cash and miscellaneous receivables of $483 million) are regularly evaluated, but remain subject to uncertainties because of changing economic conditions affecting real estate assets now in the marketplace. These factors could reduce the FRF's actual recoveries upon the sale of these assets from the level of recoveries currently estimated.

Receivables from thrift resolutions include amounts outstanding to qualified institutions under the Capital Instrument Program. The FSLIC purchased capital instruments such as Income Capital Certificates (ICCs) and Net Worth Certificates (NWCs) from insured institutions either in a non-cash exchange (by issuing a note payable of equal value) or by cash payments. The total amount of ICCs outstanding as of December 31, 1991 and 1990 is $157,446,000 and $175,153,000, respectively. Likewise, the total amount of NWCs outstanding as of December 31, 1991 and 1990 is $132,025,000 and $148,250,000, respectively.

The FRF pays interest on notes payable to an assisted institution in cash, while the institution only accrues the interest expense on the certificates to the FRF. If an institution is profitable, it will pay interest to the FRF. The FRF recognizes interest revenue when received from an institution.

5. Investment in Corporate-Owned Assets, Net

The FSLIC acquired assets from problem institutions in its efforts to merge and/or sell failing thrifts. The vast majority of these assets are real estate and mortgage loans. Investment in Corporate-Owned Assets, Net as of December 31 was as follows (in thousands of dollars):

	1991	1990
Investment in corporate-owned assets	$ 3,554,985	$ 3,701,828
Allowance for losses	(2,968,015)	(2,673,899)
	$ 586,970	**$1,027,929**

6. Other Assets

Other Assets as of December 31 consisted of the following (in thousands of dollars):

	1991	1990
Investment in FADA, net	$ 11,417	$ 15,781
Accounts receivable, net	3,447	64,391
	$ 14,864	$ 80,172

7. Liabilities Incurred from Thrift Resolutions

The FSLIC had issued promissory notes and entered into assistance agreements in order to prevent the default and subsequent liquidation of certain insured thrift institutions. These notes and agreements required the FSLIC to provide financial assistance over time. Under FIRREA, the FRF has assumed these obligations. The FRF presents its notes payable and its obligation for assistance agreement payments incurred but not yet paid as a component of the line item "Liabilities incurred from thrift resolutions". Estimated future assistance payments to acquirers required under its assistance agreements are presented as a component of the line item "Estimated liabilities for assistance agreements" (Note 8).

Liabilities Incurred from Thrift Resolutions as of December 31 consisted of the following (in thousands of dollars):

	1991	1990
Notes payable to Federal Home Loan Banks/U.S. Treasury	$ 560,000	$ 650,000
Notes payable to acquirers of failed institutions	700,572	775,112
Capital instruments (Note 4)	41,325	184,935
Assistance agreement notes	7,582,557	18,096,731
Accrued assistance agreement costs	2,437,188	2,929,623
Accrued interest	111,882	437,783
Other liabilities to savings institutions	376,572	484,950
	$11,810,096	$23,559,134

Maturities of these liabilities for each of the next five years and thereafter are as follows (in thousands of dollars):

1992	1993	1994	1995	1996	1997/Thereafter
$6,785,433	$494,516	$381,240	$795,368	$401,418	$2,952,121

8. Estimated Liabilities for Assistance Agreements

The "Estimated liabilities for assistance agreements" line item represents, on a discounted basis, an estimate of future assistance payments to acquirers of troubled thrift institutions. The discount rate applied as of December 31, 1991 and 1990 was 5.625% and 8.25% respectively, based on U.S. money rates for federal funds.

Future assistance stems from the FRF's obligation to: 1) fund losses inherent in assets covered under the assistance agreement (e.g., by subsidizing asset write-downs, capital losses and goodwill amortization) and 2) supplement the actual yield earned from covered assets as necessary for the acquirer to achieve a specified yield (the "guaranteed yield"). Estimated total assistance costs recognized for current assistance agreements with institutions involving covered assets include estimates for the loss expected on the assets based on their appraised values. The FRF is obligated to fund any losses sustained by the institutions on the sale of the assets. If asset losses are incurred in excess of those recognized, the possible cash requirements and the accounting loss could be as high as $9.4 billion, should all underlying assets prove to be of no value (Note 15). The costs and related cash requirements associated with the maintenance of covered assets are calculated using market interest rates and would change proportionately with any change in market rates.

The RTC, on behalf of the FRF, has authority to modify, renegotiate or restructure the 1989 and 1988 assistance agreements with FSLIC-assisted institutions with terms more favorable to the FRF. In accordance with a 1991 RTC Board Resolution, any FSLIC-assisted institution that has been placed in RTC conservatorship or receivership is subject to revised termination procedures. During 1991, the RTC exercised its authority by terminating assistance agreements with two FSLIC-assisted institutions placed in receivership/conservatorship. These transactions resulted in a reclassification of $2.4 billion from "Estimated liabilities for assistance agreements" to "Liabilities incurred from thrift resolutions". An additional assistance agreement was terminated resulting in the issuance of a $158 million short-term note for the purchase of covered assets. There were 131 assistance agreements outstanding as of December 31, 1991, the last of which is scheduled to expire in December 1998.

The estimated liabilities for assistance agreements are affected by several factors, including adjustments to expected notes payable, the terms of the assistance agreements outstanding and, in particular, the salability of the related covered assets. The variable nature of the FRF assistance agreements will cause the cost requirements to fluctuate. This fluctuation will impact both the timing and amount of eventual cash payments. Although the "Estimated liabilities for assistance agreements" line item is presented on a discounted basis, the following schedule details the projected timing of the future cash payments (in thousands of dollars) as of December 31, 1991, on a nominal dollar basis:

1992	1993	1994	1995	1996	1997/Thereafter
$4,231,675	$1,618,362	$828,056	$495,111	$263,436	$592,115

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

Adjustments include reclassifications, transfers and audit adjustments to the allowance for losses and estimated liabilities. The majority of the 1991 adjustments to "Estimated liabilities for assistance agreements" includes reclassifications to the statement of financial position line item "Liabilities incurred from thrift resolutions" for notes payable and related accrued assistance agreement costs.

The Analysis of Changes in Allowance for Losses and Estimated Liabilities consisted of the following (in millions of dollars):

Allowance for Losses	Beginning Balance 01/01/91	Provision for Losses	Net Cash Payments	Adjustments	Ending Balance 12/31/91
Operating thrifts	$ 547	$ 129	$ -0-	$ (16)	$ 660
Closed thrifts	9,730	264	-0-	(62)	9,932
Investment in corporate-owned assets	2,674	169	-0-	125	2,968
Investment in FADA	9	4	-0-	-0-	13
Total Allowances	12,960	566	-0-	47	13,573
Estimated Liabilities					
Assistance agreements	17,839	1,043	(9,645)	(1,826)	7,411
Litigation losses	108	60	-0-	-0-	168
Total Estimated Liabilities	17,947	1,103	(9,645)	(1,826)	7,579
Total Allowances/Liabilities	**$30,907**	**$1,669**	**$(9,645)**	**$(1,779)**	**$21,152**

Allowance for Losses	Beginning Balance 01/01/90	Provision for Losses	Net Cash Payments	Adjustments	Ending Balance 12/31/90
Operating thrifts	$ 405	$ 236	$ -0-	$ (94)	$ 547
Closed thrifts	9,515	171	-0-	44	9,730
Investment in corporate-owned assets	2,674	41	-0-	(41)	2,674
Investment in FADA	9	-0-	-0-	-0-	9
Total Allowances	**12,603**	**448**	**-0-**	**(91)**	**12,960**
Estimated Liabilities					
Assistance agreements	20,048	3,859	(5,517)	(551)	17,839
Litigation losses	103	5	-0-	-0-	108
Total Estimated Liabilities	**20,151**	**3,864**	**(5,517)**	**(551)**	**17,947**
Total Allowances/Liabilities	**$32,754**	**$4,312**	**$(5,517)**	**$ (642)**	**$30,907**

10. Resolution Equity

The changes in Resolution Equity consisted of the following (in thousands of dollars):

	Beginning Balance 01/01/91	Net (Loss)	Treasury Payments	Ending Balance 12/31/91
Contributed Capital	$ 7,753,000	$ -0-	$ 20,482,000	$ 28,235,000
Accumulated Deficit	(41,883,259)	(1,610,528)	-0-	(43,493,787)
	$(34,130,259)	**$(1,610,528)**	**$20,482,000**	**$(15,258,787)**

	Beginning Balance 01/01/90	Net (Loss)	Treasury Payments	Ending Balance 12/31/90
Contributed Capital	$ 1,829,000	$ -0-	$5,924,000	$ 7,753,000
Accumulated Deficit	(35,886,394)	(5,996,865) (Note 2)	-0-	(41,883,259)
	$(34,057,394)	**$(5,996,865)**	**$5,924,000**	**$(34,130,259)**

The Accumulated Deficit includes $7.5 billion in non-redeemable capital certificates and redeemable capital stock issued by the FSLIC. Capital instruments have been issued by the FSLIC and the FRF to the FICO as a means of obtaining capital. However, due to the availability of U.S. Treasury payments to satisfy FRF obligations, no additional borrowings from the FICO are anticipated. Effective December 12, 1991, the FICO's authority to issue obligations as a means of financing for the FRF was terminated (see Note 1). Furthermore, the implementation of FIRREA has effectively removed the redemption characteristics of the capital stock issued by the FSLIC.

11. Assessments

In January 1991, FRF received $27.5 million of SAIF-member assessments previously claimed by REFCORP. REFCORP did not require the funds because they have no further plans for issuing public debt. The FRF is next in line to claim assessments not required by FICO or REFCORP. A receivable and corresponding credit to revenue were posted in 1990 to reflect entitlement to the assessment. The FRF recognized assessments earned totaling $1 billion in 1991.

The FDIC Legal Division rendered an opinion in March 1992 that assessments paid by "Oakar" banks on SAIF-insured deposits should be retained by the SAIF, and that income recognition (by SAIF) should be retroactive to FIRREA's enactment date. As of December 31, 1991 and 1990, the FRF recorded a payable to the SAIF of $88 million and $17 million, respectively, for "Oakar" assessment revenue.

Secondary Reserve Offset. The FDI Act authorizes insured savings institutions to offset against any assessment premiums their pro rata share of amounts that were previously part of the FSLIC's "Secondary Reserve". The secondary reserve represented premium prepayments that insured savings institutions were required by law to deposit with the FSLIC during the period 1961 through 1973 to quickly increase FSLIC's insurance reserves to absorb losses if the regular assessments were insufficient. The allowable offset is limited to a maximum of 20 percent of an institution's remaining pro rata share for any calendar year beginning before 1993. After calendar year 1992, there is no limitation on the remaining offset amount.

The FRF is also required to pay in cash (or reduce an outstanding indebtedness) the remaining portion of the savings institution's full pro rata distribution when the institution loses its insured status or goes into receivership. The FRF establishes a payable to that institution or its receiver with a corresponding charge to expense. As of December 31, 1991 and 1990, the Secondary Reserve payable, included in the line item "Accounts payable, accrued and other liabilities", was $47,818,560 and $1,068,988, respectively.

The remaining Secondary Reserve credit at December 31, 1991 and 1990, was $297,761,163 and $359,121,133, respectively. This amount will be reduced in future years by offsets against assessment premiums, forfeited amounts due to mergers and payments to savings institutions that lose their insured status.

12. Pension Benefits, Savings Plans and Accrued Annual Leave

Eligible FDIC employees (i.e., all permanent and temporary employees with an appointment exceeding one year) are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The CSRS is a defined benefit plan integrated 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 can also participate in a federally sponsored tax-deferred savings plan available to provide additional retirement benefits. The FERS is a three-part plan consisting of a basic defined benefit plan which provides benefits based on years of creditable service and compensation levels, social security benefits and a tax-deferred savings plan. Further, automatic and matching employer contributions are provided up to specified amounts under the FERS. Eligible employees may participate in an FDIC sponsored tax-deferred savings plan with matching contributions. The FRF pays the employer's portion of the related costs.

The FRF's allocated share of pension benefits and savings plans expenses as of December 31 consisted of the following (in thousands of dollars):

	1991	1990
Civil Service Retirement System	$ 809	$ 725
Federal Employee Retirement System (Basic Benefit)	2,822	2,659
FDIC Savings Plan	1,006	619
Federal Thrift Savings Plan	717	593
	$5,354	$4,596

The liability to employees for accrued annual leave is approximately $4,785,000 and $4,829,000 at December 31, 1991 and 1990, respectively.

Although the FRF contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported and accounted for by the U.S. Office of Personnel Management.

13. FDIC Health, Dental and Life Insurance Plans for Retirees

The FDIC provides certain health, dental and life insurance coverage for its eligible retirees. Eligible retirees are those who have elected the FDIC's health and/or life insurance program and are entitled to an immediate annuity. The health insurance coverage is a comprehensive fee-for-service program underwritten by Blue Cross/Blue Shield of the National Capital Area, with hospital coverage and a major medical wrap-around; the dental care is underwritten by Connecticut General Insurance Company. The FDIC makes the same contributions for retirees as those for active employees. The FDIC benefit programs are fully insured. Effective January 1, 1991, the funding mechanism was changed to a "minimum premium funding arrangement". Fixed costs and expenses for claims are paid as incurred. Premiums are deposited for claims incurred but not reported. The premiums are held by the FDIC.

The life insurance program is underwritten by Metropolitan Life Insurance Company. The program provides for basic coverage at no cost and allows converting optional coverages to direct-pay plans with Metropolitan Life. The FDIC does not make any contributions towards annuitants' basic life insurance coverage; this charge is built into rates for active employees.

The FRF's allocated share of retiree benefits provided as of December 31 are as follows (in thousands of dollars):

	1991	1990
Health premiums paid	$ 80	$ 278
Dental premiums paid	4	23

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standard No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions), which the FDIC is required to adopt by 1993. The standard requires companies to recognize postretirement benefits during the years employees are working and earning benefits for retirement. Resulting estimated expenses will be allocated to the FRF based on the relative degree to which expenses were incurred. Although the impact of the FDIC's adoption of the standard cannot reasonably be estimated at this time, the standard may increase reported administrative costs and expenses of the FRF.

14. Commitments

The FRF is currently sharing in the FDIC's lease of office space. The FRF's lease commitments for office space total $7,447,000 for future years. The agreements contain escalation clauses resulting in adjustments, usually on an annual basis. The FRF's recognized leased space expense of approximately $8,725,000 and $14,821,000 for the years ended December 31, 1991 and 1990, respectively.

The FRF's allocated share of leased space fees for future years, which are committed per contractual agreement, are as follows (in thousands of dollars):

1992	1993	1994	1995	1996
$2,303	$2,049	$1,664	$1,072	$359

15. Concentration of Credit Risk

The FRF is counterparty to a group of financial instruments with entities located throughout regions of the United States that are experiencing significant problems in both loans and real estate. The FRF's maximum exposure to possible accounting loss should each counterparty to these instruments fail to perform and any underlying assets prove to be of no value is shown as follows (in millions of dollars):

	December 31, 1991						
	South East	South West	North East	Mid West	Central	West	Total
Net receivables from thrift resolutions	$ 566	$ 806	$ 336	$ 101	$ 116	$ 1,008	$ 2,933
Investment in corporate-owned assets	-0-	564	-0-	-0-	23	-0-	587
Assistance agreements covered assets (off-balance sheet)	130	3,344	3	73	408	5,464	9,422
Total	$ 696	$ 4,714	$ 339	$ 174	$ 547	$ 6,472	$ 12,942

16. Supplementary Information Relating to the Statements of Cash Flows

Reconciliation of net loss to net cash used by operating activities as of December 31 consisted of the following (in thousands of dollars):

	1991	1990
Net (Loss)	$ (1,610,528)	$(5,996,865)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for losses	1,669,366	4,311,682
Decrease in assessments receivable	28,748	-0-
Decrease in other assets	77,967	100,326
(Decrease) in accounts payable, accrued and other liabilities	(6,953)	(7,933)
Net cash disbursed for thrift resolutions not affecting income	(7,732,848)	(3,678,009)
Accrual of assets and liabilities from thrift resolutions	(386,438)	104,859
Net cash used by operating activities	**$(7,960,686)**	**$(5,165,940)**

Non-cash financing activities for the year ended December 31, 1991 include: 1) canceled notes payable (NWCs) of $12,740,000; 2) cancelled notes payable (ICCs) of $ 2,000,000; and 3) issued note payable of $158,670,000.

Non-cash financing activities for the year ended December 31, 1990 include: 1) canceled notes payable (NWCs) of $10,700,000; and 2) canceled notes payable (ICCs) of $18,000,000.

17. Subsequent Events

On September 25, 1990, the Boards of Directors of the FDIC and RTC authorized the implementation of a program whereby FSLIC assistance agreements and promissory notes could be terminated during the period of an institution's conservatorship not just during the period of its final receivership. The program also provides that the assistance agreement settlement would be based on an Asset Valuation Review (AVR), giving consideration to the individual assistant agreement terms and adjusting for certain amounts paid and/or accrued from the effective date of the AVR to the termination date. Two institutions in RTC conservatorship (Cimmarron, Muskogee, Oklahoma and Merabank, El Paso, Texas) were terminated prior to December 31, 1991. The FRF's liability to the RTC conservatorships is currently estimated at between $330 and $345 million for note principal and $4 million for accrued interest on the notes.

Public Law #102-139, which was signed into law on October 28, 1991, appropriated $15.9 billion to the FRF for the fiscal year ending September 30, 1992. The FRF has requested appropriations of approximately $6.8 billion for FY 1993. The funds may be used to prepay notes payable, accelerate write-downs of covered assets, purchase covered assets and/or renegotiate assistance contracts to reduce projected costs to the FRF. As of March 31, 1992, $5.5 billion has been received from the U.S. Treasury. The remaining $10.4 billion, expected to be requested by September 1992, will be used to prepay notes, purchase covered assets, renegotiate assistance agreements and pay normal assistance agreements.

Through March 1992, $3.8 billion was expended for note prepayments and $3.2 billion for normal assistance payments, which includes note interest payments. No payments were recorded for accelerated write-downs of covered assets.

Assessment Premiums. On March 27, 1992, the FDIC's Legal Division rendered the opinion that, under FIRREA, assessments paid on SAIF-insured deposits by "Oakar" banks must be retained in the SAIF, and, thus, are not subject to draws by the FICO, the REFCORP or the FRF. As FIRREA became effective in August 1989, the financial statements for 1990 have been restated. FRF received the assessments paid on SAIF-insured deposits in 1990 and 1991, therefore the effect of this restatement was to establish a payable to SAIF and to reduce assessment revenue by $17 million for 1990. Additionally, in 1991, the payable to SAIF was increased by $91 million. This payable represents $88 million in assessment revenue and $3 million interest expense.

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