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# REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES



## Audit Of Federal Deposit Insurance Corporation For The Year Ended June 30, 1975

As in previous years, GAO did not have unre-  
stricted access to bank examination reports  
and related documentation. This report sum-  
marizes the Corporation's and GAO's posi-  
tions on this matter and recommends that the  
Congress amend the Federal Deposit Insur-  
ance Act to clarify GAO's audit authority.

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JULY 21, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

D-114831

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

This report summarizes the results of our audit of the  
Federal Deposit Insurance Corporation for the year ended  
June 30, 1975.

We made our examination pursuant to section 17(c) of  
the Federal Deposit Insurance Act (12 U.S.C. 1827).

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

A handwritten signature in cursive script, appearing to read "James A. Atchafalua".

Comptroller General  
of the United States

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D I G E S T

The Federal Deposit Insurance Act of 1950 requires GAO to audit the Federal Deposit Insurance Corporation.

The Corporation's financial statements do not show an estimate of the liability which the Corporation may incur because of future bank failures.

As in prior years, GAO did not have unrestricted access to bank examination reports and related documentation. Therefore, GAO could not determine

- whether bank examinations were of sufficient scope and reliability to identify all banks that should have been classified as problem banks,
- whether the Corporation had taken effective followup action on findings disclosed by bank examiners, and
- the significance of any possible adverse effects of problem banks on the Corporation's financial position.

For these reasons GAO cannot express an overall opinion on the Corporation's financial statements for fiscal years 1974 and 1975. However, in our opinion the individual amounts shown in the financial statements are fairly stated as of June 30, 1974, and June 30, 1975, and for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

GAO has been granted access to the bank examination reports of the Corporation, as well as the Federal Reserve Board and the Comptroller of the Currency, for purposes of responding to a congressional request for a study of the effectiveness of Federal bank supervision. This study

is separate from GAO's review of the financial statements of the Corporation. It is estimated that the study will be completed in December 1976. (See p. 3.)

The Corporation believes that the basic concept of confidentiality, regarding open bank data, is essential for proper supervision and functioning of banks. (See p. 4.)

Both the Corporation and GAO believe that the law supports their respective positions on the access-to-records problem and efforts to resolve the matter administratively have failed.

GAO recommends that the Congress amend the Federal Deposit Insurance Act to clarify GAO's authority to have access to examination reports, files, and other records used by the Corporation. (See pp. 4 and 5.)

Effective November 27, 1974, by amendment to the Federal Deposit Insurance Act, the general limit of insurance per depositor was increased from \$20,000 in each insured bank to \$40,000. For time and savings deposits of Federal units, and such deposits of State and local governments deposited in the depositor's own State, the limit of deposit insurance was increased to \$100,000 per depositor. (See p. 1.)

On October 8, 1974, the Comptroller of the Currency closed the Franklin National Bank, Brooklyn, New York, and appointed the Corporation receiver. Franklin National, which was the largest bank to close in the history of the United States, had over \$3.6 billion in assets and approximately \$1.4 billion in deposits. About \$707 million of these deposits were insured.

The European-American Bank and Trust Company assumed approximately \$1.6 billion of Franklin's deposits and other liabilities and acquired the right to select assets in the amount of approximately \$1.5 billion; the remainder was acquired by the Corporation. The Corporation does not plan to establish a re-

serve for loss because GAO was told initial but continuing reviews and evaluation of the assets indicate that a loss will not be incurred. (See pp. 9 and 10.)

The Swope Parkway National Bank, Kansas City, Missouri, was closed on January 3, 1975. The Corporation established, and is managing, a new national bank in lieu of the normal bank closing procedures. The newly established bank, the Deposit Insurance National Bank of Kansas City, Missouri, is unusual in that this is only the fourth instance since the establishment of the Corporation that it has owned and managed an operating bank. (See p. 10.)

In prior audit reports to the Congress on the Corporation, GAO recommended that the Federal Deposit Insurance Act be amended to allow for the audit of the Corporation on a calendar year basis rather than a fiscal year basis.

Passage by the Congress of section 602(b) of title VI of the act of January 2, 1975, provided this amendment and GAO has accordingly changed its audit of the Corporation to a calendar year basis effective January 1, 1976. (See p. 14.)

CHAPTER 1

INTRODUCTION

1 The Federal Deposit Insurance Corporation, an independent Government agency, insures deposits in qualified banks. National banks which are chartered by the Comptroller of the Currency and all State banks which are members of the Federal Reserve System are required to be insured. State banks which are not members of the Federal Reserve System may become insured upon approval of their application.

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2 Effective November 27, 1974, by amendment to the Federal Deposit Insurance Act, the general limits of insurance per depositor was increased from \$20,000 in each insured bank to \$40,000. At the same time, a higher maximum level of insurance was established for certain deposits of public units. For time and savings deposits of Federal units, and such deposits of State and local governments made in the depositor's own State, the limit of insurance was increased to \$100,000 per depositor.

The Corporation also acts, when appointed to do so, as receiver and liquidator of insured banks that have been closed. On June 30, 1975, the Corporation had 62 active liquidation cases.

3 The Corporation finances its operations from assessments against insured banks and from its investments in U.S. Government securities. The deposit insurance fund representing the accumulated net income, totaled \$6.4 billion on June 30, 1975. This amount was 1.17 percent of the insured deposits of \$549.1 billion in the 14,654 insured banks on June 30, 1975. The Corporation can borrow up to \$3 billion from the U.S. Treasury when, in the judgment of the Board of Directors, such funds are required for insurance purposes. The Corporation has never used this borrowing authority.

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Management of the Corporation is vested in the Board of Directors, composed of (1) two members appointed by the President of the United States by and with the advice and consent of the Senate and (2) the Comptroller of the Currency. The board members are listed in appendix I.

EXAMINATION OF INSURED BANKS

The Corporation's Division of Bank Supervision consists of 2,027 staff members at June 30, 1975, 130 in headquarters



and 1,097 in 14 regional offices. This Division periodically examines insured State banks which are not members of the Federal Reserve System. Of the 8,536 insured State nonmember banks at June 30, 1975, the Corporation reported that it examined 7,357 during fiscal year 1975. As stated in chapter 2, we were denied unrestricted access to examination reports. Therefore, we are unable to evaluate the examinations performed.

On January 1, 1974, the Corporation initiated an experimental selective withdrawal program for examining insured State nonmember banks in Iowa, Georgia, and Washington. For selected banks in these States, the Corporation has been reviewing the State banking departments' examination reports instead of performing a complete examination itself. During fiscal year 1975 the Corporation reported that it reviewed 246 such examination reports.

During 1976, the experimental program will be modified and the Corporation will examine those banks which it had not examined during the past 2 years. This will enable the Corporation to assess the current condition of these banks and allow for an evaluation of the program.

The Comptroller of the Currency and the Federal Reserve banks examine national banks and State member banks, respectively. The Corporation has access to and reviews their examination reports. Of the 4,732 national banks and 1,064 State member banks at June 30, 1975, the Corporation reported that it reviewed 3,367 national bank and 495 State member bank examination reports during fiscal year 1975. We were denied unrestricted access to these examination reports. Therefore, we are unable to evaluate the examinations performed.

## CHAPTER 2

### CONTINUED RESTRICTION ON ACCESS TO REPORTS

#### AND RECORDS ON BANK EXAMINATIONS

As in prior years, we could not fully discharge our audit responsibilities under the Federal Deposit Insurance Act because Corporation officials did not give us unrestricted access to examination reports, files, and other records relating to insured banks, except for the records of closed banks.

GAO was granted access to the bank examination reports of the Corporation, as well as the Federal Reserve Board and the Comptroller of the Currency, for purposes of responding to a congressional request for a study of the effectiveness of Federal bank supervision. Written agreements were signed in April and May 1976 by the Comptroller General and the heads of each agency specifying the conditions and purposes of access to the examination reports and related correspondence files. This study is separate from our review of the financial statements of the Corporation. It is estimated that the study will be completed in December 1976.

Access to the records of the Corporation's Division of Bank Supervision is essential to a meaningful audit of financial operations. The Division employs approximately 73 percent of the Corporation's total personnel and the Division's efforts and reports are an essential part of the Corporation's operations. The reports on insured banks contain facts, opinions, and recommendations of vital importance to the conduct of the Corporation's affairs. Without unrestricted access to these reports and the supporting documentation, we cannot evaluate important information affecting the Corporation's financial operations and condition.

The Corporation's financial condition is related to the financial condition of the banks it insures. As the closings of the U.S. National Bank of San Diego, on October 18, 1973, and the Franklin National Bank demonstrated (see pp. 9 and 10), large bank failures can have a considerable impact on the Corporation. Without unrestricted access to the bank examination reports and related information, we cannot evaluate all information affecting financial operations to advise the Congress of the Corporation's financial condition.

Previously, the majority of problem banks had not required a financial outlay by the Corporation because potential problems were identified and appropriate corrective actions were taken. On the other hand, certain banks

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failed shortly after appearing on the problem list, apparently because the condition of the banks had deteriorated beyond the point where corrective action was feasible. Therefore, early identification of potential problems appears to minimize the possibility of subsequent bank failures. Accordingly, we require access to all open bank records--problem and non-problem--to evaluate the Corporation's efforts in examining and supervising insured banks.

Because of the Corporation-imposed restrictions, we could not determine (1) whether bank examinations were of sufficient scope and reliability to identify all the banks that should have been classified as problem banks, (2) whether the Corporation had taken effective followup action on bank examiners' findings, and (3) the significance of any possible adverse effects of problem banks on the Corporation's financial position.

The Corporation believes that the basic concept of confidentiality of bank data is in the public interest, and essential to the proper supervision of banks and to the effective functioning of the deposit insurance program.

Our position and the Corporation's on this matter are set forth in detail in our report to the Congress, "Audit of the Federal Deposit Insurance Corporation, Year Ended June 30, 1964" (B-114831, February 28, 1966). Some of the basic issues are restated in our report to the Congress, "Audit of Federal Deposit Insurance Corporation for the Year Ended June 30, 1972, Limited by Agency Restriction on Access to Bank Examination Records" (B-114831, April 23, 1973) and in our report with the same title for the year ended June 30, 1973 (B-114831, May 23, 1974).

We and the Corporation believe the present law supports our respective positions. Repeated efforts to resolve this matter administratively have been unsuccessful.

MATTERS FOR CONSIDERATION  
BY THE CONGRESS

To more effectively carry out our audit responsibility, we recommend that the Congress amend the Federal Deposit Insurance Act to clarify our authority to have access to examination reports, files, and other records of the Corporation.

For this purpose the third sentence of section 17(d) of the act (12 U.S.C. 1827(d)) should be amended to read as follows:

"The representatives of the General Accounting Office shall have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the Corporation pertaining to its accounts and operations and necessary to facilitate the audit, including bank examination reports and related records, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians." (Underscoring denotes the change required.)

CHAPTER 3

PROBLEM BANKS AND BANK FAILURES

PROBLEM BANKS

The Corporation classifies problem banks as serious problem-potential payoffs, serious problems, and other problems. A serious problem-potential payoff bank is one considered to have at least a 50-percent chance of requiring financial assistance from the Corporation in the near future. A serious problem bank is one which threatens ultimately to involve the Corporation in a financial outlay unless a drastic change can be made. An other problem bank is one which is less vulnerable but which requires aggressive supervision.

The Corporation's estimate of the number of problem banks and the estimated insured deposits at June 30, 1975, and 1974, are shown below.

	<u>Number of banks</u>		<u>Estimated insured deposits</u>	
	<u>June 30, 1975</u>	<u>June 30, 1974</u>	<u>June 30, 1975</u>	<u>June 30, 1974</u>
			(000 omitted)	
Serious problem-potential payoff banks:				
State nonmember	12	6	\$ 154,183	\$ 49,998
State member	3	2	65,531	10,986
National	<u>4</u>	<u>3</u>	<u>42,519</u>	<u>1,175,732</u>
Total	<u>19</u>	<u>11</u>	<u>262,233</u>	<u>1,236,716</u>
Serious problem banks:				
State nonmember	66	32	1,181,687	672,970
State member	2	-	14,684	-
National	<u>10</u>	<u>6</u>	<u>1,050,725</u>	<u>128,197</u>
Total	<u>78</u>	<u>38</u>	<u>2,247,096</u>	<u>801,167</u>
Other problem banks:				
State nonmember	146	85	2,300,913	975,831
State member	8	8	300,568	820,834
National	<u>22</u>	<u>10</u>	<u>1,158,816</u>	<u>481,006</u>
Total	<u>176</u>	<u>103</u>	<u>3,760,397</u>	<u>2,278,671</u>
Total problem banks	<u>273</u>	<u>152</u>	<u>\$6,269,726</u>	<u>\$4,316,554</u>

During fiscal year 1975, the Corporation removed 84 banks from the problem-bank classification--74 because of improvements in bank management and/or financial condition and 10 because of bank failure--and added 205 other banks, making a total of 273 problem banks at June 30, 1975.

Initially, when problem situations are noted at an insured bank, the appropriate bank regulatory body--the Comptroller of the Currency, the Federal Reserve Board, the State banking authority or the Corporation--attempts to obtain the cooperation of bank management to effect corrective measures. In the case of insured State nonmember banks, if such an approach proves ineffective, the Corporation is authorized to take corrective measures, subject to certain protective standards and procedures. Under this authority the Corporation, during fiscal year 1975, issued six cease-and-desist orders to insured State nonmember banks engaged in unsafe and unsound practices. Moreover, three orders of suspension and one notice of intention to remove bank officials were approved.

When unsafe and unsound practices persist, the Corporation is authorized to initiate proceedings which may result in terminating the bank's deposit insurance coverage. The Corporation initiated three such proceedings during fiscal year 1975.

When an insured bank is in danger of closing, the Corporation is authorized to make loans to the bank when its continued operation is essential to provide adequate banking service to the community. Under this authority, the Corporation had \$37 million in outstanding loans as of June 30, 1975.

#### BANK FAILURES

During fiscal years 1971-75, 27 insured banks failed, as shown below.

#### Number of Insured Banks Which Failed

Fiscal year	State		National	Total
	Nonmember	Member		
1971	7	-	1	8
1972	2	-	1	3
1973	2	-	1	3
1974	1	-	2	3
1975	7	1	2	10
Total	<u>19</u>	<u>1</u>	<u>7</u>	<u>27</u>

The Comptroller of the Currency can declare a national bank insolvent and the State banking authorities can declare a State bank insolvent. In these cases, the Corporation is appointed receiver for closed national banks and accepts appointment as receiver for closed insured State banks when State authorities request it. The principal methods the Corporation has used to protect the depositors of these banks has been (1) directly paying off insured deposits or (2) assisting other banks in purchasing the assets and assuming the liabilities of the closed bank. This latter method, which is referred to as a deposit assumption, can be authorized whenever the Corporation's Board of Directors think it will reduce the risk or avert a threatened loss to the Corporation. During fiscal years 1971-75, the Corporation made 17 payoffs and authorized 15 deposit assumptions.

Methods of Protecting Depositors and the Corporation's Estimated Losses as of June 30, 1975, for Active Liquidation Cases

Fiscal year	Payoff		Deposit assumption		Total	
	Num- ber	Estimated loss	Num- ber	Estimated loss	Num- ber	Estimated loss
		(000 omitted)		(000 omitted)		(000 omitted)
Prior to 1971	18	\$ 8,350	17	\$ 6,723	35	\$ 14,773
1971	4	3,260	4	450	8	4,350
1972	3	4,250	-	-	3	4,250
1973	2	-	1	300	3	300
1974	1	100	2	150,150	3	150,250
1975	2	3,100	8	10,870	10	13,970
	<u>30</u>	<u>\$19,400</u>	<u>32</u>	<u>\$168,493</u>	<u>62</u>	<u>\$187,893</u>

The Corporation estimated that, for the 10 banks which failed during fiscal year 1975, the insured deposits totaled about \$926.3 million and that its potential losses as of June 30, 1975, were about \$13.97 million. The status of the liquidation of each bank is presented below.

Bank	Date closed	Estimated insured deposits	Estimated loss to the Corporation	Status of liquidation
(000 omitted)				
American Bank & Trust Orangeburg, S.C.	9/20/74	\$ 71,818	\$ 4,500	Acquired by Southern Bank & Trust Company
Tri-City Bank Warren, Mich.	9/27/74	8,850	1,000	Acquired by Michigan National Bank Macomb
Franklin National Bank, Brooklyn, N.Y.	10/8/74	706,676	-	Refer to section on Franklin National Bank (p. 9)
Cromwell State Savings Bank, Cromwell, Iowa	10/9/74	2,700	-	Acquired by Iowa State Savings Bank
Swope Parkway National Bank, Kansas City, Mo.	1/3/75	7,073	1,100	Refer to section on Swope Parkway National Bank (p. 10)
Northern Ohio Bank Cleveland, Ohio	2/14/75	58,184	4,100	Acquired by National City Bank
Franklin Bank Houston, Tex.	3/24/75	17,432	2,000	5% of insured deposits have been paid
Chicopee Bank & Trust Co., Chicopee, Mass.	5/9/75	6,187	-	Acquired by Holyoke National Bank
Alabama Bank, Alabama, etc.	5/30/75	4,794	670	Acquired by First State Bank of Alabama
Bank of Preayune Preayune, Miss.	6/18/75	14,454	600	Acquired by Bank of Bank
Total		\$898,168	\$13,970	

#### Closing of Franklin National Bank

On October 8, 1974, the Comptroller of the Currency closed the Franklin National Bank, Brooklyn, New York and appointed the Corporation receiver. On the same day, European-American Bank and Trust Company, an insured New York State-chartered bank, assumed \$1,595 million of deposits and other liabilities and purchased \$1,470 million of the closed bank's assets. The assuming bank's purchase premium bid of \$125 million was the highest of the four bids received. The other bids were submitted by Manufacturers Hanover Trust Company, Chemical Bank, and First National City Bank.



Franklin National was the largest bank to close in United States history with total assets of approximately \$3,647 million and deposits of approximately \$1,439 million. About \$767 million (53 percent) of the deposits were insured.

In its attempt to liquidate the Corporation acquired the rights to 12.7 percent of Franklin's assets and assumed Franklin's \$1,725 million debt to the Federal Reserve Bank of New York. The debt repayment will be completed at the end of 3 years through liquidating the purchased assets, with the Corporation making up any shortfall. The Corporation is required to make payments of between \$465 million and \$665 million and will be required to make the final payment on the debt on December 31, 1975, the debt had been reduced to \$1,177 million and unpaid interest of about \$135 million had been accrued. The Corporation has also purchased a 100 million capital note from European-American to provide additional capital.

Corporation officials advised us that a reserve for loss relating to Franklin's closing will not be established. The reason given was that on November 30, 1975, appraisal of Franklin's assets by the Corporation for liquidation indicated that a loss will not be incurred. Current estimates are that the receivership will continue for at least another 9 years.

#### Closing of Bank Parkway National Bank

On January 1, 1975, the Comptroller of the Currency closed the Bank Parkway National Bank, Kansas City, Missouri because of insolvency.

To provide banking services in the immediate trade area and to allow sufficient time for the local community to establish and capitalize a new bank, the Corporation established the Federal Insurance National Bank of Kansas City, Missouri. Under the provision of the FDIC Act, (12 U.S.C. 1821(L)), the Corporation is to provide for the dissolution of this bank if its stock has not been sold or its assets taken over and liabilities paid within 2 years. This is the fourth time since the Corporation was established that such a bank has been organized and the first time since 1964.

#### Subsequent Bank Failures

From July 1, 1975, through January 31, 1976, nine additional insured banks failed. As shown in the following schedule, these banks had estimated insured deposits of approximately \$61.7 million and could result in a loss to the Corporation of about \$22.9 million.

<u>Bank</u>	<u>Date closed</u>	<u>Estimated insured deposits</u>	<u>Estimated Corporation loss</u>
		(000 omitted)	
Bank of Chidester, Chidester, Arkansas (note a)	7/1/75	\$ 2	\$ 800
State Bank of Clearing, Chicago, Illinois (note b)	7/12/75	46,651	7,000
Astro Bank, Houston, Texas (note c)	10/16/75	4,952	700
American City Bank and Trust Company, N.A., Milwaukee, Wisconsin (note d)	10/21/75	61,000	11,860
The Peoples Bank of the Virgin Islands (note e)	10/24/75	13,230	1,500
The Peoples Bank, Willcox, Arizona (note f)	12/19/75	4,210	612
The First State Bank of Jennings, Jennings, Kansas (note g)	12/27/75	2,264	30
The Bank of Bloomfield, Bloomfield, New Jersey (note h)	1/10/76	23,695	-
Bank of Woodmoor, Woodmoor, Colorado (note i)	1/12/76	<u>3,019</u>	<u>399</u>
		<u>\$161,243</u>	<u>\$22,901</u>

a/Acquired by the Merchants and Planters Bank, Camden, Arkansas.

b/Assumed by Clearing Bank, Chicago, Illinois, a newly chartered insured State nonmember bank.

c/Assumed by Commonwealth Bank of Houston, Houston, Texas, a newly chartered insured State nonmember bank.

d/Acquired by Marine National Exchange Bank of Milwaukee, Milwaukee, Wisconsin.

e/Assumed by Deposit Insurance National Bank of the Virgin Islands, a newly chartered national bank operated by the Corporation under authority of the Federal Deposit Insurance Act.

f/Acquired by Union Bank, Tucson, Arizona.

g/Assumed by Jennings National Bank, Jennings, Kansas, a newly chartered insured national bank.

h/Acquired by First National State Bank of New Jersey, Newark, New Jersey.

i/Assumed by The El Paso County Bank, Woodmoor, Colorado, a newly chartered insured State nonmember bank.

The Corporation's records show that the bank failures in the last several years had resulted from various combinations of unsound and deceptive practices in operations, including misuse of bank funds by bank officers, directors, and owners; substandard loans and excessive appraisals of collateral; unwarranted loans in which bank officials, directors, and owners had personal financial interests; loans in excess of the limits prescribed by law; broker-solicited funds in certificates of deposit and related, unwarranted out-of-territory lending; inadequate capital; unsatisfactory management; and defalcations.

Estimated liability for  
future bank failures

The Corporation's financial statements do not show an estimate of the liability which the Corporation may incur from future failures of insured banks. The Corporation's policy is to recognize losses resulting from bank failures in the period in which they are incurred.

In prior GAO reports on the financial operations of the Corporation, we have stated that the Corporation's policy for recognizing losses is contrary to generally accepted accounting principles which advocate matching expenses to the periods in which the revenues are recorded. Recent pronouncements by the accounting profession have provided more definitive guidance on accounting for and estimating future losses. In consideration of these more recent views, we believe that the Corporation's accounting treatment is now acceptable and in accordance with generally accepted accounting principles. However, to insure that the reader

of the financial statements is aware of the Corporation's policy for recognizing losses, we have stated in our opinion on the statements that they do not show an estimated liability.

## CHAPTER 4

### STATUS OF EARLIER RECOMMENDATIONS

In our prior audit reports, we recommended that section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827(c)) be amended to allow GAO to make its audit reports on a calendar year basis rather than on a fiscal year basis. With the passage of section 602(b) of title VI of the act of January 2, 1975, effective January 2, 1975, section 17(c) was amended.

Accordingly, GAO and the Corporation agreed on September 24, 1975, to change the annual audit from a fiscal year to a calendar year basis commencing with calendar year 1976.

## CHAPTER 5

### SCOPE OF AUDIT AND OPINION

#### ON FINANCIAL STATEMENTS

##### SCOPE OF AUDIT

We have examined the statement of financial condition of the Federal Deposit Insurance Corporation as of June 30, 1974, and June 30, 1975, the related statements of income and deposit insurance fund for the years then ended and changes in financial position for the year ended June 30, 1975, and the statement of analysis of the deposit insurance fund from the fund's inception. Our examination was made in accordance with generally accepted auditing standards and, with the exception concerning review of bank examination reports and related data which is discussed in chapter 2 (see p. 3), included such tests of the accounting records and such other auditing procedures as we considered necessary.

During fiscal year 1975 the Corporation's Financial Audits Branch completed three reports on various aspects of the Corporation's operations. We relied to the extent possible on the work of the internal auditors in our review.

##### OPINION ON FINANCIAL STATEMENTS

The Corporation prepared the financial statements in this report. These financial statements do not show an estimate of the liability which the Corporation may incur because of future bank closings.

Because we did not have unrestricted access to examination reports and related documentation on insured banks (see p. 3), we could not determine (1) whether bank examinations were of sufficient scope and reliability to identify all banks that should have been classified as problem banks (2) whether the Corporation had taken effective followup action on bank examiners' findings, and (3) the significance of any possible adverse effect of problem banks on the Corporation's financial position.

For these reasons we cannot express an overall opinion on the accompanying financial statements for fiscal years 1974 and 1975. However, in our opinion the individual amounts shown in the financial statements are fairly stated as of June 30, 1974, and June 30, 1975, and for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

FEDERAL DEPOSIT INSURANCE CORPORATION  
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1975 AND JUNE 30, 1974

	June 30, 1975		June 30, 1974	
	----- (000 omitted) -----			
<b>ASSETS</b>				
CASH		\$ 21,823		6,121
U.S. GOVERNMENT SECURITIES:				
Securities at amortized cost (notes 1 and 4)	\$6,259,427		\$5,851,592	
Accrued interest receivable	<u>101,343</u>	6,360,770	<u>87,935</u>	5,939,527
ASSETS ACQUIRED IN RECEIVERSHIP AND DEPOSIT ASSUMPTION TRANSACTIONS:				
Subrogated claims of depositors against closed insured banks	60,948		60,013	
Net insured balances of depositors in closed insured banks to be subrogated when paid, see related liability	1,023		778	
Equity in assets acquired under agreements with insured banks (note 5)	1,895,509		327,659	
Corporation purchases	<u>4,531</u>		<u>4,699</u>	
	1,962,013		393,149	
Less reserves for losses	<u>187,893</u>	1,774,120	<u>192,031</u>	201,118
Notes purchased to facilitate deposit assumption				
Principal (note 6)	158,000		50,000	
Accrued interest receivable	<u>3,225</u>	161,225	<u>935</u>	50,935
ASSISTANCE TO OPERATING INSURED BANKS				
Principal (note 7)	37,000		37,000	
Accrued interest receivable	<u>487</u>	37,487	<u>487</u>	37,487
LAND AND OFFICE BUILDING, LESS DEPRECIATION ON BUILDING (note 1)				
		6,756		6,891
MISCELLANEOUS ASSETS				
		1,618		685
		-----		-----
Total assets (note 2)		<u>\$8,363,799</u>		<u>\$6,242,764</u>

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on the statement appears on page 15.

FEDERAL DEPOSIT INSURANCE CORPORATION  
COMPARATIVE STATEMENT OF FINANCIAL CONDITION  
JUNE 30, 1975 AND JUNE 30, 1974

	<u>June 30, 1975</u>	<u>June 30, 1974</u>
	----- (000 omitted) -----	
LIABILITIES AND DEPOSIT INSURANCE FUND		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 5,137	\$ 7,001
EARNEST MONEY, ESCROW FUNDS AND COLLECTIONS HELD FOR OTHERS	1,509	1,176
ACCRUED ANNUAL LEAVE OF EMPLOYEES	3,707	3,435
DUE INSURED BANKS:		
Net assessment income credits:		
Available July 1, 1974	\$ -	\$257,875
Available July 1, 1975	284,455	161,976
Available July 1, 1976 (estimated)	187,733	
Other	163	27
	472,351	384,975
LIABILITIES INCURRED IN RECEIVER-SHIP AND DEPOSIT ASSUMPTION TRANSACTIONS:		
Federal Reserve Bank of New York indebtedness:		
Notes payable	1,376,000	-
Accrued interest payable (note 8)	36,222	-
	\$1,412,222	-
NET INSURED BALANCE OF DEPOSITORS IN CLOSED INSURED BANKS--See related asset	1,025	778
Total liabilities (note 2 and 3)	1,947,551	377,465
DEPOSIT INSURANCE FUND, net income accumulated since inception (Sen. 2)	5,415,648	5,400,127
Total liabilities and Deposit Insurance Fund	\$5,363,799	\$6,242,754

The notes following Schedule 4 are an integral part of this statement. The opinion of the General Accounting Office on the statement appears on page 15.



## FEDERAL DEPOSIT INSURANCE CORPORATION

## COMPARATIVE STATEMENT OF INCOME AND DEPOSIT INSURANCE FUND

FISCAL YEARS ENDED JUNE 30, 1975, and JUNE 30, 1974

	Fiscal year 1975		Fiscal year 1974	
	----- (000 omitted) -----			
<b>INCOME:</b>				
Deposit insurance assessments:				
Assessments earned during the year (note 1)	\$618,280		\$556,650	
Less net assessment income credits to insured banks-- estimated	371,177	\$ 247,103	231,386	\$ 325,264
Adjustments of assessments earned in prior years		68		103
		247,171		225,367
Net income from U.S. Government securities	371,415			331,239
Less adjustment to securities income - prior years (note 9)	186	371,229		
Other income		13,573		5,476
Total income		631,973		691,982
<b>EXPENSES AND LOSSES:</b>				
Administrative and operating expenses		63,068		56,868
Provision for insurance losses:				
Applicable to banks assisted in the current fiscal year	13,970		164,200	
Adjustments applicable to banks assisted in prior years	18,108	4,138	12,755	151,445
Nonrecoverable insurance expenses incurred to protect depositors--net		2,592		1,278
Total expenses and losses		61,522		209,391
NET INCOME--ADDITION TO THE DEPOSIT INSURANCE FUND FOR THE YEAR		570,451		452,391
DEPOSIT INSURANCE FUND, at the beginning of the year		5,845,397		5,393,006
DEPOSIT INSURANCE FUND, at the end of the year--net income accumulated since inception		\$6,415,848		\$5,845,397

The notes following schedule 4 are an integral part of this statement. The opinion of the General Accounting Office on these statements appears on page 15.

FEDERAL DEPOSIT INSURANCE CORPORATION  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
FISCAL YEAR ENDED JUNE 30, 1975

	Amount (000 omitted)
<b>FUNDS PROVIDED BY:</b>	
Net deposit insurance assessments	\$ 247,171
Income from U.S. Government securities, less amortized net discounts	371,229
Maturities and sales of U.S. Government securities, including exchanges of long term securities	1,245,033
Collections on assets acquired in receivership and deposit assumption transactions	266,685
Net change in other assets and liabilities	53,782
<b>Total funds provided</b>	<b><u>2,183,900</u></b>
<b>FUNDS APPLIED TO:</b>	
Administrative, operating and insurance expenses, less miscellaneous credits	51,952
Acquisitions of assets in receivership and deposit assumption transactions	171,079
Purchase of U.S. Government securities, including exchange of long term securities	1,052,869
Purchase of note to facilitate deposit assumption	108,663
<b>Total funds applied</b>	<b><u>1,384,563</u></b>

**ANALYSIS OF NET CHANGE IN OTHER ASSETS AND LIABILITIES**

Assets	1975	1974	Increase or decrease (-)
Cash	\$ 21,823	\$ 6,121	15,702
Accrued interest receivable	105,055	89,359	15,696
Other assets	1,218	685	533
	<u>128,496</u>	<u>96,163</u>	<u>32,333</u>
Less liabilities:			
Accounts payable	5,137	7,001	1,864
Collections held for others	1,509	1,178	331
Accrued annual leave	3,707	3,435	272
Dep insured banks	472,351	384,975	87,376
	<u>482,704</u>	<u>396,589</u>	<u>86,115</u>
<b>Net change in other assets and liabilities</b>	<b><u>\$354,208</u></b>	<b><u>\$300,426</u></b>	<b><u>\$53,782</u></b>

The notes following schedule 4 are an integral part of this statement.  
 The opinion of the General Accounting Office on these statements appears on page 15.

FEDERAL DEPOSIT INSURANCE CORPORATIONANALYSIS OF DEPOSIT INSURANCE FUNDFROM INCEPTION TO JUNE 30, 1975

	<u>Amount</u>
	(000 omitted)
<b>INCOME:</b>	
Insurance assessments	\$7,771,994
Less net assessment income credits	<u>3,881,084</u>
Net insurance assessments	\$3,890,910
Income from U.S. Government securities	3,426,912
Other operating income (principally interest and allowable return from deposit insurance assumption and receivership cases)	<u>32,390</u>
Total income	<u>7,350,212</u>
<b>EXPENSE AND LOSSES:</b>	
Administrative and operating expenses	626,269
Deposit insurance losses and expenses	227,533
Interest paid to the Secretary of the Treasury on retired capital stock	<u>80,562</u>
Total expenses and losses	<u>934,364</u>
DEPOSIT INSURANCE FUND, NET INCOME ACCUMULATED SINCE INCEPTION	<u>\$6,415,848</u>

The notes following schedule 4 are an integral part of this statement.

The opinion of the General Accounting Office on these statements appears on page 15.

FEDERAL DEPOSIT INSURANCE CORPORATION

FOOTNOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1975

1. ACCOUNTING POLICIES

Securities--U.S. Government securities are presented at amortized cost which is the purchase price of the securities less the amortized premium or plus the amortized discount. As of June 30, 1975, amortized premiums amounted to \$1,571,000 and amortized discounts \$12,166,000. Premiums and discounts are amortized on a daily straight-line basis from the date of acquisition to the date of maturity. Net income from U.S. Government securities represents the total of interest income earned less premium plus discount amortization for the year.

Deposit insurance assessments--The Corporation assesses insured banks at the rate of 1/12 of 1 percent per year on the bank's average deposit liability less certain amortized exclusions and deductions. Assessments are due in advance for a 6-month period and credited to income when earned each month. Sixty-six and two-thirds percent of the Corporation's net assessment income for the prior calendar year is made available each July 1 to insured banks in the form of a prorated credit against the current assessments due.

Depreciation--The office building is depreciated on a straight-line basis at the rate of 2 percent per year over a 50-year estimated life. Furniture, fixtures, and equipment are fully depreciated at the time of acquisition.

2. These statements do not include accountability for the assets and liabilities of the closed insured banks for which the Corporation acts as receiver or liquidating agent.
3. Legal actions pending against the Corporation on June 30, 1975, involved an estimated potential liability of \$1,963 million. In the opinion of the Corporation's General Counsel, these actions, arising essentially from litigation involving closed bank activities, may result in recoveries against the Corporation of \$15 million. This estimated loss has been provided for in these statements.

4. The securities had a face value of \$6,265,096,000, cost of \$6,252,833,000, and market value of \$5,887,641,000 at June 30, 1975.
5. Equity in assets acquired under agreements with insured banks totaled \$1.89 billion. Of this total approximately \$1.464 billion represents equity in assets acquired as a result of the closing of Franklin National Bank on October 8, 1974.
6. Notes purchased to facilitate deposit assumption:
 

Crocker National Corporation, San Francisco, California	\$ 50,000,000
Southern Bancorporation, Inc., Greenville, South Carolina	8,000,000
European-American Bank and Trust Company, New York, N.Y.	100,000,000
	\$158,000,000
7. Assistance to operating insured banks:
 

Bank of the Commonwealth, Detroit, Michigan	\$ 35,500,000
Unity Bank and Trust Company, Boston, Massachusetts	1,500,000
	\$ 37,000,000
8. Accrued interest payable of \$88.2 million represents interest for 266 days at the rate of 7.52 percent simple interest per annum on the unpaid principal amount due on Franklin National Bank's indebtedness to the Federal Reserve Bank of New York. This amount is subject to adjustment for certain out-of-pocket expenses incurred by the Corporation as provided for in the Agreement of Sale.
9. The \$186 thousand adjustment to prior years resulted from the restatement of income due to: (1) a change in procedures for the amortization of premiums and discounts from a monthly to daily rate and (2) a change from the "average" method in accounting for sales of securities to the FIFO method. These changes were implemented in conjunction with automation of the Corporate Portfolio.

MEMBERSHIP OF THE BOARD OF DIRECTORS

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Robert E. Barnett, Chairman (note a)	March 1976	Present
James E. Smith, Comptroller of the Currency	July 1973	Present
George A. LeMaistre	Aug. 1973	Present

a/Frank Wille was Chairman from March 1970 through March 1976.