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REPORT TO THE CONGRESS



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Audit of Federal Deposit Insurance Corporation For The Year Ended June 30, 1970 - Limited By Agency Restriction on Access to Bank Examination Records

B-174837

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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FEB. 18, 1971



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-114831

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

This is our report on the audit of the Federal De-
posit Insurance Corporation for the year ended June 30,
1970, pursuant to section 17(c) of the Federal Deposit In-
surance Act (12 U.S.C. 1827). 195

Copies of this report are being sent to the Director,
Office of Management and Budget; the Secretary of the Treas-
ury; and the Chairman of the Board of Directors, Federal
Deposit Insurance Corporation.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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D I G E S T

WHY THE AUDIT WAS MADE

The General Accounting Office (GAO) is required by law (12 U.S.C. 1827) to make an annual audit of the Federal Deposit Insurance Corporation.

FINDINGS AND CONCLUSIONS

As in prior years, GAO was unable to fully discharge its audit responsibilities because the Corporation would not permit unrestricted access to examination reports, files, and other records relative to the banks it insures. GAO believes that access to these records is essential because they contain facts, opinions, and recommendations of vital importance to the conduct of the Corporation's affairs. (See pp. 6 and 7.)

The respective positions of GAO and the Corporation on this matter are set forth in detail in GAO's report to the Congress on audit of the Federal Deposit Insurance Corporation for the year ended June 30, 1964 (B-114831, February 28, 1966).

The financial statements in this report were prepared by the Corporation. These financial statements do not show an estimate of the liability which the Corporation may incur as a result of problem conditions existing in insured banks.

Because GAO did not have unrestricted access to examination reports and related documentation, it could not (1) ascertain whether bank examinations were of sufficient scope and could be relied upon to identify all banks that should have been classified as problem banks and (2) evaluate the significance of any possible adverse effect of problem banks on the financial position of the Corporation.

For these reasons GAO cannot express an overall opinion on the accompanying financial statements for fiscal year 1970. However, except for the comments as to the estimated liability relating to problem conditions in insured banks, GAO believes that the individual amounts shown in the financial statements are fairly stated as of June 30, 1970, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. (See p. 17.)

Tear Sheet

FEB. 18, 1971

RECOMMENDATIONS OR SUGGESTIONS

See comments under the two following headings.

AGENCY ACTIONS AND UNRESOLVED ISSUES

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

The Chairman of the Board of Directors of the Corporation advised GAO that the Corporation continued to believe that legislative clarification may be required if the problem is to be resolved, but the Corporation continues to oppose permitting GAO to have unrestricted access to the records.

MATTERS FOR CONSIDERATION BY THE CONGRESS

On January 3, 1969, a bill (H.R. 40) was introduced in the House of Representatives by the Chairman of the House Committee on Banking and Currency to amend the Federal Deposit Insurance Act. The bill provided that GAO have access to all records used by the Corporation, including examination reports of the Federal Reserve banks and of the Comptroller of the Currency. GAO supported the enactment of the bill; however, it did not come before the Congress prior to the adjournment of the Ninety-first Congress. (See p. 7.)

In prior audit reports to the Congress on audit of the Federal Deposit Insurance Corporation, GAO recommended that the Federal Deposit Insurance Act be amended to (1) require the Corporation to pay the Government's share of the costs of providing retirement and disability benefits from creation of the Corporation through June 30, 1957, and reimburse the employees' compensation fund for benefit payments made subsequent to the creation of the Corporation and (2) change the requirement for an annual audit of the Corporation by GAO from a fiscal-year basis to a calendar-year basis. Both the Corporation and GAO believe that these recommendations are still valid. (See p. 14.)

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I Letter dated January 14, 1971, from the Federal Deposit Insurance Corporation to the General Accounting Office

D I G E S T

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In prior audit reports to the Congress on audit of the Federal Deposit Insurance Corporation, GAO recommended that the Federal Deposit Insurance Act be amended to (1) require the Corporation to pay the Government's share of the costs of providing retirement and disability benefits from creation of the Corporation through June 30, 1957, and reimburse the employees' compensation fund for benefit payments made subsequent to the creation of the Corporation and (2) change the requirement for an annual audit of the Corporation by GAO from a fiscal-year basis to a calendar-year basis. Both the Corporation and GAO believe that these recommendations are still valid. (See p. 14.)

CHAPTER 1

INTRODUCTION

The General Accounting Office has made an audit of the Federal Deposit Insurance Corporation for the fiscal year ended June 30, 1970. The scope of the audit is set forth on page 16 of this report.

The Corporation is an independent Government agency which insures deposits in banks qualified for deposit insurance. Public Law 91-151, approved December 23, 1969, increased the maximum amount of insurance for each depositor from \$15,000 to \$20,000. National banks that are chartered by the Comptroller of the Currency and all State banks that are members of the Federal Reserve System are required to be insured. State banks that are not members of the Federal Reserve System may become insured upon application for insurance and approval thereof.

The Corporation also acts, when appointed to do so, as receiver for insured banks that have been closed. As of June 30, 1970, the Corporation had 23 active receivership cases.

The Corporation's operations are financed from assessments against insured banks and from income from its investments in U.S. Government securities. The Corporation is authorized to 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. This borrowing authority has never been used. The deposit insurance fund, representing the accumulated net income of the Corporation, amounted to approximately \$4.2 billion at June 30, 1970. The amount of the fund was equivalent to 1.4 percent of the insured deposits of \$312.6 billion in the 13,818 banks insured by the Corporation at June 30, 1970. Of the 13,818 banks, 8,014 were State nonmember, 1,166 were State member, and 4,638 were national banks.

Management of the Corporation is vested in the Board of Directors which is composed of three members--two members are appointed by the President of the United States and the third member is the Comptroller of the Currency.

During fiscal year 1970, the membership of the Board of Directors was as follows:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Frank Wille, Chairman	Apr. 1970	Present
K. A. Randall (Chairman from Apr. 1965 to Mar. 1970)	Mar. 1964	Mar. 1970
William B. Camp, Comptroller of the Currency	Nov. 1966	Present
Irvine H. Sprague	Sept. 1968	Present

EXAMINATIONS OF INSURED BANKS

The Corporation makes regular examinations of insured State banks that are not members of the Federal Reserve System. According to the Corporation, these banks are examined to ascertain their financial condition, compliance with applicable laws and regulations, and operating policies and practices. The banks are examined also to determine the condition of their loan portfolios, consideration being given to such factors as the possibility of undue risk and overextension of credit or undue concentration in a single line of credit, the suitability of their security portfolios from the standpoint of liquidity and quality, the adequacy of their capital and reserves, and the effectiveness of their internal controls. In addition, overall appraisals of the banks' management are made.

State banks that are members of the Federal Reserve System are examined by the Federal Reserve banks. National banks are examined by the Comptroller of the Currency. We are not informed as to the scope of the examinations made by the Federal Reserve banks and the Comptroller of the Currency. Section 7(a)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1817) provides that the Corporation have access to reports on examinations made by, and reports on condition made to, any Federal Reserve bank and the Comptroller of the Currency.

The Corporation reported that, for the period July 7, 1969, through July 2, 1970, it had examined 7,559 insured State nonmember banks and had reviewed reports on

examinations made by the Federal Reserve banks of 338 State member banks and by the Comptroller of the Currency on 631 national banks.

CHAPTER 2

CONTINUED RESTRICTION ON ACCESS TO REPORTS

AND RECORDS ON BANK EXAMINATIONS

As in prior years, we were unable to fully discharge our audit responsibilities under the Federal Deposit Insurance Act because officials of the Corporation did not give us unrestricted access to examination reports, files, and other records maintained by the Corporation relative to the banks it insures, except for the records for closed banks.

The positions of GAO and the Corporation on this matter are set forth in detail in our report to the Congress on audit of the Federal Deposit Insurance Corporation for the fiscal year ended June 30, 1964 (B-114831, February 28, 1966). The Chairman of the Board of Directors, Federal Deposit Insurance Corporation, advised us by letter dated January 14, 1971, that the Corporation continued to believe that some kind of legislative clarification may be required if the issues on our access to the Corporation's records are to be resolved. The Chairman advised, however, that if legislation were to be considered by the Congress, the Corporation would oppose its substance.

We believe that access to the records of the Corporation's Division of Bank Supervision is essential to a meaningful audit of the Corporation by GAO. That Division employs approximately 77 percent of the Corporation's total personnel, and the efforts and reports of the Division are an essential and integral part of the operations of the Corporation. The Division's reports on insured banks contain facts, opinions, and recommendations of vital importance to the conduct of the Corporation's affairs. Without full and complete access to these reports and the supporting documentation, we cannot evaluate important information affecting the Corporation's financial operations and condition.

Because of restrictions on access to the records, we were unable to ascertain (1) whether bank examinations were of sufficient scope and could be relied upon to identify all banks that should have been classified as problem banks,

(2) whether the Corporation had taken effective follow-up action on findings disclosed by the bank examiners, and (3) the significance of any possible adverse effect of problem banks on the financial position of the Corporation.

Both the Corporation and GAO believe that the present law supports their respective positions. Repeated efforts to resolve this matter administratively have been unsuccessful.

On January 3, 1969, the Chairman of the Committee on Banking and Currency introduced a bill (H.R. 40) in the House of Representatives, Ninety-first Congress, to amend the Federal Deposit Insurance Act. The bill provided that GAO have access to all records used by the Corporation, including examination reports of the Federal Reserve banks and of the Comptroller of the Currency. GAO supported the enactment of this bill; however, it did not come before the Congress for action prior to the adjournment of the Ninety-first Congress.

CHAPTER 3

PROBLEM BANKS AND BANK FAILURES

PROBLEM BANKS

The Corporation classifies problem banks as serious problem banks and other problem banks. It defines a serious problem bank as one that threatens ultimately to involve the Corporation in a financial outlay unless drastic changes can be brought about. Other problem banks are defined by the Corporation as banks of lesser degree of vulnerability, including those which give cause for more than ordinary concern and require aggressive supervisory attention.

The Corporation's estimates of the number of banks and insured deposits of the serious problem banks and other problem banks at June 30, 1970, and 1969, are shown below.

	<u>Number of banks</u>		<u>Estimated insured deposits</u> (note a)	
	<u>June 30,</u> <u>1970</u>	<u>June 30,</u> <u>1969</u>	<u>June 30,</u> <u>1970</u>	<u>June 30,</u> <u>1969</u>
			(000 omitted)	
Serious problem banks:				
State nonmember banks	40	18	\$ 558,213	\$ 213,207
State member banks	4	3	147,006	55,926
National banks	<u>10</u>	<u>10</u>	<u>145,008</u>	<u>165,537</u>
Total	<u>54</u>	<u>31</u>	<u>850,227</u>	<u>434,670</u>
Other problem banks:				
State nonmember banks	149	144	1,071,459	1,061,448
State member banks	14	9	1,137,373	99,890
National banks	<u>27</u>	<u>28</u>	<u>287,432</u>	<u>513,268</u>
Total	<u>190</u>	<u>181</u>	<u>2,496,264</u>	<u>1,674,606</u>
Total	<u>244</u>	<u>212</u>	<u>\$3,346,491</u>	<u>\$2,109,276</u>

^aEffective December 23, 1969, the maximum amount of insurance for each account was increased from \$15,000 to \$20,000.

There were 32 more banks classified as problem banks at June 30, 1970, than at June 30, 1969.

During fiscal year 1970, 108 banks were removed from the classification of problem banks--102 banks because of improvements in their management or financial condition and six banks because of their failure. During the fiscal year, 140 other banks were added by the Corporation to the problem bank classification, making a total of 244 at June 30, 1970.

To correct problem conditions at an insured bank, the Corporation, with the assistance of the appropriate banking regulatory body, attempts to obtain the cooperation of the bank's management in improving the bank's operations and financial condition. When corrective action is not obtainable by this method, the Corporation is authorized under section 202 of the Financial Institutions Supervisory Act of 1966 (12 U.S.C. 1818) to take corrective measures--such as the issuance of cease-and-desist orders to insured banks engaged in unsafe and unsound practices and the suspension or removal of bank officers and directors, subject to certain protective standards and procedures. This authority expires on June 30, 1972.

When unsafe and unsound practices persist, the Corporation is authorized under section 8(a) of the Federal Deposit Insurance Act to commence proceedings which may result in the termination of the deposit insurance coverage of the bank.

The accompanying financial statements do not show an estimate of the liability which the Corporation may incur as a result of problem conditions existing in insured banks.

BANK FAILURES

During the fiscal years 1966 through 1970, 26 insured banks failed, as shown in the following tabulation.

Fiscal year	Number of insured banks which failed			
	Total	State		National
		Nonmember	Member	
1966	5	3	-	2
1967	5	4	1	-
1968	3	1	-	2
1969	6	3	2	1
1970	<u>7</u>	<u>5</u>	<u>-</u>	<u>2</u>
Total	<u>26</u>	<u>16</u>	<u>3</u>	<u>7</u>

The Corporation estimated that, for the seven banks which failed during fiscal year 1970, the total payments required to discharge its insurance indemnity liability would be about \$27,752,000 and that its estimated losses thereon would be about \$6,000,000, as shown below.

Bank	Date closed	Estimated liability paid or payable (note a)	Estimated loss to Corporation
First National Bank of Ursa, Ursa, Illinois	8-20-69	\$ 1,529,000	\$ 500,000
The Big Lake State Bank, Big Lake, Texas	8-25-69 ^b	2,364,000	-
The First State Bank, Aransas Pass, Texas, Aransas Pass, Texas	9- 2-69 ^c	7,494,000	900,000
The First National Bank of Coalville, Coalville, Utah	10- 3-69 ^d	3,245,000	200,000
State Bank of Prairie City, Prairie City, Iowa	2-23-70	3,571,000	1,000,000
The Peoples State Savings Bank, Auburn, Michigan	4-18-70	8,346,000	3,000,000
Farmers Bank of Petersburg, Petersburg, Kentucky	6-25-70	<u>1,203,000</u>	<u>400,000</u>
		<u>\$27,752,000</u>	<u>\$6,000,000</u>

^aDoes not include liquidation expenses incurred or collections received.

^bMerged with the newly chartered Reagan State Bank of Big Lake, Texas.

^cMerged with the newly chartered First State Bank of Aransas Pass, Texas.

^dMerged with the Walker Bank and Trust Company of Salt Lake City, Utah.

The Corporation, in discharging its insurance indemnity liability for the seven banks which failed, paid the depositors of four of the banks the amount of their insured deposits in exchange for the depositors' claims upon the banks' assets and took action to facilitate the merger of the other three banks with other insured banks.

The Corporation purchased the assets of the failed banks that were not taken over by the assuming banks, and the amount paid became part of the assets acquired by the assuming banks. The assets acquired by the Corporation are to be liquidated and the proceeds applied in payment to the Corporation for (1) its investment in the acquired assets, (2) its expenses incurred in maintaining and liquidating the acquired assets, and (3) interest on the unliquidated investment in the acquired assets and the accumulated expenses at the rate of 4 percent a year. Any remaining proceeds and other assets are to be returned to the failed banks.

The Corporation's records showed that the bank failures in the last several years 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 limit prescribed by law; broker-solicited funds in certificates of deposit and related unwarranted out-of-territory lending; inadequate capital; unsatisfactory management; and defalcations.

CHAPTER 4

CONTINGENT LIABILITIES

The Corporation's General Counsel advised us that there were six legal actions pending against the Corporation at June 30, 1970, and estimated that the Corporation might have a total liability of about \$2.7 million in connection with these actions. This amount is included in the Corporation's reserve for losses shown on the statement of financial condition.

The Corporation's General Counsel is of the opinion that the legal actions against the Corporation in certain other cases are without merit. The more significant cases in this category are described below.

One case involves an action by eight directors of the closed Public Bank, Detroit, Michigan, seeking to set aside the closing of the bank and the transfer of its assets to the Bank of the Commonwealth, Detroit, Michigan. The primary relief sought is the return of the Public Bank to its former status as an operating bank and the transfer of the Corporation's \$10 million guaranty fund from the Bank of the Commonwealth to the Public Bank. The action also involves a claim for damages of an amount not disclosed in the complaint. The Corporation's General Counsel considers it highly unlikely that there will be any judgment for damages against the Corporation. The General Counsel advised us that, in another case, the same type of issues had been decided in favor of the Corporation in September 1967 by the circuit court for Wayne County, Michigan.

A second case involves a claim for damages totaling \$7.5 million against the Corporation and other defendants concerning matters arising from the closing of two banks-- San Francisco National Bank and The First National Bank of Marlin, Texas. The Corporation was dismissed from the action; however an appeal is pending to a U.S. circuit court of appeals. The Corporation's General Counsel informed us that he believed the case was without merit.

A third case involves a claim for damages of approximately \$50 million against the Corporation in its corporate capacity and as receiver of the San Francisco National Bank and The First National Bank of Marlin, Texas, as well as against certain other defendants. Previously the Corporation had filed suit against the claimant and his interests seeking judgment for approximately \$700,000. In January 1970 an Order for Dismissal and Summary Judgment was signed by the District Judge entering judgment in favor of the Corporation. Although the plaintiff may still appeal the decision, the Corporation's General Counsel believes that such an appeal is without merit.

CHAPTER 5

STATUS OF

PRIOR YEARS' RECOMMENDATIONS

In our prior audit reports we recommended:

1. That the Federal Deposit Insurance Act be amended to require the Corporation to:
 - a. Pay into the civil service retirement and disability fund the Government's share of the cost of providing retirement and disability benefits for the Corporation's employees for the period from the creation of the Corporation through June 30, 1957. Starting with the first pay period in July 1957, the Corporation began paying its share of these costs.
 - b. Pay into the employees' compensation fund the amount of benefit payments made from such fund on account of the Corporation's employees for all periods subsequent to the creation of the Corporation.
 - c. Pay into the Treasury as miscellaneous receipts a fair portion of the cost of administering the civil service retirement system and the employees' compensation fund for all periods subsequent to the creation of the Corporation.
2. That section 17(c) of the Federal Deposit Insurance Act (12 U.S.C. 1827(c)) be amended to require that GAO make its reports of audits on a calendar-year basis rather than on a fiscal-year basis.

Proposed legislation to amend the act was introduced in prior years but was not acted upon by the Congress. No new legislation covering these matters was introduced in the Ninety-first Congress.

Both the Corporation and GAO believe that the adoption of the above recommendations would result in a more equitable allocation of the cost of retirement, disability, and compensation benefits between the Federal Government and the Corporation and would eliminate the inconsistency in the periods covered by the annual reports of GAO and the Corporation.

CHAPTER 6

SCOPE OF AUDIT

Our audit of the Corporation consisted principally of an examination of its statement of financial condition as of June 30, 1970, the related statements of income and deposit insurance fund and of sources and application of funds for the year then ended, and the statement of analysis of the deposit insurance fund from its inception. We were unable to ascertain the possible adverse effect of problem banks on the financial position of the Corporation because of the restrictions imposed by Corporation officials on our access to examination reports and related data. (See p. 6.) We believe that unrestricted access to such reports and records is indispensable for a proper examination of the Corporation's financial statements.

Our examination was made in accordance with generally accepted auditing standards and, with the foregoing exception concerning review of bank examination reports and related data, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control and the work performed by the Corporation's internal auditors.

CHAPTER 7

OPINION OF FINANCIAL STATEMENTS

The financial statements in this report were prepared by the Corporation. These financial statements do not show an estimate of the liability which the Corporation may incur as a result of problem conditions existing in insured banks. Because we did not have unrestricted access to examination reports and related documentation on insured banks (see p. 6), we could not (1) ascertain whether bank examinations were of sufficient scope and could be relied upon to identify all banks that should have been classified as problem banks and (2) evaluate the significance of any possible adverse effect of problem banks on the financial position of the Corporation.

For these reasons we cannot express an overall opinion on the accompanying financial statements for fiscal year 1970. However, in our opinion, except for the foregoing comments as to the estimated liability relating to problem conditions existing in insured banks, the individual amounts shown in the financial statements are fairly stated as of June 30, 1970, and for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

FINANCIAL STATEMENTS

FEDERAL DEPOSIT INSURANCE CORPORATION
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION
 JUNE 30, 1970, AND JUNE 30, 1969

ASSETS	June 30, 1970	June 30, 1969
CASH	\$ 7,277,964	\$ 6,546,959
U.S. GOVERNMENT OBLIGATIONS:		
Securities at amortized cost	\$4,453,946,801 ^a	\$4,132,850,953 ^b
Accrued interest receivable	<u>52,530,692</u>	<u>48,493,511</u>
	4,506,477,493	4,181,344,464
ASSETS ACQUIRED IN RECEIVERSHIP AND DEPOSIT ASSUMPTION TRANSACTIONS:		
Special assistance to insured banks	8,676,257	10,000,000
Subrogated claims of depositors against closed insured banks	30,778,842	22,287,830
Net insured balances of depositors in closed insured banks, to be subrogated when paid--see related liability	1,625,450	533,245
Equity in assets acquired under agreements with insured banks	13,250,771	11,806,671
Assets purchased outright	<u>15,508</u>	<u>14,595</u>
	54,346,828	44,642,341
Less reserve for losses	<u>28,832,794</u>	<u>25,409,790</u>
	25,514,034	19,232,551
MISCELLANEOUS ASSETS	391,760	318,266
LAND AND OFFICE BUILDING, less depreciation on building	7,432,097	7,567,301
FURNITURE, FIXTURES AND EQUIPMENT	<u>1</u>	<u>1</u>
Total assets	<u>\$4,547,093,349</u>	<u>\$4,215,009,542</u>
LIABILITIES AND DEPOSIT INSURANCE FUND (note 1)		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 2,635,593	\$ 1,687,272
EARNEST MONEY, ESCROW FUNDS AND COLLECTIONS HELD FOR OTHERS	873,296	634,699
ACCRUED ANNUAL LEAVE OF EMPLOYEES	2,466,172	1,936,524
DUE INSURED BANKS:		
Net assessment income credits (note 2):		
Available July 1, 1970, and July 1, 1969, respectively	\$ 220,230,665	\$ 202,136,109
Available July 1, 1971, and July 1, 1970, respectively (estimated)	106,124,803	110,813,242
Other	<u>94,043</u>	<u>69,578</u>
	326,449,511	313,018,929
NET INSURED BALANCES OF DEPOSITORS IN CLOSED INSURED BANKS--See related asset	<u>1,625,450</u>	<u>533,245</u>
Total liabilities	334,050,022	317,810,669
DEPOSIT INSURANCE FUND, net income accumulated since inception (schedule 2 and note 3)	<u>4,213,043,327</u>	<u>3,897,198,873</u>
Total liabilities and deposit insurance fund	<u>\$4,547,093,349</u>	<u>\$4,215,009,542</u>

GAO notes:

^aAt June 30, 1970--face value \$4,480,946,000, cost \$4,439,527,970, market value \$3,940,076,936.

^bAt June 30, 1969--face value \$4,153,287,000, cost \$4,121,393,360, market value \$3,702,778,497.

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

The opinion of the General Accounting Office on these financial statements is set forth on page 17.

SCHEDULE 2

FEDERAL DEPOSIT INSURANCE CORPORATION
 COMPARATIVE STATEMENT OF INCOME AND DEPOSIT INSURANCE FUND
 FISCAL YEARS ENDED JUNE 30, 1970, AND JUNE 30, 1969

	Fiscal year 1970		Fiscal year 1969	
INCOME:				
Deposit insurance assessments (note 2):				
Assessments earned during the year	\$366,019,786		\$350,280,555	
Less net assessment income credits to insured banks--estimated	<u>215,515,945</u>	\$ 150,503,841	<u>213,907,290</u>	\$ 136,373,265
Adjustments of assessments earned in prior years		<u>146,232</u>		<u>46,519</u>
		150,650,073		136,419,784
Net income from U.S. Government securities		207,356,387		177,130,462
Other income		<u>629,587</u>		<u>1,786</u>
Total income		<u>350,636,047</u>		<u>313,552,032</u>
EXPENSES AND LOSSES:				
Administrative and operating expenses:				
Salaries and wages	25,256,947		19,765,021	
Civil Service retirement fund and FICA payments	1,650,819		1,260,928	
Travel expenses	6,336,886		5,102,321	
Office rentals, communications and other expenses	<u>5,437,300</u>	38,681,952	<u>4,356,618</u>	30,484,888
Provisions for insurance losses:				
Applicable to banks assisted in the current fiscal year	6,000,000		2,701,000	
Adjustments applicable to banks assisted in prior years	<u>-2,521,206</u>	3,478,794	<u>-4,248,209</u>	-1,547,209
Nonrecoverable insurance expenses incurred to protect depositors--net		<u>630,847</u>		<u>478,250</u>
Total expenses and losses		<u>42,791,593</u>		<u>29,415,929</u>
NET INCOME--ADDITION TO THE DEPOSIT INSURANCE FUND FOR THE YEAR		315,844,454		284,136,103
DEPOSIT INSURANCE FUND, at the beginning of the year		<u>3,897,198,873</u>		<u>3,613,062,770</u>
DEPOSIT INSURANCE FUND, at the end of the year, net income accumulated since inception (schedule 4 and note 3)		<u>\$4,213,043,327</u>		<u>\$3,897,198,873</u>

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

The opinion of the General Accounting Office on these financial statements is set forth on page 17.

BEST DOCUMENT AVAILABLE

FEDERAL DEPOSIT INSURANCE CORPORATION

SOURCES AND APPLICATION OF FUNDS

FISCAL YEAR ENDED JUNE 30, 1970

FUNDS PROVIDED BY:

Net deposit insurance assessments	\$150,650,073
Income from U.S. Government securities, less amortized net discounts	202,108,618
Maturities and sales of U.S. Government securities	383,205,000
Collections on assets acquired in receiver- ship and deposit assumption transactions	19,883,928
Increase in assessment credits due insured banks	<u>13,430,582</u>
Total funds provided	<u>\$769,278,201</u>

FUNDS APPLIED TO:

Administrative, operating, and insurance expenses, less miscellaneous credits	\$ 38,018,360
Acquisition of assets in receivership and deposit assumption transactions	28,552,000
Purchase of U.S. Government securities	699,053,079
Net changes in other assets and liabilities	<u>3,654,762</u>
Total funds applied	<u>\$769,278,201</u>

The opinion of the General Accounting Office on these financial state-
ments is set forth on page 17.

SCHEDULE 4

FEDERAL DEPOSIT INSURANCE CORPORATION

ANALYSIS OF DEPOSIT INSURANCE FUND

FROM INCEPTION TO JUNE 30, 1970

INCOME:

Insurance assessments	\$5,264,613,323
Less net assessment income credits	<u>2,498,522,455</u>
Net insurance assessments	2,766,090,868
Income from U.S. Government securities	1,937,803,858
Other operating income (principally interest and allowable return from deposit insurance assumption and receivership cases)	<u>9,981,750</u>
Total income	<u>4,713,876,476</u>

EXPENSES AND LOSSES:

Administrative and operating expenses	361,122,668
Deposit insurance losses and expenses	59,148,169
Interest paid to the Secretary of the Treasury on retired capital stock	<u>80,562,312</u>
Total expenses and losses	<u>500,833,149</u>

DEPOSIT INSURANCE FUND, NET INCOME ACCUMULATED
SINCE INCEPTION (note 3)

\$4,213,043,327

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

The opinion of the General Accounting Office on these financial statements is set forth on page 17.

AVAILABLE

NOTES TO FINANCIAL STATEMENTS

1. Capital stock was retired by payments to the United States Treasury in 1947 and 1948.
2. Represents the portion of the Corporation's net assessment income for the preceding calendar year and an estimated portion of such income for the first half of the current calendar year which, pursuant to the Federal Deposit Insurance Act (12 U.S.C. 1817), shall be credited against assessments becoming due from insured banks, after the end of the current fiscal year and after the end of the following fiscal year, respectively.
3. The deposit insurance fund represents the accumulated net income of the Corporation and is available for insuring deposits and payment of expenses. The borrowing authority of \$3 billion from the United States Treasury has never been used.
4. 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.

APPENDIX



FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D C 20429

OFFICE OF THE CHAIRMAN

January 14, 1971

Mr. Eugene L. Pahl
Assistant Director - Civil Division
United States General Accounting Office
Washington, D. C. 20548

BEST DOCUMENT AVAILABLE

Dear Mr. Pahl:

This is in response to your letter of December 23, 1970, with which you enclosed copies of a draft of your proposed report to the Congress on the audit of this Corporation for the year ended June 30, 1970.

We have noted again your views and qualifications with respect to access to our confidential reports and records on bank examinations. As you know, our position on this question has been expressed fully in the past. It continues to appear that some kind of legislative clarification may be required if the issues are to be resolved. We have also noted, however, that if legislation were to be considered by the Congress, we would have to oppose its substance.

Also in the area of legislation, we continue to concur in the proposal that the Federal Deposit Insurance Act be amended as to the Corporation's posture with respect to its contributions to the civil service retirement and employees' compensation system and funds. Additionally, the Corporation concurs in your proposal that Section 17(c) of the Federal Deposit Insurance Act be amended to require that GAO make its reports of audits on a calendar-year basis rather than on a fiscal-year basis. If the foregoing legislation should be introduced and considered, the Corporation would support it.

We reiterate the point that we continue to have some question as to whether anything is gained by including in your proposed "Statement of Financial Condition" notes which refer to the market value of the Corporation's portfolio of Government securities. It remains our view that market values have little relevance in this Statement or in the Corporation's management of its portfolio inasmuch as the great bulk of our securities is held as a deposit insurance fund. On that basis, market value at any point in time has very little meaning in stating the Corporation's financial condition.

APPENDIX I

Page 2

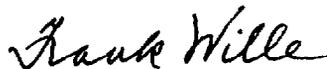
Mr. Eugene L. Pahl
Assistant Director-Civil Division
U.S. General Accounting Office

January 14, 1971

[See GAO note.]

Beyond these comments, after review of your proposed draft, we have no additional suggestions and appreciate the opportunity you have provided for the expression of our views.

Sincerely,



Frank Wille
Chairman

GAO note: Refers to information contained in draft report but deleted in final report.