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Briefing Report to the Chairman, Committee on Banking, Housing, and Urban Affairs, U. S. Senate

September 1987

THRIFT INDUSTRY

The Management Consignment Program

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September 10, 1987

The Honorable William Proxmire
Chairman, Committee on Banking,
Housing, and Urban Affairs
United States Senate

Dear Mr. Chairman:

You asked us to provide information on the condition of the thrift institutions in the Management Consignment Program (MCP). The MCP was initiated by the Federal Savings and Loan Insurance Corporation (FSLIC) in April 1985 to provide a means for stemming the losses of some of the most severely troubled thrifts. Under the program, an institution's management and its board of directors resign and are replaced by new management and directors with new managers chosen by FSLIC, usually through a contract with another, healthier thrift.

The program's original objective was to provide a series of short-term management contracts for troubled thrifts until the institutions could be sold, merged, or closed. However, FSLIC's deteriorating condition has left the insurance fund without sufficient reserves to resolve these problem institutions. The institutions in the program have continued to operate despite an inability to meet minimum regulatory capital requirements, and most continue to experience both operating and nonoperating losses.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our review was to obtain information on the condition of the thrift institutions in the MCP, the most important forms of assistance extended to these institutions, and their performance since entering the program. We have no means for determining what the present financial condition of the MCP institutions would have been had they not been put into the program. As a result, we cannot determine if the program has been successful in attaining its goal of stemming the losses of these institutions and thus limiting the cost of their eventual resolution.

We examined the condition of the 45 institutions that were listed by FSLIC as being in the MCP at the end of 1986 using our data base of the quarterly financial statements for all FSLIC-insured institutions provided to us by the Federal Home Loan Bank Board (FHLBB). We examined the performance of the 45 institutions between the quarter during which they entered the program and December 1986, the latest period for which we have data. We did not audit the financial report data, the preparation of the financial statements, or their transcription to computerized format. In all other respects, our work, which was performed between March and July 1987, was done in accordance with generally accepted government auditing standards. The results of our study are summarized below.

In the appendix, we present more detailed information on the condition of the 45 thrift institutions which were in the MCP as of December 31, 1986. Measures of performance for these thrifts are provided for the end of the quarter during which they entered the program and at points after their entry. We also examine some of the forms of assistance given to these institutions as a part of the general policy of capital forbearance extended to capital deficient thrifts throughout the 1980s by FHLBB. Forbearance is the FHLBB practice of allowing thrifts which do not meet regulatory capital requirements to continue to operate by either exempting them from minimum capital requirements and/or providing capital assistance to augment reported regulatory capital.

FORMS OF ASSISTANCE TO MCP INSTITUTIONS

The thrifts in the MCP have been recipients of the general forbearance extended to capital deficient thrifts throughout the 1980s by FHLBB. Through various means, low net worth thrifts have been able to increase the level of capital reported for regulatory purposes. The most important of these means of capital augmentation are income capital certificates (ICC), net worth certificates (NWC), and the reporting of deferred losses as an asset. Largely through an increase in ICCs, these forms of capital augmentation have added a net $448.3 million to the regulatory capital of the MCP institutions since their entry into the program.

CONDITION AND PERFORMANCE OF THE MCPs

Of the 45 institutions that were in the MCP at the end of 1986, 43 were incurring losses at the end of the quarter during which they entered the program. As a group, these 45 thrifts had an average return on assets (ROA) of -9.78 percent. By the end of 1986, 42 of the 45 thrifts were unprofitable with an average ROA of -19.77 percent. These figures can be compared with a year-end 1986 average ROA of -.28 percent for the total industry and .86 percent for thrifts with net worth measured on a Generally Accepted Accounting Principles (GAAP) basis of at least 3 percent of total assets.

As of December 31, 1986, $2.0 billion in total losses had been reported by these institutions since the end of their quarter of entry into the MCP. At the time of entry, 38 of the 45 thrifts were insolvent, with a total GAAP net worth position for the group of -$801.1 million. As a result of the losses sustained during the period, all 45 institutions had become insolvent at year-end 1986, and their net worth position had deteriorated to -$3.49 billion.

Operating losses account for $1.3 billion of the total MCP losses with the remainder being accounted for by nonoperating losses. Operating losses represent losses from day-to-day operations of an institution. They occur when operating expenses, which are largely made up of interest payments on deposits and on thrifts' borrowing from their district Federal Home Loan Bank, exceed operating income. Operating income is largely made up of interest income on mortgage and nonmortgage loans. These losses represent an additional liability to be absorbed by FSLIC which would not occur if the MCP institutions were not permitted to continue to operate.

Nonoperating losses result when losses on bad assets are greater than the profit realized on the sale of other assets. Since the recognition of asset losses can be deferred, nonoperating losses have in part already occurred but are only now being recognized. Where these losses have already occurred, they cannot be avoided by closing the institution.

It is not possible to determine what the present financial condition of the MCP institutions would now be had they not been put into the program. However, the continuing losses of most of these institutions makes it clear that, had these institutions been closed at or near the time of their entry into the MCP program, FSLIC's resolution costs would have been lower than they would be if FSLIC were to close them now.

AGENCY COMMENTS

We submitted copies of a draft of this report to FHLBB for its review and comment. In the draft, a comparison was made between the financial condition of the MCP institutions at the end of the quarter before their entry into the program and their condition as of December 31, 1986. FHLBB informally said many MCPs may have under-reported their losses immediately prior to their entry into the program. At the time of entry, corrections are made to account for losses previously incurred but not reported. Thus, losses reported for the quarter of entry would be larger than those actually incurred during that quarter, making losses reported since the thrifts entered the program larger than those actually incurred. Consequently, our analysis was revised to measure losses incurred while in the program as those losses reported only after the quarter of entry. We also revised our report as necessary in response to FHLBB comments of a technical nature.

As arranged with your office, we are sending copies of this briefing report to FHLBB and interested congressional committees. Copies will also be made available to others upon request. If you or your staff have any questions regarding this report, please contact me on (202) 275-8678 or Gillian G. Garcia of my staff on (202) 275-9856.

Sincerely yours,

Craig A. Simmons
Senior Associate Director

Contents

ABBREVIATIONS

FHLBank	Federal Home Loan Bank
FHLBB	Federal Home Loan Bank Board
FSLIC	Federal Savings and Loan Insurance Corporation
GAAP	Generally Accepted Accounting Principles
ICC	Income Capital Certificate
MCP	Management Consignment Program
NWC	Net Worth Certificate
RAP	Regulatory Accounting Principles
ROA	Return on Assets
S&L	Savings and Loan Association

THE MANAGEMENT CONSIGNMENT PROGRAM

The Management Consignment Program (MCP) was instituted by the Federal Savings and Loan Insurance Corporation (FSLIC) in April 1985. The objective of the MCP is to provide a means for stemming the losses of some of the most severely troubled thrifts. Under the program, an institution's management and its board of directors are replaced with new managers chosen by FSLIC, usually under a management contract with another, healthier thrift.

From the perspective of the Federal Home Loan Bank Board (FHLBB) and FSLIC, the advantages of the MCP are that it: (1) delays the cash outlay of FSLIC reserves that would be necessitated by the immediate closure of institutions, (2) preserves the "ongoing-concern value" of operating institutions, and (3) gains time for FSLIC to assess the real value of the institutions' assets.

The MCP was originally intended as a short-term program to provide replacement of the management of troubled thrifts in an effort to control FSLIC's potential losses until the institutions could be sold, merged, or closed. However, the deteriorating condition of the insurance fund has resulted in an inability on the part of FSLIC to resolve these problem institutions.[1] As of December 1986, only 7 of the 54 MCP institutions created since the program began have been liquidated or acquired by other institutions. The remaining MCP institutions continue to operate with most experiencing ongoing losses.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our review was to obtain information on the condition of the thrift institutions in the MCP, the most important forms of assistance given to these institutions, and their performance since entering the program. We have no means for determining what the present financial condition of the MCP institutions would have been had they not been put into the program. Although it is clear that it would have been less costly for FSLIC to have closed these institutions at or near the time of their entry into the program, we cannot determine if it would have been less costly to allow these institutions to continue to operate as before or to have placed them in the MCP.

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[1]GAO's audit of FSLIC's 1986 financial condition suggests that after necessary additions to the fund's reserve for contingent liabilities, FSLIC has a negative net worth of $6.3 billion. See Federal Savings and Loan Insurance Corporation's 1986 and 1985 Financial Statements (GAO/AFMD-87-41, May 1987).

We selected the 45 institutions that were in the MCP at the end of 1986 from our data base consisting of the quarterly financial statements for all FSLIC-insured institutions provided to us by FHLBB. We examined the performance of these institutions between the end of the quarter during which they entered the program and December 1986, the latest period for which we have data.[2] These 45 institutions were listed by FSLIC as being in their MCP program. We did not audit the financial report data, the preparation of the financial statements, or their transcription to computerized format. In all other respects, our work, which was performed between March and July 1987, was done in accordance with generally accepted government auditing standards.

The participants

As of year-end 1986, 54 MCP institutions had been created. Of these 54 MCPs, two were in effect created twice because they left the program and subsequently re-entered. Table I.1 shows the number of MCP institutions created per quarter. One MCP was formed by combining six preexisting thrifts, only one of which had already been classified as an MCP institution. Excluded from the 54 are 17 other thrifts that were originally classified as MCP institutions but were reclassified as non-MCPs when FSLIC respecified the definition of an MCP institution (as only those institutions to which FSLIC has appointed a conservator or receiver) at the end of 1986.

Apart from the 17 institutions that were reclassified out of the program, 7 thrifts have left the program and did not re-enter. Of these, four have been acquired by non-MCP institutions through FSLIC-assisted mergers or acquisitions. Three MCPs were closed, one by paying off the insured depositors and in two cases, insured deposits were transferred to other thrifts. Thus, at the end of December 1986, 45 institutions were being operated as MCPs under the control of FSLIC.

Table I.2 shows the distribution by state and Federal Home Loan Bank (FHLBank) district of both the 45 MCP institutions existing at the end of 1986 and the 17 institutions that were reclassified as non-MCPs on December 31, 1986. The 11th District had the largest number of MCPs (18), all of which were in

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[2]Some MCP institutions may have under-reported losses incurred during the months prior to their entry into the program. At the time of entry, corrections are made to account for losses previously incurred but not reported. The data reported at the end of the quarter in which the thrifts entered the program should largely correct for prior period under-reporting.

Table I.1:
The Management Consignment Program
(through December 31, 1986)

	1985.2	1985.3	1985.4	1986.1	1986.2	1986.3	1986.4	Totals
Institutions entering MCP	6	11	8	9	7[a]	7	6	54
Institutions leaving MCP:				1	3	5		9
Transfer to Non-MCP					2	2		4
Transfer to Other MCP[b]					1	1		2
Liquidation - Payout						1		1
Liquidation - Deposit Transfer				1		1		2
Net additions to MCP	6	11	8	8	4	2	6	45
Total institutions in MCP (cumulative)	6	17	25	33	37	39	45	
Institutions entering that were later reclassified[c]				2	3	8	4	17

Source: Federal Savings and Loan Insurance Corporation.

Notes: [a]One institution entering the program in this quarter was created by combining six preexisting thrifts, only one of which was already an MCP.

[b]The two institutions in this row were created by reorganizing already existing MCP institutions and do not, therefore, represent a net increase in the number of operating MCPs.

[c]These 17 institutions were originally labeled MCPs. As of December 31, 1986, they were reclassified as non-MCPs after a respecification of the definition of an MCP by FSLIC. Because they do not meet the current definition of MCPs, they are not included elsewhere in this table.

APPENDIX

Table I.2:
Management Consignment Program Institutions
Distribution by FHLBank District and by State
(As of December 31, 1986)

District[a]	FHLBank City	State[b]	Number of MCPs (revised list)[c]	Number reclassified
1	Boston			
2	New York	New Jersey		2
3	Pittsburgh			
4	Atlanta	Florida	2	
		Maryland		1
		Virginia		1
5	Cincinnati	Ohio	1	
6	Indianapolis	Michigan	1	
7	Chicago	Illinois	5	1
8	Des Moines	Iowa	1	
		Missouri	1	
9	Dallas	Arkansas	2	
		Louisiana	2	1
		Texas	8	4
10	Topeka	Colorado	1	1
		Oklahoma		1
11	San Francisco	Arizona		1
		California	18	3
12	Seattle	Idaho		1
		Oregon	2	
		Utah	1	
			45	17

Source: Federal Savings and Loan Insurance Corporation.

Notes: [a]Districts with no states listed have no MCP institutions.

[b]Only those states with MCP institutions or institutions reclassified out of the MCP are listed.

[c]The FHLBB issued a revised list of MCP cases early in 1987 that excluded 17 institutions originally included in the MCP list of cases during 1986. The reclassification was not retroactive to 1985.

California. Following were the 9th District with 11 MCPs, 8 of which were in Texas, and the 7th District, where Illinois had 5 institutions in the program. Three Districts in the northeast had no MCP institutions as of December 31, 1986.

Forms of assistance to MCP institutions

The thrifts in the MCP have been recipients of the general forbearance extended to capital deficient thrifts throughout the 1980s by FHLBB. Thrifts have been permitted to operate despite a continuing inability to meet minimum regulatory capital requirements.[3] In addition, through various means, low net worth institutions have been able to increase the level of capital reported for regulatory purposes. In the past, one way to do this was through the issuance of income capital certificates (ICC), and MCPs have relied heavily on them to augment their net worth positions. ICCs were issued by thrift institutions to FSLIC in exchange for cash or FSLIC notes. In April 1986, FSLIC suspended the practice of purchasing ICCs from new MCP institutions.

Thrifts are permitted to count ICCs as part of their net worth under Regulatory Accounting Principles (RAP),[4] even though they are not acceptable under Generally Accepted Accounting Principles (GAAP) unless purchased for cash by FSLIC.[5] In the event of a liquidation, FSLIC notes become part of the receivership estate and the note is shared among the unsecured creditors of the institution, thus increasing costs to FSLIC.

At the end of the quarter during which they entered the MCP, 18 of the 45 institutions under study held ICCs with a total value of $701.7 million. As of December 1986, 19 institutions were holding ICCs with a total value of $1.1 billion (see table I.3). During the same time period, the use of other methods whereby an institution may increase its regulatory capital, such as net worth certificates (NWC) and the reporting of deferred losses as an asset, has contributed a net addition of $8.6 million in regulatory capital.

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[3]The current minimum regulatory net worth requirement is 3 percent of total assets.

[4]RAP net worth includes all capital components included in GAAP net worth plus capital certificates, deferred losses, appraised equity capital, and qualifying subordinated debentures.

[5]Since we are unable to determine from our data base if an ICC has been exchanged for a FSLIC note or for cash, we include all ICCs in our measure of GAAP net worth.

APPENDIX

Table I.3:
Regulatory Capital Components and FHLBank Advances Held by Institutions Participating in the *Management Consignment* Program as of December 31, 1986[a]
(in millions of dollars)

	Number of institutions and value of holdings on entering the program[b]	Number of institutions and value of holdings in December 1986	Change in number of institutions and value of holdings since entering program
Number of institutions holding NWCs	3	2	-1
Total value of NWCs	$75.5	$67.3	-$8.2
Number of institutions holding ICCs	18	19	1
Total value of ICCs	$701.7	$1,141.4	$439.7
Number of institutions reporting deferred losses	16	16	0
Total value of deferred losses	$64.9	$81.7	$ 16.8
Net change in regulatory capital components			$448.3
Number of institutions holding *FHLBank advances*	32	35	3
Total value of FHLBank advances	$2,881.4	$3,654.1	$772.7

Source: FHLBB Quarterly Financial Statements, 1985-1986.

Note: [a]There were 45 MCP institutions on December 31, 1986.

[b]Initial values are those reported by institutions at the end of the quarter during which they entered the program. Only the 45 institutions that remained in the MCP in December 1986 are included in this table. Institutions that entered and then left the program are not included.

Table I.3 also shows that the MCP participants increased their borrowings from their district FHLBanks from $2.88 billion to $3.65 billion after entering the program. These loans, called advances, do not increase net worth, but they do provide liquidity to troubled thrifts faced with deposit outflows. For low net worth institutions, advances may represent a lower cost source of funds than would otherwise be available to these problem thrifts in the market. The district FHLBanks generally require that collateral be held against these borrowings, with the collateral usually taking the form of mortgage loans. When ailing institutions are unable to provide the required collateral, FSLIC may act as guarantor.[6] Although our data do not allow us to determine how many of these additional advances taken by the MCP institutions are guaranteed by FSLIC, it is typically the low net worth institutions which must resort to using FSLIC guarantees.

Condition and performance of the MCPs

Table I.4 compares the condition of the MCP institutions at the end of the quarter, during which they entered into the MCP, with that at the end of our data period, December 1986. Of the 45 savings and loan associations (S&L) that were in the program in December 1986, 38 were insolvent when they entered. All 45 had become insolvent by the end of 1986. At the time of entry, 43 S&Ls were incurring total net losses; 45 of those were incurring operating losses while 26 were showing nonoperating losses. By the end of 1986, 42 of the 45 MCP institutions were unprofitable, with 43 showing operating losses and 29 showing nonoperating losses.

Operating losses represent losses on the day-to-day operations of an institution. They occur when operating expenses (to which interest payments on deposits and FHLBank advances contribute importantly) exceed operating income. Operating income is largely made up of interest income earned on mortgage and nonmortgage loans. Nonoperating losses occur when losses on bad assets are greater than the profit realized on the sale of other assets. Since the recognition of asset losses can be deferred, nonoperating losses have in part already occurred but are only now being recognized.

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[6]The district FHLBanks have recently stated that due to the financial condition of the insurance fund, they will no longer make advances solely on FSLIC's guarantee and now require that even FSLIC-guaranteed advances be fully collateralized. "Ineligible" collateral (generally assets other than first mortgages, government securities, and thrift district bank deposits) in which a security interest has been perfected is accepted when used in conjunction with a FSLIC guarantee.

Table I.4:
Condition of Institutions in the Management Consignment Program as of December 31, 1986
(in millions of dollars)

	Number and condition of institutions on entering MCP[a]	Number and condition of institutions in MCP on December 1986[b]	
Number of institutions participating	45	45	
Total assets	$25,023.0	$20,193.9	
Number of insolvent institutions	38	45	
GAAP net worth	-$801.1	-$3,492.2	
Number incurring losses	43	42	
Total losses	-$611.6	-$997.9	
Number with operating losses	45	43	
Total operating losses	-$290.4	-$585.7	
Number with nonoperating losses	29	29	
Total nonoperating losses	-$321.1	-$412.2	
Number insolvent and unprofitable	36	42	
Number insolvent with operating losses	38	43	
Total operating losses incurred by MCP institutions since entering the program			-$1,305.7
Total losses incurred by MCP institutions since entering the program			-$2,001.7

Source: FHLBB Quarterly Financial Statements, 1985-1986.

Note: [a]Figures are for the end of the quarter during which the institutions entered the MCP. Only the 45 institutions that remained in the MCP in December 1986 are included in this table. Institutions that entered and then left the program are not included.

[b]Dollar value of losses are losses for the fourth quarter of 1986.

As of December 1986, the 45 MCP institutions that we have analyzed had lost a total of $2.0 billion since the beginning of the quarter after they entered the program, $1.3 billion of which are operating losses. Net worth measured on a GAAP basis had declined from -$801.1 million to -$3.49 billion.[7]

It is important to note that many of the MCP institutions may have under-reported both operating and nonoperating losses prior to their entry into the program. Therefore, not only do nonoperating losses in part represent losses which have been deferred, but a portion of both nonoperating and operating losses, especially those reported for the quarter of entry, may be the result of correcting prior period misreporting of losses. By looking at the losses reported after the quarter in which these thrifts entered the MCP, we gain a better picture of their actual losses and thus the increase in FSLIC's exposure since the program began.

Table I.5 provides some measures of performance over time for the 45 S&Ls under study. The rate of deterioration of these institutions as measured by the annualized return on assets (ROA) of the group has worsened from -9.78 percent for the end of the quarter during which they entered the MCP, to -19.77 percent at the end of 1986. This compares with a year-end 1986 ROA of -.28 percent for the total industry and .86 percent for thrifts with GAAP net worth of at least 3 percent of total assets.

Both operating and nonoperating losses continue to increase as shown by the decrease in the net operating margin[8] from -4.64 percent at the end of the quarter of entry to -11.60 percent at year end 1986. The net nonoperating margin for the group fell from -5.13 percent to -8.16 percent over the same time period. Continuing losses have resulted in large decreases in net worth as measured by both RAP and GAAP, with GAAP net worth as a percent of assets falling from -3.20 percent at the time of entry to -17.29 percent as of December 31, 1986.

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[7]These results are totals for the group of thrifts operating as MCPs as of December 1986. FHLBB records show that six MCP institutions reduced their net worth deficit between the date of entry into the program and December 1986. Our analysis of the quarterly financial statements of the MCPs indicates however that only two institutions increased their total (regulatory) capital between the end of the quarter of entry and December 1986. For one of these institutions, the increase in holdings of ICCs more than accounts for the increase in regulatory capital.

[8]Net operating margin is equal to net operating income divided by total assets.

Table 1.5:
The Performance of Institutions that were in the Management Consignment Program on December 31, 1986
(all values are a percent of total assets)

	Nine months prior to entry	Entry date[a]	Six months after entry[b]	1986 fourth quarter
ROA	-2.08	-9.78	-7.81	-19.77
Net operating margin	-1.56	-4.64	-4.97	-11.60
Net nonoperating margin	- .51	-5.13	-2.84	- 8.16
RAP net worth	1.39	-2.53	-6.59	-16.45
GAAP net worth	1.08	-3.20	-7.58	-17.29

Source: FHLBB Quarterly Financial Statements, 1985-1986.

Notes: [a]Figures are for the end of the quarter during which the institution entered the MCP.

[b]Based on the 32 institutions that entered prior to the fourth quarter of 1986. The Quarterly Financial Statement for one of these institutions was not available for this quarter.

Implications of the MCP for FSLIC

Allowing insolvent and unprofitable institutions such as those in the MCP to continue to operate has negative effects on FSLIC. The operating losses (as well as at least a part of the nonoperating losses) which continue to be incurred by these institutions represent an additional liability for FSLIC to absorb that would not occur if they were not permitted to continue to operate.

GLOSSARY

Deferred Losses	A FHLBB regulation permits FSLIC-insured institutions to defer over time any losses (or gains) incurred on the sale of assets.
FHLBank Advances	Loans from District Federal Home Loan Banks to member institutions.
Forbearance	Delay by FSLIC in dealing with thrifts that do not meet regulatory capital requirements through (1) the provision of capital assistance to augment reported regulatory capital and/or (2) the exemption of thrifts from minimum regulatory capital requirements. Thrifts receiving forbearance may utilize FHLBB advances.
GAAP Net Worth	The sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; income capital certificates if exchanged with FSLIC for cash; reserves; retained earnings; and net undistributed incomes; minus deferred net losses (gains) on loans and other assets sold. These items are recognized under the Generally Accepted Accounting Principles (GAAP) defined by the Financial Accounting Standards Board.
Goodwill	The premium over book value of an institution's assets that an acquiring institution pays during a merger or acquisition.
Income Capital Certificates	Certificates issued to FSLIC by institutions seeking supplementary net worth. A regulatory program conceived and operated by FSLIC.
Insolvent	Value of liabilities exceeds the value of assets according to some accounting standard, such as Regulatory Accounting Principles (RAP), Generally Accepted Accounting Principles (GAAP), or some other measure. That is, net worth (or capital) is negative.

Management Consignment Program	Program instituted by FSLIC in April 1985 to replace the management of some of the most severely troubled thrifts in an effort to stem their losses.
Net Nonoperating Margin	A measure of profitability equal to net nonoperating income divided by total assets.
Net Operating Margin	A measure of profitability equal to net operating income divided by total assets.
Net Worth Certificates	Created by the Garn-St Germain Act, these certificates are issued by a qualified FSLIC-insured institution to FSLIC for the purpose of increasing the institution's regulatory net worth.
Nonoperating Expense	The provision for losses on the sale of real estate, investment securities, loans, and other assets.
Nonoperating Income	Profit earned from the sale of real estate, investment securities, loans, and other assets.
Operating Expense	Directors' fees; officers' and employees' compensation; legal expenses; directors', officers', and employees' expenses; office occupancy expenses; furniture, fixtures, equipment, and automobile expenses; advertising; commissions and fees paid; amortization of goodwill and of deferred losses; and other operating expenses.
Operating Income	Consists of interest earned; fees received; amortized deferred gains; and net income received from real estate owned, from service corporations and subsidiaries, and from leasing operations.
Regulatory Net Worth	The sum of preferred stock; permanent, reserve, or guaranty stock; paid-in surplus; qualifying mutual capital certificates; qualifying subordinated debentures; appraised equity capital; net worth certificates; accrued net worth certificates; income capital

certificates; reserves; undivided profits (retained earnings); and net undistributed income.

Return on Assets	A measure of profitability equal to total net income divided by total assets.

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