
**ANNUAL REPORT OF THE THRIFT DEPOSITOR
PROTECTION OVERSIGHT BOARD
AND
THE RESOLUTION TRUST CORPORATION
FOR THE CALENDAR YEAR 1995**

**A REPORT BY THE THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD AND THE
RESOLUTION TRUST CORPORATION AS REQUIRED BY SECTION 21A(k)(4) OF THE
FEDERAL HOME LOAN BANK ACT, 12 U.S.C. 1441a(k)(4)**



**THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD
808 17th Street, N.W., 8th Floor
Washington, D.C. 20232**

August 29, 1996

Sirs:

I am pleased to submit the joint annual report of the Thrift Depositor Protection Oversight Board and the Resolution Trust Corporation for calendar year 1995, as required by section 21A(k)(4) of the Federal Home Loan Bank Act, 12 U.S.C. 1441a(k)(4).

Respectfully yours,

**Van B. Jorstad
Acting Executive Director**

The President of the United States

The President of the United States Senate

The Speaker of the United States House of Representatives

**The Chairman and Ranking Minority Member of the United States Senate
Committee on Banking, Housing, and Urban Affairs**

**The Chairman and Ranking Minority Member of the United States House
Committee on Banking and Financial Services**

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PART I:

THE 1995 ANNUAL REPORT

OF THE

THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD

**THE 1995 ANNUAL REPORT
OF THE
THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
AND THE
RESOLUTION TRUST CORPORATION**

On August 9, 1989, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) was signed into law. FIRREA was the federal government's response to the acute and massive financial crisis of the savings and loan industry and the Federal Savings and Loan Insurance Corporation (FSLIC), the industry's deposit insurer. The Act's purpose was to restore the public's confidence in the thrift industry and to ensure a safe and stable system of affordable housing finance through major regulatory reforms, strengthened capital standards, and safeguards for the disposal of recoverable assets.

A key component of this comprehensive reform effort was the creation of the Resolution Trust Corporation (RTC) to close or sell the failed savings and loan associations transferred to it by the industry's new regulator, the Office of Thrift Supervision (OTS), and to sell the remaining assets. Although the RTC was an instrumentality of the Federal government, it was designated as a "mixed government corporation," which meant it was not subject to some normal constraints and controls of Federal government departments and agencies. FIRREA also created the "Oversight Board" to oversee the RTC and its use of taxpayer funds.¹

Under subsequent legislation, the primary role of the Oversight Board was to review the overall strategies, policies, and goals of the RTC and to approve, prior to implementation, RTC financial plans, budgets, and periodic financing requests.

This report recounts the activities of the Oversight Board and the RTC during 1995. The document is in three sections: Part I is the 1995 Annual Report of the Thrift Depositor Protection Oversight Board; Part II is the 1995 Annual Report of the RTC; and Part III is the Comptroller General of the United States Report on the Audit of the RTC's 1995 and 1994 Financial Statements.

¹ With passage of the RTC Refinancing, Restructuring, and Improvement Act of 1991, the Oversight Board's name was changed to the Thrift Depositor Protection Oversight Board. The names are used interchangeably in this report.

PART I, SECTION A:

**THE THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD**

IN 1995

BACKGROUND

The RTC Completion Act provided final funding for the RTC and, among other things, moved its termination date from December 31, 1996, to December 31, 1995. At termination, the RTC's remaining assets and liabilities were to be transferred to the FSLIC Resolution Fund, which is managed by the FDIC.

As the RTC worked toward its closing in 1995, the Oversight Board and its Audit Committee closely monitored transition plans. In this regard, the Oversight Board reviewed all transition documents, including the July 1 FDIC/RTC Transition Task Force report to Congress. These evaluations of Task Force activities were conducted to ensure that transition decisions had no adverse impact on the RTC's operations in 1995.

The Oversight Board's Audit Committee held five meetings, focusing on the importance of the RTC's maintaining strong internal controls during the transition and receiving reports and presentations from senior officials of the RTC, the RTC Inspector General (IG), the Office of Contractor Oversight and Surveillance (OCOS), the FDIC, the OTS, and the General Accounting Office (GAO), including the Comptroller General.

Members of the Oversight Board also discussed the transition with the Congress, as the Board appeared before the Senate Committee on Banking, Housing, and Urban Affairs and the General Oversight and Investigations Subcommittee of the House Banking Committee during 1995.

MEMBERS

In 1995, the Thrift Depositor Protection Oversight Board consisted of seven members. They were: Treasury Secretary Robert E. Rubin, who served as Chairperson; Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System; Ricki Helfer, Chairman of the Board of Directors of the FDIC; John E. Ryan, Acting Chief Executive Officer (CEO) of the RTC; Jonathan L. Fiechter, Acting Director of the OTS; and independent members Robert C. Larson, Chairman of the Taubman Realty Group, and Herbert F. Collins, Chairman of the Board of Boston Capital Partners, Inc.

Several of these members were new to the Oversight Board in 1995. Chairman Rubin was named Secretary of the Treasury in January of that year, replacing Lloyd Bentsen, who had retired from the Cabinet in December 1994. Mrs. Helfer had been appointed Chairman of the FDIC in October 1994. Mr. Larson also had joined the Board the previous October -- for a second time, as he had served as an independent member from 1990-1993 under the Bush Administration. The Oversight Board's second independent member, Mr. Collins, was appointed on August 14, 1995.

MEETINGS

The Thrift Depositor Protection Oversight Board was required by the RTC Refinancing, Restructuring, and Improvement Act of 1991 to hold at least six meetings a year that were open to the public. During 1995, the Oversight Board held open meetings on March 13, April 24, July 17, September 18, October 18, and December 4. Each was followed by a closed meeting.

Topics Addressed

At each of the Oversight Board's open sessions, remarks were given by the Chairman and the Executive Director, as well as by the Acting CEO of the RTC. The Board also periodically received recommendations and reports from the National Advisory Board and the Affordable Housing Advisory Board.

At each of its closed meetings, the Oversight Board received detailed management reports from the Acting CEO of the RTC. Many of these reports included discussions of transition planning, particularly as it related to ongoing operations of the RTC. The Oversight Board also received reports from representatives of the GAO and the RTC IG on relevant activities in their offices.

During 1995, the Oversight Board focused on several key aspects of RTC operations in its closed meetings. Topics included: the findings and recommendations of the Audit Committee and other audit-related issues; activities of the RTC/FDIC Transition Task Force; the RTC Standard Asset Management and Disposition Agreement program; RTC sales of subsidiaries; environmentally impacted properties in the RTC portfolio, and the amount of reserves and contingency funds necessary to be transferred at the transition. The Oversight Board also discussed the RTC receivership termination program, with Board staff providing a detailed presentation on this issue.

Actions Taken

Among specific actions taken at its closed meetings, the Oversight Board:

- o approved additional financing for the RTC;
- o reviewed the RTC's quarterly budget reports, financial operating plans, and operating expense budgets, with the Corporation providing detailed information on its budget variances, loss fund usage, business plan improvements, resolutions of minority thrifts and acquisitions of offices by minority institutions, and progress in implementing information systems;
- o approved the reallocation of funds among certain categories of the RTC's 1995 Non-Interest Expense Budget;
- o reviewed RTC Business Plan Quarterly Performance Reports;

- o reappointed and appointed members of the Regional Advisory Boards;
- o made appointments to the Directorate of the Resolution Funding Corporation; and
- o adopted a resolution commending the RTC.

Key Decisions

Final RTC Funding

An important issue related to the transition was the amount of RTC reserves and contingency funding needed for losses arising after the RTC's sunset. On October 18, 1995, when the Oversight Board authorized its Executive Director to release \$556 million of such funding to the RTC.

The Oversight Board's approval came after discussions that spanned two meetings and the submission of a comprehensive analysis of perceived needs by a joint FDIC/RTC Task Force on RTC Reserves and Contingency Funding (Task Force). The Task Force, co-chaired by the FDIC and the RTC, was composed of staff from various divisions of both agencies.

The Task Force analysis provided details regarding items subject to economic variation, such as assets in liquidation, securitizations, representations and warranties, impaired investments, and operating expenses. It also covered items subject to non-economic variation, such as litigation recoveries and losses, environmental property remediation, payments to receivership creditors, advances to subsidiaries, discovered liabilities, and miscellaneous accounts receivable.

After initial discussions, the Task Force also supplied the Oversight Board with materials providing detail on extraordinary items, an update on developments that had occurred between the two meetings, procedures for monitoring reporting, and comments concerning the FDIC's return of funds to the Treasury. These reports were presented to the Board by Barry Kolatch, RTC Vice President for Planning, Research and Statistics, and William Longbrake, FDIC Deputy to the Chairman for Finance and Chief Financial Officer (CFO).

The Oversight Board's decision to approve the \$556 million for reserves and contingency funds was guided by the results of the extensive work of the Task Force. That work included valuations of major balance sheet items under differing scenarios and a recommendation that the Oversight Board accept the projections provided in the "very pessimistic" scenario.

Staff Budget

Also on October 18, the Oversight Board approved a budget for its staff, providing funding for up to nine months of operation. The approval of this

budget was the culmination of extensive discussions of the Oversight Board's post-RTC reporting duties and a detailed workload analysis provided by Board staff.

FINANCES AND STAFFING

The Oversight Board operates on an October through September fiscal-year basis. By resolution adopted on September 20, 1994, the Board authorized \$5,186,680 for all expenses of the Oversight Board for the fiscal year 1995 ended September 30, 1995. The actual obligations of the Oversight Board for that period were \$4,115,743. As noted previously, on October 18, 1995, the Board authorized \$3,681,503 for all expenses of the Oversight Board until June 30, 1996, at which time its staff offices were scheduled to close.

An audited statement of Oversight Board obligations incurred for the fiscal year ended September 30, 1995, is included with Part I of this report as Appendix A. The statement includes the expenses of the National Advisory Board, the Affordable Housing Advisory Board, and the Regional Advisory Boards.

As of December 31, 1995, the Board had 22 full-time employees, a decrease from 31 on December 31, 1994. A listing of the Oversight Board staff as of December 31, 1995, is included with Part I of this report as Appendix B.

AUDIT COMMITTEE

The RTC Completion Act required the Oversight Board to establish an Audit Committee (the Committee) to monitor RTC internal controls, findings of audits by the RTC Inspector General (IG) and the General Accounting Office (GAO), RTC responses to such audit findings, and RTC financial operations. The Committee worked closely with the GAO and the IG, regularly reporting its recommendations and findings to the Oversight Board.

The Oversight Board chartered the Committee in November 1994, naming Board member Robert Larson as its chairperson. Chosen by the Oversight Board to serve as members of the Committee were Jonathan Fiechter, Acting Director of the Office of Thrift Supervision (OTS), and Frederick M. Struble, Associate Director of the Banking Supervision and Regulation Division for the Board of Governors of the Federal Reserve System. Administrative support for these meetings was provided by the staff of the Oversight Board.

The Committee fulfilled its mandate under the RTC Completion Act and met five times in 1995, convening in January, April, June, September, and November. It received reports and presentations from senior officials of the RTC, FDIC, OTS, RTC IG, RTC Office of Contractor Oversight and Surveillance (OCOS), and GAO, including the Comptroller General.

During 1995, the Committee emphasized the importance of the RTC maintaining strong internal controls during the transition. The Committee also

addressed transition planning as it related to audit matters, as well as the sufficiency of RTC financial reserves. In April, the group focused priority attention on the RTC's response to the findings and recommendations of auditors by reviewing IG audits of legal billings with unresolved management decisions.

In early 1995, the Committee took the following actions:

- o requested that the RTC provide regular reports to track the RTC's progress in eliminating the backlog of unresolved management decisions and to highlight any systemic or recurring problems;
- o requested that the RTC develop a process to prioritize its response to audit findings to expedite the resolution of outstanding issues;
- o asked the RTC and IG to address and resolve a difference of opinion regarding RTC contracting policies and procedures for legal services, since a number of unresolved management decisions involved policy and procedure differences rather than real cost and recoveries; and
- o reviewed the procedures and minutes of the RTC Audit Resolution Committee to ascertain RTC procedures to address unresolved issues between management and the auditors.

In response to these Committee actions, the RTC established task forces and project teams specifically charged with audit resolution, reassigned many RTC employees to audit follow-up activities after completing their regular duties, and developed an audit "triage process" - or targeted application of resources - to address findings that merited immediate attention.

In a June 5 report to the Oversight Board, the Committee noted that improvements had been made in the RTC's audit follow-up and internal controls; a review of outstanding audit issues did not point to the existence of identifiable systemic problems; the GAO had removed the RTC from its High Risk List; and, according to the IG, the accomplishment of management reforms and RTC operations were "going well."

Presenting its final report at the December meeting of the Oversight Board, the Committee said it had reviewed the RTC/FDIC internal control certification plan to help ensure a seamless transition of financial operations. The Committee also stressed the importance of the RTC insuring adequate staffing during transition in the areas of asset disposition and contractor oversight, as well as providing the FDIC with the best information available for RTC assets, liabilities, and procedures. The report also included recommendations and suggestions for the FDIC in its assumption of responsibilities for certain surviving RTC matters.

Copies of both Audit Committee reports to the Oversight Board are included with Part I of this report as Appendices C and D.

CONGRESSIONAL HEARINGS

The Oversight Board made two appearances before the Congress in 1995. On May 16, the Executive Director and Board members appeared before the General Oversight and Investigations Subcommittee of the House Banking Committee -- the Board's first appearance before the Committee since 1993. On June 20, they testified before the Senate Committee on Banking, Housing, and Urban Affairs.

At both hearings, Chairman Rubin discussed the tremendous change the RTC was undergoing as a result of transition planning, field office closings, and staff reductions. He also reported that total actual loss funds used by the RTC were expected to be in the range of \$87 billion to \$95 billion, a figure that, in terms of early estimates, "should be viewed as a success." The Chairman said the RTC had accomplished a great deal, fulfilling the government's guarantee of deposit insurance to millions of Americans, while at the same time undertaking the largest asset liquidation in the nation's history and contributing more than 100,000 units to the national goals for affordable housing.

Oversight Board member and FDIC Chairman Ricki Helfer also testified, providing the perspective of the FDIC on the statutorily mandated, orderly transfer of the remaining operations of the RTC to the FDIC.

In addition, Board members answered legislators' questions regarding ongoing RTC activities and transition plans, including follow-up inquiries sent after the hearings.

ADVISORY BOARDS

In 1995, the Oversight Board administered six Regional Advisory Boards, the National Advisory Board, and the Affordable Housing Advisory Board.

Regional Advisory Boards

FIRREA required the Oversight Board to establish six Regional Advisory Boards to provide information and advice to the RTC on policies and programs for the sale or other disposition of real property assets of the RTC. The five-member panels, which completed their service in December 1995, were comprised of prominent citizens of the regions who represented the views of low- and moderate-income consumers and small businesses or who had knowledge and expertise regarding business, financial, or real estate matters.

National Advisory Board

The National Advisory Board (NAB) was mandated by FIRREA to provide information to the Oversight Board regarding policies and programs for the sale or other disposition of real property assets held by the RTC. The NAB consisted

of a Chairperson appointed by the Oversight Board and the Chairpersons of the six regional boards. The national panel's recommendations were conveyed to the Oversight Board in open session through formal presentations by the NAB Chairperson.

From December 17, 1993, to December 31, 1995, the NAB was chaired by Ira D. Hall, IBM Director of International Operations for International Business Machines. Mr. Hall's service was marked by recommendations that sought greater equity in the disposition of RTC assets and institutions.

During this period, the NAB encouraged minority acquisitions of institutions in predominantly minority neighborhoods and closely monitored implementation of the RTC Small Investor Program and the disposition of environmentally significant properties. The NAB also monitored RTC transition planning, especially as it concerned the transfer of the RTC Affordable Housing Disposition Program to the FDIC. Mr. Hall worked closely with the Affordable Housing Advisory Board, attending one of the panel's meetings and forwarding to it the NAB's affordable housing recommendations.

Affordable Housing Advisory Board

In 1993, the Oversight Board took the lead in establishing the Affordable Housing Advisory Board (AHAB), which was mandated by the RTC Completion Act. The AHAB was charged with providing advice to the Oversight Board and the FDIC Board of Directors on policies and programs related to the provision of affordable housing, including the operation of affordable housing programs. It also was to review the plan for unification of the RTC and FDIC affordable housing programs.

The AHAB, which is to function until September 30, 1998, is chaired by the Secretary of the Department of Housing and Urban Development (HUD). AHAB's members are the Chairman of the Oversight Board, or the Chairman's delegate; the Chairman of the FDIC Board of Directors, or the Chairman's delegate; four persons appointed by the Secretary of HUD to represent the interests of individuals and organizations involved in using affordable housing programs, and two persons who were members of the former National Housing Advisory Board, which provided advice to the Oversight Board on the RTC affordable housing program. In 1995, the Oversight Board Executive Director served as Oversight Board Chairman Rubin's delegate to the AHAB.

Advisory Board Activities in 1995

Affordable Housing Advisory Board

The Affordable Housing Advisory Board (AHAB) met four times in 1995. Each two-day meeting included a planning session. On February 9-12, it met in Denver; on April 11-12, the AHAB met in Washington, D.C.; on September 20,

it met in Chicago, and on December 6, the AHAB met in Arlington, Virginia. Among the recommendations it presented before the Oversight Board, the AHAB:

- o urged the FDIC and the RTC to examine all options for operating an affordable housing program without a Congressional appropriation, with any resulting program preserving the best practices of the RTC and being consistent with the FDIC CFO's cost analysis undertaken at the request of the FDIC Chairman;
- o urged that the RTC and FDIC staffs draft authorization language that would enable the FDIC's Affordable Housing Program to continue beyond September 30, 1995;
- o urged the FDIC aggressively to seek Congressional funding for the FDIC Affordable Housing Program; and
- o encouraged the FDIC to study the feasibility of increasing the number of affordable housing properties sold using its existing appropriation.

On September 29, the AHAB submitted its Annual Report to the Senate and House Banking Committees, the FDIC, the RTC, and the Oversight Board, pursuant to Section 14(b)(7) of the RTC Completion Act and the AHAB's charter. The report was prepared with the assistance of Oversight Board staff.

Regional Advisory Board

In 1995, staff of the Oversight Board coordinated the last four series of meetings of the Regional Advisory Boards (RABs).

- o From January 18 to February 2, the RABs held their 19th series of meetings in the cities of New York, Miami, Seattle, New Orleans, Phoenix, and San Bernardino.
- o From March 2 to April 7, the RABs held their 20th series of meetings in the cities of Boston, Charlotte, Milwaukee, Austin, Albuquerque, and San Francisco.
- o From June 20 to July 28, the RABs held their 21st and 22nd series of meetings in the cities of Philadelphia, Nashville, Chicago, Dallas, Denver, San Diego, and Washington.

Although the RABs did not officially end their service until December 31, the members compressed their 1995 meeting schedule to ensure that the RTC had time to consider all their recommendations prior to its closure. Board members also wanted to be available for any questions RTC staff might have regarding those recommendations. In addition, the regional members and NAB Chairman Hall needed time to create and refine a comprehensive final report.

In other 1995 action related to the RABs, the Oversight Board:

- o on March 28, approved the appointments of a new Chairperson and member for the Region 4 panel;
- o on July 17, reappointed those RAB members whose terms expired August 8, 1995, thereby enabling the Chairpersons and Acting Chairpersons to attend the final meetings of the NAB; and
- o on August 9, renewed the charters of the RABs, as well as the NAB, and filed them pursuant to Federal Advisory Committee Act requirements.

A listing of all RAB members as of December 31, 1995, is included with Part I of this report as Appendix E.

The National Advisory Board

The National Advisory Board (NAB) met four times in 1995 to hear the reports of the Chairpersons of the Regional Advisory Boards (RABs) and to formulate recommendations to be presented to the Oversight Board. Meetings were held on February 16, May 31, September 8, and October 18. All sessions were held in Washington, D.C.

Among the dozens of advisory board recommendations presented by NAB Chairman Hall in open meetings of the Oversight Board were proposals regarding environmentally significant and environmentally impacted properties in the RTC asset portfolio; RTC properties with special covenants and easements; and a number of issues regarding the RTC's Affordable Housing Disposition Program.

On October 18, the NAB and RABs presented their report, "The Role of Citizen Advisory Boards in the Federal Government's Resolution of the S&L Crisis," to the Oversight Board at its open meeting. The 75-page report was prepared by members of the advisory boards with the assistance of Oversight Board staff.

In his remarks before the Oversight Board, NAB Chairman Hall said: "The advisory board members, who came from several different, yet related business disciplines, provided the necessary local insight into the various markets in which RTC had to operate. Consequently, the knowledgeable and informed guidance the Oversight Board and the RTC gleaned from the advisory boards' recommendations was extremely valuable in determining the best methods of sale for RTC's wide-ranging asset inventory."

Among the boards' significant recommendations, Mr. Hall said, were their input into the creation and enhancement of RTC initiatives such as seller financing, securitization, auctions, the Small Investor Program, affordable housing sales, and minority acquisitions of thrifts in predominantly minority

neighborhoods. The boards also were integral to improvements in RTC information systems and contracting processes, he noted.

Discussing "lessons learned," Mr. Hall said the resolution of the savings and loan crisis shows that "the government can successfully combine social goals with asset disposition," as evidenced by the RTC's success in selling more than 104,000 units of affordable housing to low- and moderate-income Americans nationwide. In addition, he said, the RTC experience shows that "a system of citizen advisory boards is essential to ensure public input where such a large amount of public funds is involved. Thrifts failed in almost every state in the nation in the 1980s and 1990s, and there was a potential for impact on real estate sales throughout the country. The advisory boards provided a forum in the regions that kept close watch on this situation, as well as many other aspects of RTC's work."

The report was praised by Oversight Board Chairman Rubin, who called it "a fitting end" to the advisory boards' service. Following the Oversight Board's open meeting, Chairman Rubin presented individual certificates of appreciation to Mr. Hall and the advisory board members in attendance.

RESOLUTION FUNDING CORPORATION

The Resolution Funding Corporation (RefCorp) is a mixed-ownership government corporation established by FIRREA, and its purpose is to issue and service \$30 billion in bonds, the proceeds of which were used to partially finance the RTC. The RefCorp is subject to the direction of the Oversight Board. RefCorp-related Oversight Board activities in 1995 included the following:

- o On January 4, the Executive Director and Oversight Board staff met with the Managing Director and staff of the Federal Housing Financing Board (FHFB) and the President of the Federal Home Loan Bank (FHLB) of San Francisco and communicated by conference call with outside counsel of the FHLB of San Francisco to discuss and enlarge upon the Executive Director's letter to the FHFB of December 30, 1994. The letter concluded that materials submitted to the Executive Director by the FHFB on December 15, 1994, would not support a determination by the Oversight Board, pursuant to 12 U.S.C. 1441b(f)(2)(B)(i), that proceeds received from receiverships by the RTC in 1995 would be in excess of funds necessary for resolution costs and should be applied to the payment of interest on RefCorp obligations.
- o On March 10, the Deputy General Counsel of the Oversight Board provided a detailed legal reply to the FHFB's December 15, 1994, letter regarding the proposed use of 1995 receivership proceeds of the RTC for 1995 payments of interest on RefCorp obligations.

- o On March 22, the Executive Director of the Oversight Board, acting under delegated authority, approved the projections of the Directorate of the RefCorp of funding of interest payments on the Corporation's obligations for the period April 1995 through January 1996.
- o On June 16, the Executive Director of the Oversight Board, acting under delegated authority, approved the projections of the Directorate of the RefCorp of funding of interest payments on the Corporation's obligations for the period July 1995 through April 1996.
- o On June 30, the Executive Director of the Oversight Board submitted the annual report of the Oversight Board on the RefCorp for calendar year 1994 to the President and the Congress, as required by 12 U.S.C. 1441b(i).
- o On September 18, the Oversight Board appointed the President of the Federal Home Loan Bank of Dallas as a member of the Directorate of the RefCorp for a three-year term and appointed the President of the Federal Home Loan Bank of Seattle as Chairperson of the Directorate.
- o On November 15, the Executive Director of the Oversight Board, acting under delegated authority, approved the 1996 budget of the RefCorp.

PART I, SECTION B:

**THE THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD**

IN 1996

BACKGROUND

As of January 1, 1996, the membership of the Oversight Board was reduced to three persons: the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve, and the Secretary of the Department of Housing and Urban Development (HUD).

FINAL REPORTS

Though most of its RTC-related duties would terminate on December 31, 1995, the Oversight Board in 1996 was charged with fulfilling a number of statutory reports and other requirements. These included:

- o evaluation of Congressionally required audits of the RTC;
- o transmittal to the Congress of the audited financial statements of the RTC for its last fiscal year (calendar year 1995);
- o completion of the final semiannual report and semiannual appearance before the Congress, covering the RTC's last three months of operations;
- o completion of a joint annual report of the RTC and the Oversight Board, providing a full report of their respective operations, activities, budgets, receipts and expenditures for calendar year 1995;
- o completion of a final report on the use of loss funds by the RTC required under §28 of the RTC Completion Act by the Chairman of the Oversight Board to the Senate and House Banking Committees; and
- o continuation of service by the Chairman of the Oversight Board, or delegate, as a non-voting member of the Affordable Housing Advisory Board.

Given the nature of the required reports, it was deemed appropriate to keep Oversight Board staff offices open for the first half of 1996 to allow for the filing of reports due June 30, 1996, and any delays in the receipt of data from RTC computer systems and the final GAO audit of RTC financial statements.

The Chief Financial Officer of the RTC had reported to the Oversight Board Audit Committee in 1995 that the information necessary for the GAO audit likely would be provided later than usual because, as it was a final report, the RTC's Vice Presidents wanted to be certain to capture all data in their submissions. The GAO had concurred with this plan. Thus, it was deemed likely that Oversight Board staff could not complete all legislatively mandated reports before late June 1996.

RESOLUTION FUNDING CORPORATION

Following completion of its RTC-related duties and the closing of its staff offices, the Oversight Board is to continue on to oversee the Resolution Funding Corporation (RefCorp).

Although RefCorp accomplished its basic purpose of issuing \$30 billion in obligations to obtain and provide funds for the RTC, there remain certain statutory caretaker duties for the Oversight Board during the remaining life of RefCorp. They are:

- o recurring appointment of two members of the RefCorp Directorate and selection of its Chairperson;
- o determination of the assessment of the FHLBanks for RefCorp's administrative expenses;
- o issuance of regulations, orders, and directions as necessary for the operations of RefCorp; and
- o submission to the Congress and the President of an annual report on the operations of RefCorp, and approval of projected funding for the payment of interest on RefCorp obligations.

Upon dissolution of RefCorp, which is to occur as soon as practicable after the maturity and full payment of its obligations (approximately in the year 2030), the Oversight Board is to exercise any power of RefCorp necessary to settle and conclude RefCorp's affairs.

PART I, SECTION C:

**THE THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD STAFF REVIEW OF
KEY PROGRAMS, FUNCTIONS, AND ACTIVITIES
OF THE RESOLUTION TRUST CORPORATION**

TRANSITION

Background

When the RTC Completion Act was enacted on December 17, 1993, the RTC had approximately 6,000 employees who were engaged in a wide variety of complex functions. Downsizing the RTC in anticipation of its sunset at the end of 1995 and transferring assets, personnel, and operations from the RTC to the FDIC was an enormous undertaking that required considerable coordination between the two agencies.²

The joint FDIC/RTC Transition Task Force (Task Force) was established on February 25, 1994 to comply with section 6 of the RTC Completion Act. The statute directed the Task Force, "to facilitate the transfer of the assets, personnel, and operations of the RTC to the FDIC or the FSLIC Resolution Fund in a coordinated manner." The five specific duties of the Task Force were to:

- o examine the operations of the FDIC and the RTC to identify, evaluate, and resolve differences in those operations to facilitate an orderly merger;
- o recommend transition procedures to be followed by the FDIC and the RTC that will promote coordination between the corporations before sunset and an orderly transfer of asset, personnel, and operations;
- o recommend which of the management, resolution, or asset disposition systems of the RTC should be preserved for use by the FDIC;
- o evaluate the management enhancement goals applicable to the RTC under section 21A(p) of the Federal Home Loan Bank Act (FHLBA) and recommend which should apply to the FDIC; and
- o evaluate the management reforms applicable to the RTC under section 21A(w) of the FHLBA and recommend which should apply to the FDIC.³

Functional Task Groups and Specialized Committees

Throughout the transition process, the Task Force relied heavily upon the collaborative efforts of staff from both the FDIC and the RTC in formulating its

² The Completion Act also shortened by one year the life of the RTC. This resulted in a larger than anticipated share of the RTC's workload being transferred to the FDIC.

³ Federal Deposit Insurance Corporation, *Final Report on the FDIC/RTC Transition*, submitted to the U.S. House of Representatives Committee on Banking and Financial Services and the U.S. Senate Committee on Banking, Housing, and Urban Affairs; p. 3, (FDIC, December 29, 1995).

recommendations. The Task Force's recommendations reflected, for the most part, a consensus between FDIC and RTC senior managers.

To facilitate the participation of both FDIC and RTC staff in transition planning within their particular areas of expertise, the Task Force established the functional task groups and specialized committees listed below. These task groups and committees provided recommendations to the Task Force on a wide variety of transition issues, and the functional task groups were subsequently responsible for overseeing the implementation of those recommendations.

Functional Task Groups

asset management and sales	resolutions
research and statistics	finance
executive secretary	legal
corporate communications	contracts
legislative/government affairs	information systems
corporate ombudsman	Inspector General
corporate/administrative services	contractor oversight and surveillance
minority and women's programs and equal employment opportunity	personnel

Specialized Committees

personnel policy	internal controls
legal policy	facilities planning
accounting and budget policy	best practices review
communications	systems review

Transfer of Assets, Personnel, and Operations to the FDIC

One of the Task Force's primary responsibilities was to recommend to the FDIC and the RTC procedures that would promote an orderly transfer of RTC assets, personnel, and operations, both prior to and at sunset. These recommendations were made jointly to the RTC and the FDIC and were documented in a series of joint FDIC/RTC memoranda.

These recommendations addressed the implementation of procedures to facilitate pre-sunset coordination, the establishment of personnel policies and procedures, the early transfer of some RTC functions to the FDIC, and the placement of RTC functions within the FDIC's organizational structure. Their implementation was largely completed by December 31, 1995.

Best Practices, Management Goals/Reforms, and Automated Systems

A very important statutory responsibility imposed on the Task Force by the RTC Completion Act was to "examine the operations of the FDIC and the RTC to identify, evaluate, and resolve differences in those operations to facilitate an orderly merger." The Task Force provided the FDIC with recommendations dealing with the post-sunset adoption of RTC best practices and management goals/reforms. It also provided the Secretary of the Treasury recommendations on the transfer of selected RTC automated systems to the FDIC. In December 1995, The FDIC reported that it had accepted all of the Task Force's recommendations, and their implementation was in process.⁴

Best Practices

In addition to the eight management enhancement goals and 21 management reforms that had been statutorily imposed upon the RTC, 76 operating differences were considered to be significant enough to warrant formal review. The Task Force recommended that 50 RTC best practices be preserved for use by the FDIC. Seventeen of them pertained to asset management and sales, four to various legal functions, nine to accounting and financial management, twelve to contracting, and five to the minority and women's contracting program. The remaining three affected practices in other areas.

Management Goals/Reforms

A process similar to that used in reviewing RTC best practices was used to evaluate the eight management goals and 21 management reforms. The Task Force did not attempt to determine whether the FDIC was already in compliance with a particular goal or reform; rather, it sought to determine whether any particular goal or reform should be embraced.

Automated Systems

The RTC Completion Act required the Task Force to recommend to the Secretary of the Treasury which RTC automated systems should be preserved for use by the FDIC, and the recommendations were submitted on July 31, 1995. The Secretary of the Treasury concurred in all of the Task Force's automated system recommendations, and the FDIC was required to continue to use such

⁴ Ibid., p. 4.

systems as long as they were efficient and cost effective.⁵ The systems fell into the following three broad categories.

- o Nineteen systems were transferred to the FDIC for its general use:
 - Affordable Housing Disposition Program Compliance Monitoring System
 - Audit Management Tracking System
 - Asset Tracking and Reporting System
 - Correspondence Control Manager
 - Collection Policy System
 - Conflicts Tracking System
 - Derived Investment Value System
 - Document Management System
 - National Asset Sales Calendar
 - National Employee Ethics Tracking System
 - Office of Contractor Oversight and Surveillance Status System
 - Pension Tracking System
 - Professional Liability Section Case Tracking System
 - Records Management Tracking System
 - Reading Room Information Tracking System
 - Seller Financing System
 - Subsidiary Information Management System
 - Office of Contractor Oversight/Surveillance Investigations Tracking System
 - Warranties and Representations Account Processing System

⁵ Ibid., p. 16.

- o **Twenty-two systems were transferred to the FDIC for use until RTC-related work is completed:**
 - **Automated Grouping System/Automated Payout System**
 - **Asset Manager System**
 - **Asset Management Disposition Agreement Activity Report**
 - **Book to Bank Reconciliation System**
 - **Claims Administration Reserves Account Tracking System**
 - **Contracting Activity Reporting System**
 - **Contractor Conflicts System**
 - **Creditor Claims Tracking System**
 - **Corporate Information System**
 - **Funds Tracking System**
 - **Invoice Processing System**
 - **Liability Dividend System**
 - **Master Access Control System**
 - **Mega-Portfolio Bid Tracking System**
 - **Management Reporting System**
 - **Minority and Women Owned Business Certification Database**
 - **Principal Tracking System**
 - **Real Estate Owned Management System**
 - **Review Information and Oversight Tracking System**
 - **Seller Financing System, Commercial and Multi-Family**
 - **Thrift Investigation Management System**
 - **RTC Caseload Management/UNIVERSE Database System**

- o Eight systems are to run concurrently with corresponding FDIC systems until studies of future needs or new systems development projects are completed:
 - Computer Resources Inventory System
 - Control Totals Module
 - Estimated Cash Recovery
 - Financial Management System, Accounts Payable
 - Financial Management System, General Ledger
 - Loan Loss Reserve
 - RTC Legal Information System (RLIS)
 - RLIS Data Entry

The remaining fourteen automated systems were discontinued at or near sunset for one or more of the following reasons: (1) FDIC has a system that performs the same function as well or better, (2) RTC modified an FDIC system to accommodate RTC's unique needs, (3) the RTC system did not support existing or proposed FDIC functions, or (4) the RTC developed a system with functionality inconsistent with the FDIC's needs.

Conclusion

Oversight Board staff carefully reviewed the reports and activities of the Task Force and concluded that its recommendations were well-documented and the transition effort was well-executed. Should such a large and complex transition be required by Federal government agencies in the future, the transition process utilized by the RTC and the FDIC could be a valuable resource.

INTERNAL CONTROLS

Background

The concept of internal controls is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- o effectiveness and efficiency of operations,
- o reliability of financial reporting, and

- o compliance with applicable laws and regulations.⁶

Five basic components of internal controls for an organization are:

- o **Control Environment** - The control environment sets the tone of an organization and influences the internal control awareness of its employees.
- o **Risk Assessment** - Risk assessment is the identification and analysis of relevant risks. It is conducive to achieving the organization's internal control objectives by forming a basis for determining how the risks should be managed. A precondition to risk assessment is the establishment of objectives that are internally consistent and linked at different levels.
- o **Control Activities** - Control activities are the policies and procedures that help ensure management directives are carried out.
- o **Information and Communication** - Pertinent information must be identified, captured, and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across, and up the organization.
- o **Monitoring** - This is the process that assesses the quality of the internal control system's performance over time.

Development of Internal Controls

From its beginning, the Oversight Board focused on internal controls for the RTC. The December 31, 1989, Strategic Plan prepared by staff of the Oversight Board contained the following provision:

"The RTC must maintain strong internal controls and an accounting system in view of the large amount of assets and funds involved. The RTC should take all appropriate steps to facilitate periodic on-site reviews and general evaluations of these controls and systems by the Oversight Board as it fulfills its oversight duties."⁷

In 1991, even though the RTC had taken affirmative steps toward improving internal controls and had established the position of Chief Financial

⁶ Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control - Integrated Framework*, Executive Summary, pp. 1-3, September 1992. (The National Commission on Fraudulent Financial Reporting, commonly known as the Treadway Commission, is sponsored by the American Accounting Association, American Institute of Certified Public Accountants, Financial Executives Institute, Institute of Internal Auditors, and Institute of Management Accountants.)

⁷ Resolution Trust Corporation, *Strategic Plan for the Resolution Trust Corporation*, pp. 64 and 65, (RTC Oversight Board, December 31, 1989).

Officer (CFO), the Oversight Board decided that additional direction was needed for the RTC. The Oversight Board passed a resolution on July 25, 1991, adopting *Policy Statement No. 18, RTC Internal Controls*. A copy of the policy is included with Part I of this report as Appendix F. As stated in paragraph 1 (A) and (B) of Policy Statement No. 18, its objectives were to:

"encourage the Resolution Trust Corporation ('RTC') to establish and adhere to internal control standards, including evaluation and reporting standards, that are no less stringent than those required of certain agencies pursuant to the Federal Managers' Financial Integrity Act of 1982 ('FMFIA');" and

"encourage the RTC to vest in its Chief Financial Officer powers substantially similar to those provided in the Chief Financial Officers Act of 1990 ('CFO Act')."

Reports critical of certain aspects of the RTC's operations continued to be issued by the General Accounting Office and the Inspector General, and Oversight Board concerns about the RTC's internal controls program persisted. Improvements in the RTC's internal controls process were closely monitored.

On March 27, 1992, the RTC issued Directive No. 1250.1, *Internal Control Systems*, which was to "establish policies, objectives, standards and responsibilities for the development, maintenance and evaluation of internal controls for RTC programs and administrative activities." A copy of this directive is included with Part I of this report as Appendix G.

The RTC was without a full-time CFO from July 1991 until June 1, 1993, at which time the new Acting CEO of the RTC appointed a new CFO. Requisite organizational changes also were implemented to ensure that the new CFO had the authority to carry out the requirements of the CFO Act of 1990. These actions provided the impetus for further improvements in the RTC's internal control program during the last 30 months of the RTC's existence.

The RTC filed a report on June 30, 1993, called *RTC Annual Management Report (In Compliance with the CFO Act of 1990)*. The report stated that risk rankings of low, moderate, or high had been assigned to each of 51 assessable units in the National Office of the RTC.

The RTC did not designate assessable units for its field offices because the headquarters assessable units were expected to incorporate the field office programs, conditions, and corrective actions as part of their headquarters assessable unit activities. The limited term of the RTC also was a factor in not developing an elaborate system of field assessable units. Internal control personnel from the National Office did, however, conduct detailed briefings for field office personnel. The briefings commenced in May 1993 and continued into 1994.

In 1993 and 1994, Oversight Board staff attended RTC internal control briefings for field office personnel and found the briefings to be thorough. Although Oversight Board staff would have preferred to see an expansion of the RTC's assessable unit program to the RTC's field offices, it was recognized that this could not be achieved in the short time remaining.

Oversight Board staff, as well as staff from the RTC's Office of Management Control, visited each RTC field office in 1994 and 1995 to assess the effectiveness of the RTC's internal controls system in the field environment. In all cases, field office program areas were found to be in compliance with RTC internal control policies and procedures. Some field offices, or program areas within field offices, actually enhanced their internal control procedures to a level that exceeded the RTC's basic system. Also in January 1994, the Office of Inspector General issued an audit report concluding that the RTC had taken appropriate steps to adhere to Oversight Board Policy Statement No. 18 and that the RTC's internal control evaluation system met the requirements prescribed by Office of Management and Budget guidelines.

The Audit Committee (Committee) of the Oversight Board emphasized the importance of the RTC maintaining strong internal controls during the transition. Further, the Committee focused attention on the RTC's response to the findings and recommendations of auditors. The important work of the Committee in monitoring the RTC's internal controls was discussed in greater detail in Part I, Section A, of this report.

The RTC Internal Control Reports and Annual Management Reports for 1993, 1994, and 1995 were more complete than previous reports. High risk areas were identified, and well-designed corrective actions were implemented to reduce or eliminate the RTC's exposure.

The RTC's internal controls program continued to identify high risk areas up to the time of the RTC's termination. The RTC made progress during the last three years of its existence developing and implementing its system of internal controls, but due to RTC's late start in addressing a very complex problem, certain corrective actions regarding internal controls remained open at closure.

Any unresolved internal control issues that remained when the RTC closed are being addressed by the FDIC. An example is contained in the response by the CFO of the FDIC in the recent General Accounting Office financial audit of the RTC.⁸ The CFO of the FDIC stated:

"CONTROLS OVER CONTRACTING The GAO report notes that although the RTC took numerous actions in recent years to improve

⁸ United States General Accounting Office, Report to the Congress, *Financial Audit, Resolution Trust Corporation's 1995 and 1994 Financial Statements*, Appendix III, p. 43, B-262036, July 2, 1996.

controls over its contracting activities, the effects of the RTC's early neglect of its contracting operations remained, particularly for contracts issued prior to the implementation of RTC contracting reforms and improvements. The result was that the RTC could not be sure that it had recovered all that it should have recovered from its receiverships.

A large number of active RTC contracts were transferred to the FDIC on December 31, 1995, and the FDIC has assumed responsibility for closing out and resolving open audit issues for a much larger number of completed contracts. During 1995, the RTC intensified its efforts to close out completed contracts and to resolve open contract audit issues. The FDIC and the RTC also worked together through the transition process to identify RTC contracts that would be needed to accomplish remaining RTC work after the RTC's termination, and the RTC modified those contracts during late 1995 to enable their transfer to the FDIC.

In assuming responsibility for the RTC's remaining contracting work, the FDIC will make its best efforts to recover any funds due under these contracts, recognizing the limitations that may exist because of the factors cited in the GAO report."

Conclusion

While the internal control system developed by the RTC was a comprehensive one, a system with the depth necessary to solve some of the internal control issues encountered by the RTC could not be completed because of the temporary nature and early closure of the Corporation.

CONTRACT POLICIES, PROCEDURES, AND SYSTEMS

Background

FIRREA required the RTC to maximize its use of the private sector, as follows:

"Utilization of private sector. -- In carrying out the Corporation's duties under this section, the Corporation and the Federal Deposit Insurance Corporation shall utilize the services of private persons, including real estate and loan portfolio asset management, property management, auction marketing, and brokerage services, if such services are available in the private sector and the Corporation determines utilization of such services are practicable and efficient."

The Oversight Board, as one of its major functions, closely monitored the contracting process. Pursuant to FIRREA, the Oversight Board set forth this requirement in greater detail in the *Strategic Plan for the Resolution Trust*

*Corporation.*⁹ It instituted annual targets for the use of the private sector and included in the RTC's quarterly reports on planning and budgeting a requirement for a section on the extent to which private contractors were utilized.

Evolution of RTC Contracting Policies and Procedures

The RTC operated without a comprehensive contracting policies and procedures manual until the appointment of a Director of Contracts in early 1991. At that time, efforts were initiated to consolidate contracting policies and procedures into a manual. The evolution of that process is summarized below.

- o RTC contract policies and procedures began with an eleven-page contracting memorandum issued in January 1991. This document generated a series of questions and follow-up memoranda providing clarification and further guidance.
- o The first Contract Policies and Procedures Manual (CPPM) was issued on August 19, 1991, and it reiterated the guidelines set forth in previously-issued contracting memoranda. The first revision to this manual was issued on November 11, 1991. It further defined the RTC's contracting roles and responsibilities, reflected the RTC's Contractor Selection and Engagement Complaint Resolutions procedures, and clarified the role and duties of the Contracting Officer's Technical Representative (COTR). On March 16, 1992, a second revision was issued which implemented the Contract Warrant Program.
- o On May 7, 1992, the first professionally developed Contract Policies and Procedures Manual was issued. It provided greater detail about contract administration and set out specific responsibilities and duties of contract and program personnel. It also established various levels for the Contract Warrant Program, as well as the education/training required for each level.
- o Between September 18, 1992, and February 15, 1995, when the eighth and final revision was issued, the CPPM evolved into a concise and comprehensive guide for the RTC's contracting policies and procedures. Major revisions and enhancements included, but were not limited to:
 - clarifications of expenditure authorities for task orders,
 - parameters for the Contract Warrant Program,
 - the introduction of external reviews,
 - the addition of the Competition Advocacy Program,

⁹ Resolution Trust Corporation, *Strategic Plan for the Resolution Trust Corporation*, (RTC Oversight Board, December 31, 1989).

- a redefinition of the ownership requirements for Minority- and Women-Owned Businesses,
- reorganizations of the RTC contracting office,
- incorporating the Prompt Payment Act, and
- establishing a new policy for the claims and disputes process including the roles and function of the Office of Major Dispute Resolution (OMDR), the Contractor Disputes Resolution Committee (CDRC), and the Contract Appeals Committee and Office of Contract Appeals.

These enhancements reflected expressions of Congressional concerns, Oversight Board suggestions, and the RTC's own increased refinement of the contracting process. By the time it closed, the RTC contracting manual more closely resembled the procurement regulations used by many parts of the of the Federal Government, but, of course, tailored to the needs of the RTC.

The RTC's CPPM was one of the "best practices" recommended by the FDIC/RTC Transition Task Force for use by the FDIC. Specifically, it was recommended that the FDIC consolidate its Procurement Policy Manual, the Division of Depositor and Asset Services' Contracting Procedures Manual, and other procurement policies contained in the FDIC Directive System into a single comprehensive document, using the RTC's Contract Policies and Procedures Manual as a model.

Contracting Activity Reporting System

The Oversight Board paid particular attention to RTC automated management information systems. Although initially leaving much to be desired, the RTC achieved considerable success in developing and implementing automated systems by the time of its termination.

One system that was singled out for careful monitoring by the Oversight Board staff was the Contracting Activity Reporting System (CARS). This system was of great importance in eliciting information about the thousands of contracts entered into over the life of the RTC.

CARS tracked the status of awarded contracts and solicitations for non-legal contracting activities at RTC offices, RTC-managed institutions, and asset management contractors working on behalf of the RTC. The system could be accessed from personal computers by way of each office's local area network and the RTC corporate communications network.

The primary function of CARS was to provide the status of awarded contracts and solicitations. The system tracked the status of contract solicitations

through the phases of solicitation, evaluation, and award. The system's other functions were to record solicitation results, generate reports, and allow management to structure and control the contracting process.

CARS also serves as the historical database for RTC contracts. It can generate a wide range of reports summarizing the number of contracts awarded by office, the extent of competition, MWOB contract data, contract status, and types of contract services. For example, CARS can provide contract information on 37 distinct services types. These include accounting, auditing, and financial services; appraisal reviews; asset due diligence; closing assistance; marketing and promotion; security services; title searches; and many more.

Contractor Claims and Disputes Process

From inception, the RTC was authorized by statute to utilize the services of the private sector if such services were available and the RTC determined that utilization of such services was practicable and efficient. The Oversight Board's Strategic Plan for the RTC, issued December 31, 1989, also had as an objective the placing of RTC assets under private control for management and disposition.

In utilizing the private sector to assist the RTC in managing and resolving cases and disposing of the assets of failed depository institutions, detailed procedures and uniform standards were developed for contracting with private sector firms. These procedures and standards came to be embodied in the RTC's Contract Policies and Procedures Manual (CPPM).

It also became clear over time that procedures were needed for handling contractor disputes, and by 1994 the RTC began to make substantial progress in developing such procedures. The RTC's work on this matter was facilitated by the deliberations and activities of the Advisory Boards, culminating in a recommendation of the National Advisory Board on "Internal Dispute Resolution" adopted at its meeting of June 14, 1994, and presented to the Oversight Board on September 20, 1994:

"...that the RTC consider instituting an internal dispute resolution body that would act as an independent party to resolve disputes, on matters such as audit findings involving SAMDA and other contractors and the RTC."

The RTC responded to the recommendation by noting that it was currently developing procedures for handling contractor claims and resolving disputes, using the SAMDA program as a prototype:

"These procedures will provide contractors with two (2) levels of review regarding dispute determinations. Field office committees will be established which, at the request of the contractor, will review the initial decisions made by appropriate contracting and program oversight officials. In addition, a committee will be established at RTC Headquarters in

Washington which will, also at the contractor's request, review decisions of the field committees for disputes involving larger dollar amounts. The committees will be represented by senior staff from the Legal Division, the Office of Contracts, and Program Management, and will not include the oversight staff responsible for administering the contract(s) in question."

"RTC expects these procedures to provide the contractors with a forum to air their disputes before a basically neutral panel with the experience and expertise to render reasonable and impartial decisions. Consistency in decision-making and application of interpretations regarding contract provisions will be strengthened by having the RTC Headquarters committee review the major disputes."

On October 1, 1994, the RTC established at each field office and in Washington a Contract Dispute Resolution Committee (CDRC) which reviewed disputes between contractors and RTC contracting officers. Further, a Contract Appeals Committee (CAC) also was established in Washington, in order to provide an independent review office within the RTC for the resolution of major disputes that arose in the administration of RTC contracts. The procedures governing these Committees and claim and dispute resolutions generally were set forth in Revision 8 to the CPPM, issued February 15, 1995.

For the purposes of sections G (Claims Process) and H (Disputes Process) of Chapter 10 of CPPM, a "claim" was defined as a written demand or assertion for payment of money, a request for the adjustment of interpretation of contract terms or for other relief arising under or relating to the contract. Either the RTC or the contractor could be a claimant. It was RTC policy that contractor claims be resolved by mutual agreement at the contracting officer level without additional review or litigation to the maximum extent possible. Successful implementation of this policy depended upon both parties maintaining an objective perspective with regard to the claim and upon the adequacy of information related to the claim provided by both the RTC and the contractor.

A claim became a "dispute" if it was unresolved after the contracting officer had made a final decision on the claim. The Contractor Dispute Resolution Committees in the field offices were composed of senior representatives from the program offices, the Division of Legal Services, and the Director of the Contracts Office at that location. The CDRC in Washington was composed of the Director of Contracts, the Senior Counsel - Contracts, and the director of the program office responsible for the contract in dispute. A CDRC made the final RTC decision on all contract disputes except where the original amount in controversy was equal to \$100,000 or more and the contractor timely appealed the CDRC decision to the Contract Appeals Committee.

The CAC had the authority to render final RTC decisions on all appeals of contract dispute decisions where the original amount in controversy was \$100,000 or more. The three member CAC was composed of designees of the

Chief Financial Officer, the General Counsel, and the Vice President of Administration. The CAC provided expeditious and inexpensive resolution of the disputes and heard appeals from decisions of the CDRC's in each field office and in Washington. Staff support for the CAC was provided by the Office of Contract Appeals, headed by a Director who reported directly to the RTC Chief Financial Officer. At the RTC's sunset on December 31, 1995, 23 Contract Appeals had been submitted to the CAC. Decisions had been rendered on 15 of these Appeals, 1 was withdrawn by the contractor, 3 were dismissed, and 4 were awaiting decision.

The Office of Major Dispute Resolution (OMDR) was an additional office established by the RTC in 1995 to handle certain selected claims that might have a major impact on the Corporation. Claims handled by OMDR had one or more of the following characteristics: complex issues, large dollar amounts were involved, RTC national policy was impacted or affected, several program office jurisdictions or RTC offices were covered, ongoing complex negotiations with senior members of the contractor's organization and their legal counsel would likely be involved, extensive involvement of attorneys representing both parties would be required, or costly or protracted litigation was the probable outcome if settlement did not occur.

The OMDR could selectively accept responsibility for resolution of a claim at any point in the claims process, either on its own initiative or at the request of the Office of Contracts in Washington or a field office. Upon accepting such responsibility, OMDR acted in the role of the Contracting Officer in attempting to settle a claim and the claim was no longer subject to other claims procedures. Claims might be referred to OMDR due to questions resulting from a GAO audit, a review of a contractor by the Office of Contractor Oversight and Surveillance, or an audit of the RTC Inspector General.

Claims accepted by OMDR involved detailed research and analysis on each issue, and legal advice was sought as appropriate. If OMDR and the contractor ultimately reached impasse on a claim, the contractor could appeal any final determination by OMDR to the Contract Appeals Committee. At the RTC's sunset on December 31, 1995, 61 disputes had been accepted for review, 22 resolutions of disputes had been completed, two had been transferred, and 37 were awaiting decision. At sunset, OMDR had saved, protected, or recovered more than \$25,000,000.

Conclusion

During its life, the RTC entered into 159,734 contracts with total estimated fees of approximately \$5.3 billion, as tracked on CARS. More than 56,000 contracts were issued to minority- and women-owned businesses, and those contracts accounted for more than \$1.5 billion in estimated fees.¹⁰ These data do not include the thousands of other contracts that were issued directly by the RTC

¹⁰ Resolution Trust Corporation, *Semiannual Report of the Resolution Trust Corporation and the Thrift Depositor Protection Oversight Board*, p. 14 and Exhibit 6, (FDIC and Oversight Board, April 30, 1996).

Legal Division and individual receiverships, bringing the total estimated fee value of all contracts to approximately \$8.3 billion.¹¹

The FDIC/RTC Transition Task Force recommended that CARS remain fully operational for all existing RTC contracts. Because CARS was highly flexible and was capable of tracking many categories of contracts, the database will be preserved as a historical record to facilitate research of RTC contracting activities. Each contract category tracked by CARS is included with Part I of this report as Appendix H.

RECEIVERSHIP TERMINATIONS

In 1995, the Oversight Board closely monitored the RTC's progress in terminating its receiverships. The minutes of the Board's meetings reflect continuing consideration by Board members of significant issues involved in the termination process.

During its existence, the RTC managed and resolved 747 cases involving depository institutions. In most of these cases, an initial pass-through RTC receivership was established to facilitate the transfer of assets and liabilities to a successor institution in conservatorship (referred to in the Comptroller General's report on his audit of the RTC's financial statements for 1995 as "the conservatorship phase.") The conservatorship phase of a depository institution was eventually closed by resolution of the case through acquisition by another depository institution (by purchase of certain assets and assumption of certain liabilities), an insured deposit transfer, or insured deposit payout. In all cases, the resolution phase required appointment of the RTC as receiver for the purpose of liquidating the remaining assets of the depository institution and paying remaining liabilities from the proceeds of such assets.

Closing out a liquidating receivership involves the disposition of those assets that have proved most difficult to sell, the satisfaction or transfer of troublesome liabilities, and the resolution of tax and accounting problems. The RTC established a methodical system for evaluating the eligibility of receiverships for termination and proceeding to the close of the process where practicable. Completed termination normally involved the purchase of remaining assets by the RTC in its corporate capacity.

The goals of the RTC's receivership termination program were: termination of receiverships expeditiously in order not to prolong receivership administrative expenditures in those cases in which little recovery could be expected from the remaining assets; final dividend payments to creditors with valid claims; preventing the transfer of unacceptable financial risks and known financial liabilities to the RTC in its corporate capacity; management reporting on program

¹¹ Resolution Trust Corporation, *Historical Expense Summary, 1989-1995*, (FDIC, May 21, 1996).

activity and performance; and the establishment and maintenance of policies, procedures, and controls.

The RTC established goals annually by field office and reviewed all receiverships older than one year to determine eligibility for termination. Receiverships were scheduled for termination when all impediments were resolved and the book value of the remaining assets was expected to be less than \$10 million at the time of purchase by the RTC in its corporate capacity. The RTC created and used a comprehensive terminations manual containing standard policies, procedures, and guidelines for the termination process as well as standard forms, letters, contracts, and certificates. A termination task force was established at each RTC field office to identify receivership termination candidates, prepare cases, and coordinate among the program areas involved.

Following receipt of a staff report on the RTC's receivership termination program in December, 1994, the Oversight Board continued in 1995 to review and monitor the progress of the program on a regular basis. In this connection, the members of the Oversight Board were apprised of the RTC's efforts to ensure that receivership-owned environmentally hazardous properties with remediation costs exceeding the value of the assets were not purchased by the RTC in its corporate capacity; and a proposed amendment to the RTC's policy barring the assumption of defensive litigation by the RTC in its corporate capacity was reviewed.

The RTC made substantial progress toward termination of its receiverships during 1995, approving 136 receiverships for termination and issuing 167 certificates of termination. The number of outstanding receiverships not yet approved for termination was reduced from 536 to 400. A chart of receivership termination activity is included with Part I of this report as Appendix I.

The FDIC/RTC Transition Task Force Report dated June 30, 1995, included three "best practice" recommendations of the Task Force concerning the RTC's receivership termination program: that the FDIC adopt a formal method similar to that of the RTC for selecting and scheduling receiverships for termination, that the FDIC adopt and adapt the RTC manual, and that the FDIC adopt the termination task force concept of the RTC. The FDIC's Final Report on the FDIC/RTC Transition, dated December 29, 1995, indicates that the FDIC has determined to implement all three of these Task Force recommendations.

RECORDS MANAGEMENT AND RETENTION

In 1991, the RTC identified a need to establish an automated system to track files and provide a research tool for its voluminous records. The RTC Records Management Tracking System (REMATS) was created to fulfill this need. The three basic classifications of records in REMATS are institution asset records, institution administrative records, and RTC generated documents.

For each records classification, REMATS provides a separate module for the purpose of maintaining a records inventory. A few examples of information that can be accessed through the system include customer loan abstracts, audit

files, closed asset and credit files, deeds of trust, real estate escrow files, loan applications, safe deposit records, depository account signature cards, loan history files, and environmental assessments.

The FDIC/RTC Transition Task Force (Task Force) recommended that REMATS be transferred to the FDIC. Further, the Task Force recommended retaining the RTC contract with a commercial vendor for corporate-wide records management.

ASSET DISPOSITION

Background

Asset disposition was key among the major activities of the RTC, and the Oversight Board carefully monitored the RTC's asset disposition policies, procedures, and programs.

From the RTC's inception in August 1989 through its termination on December 31, 1995, the RTC took control of assets with a book value of \$465 billion.¹² FIRREA directed the RTC to maximize recoveries on assets while minimizing the impact on local markets and preserving the availability of affordable housing. The RTC also was directed to use private contractors whenever practicable.

The OB has monitored the RTC's various methods of asset disposition. A chart setting forth the amount of sales and the percentages of total book value reductions for each disposition method is included with Part I of this report as Appendix J. The largest portion of book value reductions came in the form of principal payments and loan payoffs, followed by write offs.

Hard-to-Sell Assets

The RTC historically defined readily marketable assets as securities and performing one-to-four family mortgages. All other types were defined as hard-to-sell assets.

From inception through RTC's closure, recovery rates from disposition activities showed a downward trend. Higher quality assets had been sold, and the remaining inventory became increasingly dominated by hard-to-sell assets. The general categories of assets considered to be hard-to-sell are:¹³

¹² The General Accounting Office (GAO) report on the audit of the RTC's 1995 and 1994 financial statements mentions that the RTC took control of \$402 billion (book value) of assets. The \$465 billion figure includes RTC asset purchases, assets discovered after takeover, loan commitments fulfilled during conservatorship, and short-term securities purchased in conservatorship with the proceeds of asset sales, whereas the GAO figure does not.

¹³ Resolution Trust Corporation, *Hard-to-Sell Asset Review Project*, Vol. I, p. 6, (RTC, December 1, 1992).

- o performing business and consumer loans;
- o performing mortgage loans secured by real estate other than 1-4 family properties, specifically:
 - multifamily mortgages,
 - commercial real estate mortgages,
 - construction mortgages, and
 - land mortgages;
- o non-performing mortgage loans, further categorized as:
 - residential 1-4 family mortgages,
 - multifamily mortgages,
 - commercial mortgages,
 - construction mortgages, and
 - land mortgages;
- o non-performing business and consumer loans;
- o other assets, including:
 - furniture, fixtures, and equipment,
 - subsidiaries, and
 - mortgage loan servicing rights; and
- o real estate owned, including:
 - land,
 - 1 to 4 family properties,
 - multifamily properties, and
 - commercial properties.

Retail and Wholesale Methods of Asset Disposition

Although the RTC used a mix of "retail" and "wholesale" asset disposition methods, the December 22, 1992, issuance of Directive 10300.30, *Priorities and Responsibilities for Sales of Mortgages and Other Loan Assets*, moved the emphasis to wholesale methods. The directive stated:

"The RTC's experience has shown that, with respect to mortgages and other loan assets, 'wholesale' programs aimed at a broad national market have proven the most successful in disposing of assets rapidly and maximizing recovery values. Such programs include securitization, multiple investor fund transactions, structured sales, whole loan sales and national loan auctions."

Directive 10300.30 also established policies and priorities with regard to specific methods of asset disposition. These included the following:

- o securitization as the primary and priority method of sale of all performing 1-4 family mortgages, multi-family and commercial mortgages, and consumer and other non-mortgage loans;
- o Multiple Investor Fund (MIF) transactions (including both publicly-offered MIFs and privately placed MIFs or "N" series transactions) as the primary method of sale of non-performing multi-family and commercial mortgages;
- o structured sales,¹⁴ whole loan sales, and national loan auctions conducted by the National Sales Center as the primary methods of disposition of non-performing 1-4 family mortgages, non-performing consumer loans, and all other mortgage and loan assets not suitable for securitization or multiple investor fund transactions.

Structured Transactions

Portfolio sales were frequently used to dispose of large portfolios of assets. One type of portfolio sale, known as a "structured transaction," was used primarily to dispose of non-performing commercial mortgages and problem real estate. This selling arrangement sometimes gave the RTC a residual interest in the transaction, and some were partially financed with RTC seller financing. The RTC, in explaining its structured transactions, asserted:

"Structured transactions were created to achieve a high velocity of sales since selling the commercial assets of RTC one by one would take many years. Equally as important, these widely advertised initiatives were created to execute sales with much lower costs. The costs in structured transactions usually does not exceed two percent. In addition, these types

¹⁴ Structured sales also were referred to as "bulk sales."

of transactions relieve the RTC from dependence upon management contractors."

"Structured transactions are conducted by the RTC National Sales Center in Washington and by the consolidated field offices. In all cases, the RTC hires a due diligence contractor, usually a major accounting firm, and a financial advisor, usually a Wall Street firm or major real estate investment banker, to analyze, package and price the offering."¹⁵

RTC reported that the number of assets was the most important aspect of a structured sale, but the book value of the offering also was significant. The RTC generally set \$100-150 million in book value as a floor amount for an offering, high enough that fixed costs could be spread over a larger base and low enough to attract sufficient bidders.

An Oversight Board staff review revealed that \$14.3 billion (66 percent) of the \$21.7 billion in assets sold by this method were in pools of over \$200 million each. Only \$2.6 billion (12 percent) was in portfolios under \$100 million.

The time necessary to assemble, analyze, and close the sale of such large pools of assets impacted the duration of structured sales. It generally took up to nine months to package and close structured transactions.

Critics of the RTC's portfolio sales strategy pointed to the large size of the pools offered for sale. Some believed this unduly restricted the number of bidders, and the RTC itself acknowledged that more bidders participated in pools that were less than \$100 million. This was consistent with assertions made by the investment community that there appeared to be numerous smaller potential buyers of RTC assets.¹⁶

Equity Participations

Equity participation sales strategies were designed to dispose of non-performing loans, and later, certain real estate-related assets. There were three basic strategies developed for equity participations, although some variations evolved in the latter years of the RTC's existence. Multiple Investor Funds (MIFs) were created first; then N and S Funds emerged; thereafter, the National Land Funds were developed; and then the National JDC Joint Venture Partnerships were created to dispose of judgments, deficiencies, and charge-offs.

¹⁵ Resolution Trust Corporation, *Hard-to-Sell Asset Review Project*, vol I, p. 13, (RTC, December 1, 1992).

¹⁶ *Ibid.*, p 25.

A common element to each of the aforementioned equity participation strategies was that they utilized a form of limited partnership. The RTC, as limited partner, contributed assets to the limited partnership. Private sector investors bid competitively for the right to own, as general partner, a percentage of the limited partnership. The general partner was responsible for the management and disposition of assets in the limited partnership, and cash flow (after expenses) derived from the disposition of assets was divided between the RTC and the general partner on a predetermined basis.

An underlying premise of the equity participation asset disposition strategy was that it would take several years for the general partner to dispose of all the assets. The distribution of cash flow to the general and limited partners was expected to occur after the bonds used to finance the asset pool were retired. As with net present value calculations, all other factors being equal, the longer the expected recovery period, the lower the RTC's "derived investment value" (DIV) would be for the pools of assets offered in equity participation initiatives. Some data exist that reflect a quicker disposition of assets by certain N Funds. This gives rise to questions about whether DIV was too low at the time the assets were being assigned to N Fund transactions.

A drawback to equity participations is that it takes considerable time to assemble the assets for the initiatives. Another potential drawback is that the cost of completing the transactions, including ongoing management fees, is higher than some other methods of asset disposition. On the other hand, the RTC was able to dispose of \$15.9 billion of hard-to-sell assets in approximately three years using this method of disposition. The RTC also may benefit from residual cash flow if total recoveries exceed original expectations.

The general types of equity participations are discussed below, and key data for each MIF, N Fund, S Fund, NP Fund, and S/N Fund are included with Part I of this report as Appendix K.

Multiple Investor Funds

MIFs differed from the N Funds essentially in that the investor was bidding on a pool of assets that were to be selected after the successful bidder was identified. This was referred to as a "blind pool." Three MIFs were originally planned, but only two were completed.

A key difficulty with MIFs was that considerable time was required to produce the pool of assets because the types and locations of loans in the pool had to be narrowly defined in order to attract bidders. The MIF strategy eventually was abandoned, and the RTC replaced it with the N Fund methodology.

N Funds

MIF and N Fund strategies were similar in many ways, but had one distinct difference. N Fund assets were identified prior to the bid process, whereas MIF assets were in blind pools to be identified after the bid process was completed. N Fund transactions were described as:¹⁷

"This initiative is generally modeled on a transaction developed by a buyer of RTC distressed mortgages which provided an opportunity for the buyer to offer triple B rated securities to an investor through a private placement process."

"The RTC initiative will identify a pool of assets which will be used as security for the creation and placement of medium-term debt securities and will sell an equity position in the pool of assets to a qualified asset management firm. The equity investor will purchase up to a 49% equity position and act as asset manager for RTC's up to 51% equity participation in the transaction. This partnership arrangement will provide the incentive for the asset manager to hold down costs and increase cash recoveries for themselves and consequently the RTC. It is envisioned that the RTC equity position could be sold in the future based on asset performance."

The first N Fund settled in December 1992, and six others followed in 1993 and 1994. Three of these have disposed of a high percentage of their assets, with the results summarized below in Table 1.

Table 1

**N FUNDS:
Book Value (BV) Sold
(dollars in millions)**

<u>Series</u>	<u>Original BV of Assets</u>	<u>BV of Per- forming (P) Assets</u>	<u>BV of Non- Performing (N) Assets</u>	<u>Total Return P&N Assets (% of BV)</u>	<u>Costs (% of BV)</u>	<u>Net Recovery (% of BV)</u>
92-N1	\$345.8	\$190.3	\$155.6	49%	2.6%	46.4%
93-N1	617.9	158.7	417.0	50	2.7	47.3
93-N2	701.9	511.2	182.4	67	2.2	64.8

The costs of the N Fund initiatives ranged from 2.2 percent to 2.7 percent of book value. As a percentage of book value, this was approximately double the

¹⁷ Ibid., pp. 34 and 35.

costs of the National Loan Auctions reviewed later in this report. The weighted average net return for the three N Funds reviewed above, including more than 50 percent of performing assets, was 54.5 percent. The weighted average net return for the four National Loan Auctions reviewed in this report was 52.7 percent.

S Funds

During its last two years in existence, the RTC developed variations of the N Fund to address specific programmatic needs. The first variation to be introduced was the S Fund, which consisted of several smaller pools, and bidders were allowed to bid on each pool individually or in combination. The first of these transactions settled on October 13, 1993, as part of the RTC's newly introduced Small Investor Program. Seven others settled in 1993 and 1994.

NP Funds and S/N Funds

There were other variations of the standard N Fund. They were called NP Funds and S/N Funds, and there were only slight differences between them and N Funds. All eight NP Funds and five S/N Funds settled in 1995.

National Land Funds

On September 29, 1992, the RTC Executive Committee approved the National Land Fund Plan (Land Fund) as a new initiative designed to dispose of its large portfolio of land loans and real estate owned. Some of the reasons given for adopting the strategy were:

- o land assets typically produced no current income, often resulting in negative cash flow during the carrying period;
- o securitization was not a feasible method of disposition due to a lack of cash flow and the uncertain residual value;
- o the structure called for a limited partnership in which an entity with private sector asset management expertise would be the general partner; and
- o the RTC, as limited partner, would be able to participate in residual recoveries, if any, but would not be liable for future capital calls.

The first Land Fund involved nearly 88,000 assets having a book value in excess of \$1.4 billion. The assets were sold in 1993 to three limited partnerships. The second initiative (Maco III Land Fund) settled in early 1994 and involved only 417 assets with a book value of \$174 million. The third initiative (Land Fund II) involved six transactions with 275 assets having a book value of \$415 million. Holding periods may be lengthy before residual values are realized.

National JDC Joint Venture Partnerships

The National JDC Joint Venture Partnership strategy (JDC Partnership) was designed by the RTC to dispose of many of the most difficult receivership assets, while retaining a residual interest in net recoveries. The assets disposed of through this program were judgments, deficiencies, and charge-offs.

The RTC's first transfer of assets to the program occurred in December 1993, and total assets with a book value of \$8.3 billion were placed with 30 JDC Partnerships before the RTC closed two years later. Through December 31, 1995, the RTC had received cash distributions of nearly \$28 million from JDC Partnerships, and additional residual values were anticipated to be recovered in the future.

Auctions

The auction method of asset disposition enabled the RTC to sell a large volume of relatively homogeneous assets at a single event. This minimized market disruption and holding costs. As emphasized in the RTC sales guide,

"...if properly designed and executed, auctions result in sales at market value for each asset because of the broad marketing of the assets and the interest generated by the auction environment."

Auctions could be initiated by the RTC Sales Center, SAMDA contractors, or a field office, but all RTC auctions were coordinated by the RTC Auction Coordinator. This person acted as a team leader for the event and coordinated auction activities.

Assets were auctioned according to type, asset size, and location. Loan assets targeted for auctions could be either performing or non-performing.

Assets with a total book value of \$3.6 billion were sold in eight National Loan Auctions, representing slightly less than one percent of total RTC asset reductions since inception. Table 2 below provides data about these National Loan Auctions.

Table 2

**NATIONAL LOAN AUCTIONS:
Book Value (BV) Sold
(dollars in millions)**

<u>Auction</u>	<u>Date</u>	<u>Total BV</u>	<u>BV of Performing</u>	<u>BV of Non-performing</u>
I	9/92	\$ 382	\$ 0	\$382
II	3/93	501	0	501
III	8/93	673	0	673
IV	4/94	319	0	319
V	9/94	400	175	225
VI	12/94	370	142	228
VII	5/95	353	167	186
VIII	12/95	<u>569</u>	<u>315</u>	<u>254</u>
TOTAL:		\$3,567	\$799	\$2,768

Staff of the Oversight Board reviewed the first four of the National Loan Auctions, in which all assets were non-performing. Table 3 below provides the book value of the assets sold, gross sales proceeds, sales expenses, and net sales proceeds. The last three categories for each auction are stated both in dollars and percentage of book value.

Table 3

**NATIONAL LOAN AUCTIONS:
Book Value (BV) Recovered
(dollars in millions)**

<u>Auction</u>	<u>BV of Assets Sold</u>	<u>BV and % of Sales Proceeds</u>	<u>BV and % of Sales Costs</u>	<u>BV and % of Net Sales Proceeds</u>
I	\$ 382	\$ 232 / 60.7%	\$ 5.2 / 1.4%	\$ 226.8 / 59.4%
II	501	249 / 49.7	3.8 / 0.8	245.2 / 48.9
III	673	335 / 49.8	4.5 / 0.7	330.5 / 49.1
IV	<u>319</u>	<u>191 / 59.9</u>	<u>2.8 / 0.9</u>	<u>188.2 / 59.0</u>
TOTAL:	\$1,875	\$1,007 / 53.7%	\$16.3 / 0.9%	\$ 990.7 / 52.8%

For National Auctions I through IV, the weighted average of sales expenses was less than one percent of book value. The weighted average of net sales proceeds was 52.8 percent. These results can be compared to the costs and proceeds from three N Funds that were reviewed earlier in this report.

Standard Asset Management and Disposition Program

In early 1990, the RTC created the Standard Asset Management and Disposition Program and drafted an agreement to implement the program which is referred to as the Standard Asset Management and Disposition Agreement (SAMDA). Later RTC began to use an agreement known as the Standard Asset Management Agreement (SAMA) which essentially removed disposition responsibilities from the agreement. The SAMDA Program was one of the principal methods by which the RTC managed and marketed its diverse and burgeoning portfolio. This mode was referred to as a retail method of asset disposition.

SAMDAs were private companies that handled property disposition under contract with the RTC. SAMAs were private companies that managed RTC assets under contract with the RTC, but they did not have the authority to dispose of assets without first receiving specific authority from the RTC. In most cases, the RTC retained responsibility for disposing of assets in the SAMA program.

The book value of all SAMDA/SAMA assets was \$35.3 billion. By the end of 1995, SAMDA/SAMA assets had been reduced by \$33.5 billion to a remaining book value balance of \$1.8 billion. This reflected a 95 percent reduction in book value since inception. Appendix L is included with Part I of this report to illustrate reductions in the total book value of assets held by SAMDA/SAMA contractors from October 1, 1993 through December 31, 1995.

The challenge of developing an efficient for-profit alliance with the RTC was not without problems. The assets managed and sold by SAMDAs included commercial, consumer, credit card, and student loans; performing and non-performing single family mortgages; commercial and residential real estate; and subsidiaries assets.

SAMDAs were structured so private contractors could provide several asset-related services on a fee basis. In some cases there were conflicting financial incentives that possibly reduced the effectiveness of the SAMDA program. For example, property fees earned by contractors were structured on a performance-based incentive system. Incentive formula components included the speed of asset sales and the amount of cash recovered. The RTC also paid SAMDA contractors monthly management fees based on the remaining assets in their portfolios and reimbursed them for expenses associated with maintaining and marketing the assets. As a result, there were potentially conflicting financial incentives between property management and asset disposition goals.

The closeout of SAMDA/SAMA contracts is a complex and time-consuming task that occurs only after the contract is audited and all outstanding issues are resolved. While the RTC was in existence, the Office of Contract Oversight and Surveillance was responsible for managing this contract audit process.

Those SAMDA/SAMAs that were not closed out prior to the RTC's sunset on December 31, 1995, became the responsibility of the FDIC. Out of 199 SAMDA contracts entered into between private companies and the RTC, 16 remained active on December 31, 1995. A total of 154 had completed all closeout processes except the audit follow-up.

Failed Thrift Investments in Subsidiaries, Joint Ventures, and Related Assets

Thrifts, many of which failed and came under the purview of the RTC, invested in and made loans to subsidiaries and joint ventures. Some were wholly-owned by the thrifts, while others were owned in part with other investors. These entities had a wide range of activities including real estate development and sales, real estate ownership and investment, insurance sales and servicing, loan servicing and consumer lending.

The disposition of these investments was not assigned a high priority in the early years of the RTC because of their complexity and general lack of liquidity. The subsidiaries and joint ventures themselves owned assets that were complex and difficult to sell. The RTC, as receiver of the failed thrifts, could not exercise direct control over these entities, further complicating the disposition process. Selling, transferring, or dissolving ownership of subsidiaries and joint ventures was difficult and time consuming, and the procedures varied among local jurisdictions. To further complicate the process, many assets owned by these entities were sub- or non-performing, environmentally impacted, or of questionable value.

In 1993, the RTC established a task force to standardize procedures for the management, sale, and dissolution of subsidiaries and joint ventures. An automated system called the Subsidiary Information Management Network (SIMAN) was designed to track assets and the disposition of subsidiaries and joint ventures. SIMAN also facilitated nationwide access to this information.

Disposition of a majority of the investments in subsidiaries and joint ventures was through the sale or settlement of assets and the liquidation of liability balances. These activities were followed by the formal dissolution of the remaining shell entity.

Very few subsidiaries and joint ventures were marketed and sold as "going concerns." Stock sales, with both assets and liabilities sold as a package, were difficult because the market insisted on RTC guarantees in the form of

representations and warranties. Legal issues involved in the sale of securities also impeded private placement. Subsidiaries that were marketed on a stock basis had to comply with the Securities and Exchange Commission and state "blue sky" statutes and regulations. Those that were sold as going concerns usually were mortgage banking, mortgage servicing, or special purpose finance companies.

During the final year of its existence, the RTC made considerable progress in disposing of subsidiaries and joint ventures owned by failed thrifts. Upon the RTC's closure, 531 subsidiaries and 210 joint ventures were transferred to the FDIC for disposition. A chart showing the disposition of subsidiaries and joint ventures during 1995 is included with Part I of this report as Appendix M. Appendices N and O, also included with Part I of this report, show the number of subsidiaries and joint ventures for each major line-of-business and the total assets for each classification.

Special Resource and Environmental Hazard Properties

The Oversight Board was particularly interested in monitoring the disposition of assets referred to as special resources and environmental hazard properties. FIRREA required the RTC to identify properties under its control that had "natural, cultural, recreational, or scientific values of special significance." The RTC also was restricted in the sale of real property by provisions contained in a variety of statutes such as the Coastal Barriers Act of 1990, the Endangered Species Act, the Emergency Wetlands Resources Act of 1986, the National Register of Historic Landmarks, and the Safe Water Drinking Act.

The RTC established uniform procedures to identify special resource and environmentally impacted properties and published the monthly *Special Resources Clearinghouse* to notify conservation groups and agencies of available properties. The Environmental Branch of the RTC conducted standard assessments of all real estate owned to identify significant properties or those possessing environmental hazards. The properties fell into either or both of: (1) fourteen classifications of special resources, or (2) twelve categories of environmental hazards.

RTC real estate categorized as a "special resource" had federal protection prescribed by statute or executive order which mandated special asset sales treatment by the RTC. The properties classified as having special resources included coastal dunes, barriers, and beaches; sole source aquifers; endangered species; floodplains; wild and scenic rivers; natural landmarks; wetlands; or wilderness areas. Special resource REO owned by the RTC predominately contained endangered species, coastal dunes, barriers and beaches, floodplains, wetlands, sole source aquifers and archeological or historical significance. The special resource inventory as of January 1, 1996, is included with Part I of this report as Appendix P.

The 302 special resources properties referenced above had a total book value of \$569,452,412 on January 1, 1996. Special resource and environmentally

impacted assets comprise approximately seven percent of RTC assets in liquidation transferred to the FDIC for final disposition.

Although special resource properties required specialized marketing, environmentally impacted properties required much more. In October 1995, the RTC reported concern that its environmentally impacted REO were either: (1) of negative value because remediation costs could exceed the expected return on sale or (b) not considered to be salable for other environmental reasons. The 1,091 remaining environmentally impacted properties transferred to the FDIC on January 1, 1996, had a reported aggregate book value of \$577,241,136. A summary of properties with environmental hazards is included with Part I of this report as Appendix Q.

REMAINING ASSETS TRANSFERRED TO THE FDIC

The RTC disposed of \$458.5 billion (book value) in assets from its inception through December 31, 1995, recovering \$397 billion for taxpayers. Nearly \$7.7 billion in book value of assets available for liquidation was placed under the management of the FDIC when the RTC closed on December 31, 1995.

The \$7.7 billion in book value of assets available for liquidation that were placed under the management of the FDIC when the RTC closed included \$1.3 billion of cash and securities, \$0.5 billion of one-to-four family mortgages, \$1.1 billion in multi-family residential and commercial mortgages, \$0.2 of construction and land loans, \$0.6 billion in other loans (commercial loans not secured with real estate and consumer loans), \$0.8 billion in real estate owned, \$2.5 billion net investments in subsidiaries, and \$0.7 billion in all other assets. An additional \$12.8 billion was placed under FDIC management in the form of cash, investments, and accounts receivable accumulated by receiverships.¹⁸ A summary of the assets available for liquidation and transferred to the FDIC is included with Part I of this report as Appendix R.

USE OF LOSS FUNDS

On May 31, 1996, *A Report on the Use of Loss Funds by the Resolution Trust Corporation* (Loss Funds Report) by the Oversight Board Chairperson, as required by the Resolution Trust Corporation Completion Act of 1993, was submitted to the United States Senate Committee on Banking, Housing and Urban Affairs and the United States House of Representatives Committee on Banking and Financial Services. A copy of the Loss Funds Report is included with Part I of this report as Appendix S.

¹⁸ Resolution Trust Corporation, *Summary of RTC Financial Activity - Receivership Asset Composition as of December 31, 1995*, (FDIC, March 15, 1996). Any differences are due to rounding.

In brief, the Loss Funds Report estimated total loss funds used by the RTC from its inception through December 31, 1995, including estimated losses on remaining assets and related expenses, to be \$87.9 billion. This amount also was reported to the Congress on July 2, 1996, by the General Accounting Office in its financial audit of the RTC's 1995 and 1994 financial statements.¹⁹

¹⁹ United States General Accounting Office, Report to the Congress, *Financial Audit, Resolution Trust Corporation's 1995 and 1994 Financial Statements*, pp. 9-10, B-262036 (GAO, July 2, 1996).

APPENDIX A:

**THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
AUDITED STATEMENT OF OBLIGATIONS
FOR FISCAL YEAR 1995**

THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD

**AUDIT OF STATEMENT OF OBLIGATIONS
INCURRED FOR THE FISCAL
YEAR ENDED SEPTEMBER 30, 1995**

Bert Smith & Co.

Certified Public Accountants

Washington, D.C.

REPORT OF INDEPENDENT AUDITOR'S

To the Thrift Depositor Protection
Oversight Board

We have audited the accompanying Statement of Obligations Incurred of the Thrift Depositor Protection Oversight Board (the Board) for the fiscal year ended September 30, 1995. This financial statement is the responsibility of the Board's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

This statement was prepared on the basis of obligations incurred as discussed in Note 2, and is not intended to present the Board's financial position or results of operations in accordance with generally accepted accounting principles.

In our opinion, the statement of obligations incurred presents fairly, in all material respects, the obligations incurred by the Thrift Depositor Protection Oversight Board for the fiscal year ended September 30, 1995, on the basis of accounting described in Note 2.

Our audit was conducted for the purpose of forming an opinion on the Statement of Obligations Incurred. The supplementary information included in Schedules I and II are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Statement of Obligations Incurred and, in our opinion, is fairly stated in all material respects in relation to the Statement of Obligations Incurred.

Bert Smith & Co.

December 8, 1995

**THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
STATEMENT OF OBLIGATIONS INCURRED
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1995**

	<u>Actual</u>	<u>Budget</u>	<u>Over(Under) Budget</u>
OPERATIONS			
Staff Personnel and Benefits	\$2,996,553	\$3,540,040	\$(543,487)
Staff Travel	18,289	28,000	(9,711)
Other Transportation	-	20,000	(20,000)
Office Rent and Utilities	396,979	396,594	385
Other Rental	19,836	21,500	(1,664)
Printing and Reproduction (Note - 5)	(4,557)	25,000	(29,557)
Outside Contractors	306,954	294,300	12,654
Supplies and Publications	87,848	85,000	2,848
Communications and Postage	17,385	22,000	(4,615)
Leasehold Improvements	-	2,000	(2,000)
Advisory Board Expense	<u>258,032</u>	<u>312,000</u>	<u>(53,968)</u>
Total Operations	4,097,319	4,746,434	(649,115)
CAPITAL EXPENDITURES	7,187	10,000	(2,813)
CONTINGENCY ITEMS			
Annual Leave Lump Sum Payments	11,237	200,000	(188,763)
Transition Details	<u>-</u>	<u>230,246</u>	<u>(230,246)</u>
Total Obligations Incurred	<u>\$4,115,743</u>	<u>\$5,186,680</u>	<u>\$(1,070,937)</u>

The accompanying notes are an integral part of this financial statement

**THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
NOTES TO STATEMENT OF OBLIGATIONS INCURRED
SEPTEMBER 30, 1995**

NOTE 1 ORGANIZATION AND BACKGROUND

The Thrift Depositor Protection Oversight Board (the Board), an agent of the United States Government, was created to oversee and set policy for the Resolution Trust Corporation (RTC), the Federal agency responsible for resolving all cases involving savings and loan associations for which a conservator or receiver is appointed.

The Board has general oversight of RTC and the Resolution Funding Corporation (REFCORP). The Board reviews overall strategies, policies and goals established by RTC, including items that the Board deems likely to have a material effect upon the financial condition of RTC, the results of its operations or its cash flows, and items that involve substantial issues of public policy. The Board may require, after consultation with RTC, the modification of overall strategies, policies and goals and their implementation. The Board also approves financial plans, budgets and periodic financing requests; reviews all RTC rules, regulations, standards and procedures; reviews the overall performance of RTC; and establishes and provides staff and technical support for the National and Regional RTC Advisory and Affordable Housing Advisory Boards.

The Oversight Board consists of the Secretary of the Treasury, who serves as the Chairman, the Chairman of the Federal Deposit Insurance Corporation, the Director of the Office of Thrift Supervision, the Chief Executive Officer of the Resolution Trust Corporation, the Chairman of the Federal Reserve Board, and two public members of different political parties who serve three year terms and are named by the President of the United States and confirmed by the Senate.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the Board are maintained by the General Services Administration, and the accompanying statement was prepared by management of the Board from those records and presents the obligations incurred during fiscal year ended September 30, 1995. This statement is intended to demonstrate the accountability of the Board's staff in complying with the original budget for the period as approved by the Board. This statement does not include any assets, liabilities, or operations of RTC, which is a separate legal entity. The budget for administrative expenses of the Oversight Board incurred against the obligations of the Board are funded by RTC whose financial statements are reported upon separately.

*Note 2 - Significant Accounting Policies
(continued)*

The accompanying statement is prepared on the basis of obligations incurred, which reflects the basis on which the budget of the Board is prepared and approved. Further, this statement is not intended to present the Board's financial position or results of operations in accordance with generally accepted accounting principles. Under this basis of reporting, obligations, consisting of contracts, purchase orders and other commitments to expend funds, as well as commitments for personnel services, are reported in the period in which such agreements are executed, without regard to the period in which products or services are received and without consideration as to whether subsequent disbursements result in expenses or otherwise capitalizable assets. Contingency items are budgeted for possible events which are not experienced in the ordinary course of the Board's operations. In fiscal year 1995, the Board budgeted for contingency items (in anticipation of the closure of staff and office) relative to annual leave lump sum payments and transition details.

NOTE 3 CASH

The Board subsidizes the leasing of off-site parking spaces. In accordance with the budget, employees who utilize these spaces must contribute \$60 per month. The funds collected by the Board are deposited into a checking account. If the balance permits, the cost of leasing the spaces is paid directly from the account. When the Board's staff and office close, the balance in the account will be remitted to the General Services Administration to increase the funds available for the Board obligations. At September 30, 1995, the balance in the account was \$3,798.

NOTE 4 TRANSACTIONS WITH FEDERAL AGENCIES

The Board leases office space on a month to month basis from the Resolution Trust Corporation. The lease obligation for fiscal year 1995 was \$390,000. In addition, the Board had on staff two employees detailed from other government agencies and one Board employee on detail to another government agency. At the beginning of the fiscal year, \$235,000 was obligated for reimbursement of salaries and benefits to the employing agencies of the two staff members on detail to the Board. For the Board employee on detail, \$83,375 was received for reimbursement of salary and benefits for the first three quarters of fiscal year 1995; approximately \$31,000 is due for fourth quarter fiscal year 1995 salary and benefits.

NOTE 5 PRINTING AND REPRODUCTION

During fiscal year 1994, an adjustment was made to deobligate certain printing and reproductions obligations related to the Resolution Trust Corporation which had been erroneously charged to the Board. For fiscal year 1995, the Board asserts that a fiscal year 1994 printing and reproduction obligation was excluded from this previous adjustment. In fiscal year 1995, an adjustment was made to deobligate previously excluded obligations for printing and reproduction resulted in a negative obligation (credit) of \$4,557. Prior to this adjustment, actual obligations incurred for printing and reproduction for fiscal year 1995 were \$6,443.

NOTE 6 UNDISBURSED AND UNOBLIGATED FUNDS

Under the accounting policies adopted by the Board, any unobligated budgetary authority is carried over and is available for obligation in future years. Additionally, amounts obligated for expenditures are periodically deobligated, as a result of changes in financial plans, at which time they also become available for future obligation.

At September 30, 1995, the following budgetary balances are available for future obligation:

Budgetary Authority

FY 89	\$ 1,000,000
FY 90	5,343,436
FY 91	5,202,000
FY 92	6,143,619
FY 93	4,986,138
FY 94	5,120,458
FY 95	<u>5,186,680</u>
	32,982,331

Less: Obligated Funds

FY 89	\$(497,857)	
FY 90	(4,738,721)	
FY 91	(4,551,575)	
FY 92	(4,600,454)	
FY 93	(4,089,623)	
FY 94	(4,631,223)	
FY 95	<u>(4,115,743)</u>	
		(27,225,196)

Funds Deobligated

FY 89, FY 90 and FY 91	905,710	
FY 92	168,997	
FY 93	51,026	
FY 94	34,694	
FY 95	<u>70,311</u>	
		<u>1,230,738</u>

Undisbursed and Unobligated at September 30, 1995 \$ 6,987,873

NOTE 7 RECOVERIES OF PRIOR YEARS OBLIGATIONS

During the fiscal year, the Board incurred obligations based on actual costs and estimated costs. Those obligations incurred based on estimated costs are adjusted when the actual cost is received. Management asserts that at the end of the fiscal year there were obligations incurred that were more than the actual costs. Thus, the funds deobligated for fiscal year 1995 included in this report will increase approximately \$29,987 when the actual costs are recorded in fiscal year 1996.

NOTE 8 COMMITMENTS AND CONTINGENCIES

The Board leases office space on a month to month basis. The lease obligation for fiscal year 1995 was \$390,000. Future minimum lease obligations are:

<u>Year</u>	<u>Minimum Lease Obligations</u>
1996	<u>\$293,536</u>

Future minimum lease obligations have not been projected over a normal 5 year period due to the anticipated termination of the Resolution Trust Corporation during the Oversight Board's fiscal year 1996 and the closure of the Board's staff and office sometime thereafter. The Board's anticipated staff and office closure date is June 30, 1996. Therefore, the fiscal year 1996 minimum lease obligation has been projected through the anticipated closure date.

Due to the pending closure of the Board's staff and office, the Board incurred obligations during fiscal year 1995 relative to annual lump sum payments of \$11,237.

**REPORT OF INDEPENDENT AUDITOR'S
ON THE INTERNAL CONTROL STRUCTURE**

To the Thrift Depositor Protection
Oversight Board

We have audited the Statement of Obligations Incurred of the Thrift Depositor Protection Oversight Board (the Board) for the fiscal year ended September 30, 1995, and have issued our report thereon dated December 8, 1995.

We conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. In planning and performing our audit of the statement, we considered the Board's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statement and not to provide assurance on the internal control structure.

The management of the Board is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions, including those related to obligations and costs are executed in compliance with management's authorization and are properly recorded and accounted for to permit the preparation of the statement in accordance with generally accepted accounting principles. Errors or irregularities may nevertheless occur and not be detected due to inherent limitations in any internal control structure. Also, projection of any evaluation of the structure to future periods is subject to the risks that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Obligations Incurred
- Payroll/Personnel
- Property
- Compliance with Laws and Regulations

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of a specific internal control structure element does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material and may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that are being reported to management under separate cover.

This report is intended for the information of the Board's members and management of the Board. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Beit Smith, Co.

December 8, 1995

**REPORT OF INDEPENDENT AUDITOR'S
ON COMPLIANCE WITH LAWS AND REGULATIONS**

To the Thrift Depositor Protection
Oversight Board

We have audited the accompanying Statement of Obligations Incurred of the Thrift Depositor Protection Oversight Board (the Board) for the fiscal year ended September 30, 1995 and have issued our report thereon dated December 8, 1995.

We conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

Compliance with laws and regulations applicable to the Statement of Obligations Incurred is the responsibility of the Thrift Depositor Protection Oversight Board's management. As part of obtaining reasonable assurance about whether the Statement of Obligations Incurred are free of material misstatements, we tested those procurement procedures adopted by the Board including the provision that obligations cannot be entered into in excess of the Board approved budget and that obligations incurred are approved by the appropriate level of management. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our test indicate that with respect to the items tested, the Thrift Depositor Protection Oversight Board complied in all material respect with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe the Thrift Depositor Protection Oversight Board had not complied, in all material respects, with those provisions identified above.

This report is intended for the information of the Board members and management of the Board. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bert Smith & Co.

December 8, 1995

SCHEDULE I

**THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
SCHEDULE OF ACCRUED EXPENSES AND LIABILITIES
FOR THE YEAR ENDED SEPTEMBER 30, 1995**

September 30, 1995

ACCRUED EXPENSES AND LIABILITIES:

Account Payables	\$ 67,805
Accrued Travel Expenses	21,926
Accrued Payroll	128,111
Unemployment	3,817
Accrued Annual Leave	<u>193,488</u>
Total Accrued Expenses and Liabilities	<u>\$415,147</u>

THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
SCHEDULE OF PROPERTY AND EQUIPMENT
SEPTEMBER 30, 1995

<u>ITEMS</u>	<u>TOTAL</u>
Office Furniture	\$ 35,857
Office and Computer Equipment	359,953
Other (Appliances)	<u>665</u>
Total	<u>\$396,475</u>

NOTE: This schedule include all items inventoried that are \$500 or greater.

APPENDIX B:

STAFF OF THE

THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD

AS OF DECEMBER 31, 1995

**STAFF OF THE
THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
AS OF DECEMBER 31, 1995**

Dietra L. Ford	Executive Director
Kenneth S. Colburn	Deputy Executive Director, Government Affairs/Public Liaison
Van B. Jorstad	Deputy Executive Director, Finance
Neal D. Peterson	Deputy Executive Director, Oversight and Evaluation
Richard H. Farina	General Counsel
Lawrence W. Hayes	Deputy General Counsel
Maryann M. Kaswell	Associate General Counsel
Ronald M. Barksdale	Director of Personnel (detailed from FDIC)
Cheryl Clark	Receptionist
Loretta Ferguson	Administrative Specialist
Douglas P. Foster	Director, Financial Accounting
Darren G. Franklin	Contract Specialist
Brian P. Harrington	Director, Advisory Board Affairs
Nadine J. Hartke	Director, Administration
Little M. Hooker	Executive Assistant
Howard Lee	Director, Review and Evaluation (Policy)
Bonnie Merrill Limbach	Director, Public Affairs
Jill Nevius	Deputy Director, Advisory Board Affairs
Mary Saulsbury	Staff Assistant
Rosemary S. Shaw	Director, Review and Evaluation (Asset Disposition)
Bruce A. Simon	Assistant Director, Advisory Board Affairs
Teresa C. Stinson	Executive Secretariat

APPENDIX C:

JUNE 5, 1995 REPORT OF THE

THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD

AUDIT COMMITTEE

61-63

REPORT OF THE THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD AUDIT COMMITTEE

Pursuant to the Resolution Trust Corporation (RTC) Completion Act of 1993 and the Audit Committee Charter that was adopted on November 10, 1994, the Audit Committee met on November 14, 1994, January 23, 1995, and April 5, 1995. Its activities and findings are summarized below:

Internal Controls

At each of its three meetings, the Audit Committee addressed RTC internal controls by receiving reports and presentations from senior officials of the RTC, the RTC Office of Contractor Oversight and Surveillance (OCOS), the RTC Office of Inspector General (IG), and the General Accounting Office (GAO).

The Committee emphasized the importance of maintaining strong internal controls, especially during the transition of responsibilities to the FDIC. To this end, the Audit Committee reviewed the proposed audit schedule of RTC OCOS at its April 5th meeting and has been assured of the adequacy of the proposed program.

Also at its April 5th meeting, the Audit Committee received the *RTC 1994 Internal Control Report*. The Committee intends to discuss this report with the RTC at its next meeting. To date, the Committee has not been made aware of internal control weaknesses that are not being addressed by the RTC.

Audit Findings and Recommendations

The Committee has focused priority attention on the RTC's response to the findings and recommendations of its auditors. The Committee has expressed its concern that a significant number of audit findings have been outstanding, without any RTC decision or action, for more than 180 days. At its most recent meeting, the Committee also reviewed the high number of IG audits of legal billings with unresolved management decisions.

To help correct these and other outstanding issues, the Committee took the following actions:

- The Committee requested regular summary reports from the RTC to track its progress in eliminating the backlog of unresolved management decisions and to highlight any systemic or recurring problems.
- The Committee requested the RTC to develop a process to prioritize its response to the findings and recommendations of its auditors to expedite the resolution of outstanding issues.
- The Committee asked the RTC and the IG to address and resolve the difference of opinion regarding certain aspects of RTC contracting policies and procedures for legal services since the number of unresolved management decisions is somewhat misleading, in that many involve policy and procedure differences rather than real costs and recoveries.
- The Committee reviewed the procedures and minutes of the RTC Audit Resolution Committee to ascertain the RTC's procedures to address unresolved issues between management and the auditors.

Enhanced attention to these matters has produced results. RTC task forces and special project teams charged specifically with audit resolution have been established. In addition, many employees have been reassigned to audit follow-up activities after completing their regular duties with the RTC. Finally, an audit "Triage Process" -- or targeted application of resources -- is being developed to address those findings which merit immediate attention. Since October 1994, unresolved management decisions over 180 days have decreased 31%.

review its system of internal controls: (1) a program compliance review and (2) an internal control review. These programs identify RTC operations that are vulnerable to internal control weaknesses.

- A review of outstanding audit issues does not point to the existence of identifiable systemic problems;
- The GAO has removed the RTC from its High Risk List, and
- According to the Inspector General, the management reforms and RTC operation are "going well."

APPENDIX D:

**DECEMBER 4, 1995 REPORT OF THE
THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
AUDIT COMMITTEE**

FINAL REPORT OF THE THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD AUDIT COMMITTEE
DECEMBER 4, 1995

Pursuant to the Resolution Trust Corporation (RTC) Completion Act of 1993 and the Audit Committee Charter that was adopted by the Oversight Board on November 10, 1994, the Audit Committee met on November 14, 1994; January 23, 1995; April 5, 1995; June 22, 1995; September 11, 1995; and November 20, 1995. The Committee's activities and findings since its June 1995 report to the Oversight Board are summarized below.

Internal Controls

The Committee continued to address RTC internal controls by receiving reports and presentations from senior officials of the RTC, the RTC Office of Contractor Oversight and Surveillance (OCOS), the RTC Office of Inspector General (OIG), the General Accounting Office (GAO), and representatives from the FDIC/RTC Transition Task Force's Internal Controls Policy Committee.

The Committee discussed with the Comptroller General the GAO's audit of the RTC's 1994 financial statements, which found RTC internal controls to be generally effective. The Committee also reviewed the RTC's response to the GAO Management Letter issued in conjunction with its 1994 audit report. The Management Letter suggested improvements to strengthen the Corporation's internal control environment in 7 general areas of operation. The Committee was informed that the RTC and the GAO had worked closely to determine appropriate corrective actions and the Committee encouraged the RTC to continue to strengthen its internal controls.

The GAO informed the Committee that weaknesses in Electronic Data Processing (EDP) controls had been identified since the 1994 audit was completed. The GAO also advised the Committee that RTC and FDIC efforts to correct those weaknesses will continue past sunset.

The Committee was advised by the RTC Inspector General that the RTC had addressed or was in the process of addressing all of the OIG's 116 recommendations to improve cash management procedures.

At all of its meetings, the Committee stressed the importance of maintaining internal controls during the transition. Further, it reviewed the RTC/FDIC internal control certification plan to help ensure a seamless transition of financial operations to the FDIC. The Committee was not made aware of any control weaknesses that are not being addressed by the RTC.

Audit Findings and Recommendations

The Committee continued to focus priority attention on the RTC's response to the findings and recommendations of its auditors. To help reduce the number of unresolved management decisions and open corrective actions, the Committee took the following actions:

- Requested and received regular audit follow-up reports from the RTC and the RTC OIG that indicated the progress the RTC was making in resolving audit issues and highlighted any systemic or recurring problems.
- Requested that the RTC prioritize open audit issues and implement an "audit triage" process that would ensure scarce RTC resources were appropriately assigned to the closure of audit issues.
- Encouraged the RTC to work with the OIG to resolve legal billings issues.
- Requested that auditors and management focus their resources on audit matters that have implications for ongoing operations or significant monetary recoveries.
- Asked the RTC OIG to resolve, along with the FDIC OIG, the method of reporting on the RTC OIG's last quarter of operation. At the Oversight Board meeting on September 18, the Inspector General informed the Board that the OIG would submit a three-month report to the Board and the FDIC.

Working Relationships with the Inspector General and the Comptroller General

The Committee maintained effective working relationships with the OIG and the GAO. Committee meetings were attended by senior officials of the OIG and the GAO. At all meetings, detailed and frank discussions took place. The Committee requested that auditors bring to the Committee's attention any and all significant issues as they arose, and the auditors agreed to do so. Further, the Committee staff met from time to time with representatives from the OIG and the GAO to gain additional insight on RTC operations.

The Committee also maintained cooperative working relationships with RTC and transition officials. Like their auditors, RTC and transition representatives agreed to inform the Committee of significant audit-related issues.

Audit Committee Reports

As was the case during the Committee's first six months, which were covered in the Committee's June 1995 report to the Oversight Board, formal minutes of each Committee meeting were prepared and oral reports were made to the Acting CEO of the RTC and all other Oversight Board members at Oversight Board meetings on July 17, 1995; September 18, 1995; and December 4, 1995.

Financial Operations

The GAO reported that the RTC's 1994 financial statements were reliable in all material respects and there were no reportable instances of noncompliance with the laws and regulations they tested.

The Committee examined the FDIC/RTC Task Forces's request for reserve and contingency funding. To facilitate Oversight Board consideration, the Committee discussed audit-related issues such as the methodology behind the revised balance sheet valuation and the differences between economic projections and GAAP-based adjustments.

The Committee emphasized the need for a thorough and complete 1995 audit and stressed that speed should not take precedence over accuracy in preparing the final financial statements.

Transition Issues

The Committee continued to emphasize the importance of providing the FDIC with the best information possible on RTC assets, liabilities, and procedures. The RTC OIG assured the Committee that a transition-focused records management program had been started. The Committee encouraged the RTC to act upon the GAO's suggestion "to place emphasis and allocate sufficient resources to complete the needed reconciliations and settlements of the National Sales transactions" before sunset.

The Committee requested that special attention be devoted to insuring adequate staffing during transition in the areas of asset disposition and contractor oversight.

- The Committee recommended that the RTC request FDIC staff to be involved in asset disposition activities. In June, the RTC informed the Committee that FDIC personnel had been assigned to this task.
- The Committee reviewed plans of the RTC OIG and FDIC OIG to assume and complete the work of the RTC OCOS.

The Committee also emphasized the importance of insuring an efficient merger of the RTC OIG with the FDIC OIG. The Committee received status reports at each meeting from the Inspector General regarding attrition and the transfer of work and staff and assurances that the FDIC OIG is prepared to continue and complete the work of the RTC OIG after sunset.

It should be noted that the Committee invited the FDIC's Chief Financial Officer to its September 11th and November 20th meetings to help familiarize the FDIC with the audit-related issues it would encounter both during and after the transition of the RTC. The FDIC CFO and other transition representatives indicated that they were aware of -- and in many cases already involved in -- the issues before the Committee and that appropriate steps would be taken to resolve remaining matters.

Conclusions

The Committee continued to see improvements in the RTC's audit follow-up and internal controls. Reports, presentations, and discussions revealed the following:

- From inception to October 31, 1995, RTC auditors issued 1,263 audit reports containing over 6,100 recommendations. Of those recommendations, 5,408 management decisions were resolved. During the same period, 5,129 of 6,866 corrective actions were implemented.
- An independent auditor has characterized the RTC/FDIC internal control certification process as one "with a reasonable and systematic methodology and consistent approach."
- No apparent systemic problems have been identified.

Because certain work of the RTC will continue after sunset, the Committee suggests that the FDIC pay special attention to the following as it assumes responsibility for that work:

- Adequate staffing and procedures for contractor oversight, since that important management function helps to ensure that assets are being managed and disposed of properly and in the most economically beneficial manner.
- The number of inactive SAMDA contracts that will be transferred to the FDIC for closeout will be higher than originally anticipated. As of November 15, only 42 of 199 SAMDA contracts had been closed out.

- An established tracking system and regular updates are necessary for management to effectively monitor audit and audit follow-up activities. Between November 1 and December 31, 1995, the RTC expects to receive 160 new audit reports. In addition, 176 reports issued before November 1 are expected to carry over to the FDIC.
- Persistent weaknesses in EDP controls will likely result in a reportable condition for the 1995 audit and should receive priority attention.
- Qualitative differences in contract standards between the Corporation and its auditors should continue to be addressed on a priority basis. In particular, ambiguity in contract language and differences of opinion between RTC management and the RTC OIG regarding legal billing practices should continue to receive special attention.

Finally, the Committee believes that an FDIC Board-level audit committee, or its functional equivalent, could provide useful post-sunset oversight of the remaining RTC work.

APPENDIX E:

REGIONAL ADVISORY BOARD MEMBERS

REGIONAL ADVISORY BOARD MEMBERS

REGION I

Region 1 included the states of Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

Chair: Edward L. Marcus of Branford, CT, senior partner, The Marcus Law Firm in New Haven.

Members: John D. Atlas of Montclair, NJ, Executive Director of the Passaic County Legal Aid Society; founder and President of the National Housing Institute.

Betts J. Gorsky of South Portland, ME, counsel, Van Meer & Belanger, P.A.

Nancy M. Travers of Yonkers, NY, consultant and former Deputy Commissioner for Community Development, New York State Division of Housing and Community Renewal.

REGION II

Region 2 included the states of Alabama, Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. It also included the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

Chair: Edwin S. Crawford of Towson, MD, Senior Vice President of Ferris, Baker Watts, & Co., Inc. investment bankers, in Baltimore/Washington, D.C.

Members: Jorge L. Bolaños of Miami, FL, President and Chief Executive Officer of Nova Home Health Corporation.

Edwin J. Feiler, Jr. of Savannah, GA, a principal of American Housing Associates of Arlington, VA, and President of Metro Developers, Inc., Savannah.

Peter J. Kadzik of Arlington, VA, a partner in the law firm of Dickstein, Shapiro & Morin in Washington, D.C.

Ernest L. Martin of Miami, FL, Executive Director of the Dade Partnership for Community and Economic Development.

REGION III

Region 3 included the states of Alaska, Arkansas, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Washington, Wisconsin and Wyoming.

Chair: **R. Layne Morrill** of Kimberling City, MO, founder and President of Shepherd of the Hills Realty Co., Inc.

Members: **William Goolsby** of Pullman, WA, professor and Chairman, Department of Finance, College of Business and Economics at Washington State University.

Leon T. Kendall of Milwaukee, WI, professor of finance and real estate at the J.L. Kellogg Graduate School of Management at Northwestern University.

Michael R. Kramer of Bloomfield Hills, MI, of the Kramer Mellen law firm in Southfield.

REGION IV

Region 4 included the states of Louisiana, Mississippi and Texas.

Chair: **Gilberto S. Ocañas** of Austin, TX, Chief Executive Officer of WinTex International printing corporation.

Members: **Yvonne A. Ewell** of Dallas, TX, educator member of the Board of Education for the Dallas Public Schools.

Gordon V. Hartman of San Antonio, TX, owner and founder of Gordon V. Hartman Enterprises, Inc.; Nationwide Real Estate company; Gordon Hartman Homes, and Hartman Custom Homes.

Dary Stone of Dallas, TX, President of Faison-Stone, Inc., real estate development company.

Estella Trevino of Edinburg, TX, Executive Director of the Edinburg Housing Authority.

REGION V

Region 5 included the states of Arizona, Colorado, Nevada, New Mexico and Utah.

Chair: **Sydney R. Fannesbeck** of Salt Lake City, UT, Director of Training and Communications for the Utah League of Cities and Towns.

Members: **Frank B. Gray III** of Boulder, CO, Director of the City of Lakewood Department of Economic Development.

I. L. (Smokey) Sanchez-Davis of Albuquerque, NM, a real estate broker, property manager, builder/ developer, consultant and appraiser.

James W. Stretz of Albuquerque, NM, Executive Director of the New Mexico Mortgage Finance Agency.

REGION VI

Region 6 included the states of California and Hawaii.

Chair: **Lilly V. Lee** of Los Angeles, CA, Chairperson of Lilly International, Inc., an international trade and real estate consulting company.

Members: **David F. Ciambrone** of Lake Forest, CA, Senior Scientist and Program Manager, Hughes Aircraft Company, Newport Beach.

Peter Dreier of Los Angeles, CA, E.P. Clapp Distinguished Professor of Policies at Occidental College.

David N. Lund of Los Angeles, CA, Economic Development Manager for the City of San Clemente.

John C. MacLaurin of Sherman Oaks, CA, President of the Encino-based URBATEC, a diversified real estate development firm.

APPENDIX F:

**THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
POLICY STATEMENT NO. 18
ON RTC INTERNAL CONTROLS**

Policy Statement Number 18
RTC Internal Controls

1. Objectives.

The objectives of this Policy Statement are:

(A) to encourage the Resolution Trust Corporation ("RTC") to establish and adhere to internal control standards, including evaluation and reporting standards, that are no less stringent than those required of certain agencies pursuant to the Federal Managers' Financial Integrity Act of 1982 ("FMFIA");

(B) to encourage the RTC to vest in its Chief Financial Officer powers substantially similar to those provided in the Chief Financial Officers Act of 1990 ("CFO Act").

2. Purpose.

(A) The purpose of this Policy Statement is to ensure that the RTC, in its corporate and receivership capacities, has in place a comprehensive set of internal accounting and administrative controls, which can provide reasonable assurance that:

1) obligations and costs are in compliance with applicable law and Oversight Board resolutions;

2) all transactions are executed in accordance with management's general or specific authorization, and in accordance with established policies and procedures;

3) funds, property, and other assets are properly accounted for and safeguarded against waste, loss, unauthorized use, or misappropriation; and

4) revenues and expenditures are properly recorded and accounted for in a timely manner to

(a) permit the preparation of accurate and reliable accounts, financial statements, and management reports and

(b) maintain accountability over assets

3. Internal Control Standards. *

It is the policy of the Oversight Board that the RTC should establish and maintain a system of internal accounting and administrative controls which, at a minimum, meet the standards prescribed by the Comptroller General pursuant to FMFIA.

4. Internal Control Evaluation. *

It is the policy of the Oversight Board that the RTC should establish and maintain an internal control evaluation system which, at a minimum, meets the requirements prescribed by the Office of Management and Budget pursuant to FMFIA. In establishing that system, the RTC should, to the extent practicable, study the evaluation systems used by Executive agencies and adopt the most effective elements of those systems. The RTC should also incorporate in such system specific mechanisms to evaluate compliance with relevant Oversight Board resolutions, policy statements, principles, and other guidance.

5. Designation, Authority, and Function of the Chief Financial Officer.

It is the policy of the Oversight Board that the RTC should provide its Chief Financial Officer with authority and functions substantially similar to those set forth in 31 U.S.C. Sections 902(a)(1)-(3), (5)(B)-(E), (7) and (8), and Section 902(b), as amended by the CFO Act.

6. Reports to the Oversight Board. *

(A) The RTC shall submit to the Chairman of the Oversight Board the annual management report required by the CFO Act at least 30 days before the report is due to be submitted to Congress.

(B) The RTC shall prepare and submit to the Chairman of the Oversight Board a statement and report on internal administrative and accounting controls substantially similar to that annually required of Executive agencies under FMFIA. Such report is due 90 days after the end of the reporting period. The reporting period is the RTC's fiscal year unless the Chairman of the Oversight Board determines otherwise. On a one time basis only, however, the RTC shall submit a statement and report by October 30, 1991, covering the RTC's fiscal year ended December 31, 1990, and covering, to the extent possible, the period from January 1 through September 30, 1991.

7. Immediately Effective.

This Policy Statement shall be immediately effective.

* With regard to Section 3 of this Policy Statement, RTC should develop appropriately rigorous internal control standards for the internal controls of those of its contractors who act on behalf of the RTC (e.g., SAMDA contractors and Interim Servicing Agreement contractors). The internal control evaluation system referred to in Section 4 of this Policy Statement should be employed by RTC to evaluate the internal controls of such RTC contractors in accordance with such standards. Reports required under Section 6 of this Policy Statement should include the results of such evaluations of the internal controls of such RTC contractors.

APPENDIX G:

RESOLUTION TRUST CORPORATION

DIRECTIVE NO. 1250.1

ON INTERNAL CONTROL SYSTEMS



TYPE AND NUMBER
Circular 1250.1

CONTACT
Dean R. Eisenberg

TELEPHONE #
202-416-7344

DATE
March 27, 1992

DATE OF CANCELLATION (Bulletins only)

DIRECTIVE SYSTEM

TO: All Washington, Regional and Consolidated Offices

FROM: Albert V. Casey
President and CEO

SUBJECT: Internal Control Systems

1. **Purpose.** To establish policies, objectives, standards and responsibilities for the development, maintenance and evaluation of internal controls for RTC programs and administrative activities.

2. **Scope.** This directive applies to all Washington, Regional and Consolidated Offices, field sites, and all contractors performing direct services for RTC.

3. **Policy.** Internal controls are defined as the overall plan of organization and the methods employed by the RTC to safeguard its assets, ensure the reliability of its accounting data, promote efficient operations, and ensure compliance with policies. The objectives of internal controls are to provide management with reasonable, assurance that:

a. Obligations and costs are in compliance with applicable laws and regulations;

b. All transactions are executed in accordance with management's general or specific authorization, and established policies, procedures and delegated authority;

c. Funds, property, and other assets are properly accounted for and safeguarded against waste, loss, unauthorized use, or misappropriation;

d. Revenues and expenditures are properly recorded and accounted for in a timely manner to:

(1) Permit the preparation of accurate and reliable accounts, financial statements, and management reports; and

(2) Maintain accountability over assets.

e. Early warning systems are in place to alert management about emerging problems.

RTC shall maintain effective internal systems of accounting and administrative controls. All levels of RTC management shall be involved in assuring the adequacy of these systems by designing, developing, installing, maintaining, monitoring, reporting and enforcing internal controls, and by performing vulnerability assessments and internal control reviews. Managers should use Inspector General audit and investigative reports, together with other pertinent reviews, when making reasonable assurance determinations. Estimates and judgments are required to assess the expected benefits and related costs of control procedures. The cost of developing internal control systems should not exceed the anticipated benefits. All systems will be evaluated on an on-going basis.

4. Definitions. For purposes of this directive, the following definitions are provided:

a. Alternative Internal Control Review (AICR). An alternative review would substitute for an ICR and could include a computer security review, a financial system review, IG and GAO audits and other management analyses that also evaluate the effectiveness of internal controls. These reviews include the testing of controls, preparation of corrective action plans, and the development of required documentation.

b. Annual Management Control Certification Statement. The Statement summarizes accomplishments, material weaknesses and critical milestones for corrective actions from each organization for the preceding year. The statement is developed from all available sources including ICRs, audits and studies. It shall include a certification that reasonable effort has been made to ascertain that all existing controls and procedures provide adequate protection against waste and abuse. It also shall include a Corrective Action Plan designed to address any deficiencies.

c. Assessable Unit. A major program, administrative activity or function performed by an organization. The RTC's inventory of assessable units represents the entire spectrum of program and operational activities.

d. Corrective Action Plan. A plan designed to correct any deficiencies in response to findings and recommendations from the review of an assessable unit. The plan should consider the staffing, ADP and fiscal resources needed for its implementation. It also establishes a target completion date as well as significant milestone dates to monitor progress.

e. Internal Controls. In the broadest sense, these include controls which are categorized as either accounting or administrative. Accounting controls are concerned with the safeguarding of assets and the reliability of financial records.

Administrative controls are concerned with operational efficiency and adherence to managerial policies and usually relate only indirectly to financial records. The plan of organization of the RTC delineates program and administrative responsibilities as do the control methods and measures adopted by the RTC to:

- (1) Safeguard its resources;
- (2) Assure the accuracy and reliability of its information;
- (3) Adhere to applicable laws, regulations and policies; and
- (4) Promote operational economy and efficiency.

f. Internal Control Documentation. Documentation includes organizational charts, written procedures, manuals, correspondence, flow charts, spreadsheets, questionnaires, forms, and software which communicate responsibility and authority. The documentation serves as a reference for persons reviewing internal controls and their effectiveness.

g. Management Control Plan (MCP). A plan which summarizes RTC's risk assessments, and planned internal control reviews and alternative internal control reviews to be undertaken by program managers to provide reasonable assurance that controls are in place and working. The MCP is updated annually or as major program or functional changes occur.

h. Internal Control Review (ICR). A detailed examination of an assessable unit by a program manager using appropriate methodology to determine if controls and procedures are current, adequate and cost effective. It also should identify corrective actions needed to resolve any inadequate controls or procedural deficiencies.

i. Internal Control System. The system consists of all methods and measures of internal control for the RTC. An internal control system is not a separate system. It is an integral part of the programs and administrative functions performed and the systems used to operate these programs and functions. They consist of the organization structure, operating procedures, and administrative practices adopted by all levels of management to provide reasonable assurance that programs and administrative activities are properly carried out. Developing and maintaining internal controls is the responsibility of the individuals who manage and operate RTC programs and functions.

j. Material Weakness. A specific instance of non-compliance which would significantly impair the fulfillment of RTC's mission; deprive the public of needed service; violate

statutory or regulatory requirements; significantly weaken safeguards against waste, fraud, mismanagement and asset loss; or result in a conflict of interest.

k. RTC Component. For purposes of this directive, each RTC office including the Office of Inspector General is a component.

l. Vulnerability Assessment (VA). A program manager's initial assessment of the susceptibility of the assessable unit to the risks of waste, fraud, abuse or illegal acts. Compliance with applicable laws, the adequacy of safeguards for funds, property and other assets, and the proper recording and accountability of financial transactions must be considered during this assessment.

5. Standards of Internal Control. Certain basic standards shall be adhered to in the systems of internal control established by RTC. These include: documentation, recording and executing transactions, separation of duties, adequate supervision, access to and accountability for resources, competent and supportive personnel, and reasonable assurance that the systems of internal controls are operating as intended.

a. Documentation. Internal controls, accountability for resources, and all financial transactions shall be clearly documented and available.

b. Recording of Transactions. Transactions, which occur when management decides to exchange, transfer, use or commit resources for specified purposes shall be recorded promptly as executed, and properly classified.

c. Execution of Transactions. Independent evidence shall be maintained that authorizations are issued by persons acting within the scope of their authority and that transactions conform with the terms of the authorization.

d. Separation of Duties. Key duties such as authorizing, approving, and recording transactions, issuing or receiving assets, making payment, and reviewing or auditing shall be assigned to separate individuals to the degree feasible and cost effective. Management control depends largely on the elimination of opportunities to conceal errors or irregularities. This in turn depends on the assignment of work in such a fashion that no one individual controls all phases of an activity or transaction thereby creating a situation that permits errors or irregularities to go undetected.

e. Supervision. Qualified and continuing supervision shall be provided to assure that approved procedures are followed. Lines of accountability shall be clear and documented.

f. Access to and Accountability for Resources. Access to resources shall be limited to authorized personnel. Access includes both direct physical access and indirect access through the preparation or processing of documents that authorize the use or disposition of resources. Periodic comparison shall be made of the resources and the recorded accountability to determine if the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

g. Competent and Supportive Personnel. Reasonable care shall be taken that personnel maintain a high standard of integrity, a positive attitude towards internal controls and possess competency including education, training and experience to accomplish their assigned duties.

h. Control Objectives and Techniques. The internal control techniques are to be effective and efficient in accomplishing the internal control objectives as identified.

i. Reasonable Assurance. Internal control systems should provide reasonable, but not absolute, assurance that the objectives of the system will be accomplished. This standard recognizes that the cost of management controls should not exceed the derived benefits and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. Managers shall certify the efficacy of the internal control systems.

6. Responsibilities

a. President and Chief Executive Officer. The President and CEO shall:

(1) Establish policies and procedures necessary for the operation of a RTC-wide program of internal controls.

(2) Submit to the Chairman of the Thrift Depositor Protection Oversight Board the annual management report on internal controls required by the Chief Financial Officers Act, at least 30 days before the report is due to be submitted to Congress.

(3) Submit to the Chairman of the Oversight Board an annual statement and report on internal controls substantially similar to that described in the Federal Managers Financial Integrity Act within 90 days after the end of the fiscal year.

(4) Act as the final determinant to resolve any and all disagreements or direct implementation of recommendations concerning the program.

b. The Director, Office of Organization, Management, and Administrative Evaluation (OMAE). The Director, OMAE is responsible for coordinating the overall corporate-wide internal control program. These responsibilities include:

(1) Developing internal control program procedures, schedules, and reporting requirements.

(2) Overseeing the establishment of assessable units and the conduct of risk assessments and internal control reviews.

(3) Conducting quality assurance reviews and tracking identified material weaknesses and corrections made in accordance with corrective action plans.

(4) Preparing required RTC reports and assurance documents.

(5) Preparing, for the President and CEO, the consolidated RTC Annual Management Certification Statement summarizing internal control accomplishments and material weaknesses and their corrective actions developed during the preceding year.

(6) Providing the Inspector General an opportunity for reviewing the consolidated RTC Annual Management Certification Statement before submitting it to the President and CEO.

(7) Coordinating with program managers and staffs, the Inspector General, and internal control points of contact on internal control program matters.

(8) Notifying the President and CEO of any problems identified by early warning assessments.

c. Senior Vice Presidents. These corporation executives, or their designees are responsible for:

(1) Designing, installing, monitoring and maintaining effective systems of internal control within their organizations.

(2) Certifying that each internal control system meets all applicable requirements.

(3) Establishing assessable units and conducting risk assessments and internal control reviews, or their equivalent.

(4) Certifying that the inventory of assessable units represents all functional areas, is current, and that VAs, ICRs and AICRs are performed adequately and their findings are reported within prescribed time frames.

(5) Approving the organization's Annual Management Certification Statement and accompanying documentation, and forwarding these materials to the Director, OMAE for consolidation into the RTC Annual Management Certification Statement. (This responsibility may not be delegated.)

(6) Notifying the Director, OMAE of any problems identified by early warning assessments.

d. Inspector General. The Inspector General, through a program of audits and investigations, is an integral part of the internal control process. These responsibilities include:

(1) Evaluating internal controls as part of internal audits, and providing resulting reports to Corporation managers.

(2) Providing technical assistance in the Corporation's efforts to evaluate and improve its internal control program.

(3) Advising the President and CEO whether the internal control review and evaluation process has been conducted consistent with this Directive.

7. Internal Control Program Procedures. The internal control program involves six basic processes.

a. Establish an Inventory of Assessable Units. Divide the programs into assessable units accounting for all discrete functions performed. Each organization maintains its own inventory. The Director, OMAE maintains the master inventory of all RTC Assessable Units. This inventory shall be updated quarterly by each organization and any changes shall be submitted to the Director, OMAE. OMAE will coordinate with the Office of Inspector General when establishing and updating the RTC inventory of assessable units.

b. Conduct Vulnerability (Risk) Assessments. A VA must be conducted or recertified for each assessable unit every year. This will provide RTC with an early warning capability to identify and correct serious problems.

c. Develop Management Control Plan. Based on the results of the VA, the program manager will develop a plan to perform an ICR. There also are studies and audits (AICRs) which may be used in place of an ICR if they cover the scope of the assessable unit scheduled for review. Because of their wide scope, AICRs may satisfy requirements for all or parts of several ICRs.

Assessable units with a high vulnerability rating must have an ICR or an AICR conducted on them within one (1) year following such a determination. Assessable units with medium ratings must

have ICRs conducted on them within 30 months. The President and CEO may also require additional ICRs for specific assessable units or functions based on early warning assessments or for issues of corporate-wide interest. Copies of the completed ICRs and AICRs must be retained by the originating organization. The Director, OMAE must be notified for scheduling and review purposes when each ICR and AICR is initiated, and again when completed.

d. Conduct Internal Control Reviews. An ICR (or AICR) must be conducted to assess the effectiveness and costs of the internal controls of the assessable unit and to identify any deficiencies in the controls. Additionally, a corrective action plan is prepared to resolve the deficiencies.

e. Complete Corrective Action Plan. Program managers are responsible for completing the corrective actions developed to resolve deficiencies noted during the review of their assessable units. The program manager also is responsible for verifying that the implemented corrective actions resulted in the desired outcome.

f. Prepare Annual Management Control Certification Statement. Each Senior Vice President shall approve an Annual Management Control Certification Statement. The Statement will be addressed to the President and CEO, but delivered to the Director, OMAE by February 15, or the first work day thereafter of each year. OMAE will consolidate the information into the RTC's assurance statement. The Annual Certification Statement addresses internal control conditions and accomplishments for the preceding fiscal year.

8. Records Management. Work papers should contain summary notes to the files; refer to documents used and where to locate them; provide the names of persons interviewed; and discuss testing methods used. Documentation will be retained by the originating organization in accordance with files management and records disposition guidelines established by the RTC.

9. Contact. For further information concerning internal control program policies, procedures, or guidelines contact the Director, OMAE.

10. Effective Date. This directive is effective immediately.

APPENDIX H:

RESOLUTION TRUST CORPORATION
CONTRACTING ACTIVITY REPORTING SYSTEM
FUNCTIONAL BUSINESS AREA BREAKOUT
OF CONTRACT SERVICE TYPES

86-87

Functional Business Area Breakout of CARS Service Types

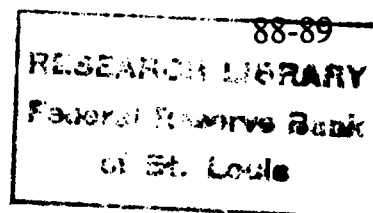
Major Business Category	Service Code	Service Description
Accounting/Financial Services	AA	Accounting, Auditing, Financial Services
Loan Servicing/Administration	FL	Full Loan Servicing
	LA	Loan Administration/Consulting
	LO	Loans
Institution Management	FM	Financial Institution Management
	CA	Closing Assistance
Asset Management (SAMDA)	AM	Asset Management
Data Processing/Support Services	DB	Computer Systems & Database Management
	OC	Other Consulting
Administration/Operation/Other	FI	Financial Investigation
	LG	Legal Services
	OS	Operations Supplies & Support Services
	OT	Other Services Offered
	PO	Purchase Orders - 10/7/94 - New Serv Type
Asset Related Services	AE	Architectural/Engineering Consulting
	AP	Real Estate Appraisals
	AR	Appraisal Review
	AS	Other Appraisal Services
	BK	Broker's Opinion of Value
	BR	Real Estate Brokerage
	CC	Construction Consulting
	CO	Construction
	DD	Asset Due Diligence/File Review
	EC	Environmental Consulting
	ES	Evicting & Securing Property
	IN	Insurance
	LS	Leasing
	MP	Marketing/Promotion
	PM	Property Management
	PT	Property Maintenance
	RE	Real Estate Consulting
	RM	Real Estate Marketing/Sales
	SE	Securities
	SU	Surveying
TC	Tax Consulting	
TW	Title Work	

Note: Some overlap exists in all categories.

Source: Resolution Trust Corporation

APPENDIX I:

**RECEIVERSHIP TERMINATION ACTIVITY
OF THE RESOLUTION TRUST CORPORATION
THROUGH DECEMBER 31, 1995**

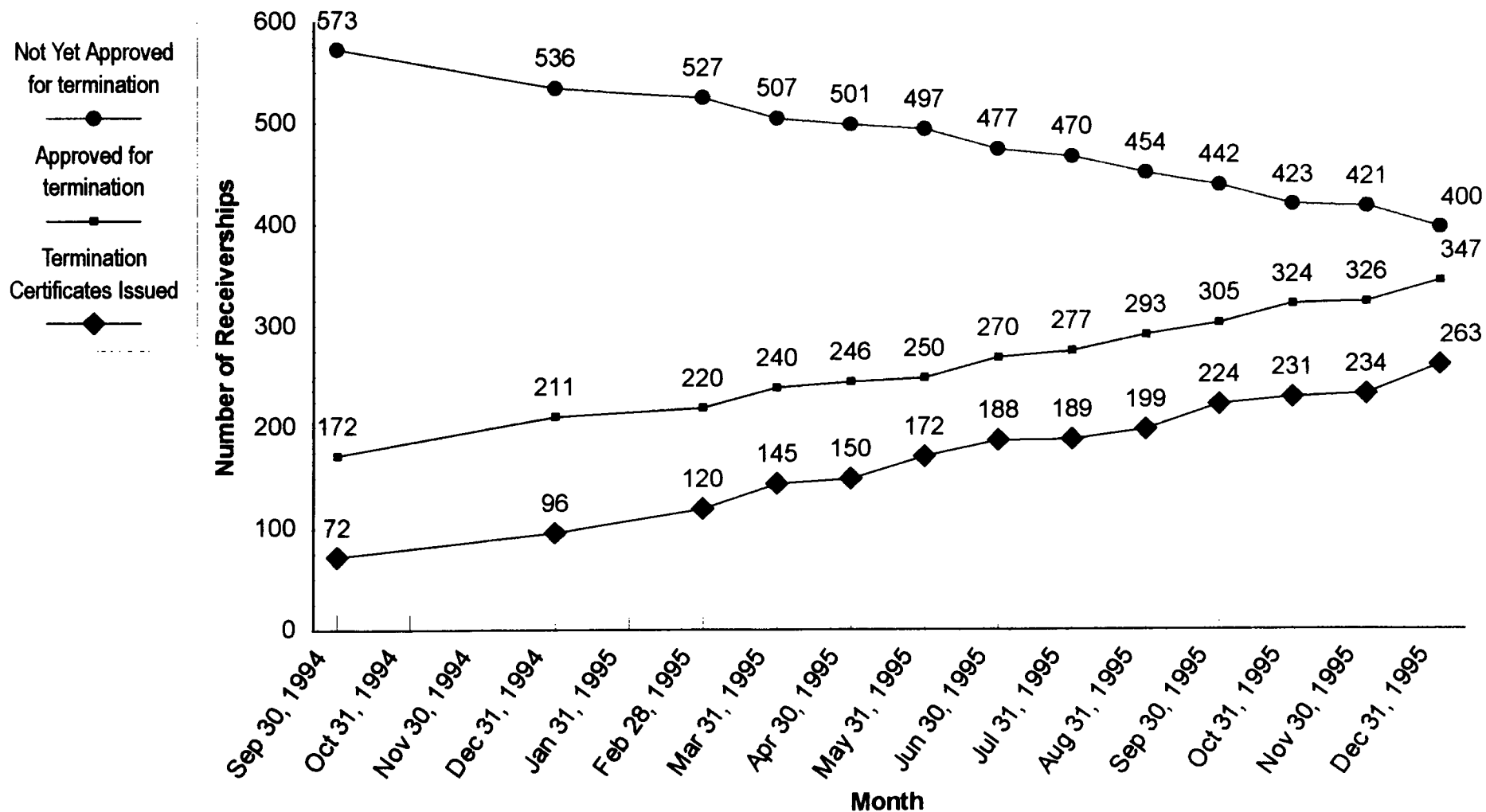




Receivership Termination Activity

Inception through December 31, 1995

RTC has approved 347 receiverships for termination through December 31, 1995, and 400 receiverships remain. 263 receiverships have received certificates of termination.



Source: Office of Operations, Division of Asset Management and Sales

APPENDIX J:

**RESOLUTION TRUST CORPORATION
ASSET REDUCTIONS BY
DISPOSITION METHOD**

RTC ASSET REDUCTIONS
Book Value, Inception through December 31, 1995
As Tracked by the Oversight Board Staff¹
(Dollars in billions)

Bulk Sales:

Portfolio Sales

Book Value <100M	\$2.6	[0.6%] ²
Book Value >100M <200M	4.6	[1.0%]
Book Value >200M	<u>13.8</u>	[3.0%]

\$21.0 [4.6%]

Equity Participations³

17.1 [3.7%]

\$38.1 [8.3%]

National Loan Auctions (I-VIII):

\$ 3.6 [0.8%]

Securitization:

1-4 Family	\$24.4	[5.3%]
Multi-Family	4.5	[1.0%]
Commercial	12.4	[2.7%]
Mobile Homes & 2nd Mortgages	<u>0.9</u>	[0.2%]

\$42.3 [9.2%]

Transfers to Purchasers of Thrifts (net of putbacks):

\$50.8 [11.1%]

Collections:⁴

During Conservatorship	\$97.8	[21.3%]
During Receivership	<u>46.7</u>	[10.2%]

\$144.5 [31.5%]

Cash & Securities:

\$ 45.6 [10.0%]

Sales of Subsidiaries:

\$ 1.0 [0.2%]

SAMDA Sales:

\$33.5 [7.3%]

¹ Due to the manner in which the RTC accounted for the disposition of assets, it is possible that some asset reductions were reported under more than one disposition method. For example, some SAMDA assets were sold in portfolio and loan auction initiatives and may have been reported in multiple categories.

² Each percentage is calculated as part of Total Asset Reductions from Inception, \$458.5 billion.

³ Equity participations consist of N-Series, S-Series, N/S-Series, NP-Series, S/N-Series, JDCs, Land Funds, and MIFs.

⁴ Collections include such things as principal payments, loan payoffs, compromises on loans, and dividends from recoveries of cash on the sale of subsidiary assets.

Losses at Time of Disposition:	\$61.5 [13.4%]
Other Sales: ⁵	\$37.6 [8.2%]
Total Asset Reductions from Inception:	\$458.5 [100.0%]

Sources:

Portfolio Sales	Resolution Trust Corporation, MPBTS (FDIC, June 13, 1996).
Equity Participations	Resolution Trust Corporation. <i>Non-Performing Transactions (at closing) Equity Partnerships</i> (FDIC, June 5, 1996, JDC portion revised August 16, 1996.)
National Loan Auctions	Resolution Trust Corporation. <i>National Loan Auctions Results</i> (FDIC July 15, 1996) and <i>National Auction Data</i> (FDIC, June 24, 1994, revised August 16, 1996).
Securitization	Resolution Trust Corporation. <i>RTC Securitization Aggregate Summaries</i> (FDIC, June 5, 1996).
Transfer to Purchasers of Thrifts (Net of Putbacks)	Resolution Trust Corporation, <i>Summary of RTC Financial Activity</i> (FDIC, March 15, 1996).
Cash and Securities	Resolution Trust Corporation, <i>Summary of RTC Financial Activity</i> , Chart 3-B, Receivership Asset Activity, Inception through December 31, 1995 (FDIC, March 15, 1996).
Sales of Subsidiaries	Resolution Trust Corporation, <i>Subsidiary Sales</i> (FDIC, June 20, 1996).
SAMDA Sales	Resolution Trust Corporation, <i>SAMDA/SAMA Activity Report</i> (FDIC, February 23, 1996, revised July 16, 1996).
Losses at Time of Disposition	Resolution Trust Corporation, <i>Summary of RTC Financial Activity</i> , Chart 2-B, Conservatorship Asset Activity, Inception through March 1995 (RTC, May 19, 1995) and Chart 3-B, Receivership Asset Activity through December 31, 1996 (FDIC, March 15, 1996).

⁵ Other Sales include such things as the disposition of furniture, fixtures, equipment, loans, and real estate by Field Offices.

APPENDIX K:

**RESOLUTION TRUST CORPORATION
EQUITY PARTICIPATIONS**

RTC EQUITY PARTICIPATIONS

Series	No. of Assets	Book Value (\$ millions)
AEW MIF	440	1,013
GE MIF	533	1,021
1992-N1	432	345
1993-N1	737	618
1993-N2	180	743
1993-N3	318	324
1994-N1	511	406
1994-N2	405	347
1994-N3/S	286	278
1993-S1	44	74
1993-S2	88	112
1994-S1	86	100
1994-S2	88	90
1994-S3	73	38
1994-S4	181	132
1994-S5	134	107
1994-S6	125	84
1995-NP1A	98	83
1995-NP1B	51	71
1995-NP2A	53	64
1995-NP2B	187	127
1995-NP2C	27	38
1995-NP3-1	78	62
1995-NP3-2	81	51
1995-NP3-3	48	41
1995-S/N1	142	90
1995-S/N2	103	81
1995-S/N3	114	87
1995-S/N4	126	119
1995-S/N5	20	63

Source: Resolution Trust Corporation, *RTC Equity Participations as of 12/20/95*, (RTC, December 20, 1995).

APPENDIX L:

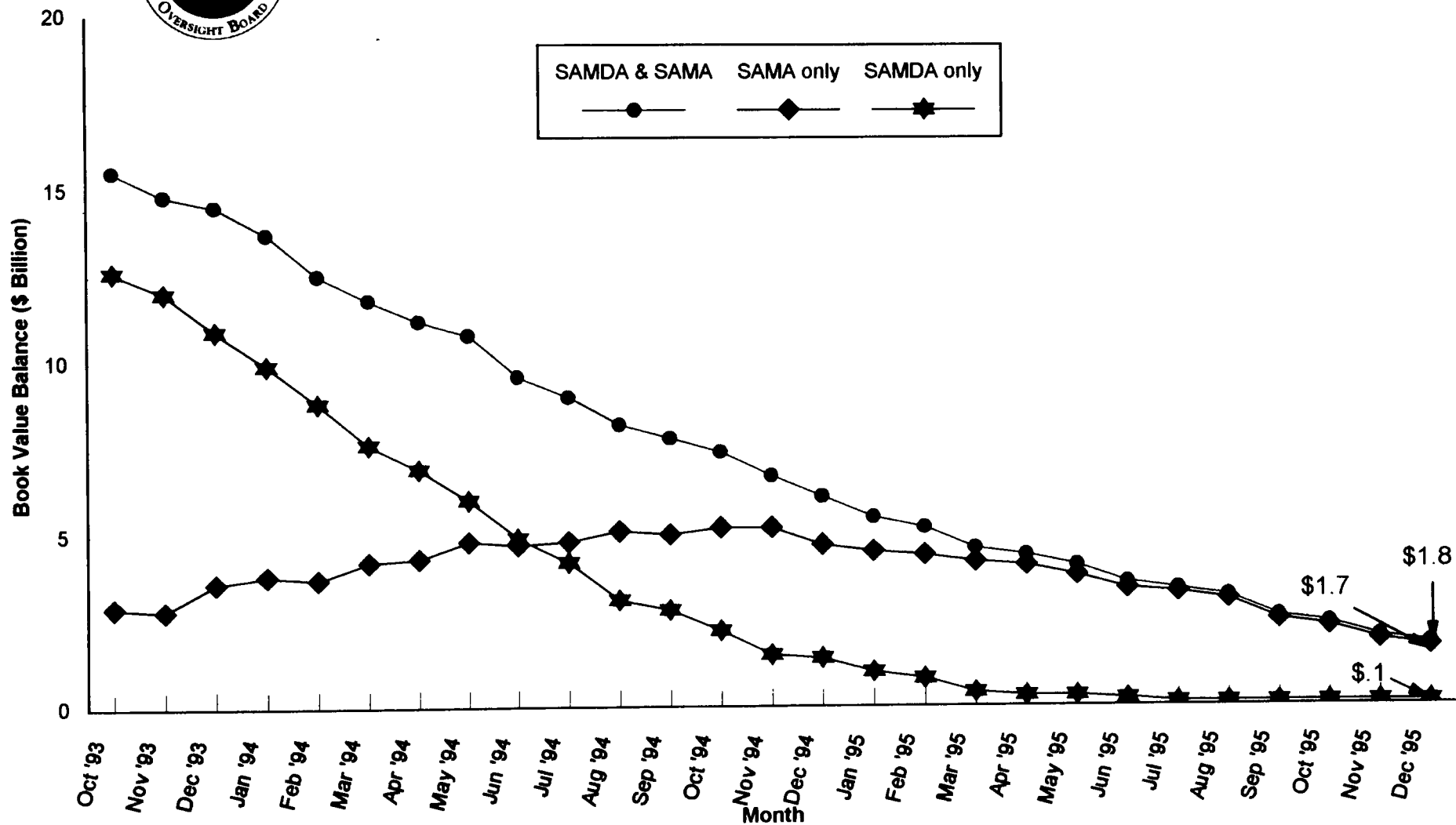
**STANDARD ASSET MANAGEMENT AND DISPOSITION
AGREEMENT (SAMDA) AND
STANDARD ASSET MANAGEMENT AGREEMENT (SAMA)
BOOK VALUE OF OUTSTANDING ASSETS
OCTOBER 1993 THROUGH DECEMBER 1995**

95-96



Outstanding SAMDA & SAMA Book Value - All Offices

October 1993 - December 1995



Source: RTC SAMDA/SAMA Activity Reports
 RTC Office of SAMDA Program Management

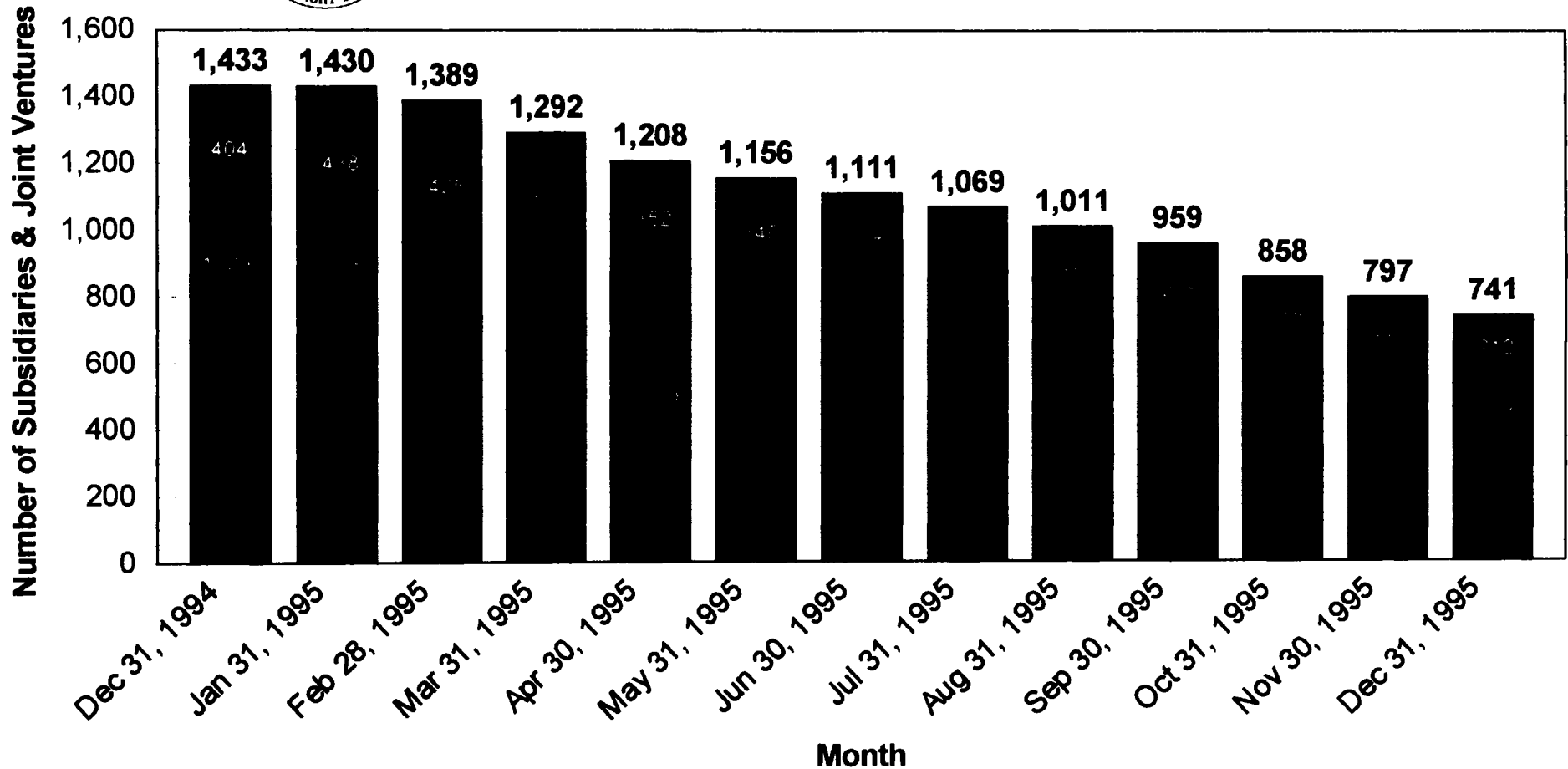
APPENDIX M:

**RESOLUTION TRUST CORPORATION
NUMBER OF SUBSIDIARIES
AND JOINT VENTURES REMAINING
DECEMBER 31, 1994 THROUGH DECEMBER 31, 1995**



Subsidiaries & Joint Ventures Remaining

December 31, 1994 through December 31, 1995



Source: Subsidiary Information Management Network (SIMAN)

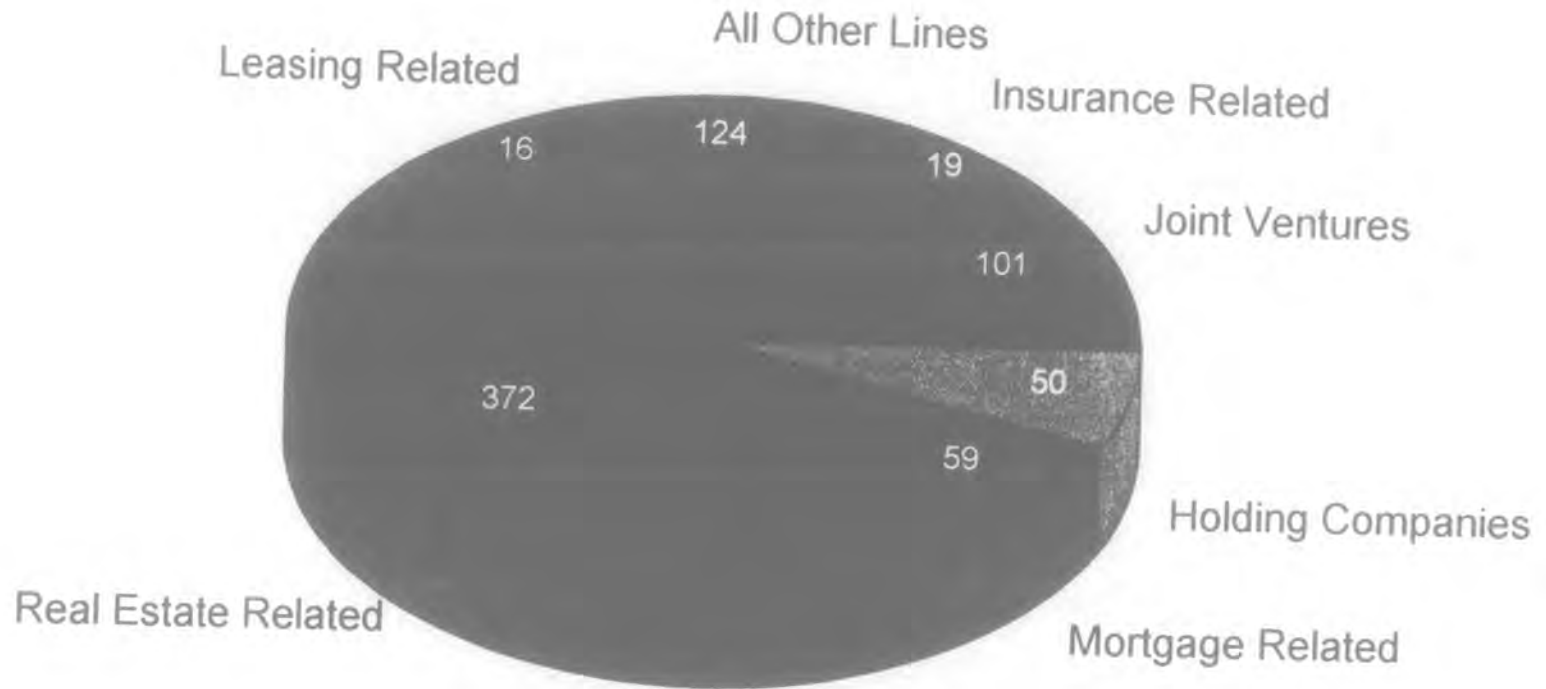
Semi-monthly Field Activity Report, Division of Asset Management & Sales

APPENDIX N:

**RESOLUTION TRUST CORPORATION
SUBSIDIARIES AND JOINT VENTURES
BY LINE OF BUSINESS
AS OF DECEMBER 31, 1995**



**Resolution Trust Corporation
Subsidiaries and Joint Venture Inventory
Line of Business Summary
as of December 31, 1995**



Number by Line of Business

Source: Subsidiary Information Management Network (SIMAN)
Line of Business Summary, Division of Asset Management and Sales

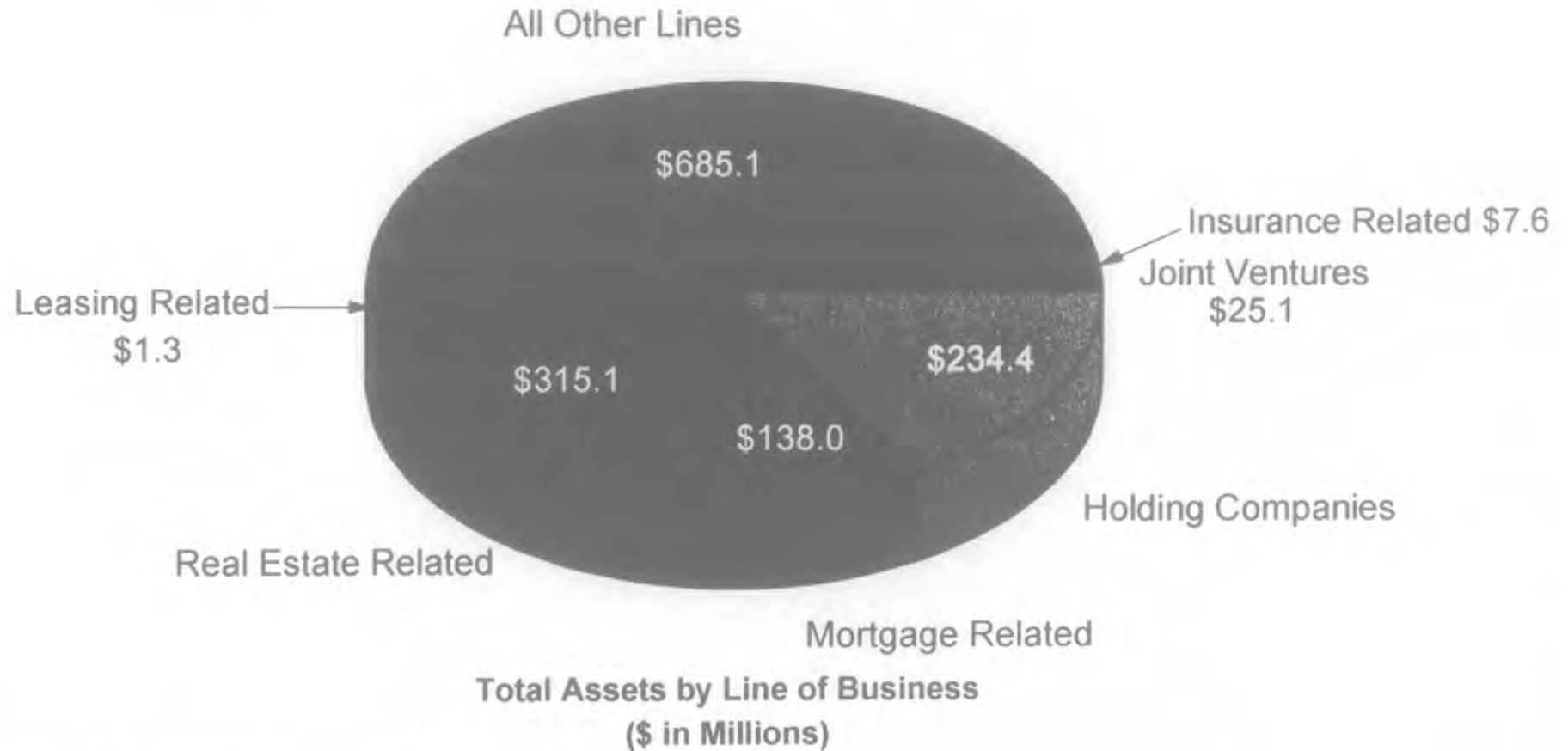
APPENDIX O:

RESOLUTION TRUST CORPORATION
SUBSIDIARIES AND JOINT VENTURES:
ASSETS BY LINE OF BUSINESS
AS OF DECEMBER 31, 1995

101-102



**Resolution Trust Corporation
Subsidiaries and Joint Venture Inventory
Summary of Total Assets by Line of Business
as of December 31, 1995**



Source: Subsidiary Information Management Network (SIMAN)
Line of Business Summary, Division of Asset Management and Sales

APPENDIX P:

**RESOLUTION TRUST CORPORATION
SPECIAL RESOURCE PROPERTIES
AS OF JANUARY 1, 1996**

103-104

AVAILABLE PROPERTIES WITH SPECIAL RESOURCES*

As of January 1, 1996

Special Resource Type	Commercial	Book Value	Land	Book Value	Residential	Book Value	Total	Total Book Value
Aquifers	5	\$2,254,044	13	\$21,160,090	6	\$8,029,402	24	\$31,443,536
Wetlands	13	\$11,143,963	119	\$252,455,595	4	\$6,731,698	136	\$270,331,256
Archaeological	1	\$8,739,910	27	\$49,938,275	3	\$8,833,502	31	\$67,511,687
Coastal Dunes and Beaches	1	\$1,027,200	7	\$13,839,936	2	\$3,926,879	10	\$18,794,015
Historical Sites	22	\$25,223,774	7	\$26,542,839	22	\$2,474,565	51	\$54,241,178
Wild and Scenic Rivers	1	\$626,405	2	\$20,117	0	\$0	3	\$646,522
Recreational	4	\$20,347,958	15	\$104,368,811	11	\$69,575,896	30	\$194,292,665
Fifty-Acre Lands	2	\$17,320,758	31	\$273,461,441	10	\$69,469,646	43	\$360,251,845
Undeveloped Floodplains	5	\$3,675,854	51	\$242,272,810	6	\$4,428,670	62	\$250,377,334
Endangered Species	3	\$2,220,162	81	\$265,505,475	7	\$15,571,912	91	\$283,297,549
Coastal Barrier	0	\$0	2	\$8,223,661	0	\$0	2	\$8,223,661
Wilderness Area	0	\$0	1	\$2,502,119	0	\$0	1	\$2,502,119
Natural Landmarks	0	\$0	0	\$0	0	\$0	0	\$0
Scientific Value	0	\$0	2	\$1,776,000	0	\$0	2	\$1,776,000

* Note: Some properties have more than one special resource.

Total Individual Properties with Resources = 302 or Approximately 9% of the Remaining REO Portfolio.

Total Book Value of Individual Properties with Resources = \$569,452,412 or Approximately 44% of the Remaining Book Value of the REO Portfolio.

Source: Resolution Trust Corporation, "Current Resource and Hazardous REO Data", (FDIC, February 22, 1996).

APPENDIX Q:

**RESOLUTION TRUST CORPORATION
PROPERTIES WITH HAZARDOUS MATERIALS
AS OF JANUARY 1, 1996**

105-106

AVAILABLE PROPERTIES WITH HAZARDOUS MATERIALS*

As of January 1, 1996

Hazard Type	Commercial	Book Value	Land	Book Value	Residential	Book Value	Total	Total Book Value
Above-ground Storage Tanks	25	\$29,596,736	8	\$17,384,831	48	\$3,544,554	81	\$50,526,121
Asbestos	213	\$210,557,259	15	\$17,796,926	74	\$4,848,453	302	\$233,202,638
Disposal Sites	10	\$5,753,839	50	\$55,560,073	2	\$128,260	62	\$61,442,172
Hazardous Substance Management	46	\$60,579,227	41	\$21,943,193	20	\$1,536,494	107	\$84,058,914
Historical Disposal/Contamination	64	\$34,994,223	23	\$198,769,065	4	\$295,450	91	\$234,058,738
Lead	42	\$40,572,023	9	\$2,151,414	571	\$25,626,788	622	\$68,350,225
National Priority List Sites	1	\$797,500	1	\$1,013,986	0	\$0	2	\$1,811,486
Pesticides	1	\$128,732	3	\$41,184	1	\$91,400	5	\$261,316
Polychlorinated Biphenyls	18	\$27,441,491	7	\$3,680,550	3	\$223,622	28	\$31,345,663
Radiological Hazards	2	\$4,497,555	0	\$0	17	\$1,340,380	19	\$5,837,935
Radon	16	\$6,003,164	6	\$7,427,576	9	\$4,200,685	31	\$17,631,425
Underground Storage Tanks	80	\$49,150,936	14	\$46,721,724	38	\$5,477,152	132	\$101,349,812

* Note: Some properties have more than one hazard.

Total individual Properties with Hazards = 1,091 or Approximately 34% of the Remaining REO Portfolio.

Total Book Value of Individual Properties with Hazards = \$577,241,136 or Approximately 44% of the Remaining Book Value of the REO Portfolio.

Source: Resolution Trust Corporation, "Current Resource and Hazardous REO Data", (FDIC, February 22, 1996).

APPENDIX R:

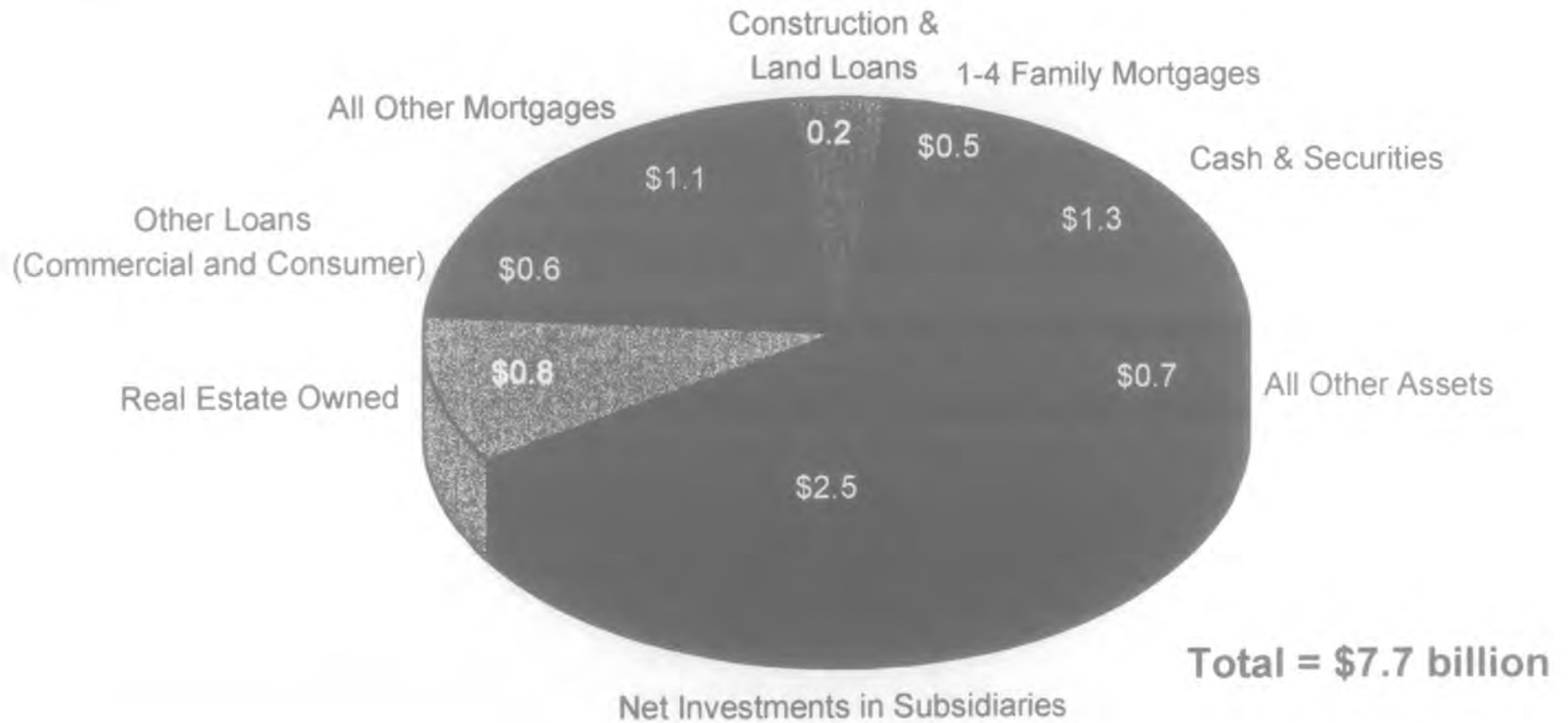
**RESOLUTION TRUST CORPORATION
ASSETS AVAILABLE FOR LIQUIDATION
TRANSFERRED TO THE
FEDERAL DEPOSIT INSURANCE CORPORATION
ON JANUARY 1, 1996**

107-108



Composition of Asset Inventory at Termination of RTC

(Transferred to FDIC on 1/1/96)
(\$ in billions)



APPENDIX S:

**A REPORT BY THE THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD CHAIRPERSON
ON THE USE OF LOSS FUNDS BY THE
RESOLUTION TRUST CORPORATION**

109-135

**A REPORT ON THE USE OF LOSS FUNDS
BY THE RESOLUTION TRUST CORPORATION**



**A REPORT BY THE
THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD CHAIRPERSON
AS REQUIRED BY RESOLUTION TRUST CORPORATION COMPLETION ACT OF 1993
PUB. L. NO. 103-204, §28, 107 STAT. 2369, 2410-11 (1993)**



**THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD
808 17th Street, N.W., 8th Floor
Washington, D.C. 20232**

May 31, 1996

The Honorable Alfonse M. D'Amato
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to submit for your review the report by the Thrift Depositor Protection Oversight Board Chairperson required by Section 28 of the Resolution Trust Corporation Completion Act on the Resolution Trust Corporation's (RTC) use of funds provided under that legislation.

In brief, total loss funds used, including estimated losses on remaining assets and related expenses, are estimated to be \$87.9 billion. This estimate is lower than originally anticipated due to year-end 1995 adjustments to reserves.

The General Accounting Office anticipates completion of its audit of the RTC's financial statements on or around July 1. Should the certified financial statements produce changes to this report's findings which require explanation, a discussion will be included in the joint RTC and Oversight Board 1995 Annual Report.

Sincerely,

John D. Hawke, Jr.
Acting Chairperson
Thrift Depositor Protection
Oversight Board



**THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD**
808 17th Street, N.W., 8th Floor
Washington, D.C. 20232

May 31, 1996

The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Senator Sarbanes:

I am pleased to submit for your review the report by the Thrift Depositor Protection Oversight Board Chairperson required by Section 28 of the Resolution Trust Corporation Completion Act on the Resolution Trust Corporation's (RTC) use of funds provided under that legislation.

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**808 17th Street, N.W., 8th Floor
Washington, D.C. 20232**

May 31, 1996

The Honorable James A. Leach
Chairman
Committee on Banking and Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to submit for your review the report by the Thrift Depositor Protection Oversight Board Chairperson required by Section 28 of the Resolution Trust Corporation Completion Act on the Resolution Trust Corporation's (RTC) use of funds provided under that legislation.

In brief, total loss funds used, including estimated losses on remaining assets and related expenses, are estimated to be \$87.9 billion. This estimate is lower than originally anticipated due to year-end 1995 adjustments to reserves.

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John D. Hawke, Jr.
Acting Chairperson
Thrift Depositor Protection
Oversight Board



**THRIFT DEPOSITOR PROTECTION
OVERSIGHT BOARD**
808 17th Street, N.W., 8th Floor
Washington, D.C. 20232

May 31, 1996

The Honorable Henry B. Gonzalez
Ranking Minority Member
Committee on Banking and Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Congressman Gonzalez:

I am pleased to submit for your review the report by the Thrift Depositor Protection Oversight Board Chairperson required by Section 28 of the Resolution Trust Corporation Completion Act on the Resolution Trust Corporation's (RTC) use of funds provided under that legislation.

In brief, total loss funds used, including estimated losses on remaining assets and related expenses, are estimated to be \$87.9 billion. This estimate is lower than originally anticipated due to year-end 1995 adjustments to reserves.

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Sincerely,

John D. Hawke, Jr.
Acting Chairperson
Thrift Depositor Protection
Oversight Board

**REPORT BY THE CHAIRPERSON OF THE
THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
ON LOSS FUNDS PROVIDED BY THE CONGRESS
FOR USE BY THE RESOLUTION TRUST CORPORATION**

The Resolution Trust Corporation Completion Act requires the Chairperson of the Thrift Depositor Protection Oversight Board (Oversight Board) to report on the uses of appropriated funds provided under that legislation. The report is due 45 days after the final expenditure of loss funds by the Resolution Trust Corporation (RTC). Although the RTC closed December 31, 1995, final data necessary to prepare this report were not available until after the RTC's accounting records closed in March 1996 and unaudited financial data were available in mid-April.

RESULTS IN BRIEF

This report is presented in five parts and contains the information summarized below. Tables and charts are provided to aid in presenting the underlying data.

- o **PART I** provides an overview of the RTC's accomplishments during its six-year existence. All 747 failed thrifts transferred to it have been resolved, and the RTC has disposed of more than 98 percent of the assets for which it was responsible. The thrift industry has been restored to health, as evidenced by the 91 percent of privately held thrift institutions that were operating profitably at the end of 1995.
- o **PART II** gives the legislative history of the RTC and chronicles funds provided to cover losses resulting from the RTC's thrift resolution and asset disposition activities. The total of all funds provided by legislation was \$105.1 billion, and the amount released by the Oversight Board to the RTC was \$91.3 billion.
- o **PART III** describes the resolution process. The RTC periodically estimated losses to be incurred to resolve institutions in conservatorship and other troubled thrifts. Loss funds are said to be "used" at the point of resolution, even though actual losses are not fully realized until all assets are sold and claims settled.
- o **PART IV** summarizes the RTC's total expenses, which totaled \$13.8 billion from inception through December 31, 1995, excluding borrowing costs. Data include total compensation expense and non-compensation expenses, such as contract services, travel, equipment, supplies, and other expenses. These expenses either were paid by the RTC and billed to receiverships or paid directly by receiverships.
- o **PART V** discusses the estimate of loss funds used by the RTC and provides related details for three distinct periods of time. The first section covers the entire interval from the RTC's inception through the projected final disposition of all assets and the termination of the receiverships resulting from 747 thrift failures. Total loss funds used, including amounts for unrealized losses and expenses to complete activities remaining after December 31, 1995, are estimated to be \$87.9 billion. The second section covers the period from the RTC's inception through its closure and differentiates between realized losses as of December 31, 1995, and unrealized losses for post-1995 activities. Total realized loss funds used as of December 31, 1995, are estimated to be \$81.3 billion, and unrealized losses to complete the entire clean-up are \$6.6 billion. The third section

discusses the estimated use of loss funds provided by the Completion Act and covers the period from December 17, 1993, through December 31, 1995. It is estimated that \$1.2 billion of loss funds provided by the Completion Act were used by the RTC. This estimate is lower than originally anticipated due to year-end 1995 adjustments to reserves, which are discussed later in this presentation.

PART I

Overview

The RTC was established on August 9, 1989, the date of enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Its mission was to protect insured deposits, dispose of failed thrifts transferred to it by the Office of Thrift Supervision, and also dispose of 262 thrifts that failed between January 1 and August 9, 1989. The challenge for the RTC was daunting, but its legal responsibilities and corporate objectives were accomplished.

During its existence, the RTC resolved a total of 747 failed thrifts with more than \$315.4 billion of deposits at takeover. The RTC resolved 37 institutions in 1989, 315 in 1990, 232 in 1991, 69 in 1992, 27 in 1993, 64 in 1994, and the final three in 1995.¹ In the process, the RTC protected over 25 million federally insured deposit accounts, making good on the Federal Government's pledge of deposit insurance to millions of Americans. As part of its resolution activities, the RTC was directed to extend assistance to minority acquirers of failed institutions under certain circumstances. The RTC's Predominantly Minority Neighborhood Program was created after the Resolution Trust Corporation Completion Act of 1993 was enacted. The RTC reported that, by March 10, 1995, it had resolved all 23 failed thrifts with branch offices in predominantly minority neighborhoods (PMNs). Those thrifts had 68 PMN branch offices, and minorities acquired 25 (37 percent). As part of the resolutions, the RTC made available over \$40 million in interim capital assistance to the acquirers. The other 43 branch offices were acquired by non-minority-owned institutions that were expected to continue banking services in those neighborhoods.

The RTC disposed of \$458 billion (book value) in assets from its inception through December 31, 1995, recovering \$397 billion for taxpayers at a recovery rate in excess of 86 percent of book value. The RTC disposed of more than 98 percent of the assets that came under its supervision.

The RTC's Affordable Housing Program disposed of approximately 24,000 properties with a book value of \$2.5 billion. The RTC provided more than 109,000 housing units for low- and moderate-income families by disposing of 23,196 one-to-four family properties with 27,985 units and 827 multi-family properties with 81,156 units.

¹ Resolution Trust Corporation, *Statistical Abstract, August 1989/September 1995*, pp. 66-86, (RTC). Deposits at takeover were for the quarter before a failed thrift entered RTC conservatorship. Deposits at resolution were \$220.6 billion.

Congress directed the RTC to utilize the private sector to support its asset management and sales efforts, where such services were available and when the RTC determined that such utilization was practicable and efficient. As a result, the RTC became one of the largest contracting organizations in the United States, entering into 159,734 contracts with total estimated fees of approximately \$5.3 billion, as tracked on the RTC's Contracting Activity Reporting System (CARS). Of the contracts tracked on CARS, 56,602 were issued to minority- and women-owned businesses, and those contracts accounted for more than \$1.5 billion in estimated fees.² Thousands of other contracts were issued directly by the Legal Division and individual receiverships, bringing the total estimated fee value of all contracts to approximately \$8.3 billion.³

The RTC was tasked with identifying individuals responsible for wrongdoing so that monies could be recovered from them on behalf of taxpayers. The RTC investigated, initiated civil litigation, and made criminal referrals in cases involving former officers, directors, professionals, and others who played a role in the demise of these failed financial institutions. The RTC made 1,527 criminal referrals. There were convictions of, or guilty pleas by, 2,166 defendants. Approximately \$2.5 billion was recovered from fraud and professional liability claims.⁴ According to the Final Report of the RTC's Assistant General Counsel for Professional Liability (pursuant to 12 U.S.C. 1441a(w)(10)(C)), submitted to the Congress by the Oversight Board on April 30, 1996, an additional \$26 million was collected in criminal restitution ordered by State and Federal courts. The report also stated that the total prison time sentenced by Federal courts was more than 2,300 years.⁵

Unaudited financial data indicate that \$7.7 billion in book value of assets available for liquidation was placed under the management of the Federal Deposit Insurance Corporation (FDIC), when the RTC closed on December 31, 1995. The assets included \$1.3 billion of cash and securities, \$.5 billion of one-to-four family mortgages, \$.3 billion of construction and land loans, \$1.1 billion in all other mortgages, \$.6 billion in other loans (commercial and consumer), \$.8 billion in real estate owned, \$2.5 billion net investments in subsidiaries, and \$.7 billion in all other assets. An additional \$12.8 billion was placed under FDIC management in the form of cash, investments, and accounts receivable accumulated by receiverships.⁶

² Resolution Trust Corporation, *Semiannual Report of the Resolution Trust Corporation and the Thrift Depositor Protection Oversight Board*, p. 14 and Exhibit 6, (FDIC and Oversight Board, April 30, 1996).

³ Resolution Trust Corporation, *Historical Expense Summary, 1989-1995*, (FDIC, May 21, 1996).

⁴ This is based on information provided by the Department of Justice and does not include state and local cases.

⁵ The probation sentence is used when no incarceration sentence is imposed.

⁶ Resolution Trust Corporation, *Summary of RTC Financial Activity - Receivership Asset Composition as of December 31, 1995*, (FDIC, March 15, 1996). Any differences are due to rounding.

PART II**Legislative History****Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)⁷**

The RTC's mission was to fulfill the government's commitment to protect insured deposits, dispose of failed thrifts transferred to it by the Office of Thrift Supervision, and also dispose of 262 thrifts that failed between January 1 and August 9, 1989. FIRREA provided \$18.8 billion of loss funds by appropriation and \$31.3 billion through the Resolution Funding Corporation. FIRREA also established the Oversight Board, which at that time controlled the RTC's financing and established its general strategies, goals, and policies for resolving and liquidating insolvent thrifts.

The RTC was to carry out a program to manage and resolve failed savings and loan associations and dispose of any residual assets in a manner that:

- o maximized the net present value return for the sale or other disposition of failed thrifts and their assets,
- o minimized the impact of such transactions on local real estate and financial markets,
- o made efficient use of funds obtained from the Resolution Funding Corporation or from the U.S. Treasury,
- o minimized losses resulting from the resolution of failed thrifts, and
- o preserved the availability of affordable residential property for low- and moderate-income individuals.

Resolution Trust Corporation Funding Act of 1991 (Funding Act of 1991)⁸

On March 23, 1991, the Funding Act of 1991 appropriated \$30 billion for RTC loss funds. It made changes in the governing statutes of the RTC and the Oversight Board, including the mandating of certain management enhancement goals to standardize procedures for conservatorships, develop a centralized system for managing securities, design standard due diligence practices, and establish procedures for valuing and tracking assets.

⁷ Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183

⁸ Resolution Trust Corporation Funding Act of 1991, Pub. L. No. 102-18, 105 Stat. 58

Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (RTCRRIA)⁹

On December 21, 1991, RTCRRIA became law. With enactment of this third piece of legislation, significant organizational changes were made to the structure of the thrift clean-up program. This Act provided the RTC with \$25 billion of funding until April 1, 1992; extended the RTC's ability to accept appointment as conservator or receiver from August 8, 1992, (set in FIRREA) to September 30, 1993; redesignated the Oversight Board as the Thrift Depositor Protection Oversight Board and restructured its membership; abolished the RTC Board of Directors; removed the FDIC as exclusive manager of the RTC; and created the Office of Chief Executive Officer of the RTC, requiring appointment to that office by the President with the advice and consent of the United States Senate. As of April 1, 1992, the RTC had used only \$6.7 billion of the loss funds provided; the remaining \$18.3 billion was returned to the U.S. Treasury.

Resolution Trust Corporation Completion Act (Completion Act)¹⁰

The RTC was limited in funding to resolve failed savings and loans after April 1, 1992. The December 17, 1993, enactment of the Completion Act authorized the RTC to resolve thrifts by using up to \$18.3 billion in funds remaining from the \$25 billion authorized under RTCRRIA.

The Completion Act also instituted 21 management reforms to achieve the following: (1) establish and maintain a comprehensive business plan; (2) market real property on an individual basis; (3) establish procedures for the disposition of real estate-related assets; (4) maintain a Division of Minority and Women's Programs; (5) appoint a Chief Financial Officer; (6) revise procedures for reviewing and qualifying applicants for eligibility for future contracts; (7) improve contracting systems and contractor oversight; (8) have the Oversight Board establish and maintain an Audit Committee; (9) respond to problems identified by auditors of the Corporation's financial and asset disposition operations; (10) appoint an Assistant General Counsel for Professional Liability; (11) maintain an effective management information system; (12) sustain effective internal controls against fraud, waste, and abuse; (13) achieve the appointment of certain officers by the RTC in compliance with this Act; (14) establish reporting requirements for the disclosure of expenditures and public disclosure of salaries; (15) ensure contract parity guidelines for minority- and women-owned businesses; (16) prescribe regulations that provide sanctions for contracting violations; (17) provide minority preference in the acquisition of institutions in predominantly minority neighborhoods; (18) establish reasonable goals for subcontracting with minority- and women-owned businesses; (19) maintain competitive bidding procedures while minimizing costs to the taxpayer and maximizing the total return to the Government; (20) improve the management of legal services; and (21) ensure that every regional office contains a client responsiveness unit.

The Completion Act included among its provisions an extension of the deadline for the RTC's appointment as conservator or receiver of savings associations from September 30, 1993,

⁹ Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991, Pub. L. No. 102-233, 105 Stat. 1761

¹⁰ Resolution Trust Corporation Completion Act, Pub. L. No. 103-204, 107 Stat. 2369 (1993)

to a date between December 31, 1994, and June 30, 1995, that was to be determined by the Chairperson of the Oversight Board. Secretary of the Treasury Lloyd Bentsen, the Oversight Board's Chairperson, determined on December 5, 1994, that the appointment deadline would extend through June 30, 1995.

Table A in the appendix summarizes the loss funds provided by each of the aforementioned legislative acts. It also reflects the amounts released to the RTC and the dates on which the transfers were approved.

PART III

The Resolution Process

By first reviewing the resolution process used by the RTC, it will be easier to understand how the use of loss funds is estimated. A review of the resolution process follows.

Customarily, the first phase of the resolution process was the appointment of the RTC as conservator of a failed thrift. This appointment was made by the Office of Thrift Supervision. The thrift continued operating during this phase, but at a significantly curtailed level and under the close on-site supervision of the RTC. Frequently, downsizing of failed thrifts occurred during the conservatorship phase.

The second phase began "the resolution" itself. This was the point at which the Federal Government fulfilled its commitment to protect insured deposits and maintain the viability of the deposit insurance system. Loss funds were said to be "used" at the point of resolution, even though actual losses had not been fully realized. The resolution process included several components: (1) disbursing funds to either insured depositors or a purchaser; (2) establishing a receivership and appointing the RTC receiver, with the receivership frequently retaining most non-deposit liabilities and many assets of the failed thrift; (3) estimating losses and periodically adjusting the estimate as assets were sold; and, finally, (4) terminating the receivership.

The initial estimate of loss is the cash spent, less the net estimated recovery value of the remaining assets. Actual losses, however, cannot be determined precisely until all assets in a given thrift are liquidated. Ultimately, actual losses will be realized in the process of resolving and terminating all 747 failed thrifts, and the necessity for estimating losses will be eliminated. Actual losses for the entire clean-up effort depend upon the following: (1) the cost of resolving all claims against failed thrifts, (2) the amount of all RTC non-interest expenses, (3) the actual value of recoveries on assets of the failed thrifts, and (4) the interest paid on funds borrowed from the Federal Financing Bank.

PART IV

RTC Expenses

The following summary of expenses for the RTC covers the period from inception through December 31, 1995. Most of these expenses were paid by the RTC and billed to receiverships or

paid directly by receiverships. Table 1 below summarizes the RTC's expenses by major categories. Table B in the appendix provides a detailed accounting of expenses, year-by-year, since inception. Table B builds upon a General Accounting Office report that provided nearly identical information for the period ending December 31, 1992.¹¹

TABLE 1

RTC Historical Expense Summary
Inception through December 31, 1995¹²
 (unaudited, rounded to the nearest \$ million)

<i>Compensation Expense</i>		\$ 2,369
Non-compensation Expenses:		
Contract Services, including:		
Legal Services	\$1,384	
Accounting and Auditing Fees	469	
Due Diligence, Asset Servicing, etc.	621	
Real Estate Commissions	338	
Asset Management Fees & Expenses	2,023	
Other Commissions & Fees	335	
All Other Contract Services	<u>3,169</u>	
		\$8,339
Travel and Transportation		247
Real Estate and Facilities		1,966
Equipment		403
Supplies and Materials		91
Other Expenses		<u>433</u>
<i>Total Non-compensation Expenses</i>		<u>\$11,479</u>
<i>Grand Total of All Expenses</i>		\$13,848

Most RTC expenses ultimately are recognized as costs incurred by its receiverships. In the financial statements of the RTC, these costs are reflected in the loss provisions booked against the RTC's claims on receiverships. The expenses comprise part of the difference between the balance the RTC is owed and the amount the RTC expects to recover from closing failed thrifts. Many expenses (compensation, for example) are initially paid by the RTC and billed to receiverships through an allocation process. Other expenses are paid directly out of receivership funds.

¹¹ United States General Accounting Office, Report to the President and Chief Executive Officer of the Resolution Trust Corporation, *Resolution Trust Corporation Status of Management Efforts to Control Costs*, B-254246, October 28, 1993.

¹² Resolution Trust Corporation, *Historical Expense Summary, 1989-1995*, (FDIC, May 21, 1996).

PART V**Estimated Loss Funds Used by the RTC**

The RTC's unaudited year-end 1995 financial data reflect a total of \$87.9 billion in estimated loss funds used for the entire clean-up.¹³ It is this figure that the Oversight Board staff will explain by using a formula that was designed to assist with this endeavor. The formula can be summarized as follows:

Outflow of Funds - Recoveries to Date - Net Expected Recoveries = Estimated Loss Funds Used

The formula incorporates data for the items listed below, and these data are examined to ascertain estimated loss funds used.

Outflow of Funds includes:

- (1) spending at resolution,
- (2) additional receivership disbursements,
- (3) corporate overhead,
- (4) Federal Financing Bank interest, and
- (5) other (net).

Recoveries to Date include:

- (1) dividends and preferred claims,
- (2) advances of principal and interest,
- (3) reimbursements for expenses billed to receiverships, and
- (4) Corporate-purchased asset receipts.

¹³ Resolution Trust Corporation, *1995 RTC Corporate Financial Statements and Footnotes (unaudited)*, (FDIC, April 16, 1996); *Sources and Uses of Cash, Inception through December 31, 1995*, (FDIC, March 21, 1996); and *Financial Statement Components of Estimated Loss Funds Used as of December 31, 1995*, (FDIC, March 21, 1996).

Net Expected Recoveries include:

- (1) net recoveries from receiverships to repay net Federal Financing Bank borrowings outstanding and
- (2) year-end 1995 loss adjustments.

Estimated Use of Loss Funds by the RTC for the Entire Clean-up

The RTC's use of loss funds from its inception through December 31, 1995, was reported to the staff of the Oversight Board to be \$87.9 billion.¹⁴ If the RTC's current estimates prove correct, \$3.4 billion of loss funds approved by the Oversight Board, by resolution, for transfer to the RTC will not be needed.¹⁵ The Oversight Board staff's loss funds calculation follows in Table 2.

¹⁴ Ibid.

¹⁵ Prior to December 31, 1997, the Secretary of the Treasury shall provide to the Savings Association Insurance Fund (SAIF), from appropriations not spent or needed by the RTC, such amounts as are needed by SAIF, subject to certain certifications by the Chairman of the FDIC's Board of Directors. 12 U.S.C. 1821 (a)(6)(F). All RTC appropriations not needed to carry out the purposes of 12 U.S.C. 1441a or for SAIF shall be deposited in the general fund of the U.S. Treasury. 12 U.S.C. 1441a(i)(5).

TABLE 2

**December 31, 1995, Estimate of Total Loss Funds
Used by the RTC for the Entire Clean-up**

(unaudited, in \$ billions)

Outflow of Funds, \$226.9 billion; minus *Recoveries to Date*, \$126.2 billion; minus *Expected Recoveries*, \$12.6 billion; equals *Estimated Loss Funds Used*, \$87.9 billion.¹⁶

Outflow of Funds:

Spending at Resolution		\$206.0	
Additional Receivership Disbursements		11.6	
Corporate Overhead		.3	
Federal Financing Bank Interest		10.2	
Other (net):			
Interest on Conservatorship Advances	(.9)		
Other Reimbursements	(.6)		
Disbursements for Corporate-Purchased Assets	.1		
Other Disbursements	<u>.2</u>		
		<u>(1.2)</u>	
Total Outflow of Funds:			\$226.9

Minus Recoveries to Date:

Dividends and Preferred Claims		\$82.9	
Advances of Principal and Interest		38.2	
Reimbursements for Expenses Billed to Receiverships		4.6	
Corporate-Purchased Asset Receipts		<u>.5</u>	
			\$126.2

Minus Net Expected Recoveries:

Net Recoveries from Receiverships to Repay Net			
Federal Financing Bank Borrowings Outstanding		10.5	
Year-end 1995 Loss Adjustments		<u>2.1¹⁷</u>	
			\$ 12.6

Equals Estimated Loss Funds Used: **\$ 87.9¹⁸**

¹⁶ The difference is due to rounding.

¹⁷ The RTC's unaudited financial data as of December 31, 1995 reflect adjustments that result in a net year-end reduction of \$2.1 billion in loss funds used. These adjustments are discussed later in this presentation.

¹⁸ The difference is due to rounding.

The following discussion tracks the preceding loss funds calculation and provides greater detail about each of the components in the formula.

The *Outflow of Funds*, totaling \$226.9 billion, is comprised of the following categories:

- *Spending at Resolution*, \$206.0 billion, includes funds provided to pay off or transfer insured deposits in the amount estimated on the date of resolution plus RTC advances transferred from conservatorships to receiverships at resolution.
- *Additional Receivership Disbursements*, \$11.6 billion, include \$5.5 billion in advances to receiverships plus \$6.1 billion in expenses paid by the RTC and billed to receiverships.
- *Corporate Overhead*, \$.3 billion, includes expenditures not allocated or charged to receiverships.
- *Federal Financing Bank Interest*, \$10.2 billion, includes the interest charged by the Federal Financing Bank to the RTC for the use of funds.
- *Other (net)*, total of negative \$1.2 billion, includes four subcategories: (1) \$.9 billion of Interest received on Conservatorship Advances; (2) \$.6 billion of Other Reimbursements; (3) \$.1 billion of Disbursements for Corporate-Purchased Assets; and (4) \$.2 billion of Other Disbursements. The sum of these is a negative \$1.2 billion.

For the purposes of this loss funds calculation, net *Recoveries to Date* are subtracted from the total *Outflow of Funds*. *Recoveries to Date*, totaling \$126.2 billion, are comprised of the following categories:

- *Dividends and Preferred Claims*, \$82.9 billion, represent the repayment of depositor and other RTC claims against the receiverships.
- *Advances of Principal and Interest*, \$38.2 billion, include the repayment of funds (with interest) advanced by the RTC to receiverships (including advances transferred from conservatorships).
- *Reimbursements for Expenses Billed to Receiverships*, \$4.6 billion, include the repayment of expenses billed by the RTC for operating the receiverships. (The repayment of claims billed for expenses does not mean that the expenses do not contribute to RTC total losses. It simply results in fewer funds available to return to the RTC as dividends.)
- *Corporate-Purchased Asset Receipts*, \$.5 billion, include sales of RTC assets purchased from receiverships. (Assets are purchased by RTC Corporate in order to facilitate termination of a receivership -- a receivership cannot terminate until all assets are sold and liabilities paid.)

Net Expected Recoveries, totaling \$12.6 billion, are comprised of the following categories:

- o *Net Recoveries from Receiverships to Repay Net Federal Financing Bank Borrowings Outstanding*, \$10.5 billion, reflect estimated recoveries from asset liquidations that will be used to repay the amount of borrowed Federal Financing Bank funds remaining as of December 31, 1995. (This liability was transferred to the FSLIC Resolution Fund when the RTC closed.)
- o *Year-end 1995 Loss Adjustments*, \$2.1 billion, reflect additional expected net recoveries above Federal Financing Bank borrowings outstanding.

To summarize, the \$87.9¹⁹ billion of *Estimated Loss Funds Used* at the December 31, 1995, closure of the RTC is the net result of deducting \$126.2 billion of *Recoveries to Date* and \$12.6 billion of *Expected Recoveries* from the total \$226.9 billion *Outflow of Funds*.

**Realized Losses as of December 31, 1995, and
Projected Losses to be Realized after December 31, 1995**

The \$87.9 billion estimate of loss funds used by the RTC includes estimated losses to be realized and expenses to be incurred for the completion of all post-1995 asset disposition activities and other work necessary to fulfill the RTC's legislative mandate. These unrealized losses and expenses are estimated to be \$6.6 billion. Simply deducting \$6.6 billion from \$87.9 billion results in the \$81.3 billion of losses realized and expenses incurred by the RTC through December 31, 1995. Although total losses are not expected to change in any significant way, the \$87.9 billion overall loss figure would change if actual losses and expenses after December 31, 1995, prove to be lower or higher than the \$6.6 billion estimate. This concept is explained in greater detail in Table 3 below.

¹⁹ The difference is due to rounding.

TABLE 3

**Estimated Use of Realized and Unrealized Loss Funds Used by the RTC
Inception through December 31, 1995, and Post-1995²⁰**
(unaudited, \$ billions)

<u>Cumulative Losses Realized through 12/31/95:</u>	
Losses from Receiverships	<u>\$72.2</u>
<i>Total Cumulative Losses Realized through 12/31/95:</i>	\$72.2
<u>Cumulative Expenses (Revenues) Realized through 12/31/95:</u>	
Interest Revenue from Receiverships and Conservatorships ²¹	(\$5.4)
Interest Expense on Amounts Due Receiverships ²²	4.2
Federal Financing Bank Interest Expense	10.2
Administrative Operating/Other Expenses	0.4
Other Interest Income and Revenue ²³	<u>(0.3)</u>
<i>Total Cumulative Expenses (Revenues) Realized through 12/31/95:</i>	<u>\$9.1</u>
ESTIMATED USE OF REALIZED LOSS FUNDS	\$81.3
ESTIMATED USE OF UNREALIZED LOSS FUNDS, POST-1995	<u>\$6.6</u>²⁴
TOTAL ESTIMATED USE OF REALIZED AND UNREALIZED LOSS FUNDS BY THE RTC	\$87.9

²⁰ Resolution Trust Corporation, *Components of Estimated Loss Funds Used as of December 31, 1995*, (FDIC, March 22, 1996).

²¹ Interest revenue from receiverships and conservatorships is attributed primarily to advances made by the Corporation. However, these revenues have little net effect on loss funds used. This is because the RTC is by far the largest creditor of its receiverships, and the revenue accruals increase the RTC's total claims against the failed thrifts and the estimated losses on total claims by nearly the same amount.

²² Receivership assets were sold to the acquirer as part of the RTC's settlement at the time of resolution. This resulted in the RTC temporarily owing money to the receivership and interest accruing on the amount owed. However, these expenses have little effect on loss funds used. This is because the RTC is by far the largest creditor of its receiverships, and the interest owed to the receiverships reduces the estimated losses on the RTC's claim against these institutions by nearly the same amount.

²³ This reflects: (1) interest income and other revenue from Corporate-purchased assets, (2) the accounting impact of the RTC Inspector General's financial statement being consolidated into the RTC financial statement, and (3) miscellaneous other income. For example, these three categories in 1995 were approximately \$35 million, \$30 million, and \$30 million, respectively.

²⁴ This includes all projected future expenses and revenues, including losses from receiverships, Corporate-purchased assets, Corporate litigation, and interest.

Estimate of the RTC's Use of Loss Funds Provided by the Completion Act

The Completion Act provided \$18.3 billion of loss funds (of which \$8.3 billion was subject to certain restrictions). After enactment, the Oversight Board requested funds on behalf of the RTC, and the Secretary of the Treasury issued a warrant placing \$10 billion of the Completion Act appropriation under the control of the Oversight Board.

In 1993 and 1995, the Oversight Board, by two resolutions, approved the release of a total of \$4.6 billion²⁵ to the RTC. When the RTC closed, the unspent balance of \$5.4 billion²⁶ was returned by the Oversight Board to an account at the U.S. Treasury under the control of the Secretary.²⁷

While only estimates of losses are available from the RTC, it is possible to evaluate the sources and uses of loss funds for 1994 and 1995 in order to account for the RTC's use of loss funds appropriated by the Completion Act. A review of these sources and uses of funds indicates that a total of \$1.2 billion of estimated loss funds provided by the Completion Act was used by the RTC. The results are summarized below in Table 4, and additional details regarding the sources and uses of loss funds in 1994 and 1995 are contained in Table C in the appendix.

TABLE 4
RTC's Estimated Use of Loss Funds Provided by the Completion Act
December 17, 1993, through December 31, 1995
 (unaudited, in \$ billions)

Completion Act Loss Funds Approved by the Oversight Board, by Resolution on December 17, 1993, for Release to the RTC	\$4.0
Completion Act Loss Funds Approved by the Oversight Board, by Resolution on October 18, 1995, for Release to the RTC	<u>.6</u> ²⁸
<i>Total Completion Act Loss Funds Approved by the Oversight Board for Release to the RTC</i>	\$4.6
Loss Funds Transferred by the Oversight Board, but Unused by the RTC, Carried Forward and Available to Cover Post-1995 Contingencies or Unexpected Losses	(\$3.4)
<i>RTC's Estimated Use of Loss Funds Provided by the Completion Act, December 17, 1993, through December 31, 1995</i>	\$1.2

²⁵ The exact amount released to the RTC by the Oversight Board was \$4.556 billion.

²⁶ \$5.444 billion was the actual amount returned by the Oversight Board to an account in the U.S. Treasury under the control of the Secretary.

²⁷ See footnote number 15.

²⁸ This is rounded from \$556 million.

The RTC received total loss funds of \$86.8 billion from inception through enactment of the Completion Act on December 17, 1993. Based on audited 1993 financial statements, the RTC estimated that it had used \$81.9 billion of loss funds through December 31, 1993. This resulted in \$4.9 billion of unused loss funds being carried forward into 1994 from pre-Completion Act appropriations.²⁹

By resolution on December 17, 1993, the Oversight Board approved the release to the RTC of \$4 billion out of the \$18.3 billion in loss funds provided by the Completion Act. This increased the RTC's unutilized loss funds to a total of \$8.9 billion in 1994.

The RTC resolved 64 failed thrifts in 1994. Based on audited 1994 financial statements, the RTC used an additional \$7.9 billion of loss funds. As a result, the RTC carried forward \$1.0 billion of unutilized loss funds into 1995.³⁰

In 1995, the RTC resolved the three remaining failed thrifts under its control, for a preliminary cost of \$0.3 billion. In September and October 1995, the Oversight Board considered a request from the Acting Chief Executive Officer of the RTC that additional loss funds be released to the RTC to cover a potential shortfall in reserves. The joint FDIC/RTC Task Force on RTC Reserves and Contingency Funding (Task Force) reported that existing reserves were likely to be sufficient under a wide range of circumstances, but a combination of adverse economic and non-economic changes could alter this situation so that reserves would not be sufficient. The Task Force's analysis indicated that \$556 million of additional funds, even using pessimistic assumptions, would cover the potential shortfall.³¹

On October 18, 1995, after thoroughly reviewing the Task Force's report and receiving assurances from the FDIC staff that it would provide regular information to the FDIC Board on its progress in disposing of the remaining RTC assets and obligations (including the comparison of the results with estimates made in the baseline scenario that was prepared by the Task Force³²), the Oversight Board, by resolution, approved the transfer of an additional \$556 million in loss funds provided by the Completion Act.

²⁹ Resolution Trust Corporation, *1993 Annual Report*, pp 69, 70, and 75, (RTC, September 30, 1994). Estimated loss funds used are calculated as the accumulated deficit minus the sum of estimated cost of unresolved cases and the allowance for losses on conservatorship advance.

³⁰ Resolution Trust Corporation, *1994 Annual Report*, pp 80, 81, and 86, (RTC, August 31, 1995). See footnote number 29 for method of calculation.

³¹ Federal Deposit Insurance Corporation and Resolution Trust Corporation, *Report of Task Force on RTC Reserves and Contingency Funding*, (FDIC and RTC, October 12, 1995).

³² FDIC and RTC memorandum, *Summary of September 18, 1995, Oversight Board Discussion*, p 5, (FDIC and RTC, October 12, 1995).

Prior to the year-end 1995 adjustments mentioned below, the RTC used a total of \$3.3 billion in estimated loss funds provided by the Completion Act. This left \$1.3³³ billion of loss funds advanced by the Oversight Board to the RTC, but unused.

Subsequent to December 31, 1995, the RTC's unaudited financial data as of December 31, 1995, were provided to the Oversight Board. The data showed that net positive year-end adjustments totaling approximately \$2.1 billion were made to its calculation of loss funds used. These adjustments were made known to the Oversight Board after the RTC's books for December 31, 1995, were closed in the first quarter of 1996.

After adding net year-end 1995 adjustments totaling \$2.1 billion to the \$1.3 billion of remaining Completion Act funds, loss funds of \$3.4 billion transferred by the Oversight Board, but unused by the RTC, were carried forward. After taking into account the year-end adjustments, the RTC used a net of \$1.2 billion of Completion Act loss funds. Any appropriated loss funds not used for post-1995 contingencies or unexpected losses will be returned to the U.S. Treasury, unless used by the Savings Association Insurance Fund under the provisions of the Completion Act.

The RTC had an outstanding principal balance of approximately \$10.5 billion from the Federal Financing Bank as of December 31, 1995.³⁴ RTC also had total assets in liquidation with a book value of \$7.7 billion plus \$12.8 billion in cash, investments (including restricted investments), and accounts receivable accumulated by receiverships.

CONCLUSION

The RTC was created at a time when the condition of a substantial portion of the nation's financial system had been deteriorating for nearly a decade. By 1989, the imminent failure of the thrift industry could not be ignored, as it became clear that a large number of thrifts with billions of dollars in assets were, or soon would be, insolvent and needed to be sold or liquidated.

The RTC faced a monumental task, but despite the adversity, it met the challenge of beginning the task with limited time to complete its mission and very few procedures and safeguards in place. The management and staff of the RTC and Oversight Board, as well as the advisors, professionals, and contractors associated with resolving the thrift crisis, are commended for successfully completing a mission of this magnitude in such a short time.

³³ The difference is due to rounding.

³⁴ As reported by the Federal Deposit Insurance Corporation Division of Finance in a letter dated March 7, 1996, the Resolution Trust Corporation had an outstanding principal balance of \$10,471,000,000.

As of December 31, 1995, just six years and four months after the first thrift crisis legislation became law, the RTC had:

- o made good on the Federal Government's pledge of deposit insurance to millions of Americans by resolving all 747 thrifts under its jurisdiction and protecting over 25 million insured deposit accounts;
- o recovered \$397 billion for taxpayers by disposing of \$458 billion book value of the assets for which it was responsible;
- o designed effective computerized management information and financial systems;
- o created and implemented comprehensive internal controls that could serve as a model for other government agencies;
- o developed contracting procedures and manuals; and
- o helped restore the savings and loan industry to health, as evidenced by the 91 percent of privately held thrift institutions that were operating profitably by the end of 1995.

Notwithstanding the important accomplishments mentioned above, the RTC's most notable achievement was completing its mission quickly while keeping the cost to the taxpayers below what had been estimated.

Nearly one year into the RTC's existence, Secretary of the Treasury Nicholas Brady testified on behalf of the Oversight Board and stated, "Taking into account all of the uncertainty and all of the variables, it appears that the cost of resolving institutions which are likely to come under the control of the RTC will be in the approximate range of \$90 billion to \$130 billion."³⁵ At nearly the same time, the Congressional Budget Office's estimate of losses was \$185 billion.³⁶

The \$87.9 billion of estimated loss funds used by the RTC is well below these estimates. It also is \$3.4 billion less than the total \$91.3 billion of loss funds released to the RTC. As previously stated, if the RTC's estimated use of loss funds for the entire clean-up proves correct, \$3.4 billion of loss funds approved by the Oversight Board, by resolution, for transfer to the RTC will be returned to the U.S. Treasury.³⁷

³⁵ Statement of Secretary Nicholas F. Brady on Behalf of the Oversight Board of the Resolution Trust Corporation before the House Committee on Banking, Finance, and Urban Affairs, (June 14, 1990). The amounts mentioned by Secretary Brady were stated in net present value terms.

³⁶ Briefing Paper on the Operation and Performance of the Resolution Trust Corporation, Henry B. Gonzalez, Chairman, Banking, Finance, and Urban Affairs Committee, December 5, 1990, at page 340, presented at the Oversight of the Resolution Trust Corporation hearing before the House Committee on Banking, Finance, and Urban Affairs, 101st Cong., 2d Sess., December 5 and 6, 1990.

³⁷ See footnote number 15.

APPENDIX TABLE A

LOSS FUNDS PROVIDED

<u>Legislation</u>	<u>Public Law</u>	<u>Amount (\$Billions)</u>
Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)	101-73	\$ 50.1 ¹
RTC Funding Act of 1991	102-18	30.0
RTC Refinancing, Restructuring, and Improvement Act of 1991	102-233	25.0
(deappropriation)		(18.3)
RTC Completion Act	103-204	<u>18.3</u>
<i>Total Loss Funds Provided</i>		\$105.1

LOSS FUNDS RELEASED TO THE RTC

<u>Date Transfer Approved</u>	<u>Amount Released (\$Billions)</u>
August 1989 ²	\$ 50.1
February 20, 1991	30.0
October 7, 1991	25.0
deappropriation, April 30, 1992	(18.3)
December 17, 1993 ³	4.0
October 18, 1995 ⁴	<u>0.6</u>
<i>Total Loss Funds Released</i>	\$ 91.3 ⁵

¹ FIRREA provided \$18.8 billion by appropriation and \$31.3 billion through the Resolution Funding Corporation.

² The funds raised by the Resolution Funding Corporation were borrowed by the RTC in 1990 and 1991.

³ The RTC Completion Act provided \$18.3 billion of loss funds, of which \$8.3 billion was subject to certain restrictions. After enactment, the Oversight Board requested funds on behalf of the RTC, and the Secretary of the Treasury issued a warrant placing \$10 billion of the Completion Act appropriation under the control of the Oversight Board. In 1993 and 1995, the Oversight Board, by resolution, approved two transfers to the RTC totaling \$4.6 billion.

⁴ Ibid.

⁵ The difference is due to rounding.

APPENDIX TABLE B

(Page 1 of 2)

RTC Historical Administrative Expense Summary Inception through December 31, 1995^{1,2}

CATEGORY	1989 & 1990	1991	1992	1993	1994	1995	TOTALS
Compensation by Function							
Resolutions	\$9,970,850	\$27,366,178	\$30,200,883	\$7,221,882	\$5,629,099	\$1,078,514	\$81,467,406
Asset Management & Sales	166,688,336	208,306,777	184,894,184	147,806,178	138,137,317	97,141,453	942,974,245
Legal Services	29,601,943	77,399,631	105,420,423	109,215,872	114,792,780	103,694,021	540,124,670
Financial Services	392,259	23,053,035	54,783,347	59,319,973	62,676,445	56,779,736	257,004,795
Corporate Support	27,755,764	72,125,113	105,407,146	108,456,172	118,982,815	114,909,111	547,636,121
Total Compensation Expense	\$234,409,152	\$408,250,734	\$480,705,983	\$432,020,077	\$440,218,456	\$373,602,835	\$2,369,207,237
Non-Compensation by Line Item							
Contract Services							
Legal Services	\$49,823,533	\$280,601,583	\$315,115,440	\$366,440,887	\$224,511,328	\$147,957,241	\$1,384,450,012
Accounting and Auditing Fees	7,931,234	68,289,496	87,530,696	122,166,696	106,438,031	76,996,250	469,352,403
System Analysis Fees	3,490,153	40,454,101	82,187,103	57,774,469	33,110,889	25,371,755	242,388,470
Due Diligence, Asset Servicing & Tech Services	NA	NA	27,611,080	178,530,775	243,370,720	171,766,947	621,279,522
Temporary Services	189,713	85,120	15,472,781	61,004,601	82,426,058	62,306,365	221,484,638
Real Estate Commissions	18,719,352	76,313,557	115,512,385	78,159,204	36,766,207	12,922,394	338,393,099
Collection & Repossession Fees	17,471,999	48,499,751	51,668,790	4,898,893	2,441,745	977,461	125,958,639
Appraisal Fees	15,674,161	36,934,938	33,473,936	10,413,707	3,515,464	2,576,213	102,588,419
Management Fees - Non-SAMDA	41,302,158	104,147,248	133,954,840	35,308,255	8,069,402	8,940,574	331,722,477
Auction Fees	NA	NA	2,703,034	11,540,596	6,519,833	4,820,474	25,583,937
Leasing Commissions, Court & Bank Fees	2,327,502	20,576,985	23,379,669	13,718,472	8,857,177	9,828,627	78,688,432
Other Commissions & Fees	5,078,740	19,608,266	59,703,162	82,435,505	120,645,867	47,737,566	335,209,106
Advertising Expenses	4,470,047	17,407,312	26,172,003	17,016,675	12,801,137	8,566,948	86,434,122
SAMDA Fees & Expenses	125,826	93,216,505	286,412,746	645,461,291	428,394,977	237,172,400	1,690,783,745
Other Contractual Services	144,262,120	380,130,194	395,096,455	94,463,743	32,845,191	26,945,023	1,073,742,726
Other Professional Services	43,482,774	231,604,502	516,932,525	234,304,404	118,974,275	66,244,289	1,211,542,769
Sub-total Contract Services	\$354,349,312	\$1,417,869,558	\$2,172,926,645	\$2,013,638,173	\$1,469,688,301	\$911,130,527	\$8,339,602,516
Travel							
Travel & Transportation	\$41,598,385	\$51,968,965	\$56,405,182	\$47,549,783	\$31,918,538	\$17,992,569	\$247,433,422
Sub-total Travel	\$41,598,385	\$51,968,965	\$56,405,182	\$47,549,783	\$31,918,538	\$17,992,569	\$247,433,422

¹ Resolution Trust Corporation, *Historical Expense Summary, 1989-1995*, (FDIC, May 21, 1996).

² Statistics for 1989 and 1990 are combined because the RTC's systems at that time did not segregate the data. All other statistics are provided on a year-by-year basis. Presentation of these data is in the format specified by staff of the Thrift Depositor Protection Oversight Board. Compliance with the specified format required some adjustments in an attempt to normalize the data, particularly data for earlier periods. Data normalization was necessitated by changes in the RTC organizational structure, account detail, and changes in business strategies. As a result of this normalization, the data in this presentation may not match reports of expenses from years past.

APPENDIX TABLE B

(Page 2 of 2)

RTC Historical Administrative Expense Summary Inception through December 31, 1995

CATEGORY	1989 & 1990	1991	1992	1993	1994	1995	TOTALS
Real Estate & Facilities							
Real Estate Property Taxes	\$61,426,402	\$223,485,619	\$218,508,210	\$132,425,341	\$54,359,218	\$39,356,161	\$729,560,951
Maintenance & Repairs	25,506,850	65,083,197	78,179,513	24,083,860	8,127,639	3,064,806	204,045,865
Clean'g/Grounds/Security/Envir'tl Assessments	10,928,890	42,673,361	50,938,169	19,580,893	9,393,850	4,750,340	138,265,503
Utilities	17,271,315	56,055,984	63,199,169	14,574,548	4,774,812	1,309,633	157,185,461
Other Facilities Operating Expenses	71,343,157	79,617,541	142,767,136	30,190,216	8,971,555	336,772	333,226,377
Condo, Homeowners, Architect Fees	699,550	2,539,993	4,573,706	6,797,839	5,293,878	5,230,694	25,135,660
Leased Space Expenses	30,255,080	72,970,770	85,340,863	79,365,389	58,497,159	51,645,493	378,104,754
Sub-total Real Estate & Facilities	\$217,461,244	\$542,426,465	\$643,506,766	\$307,018,086	\$149,418,111	\$105,693,899	\$1,965,524,571
Equipment							
Furniture/Fixtures/Equip - Pur/Rent/Maint.	\$13,034,510	830,818,741	\$29,049,795	\$12,709,233	\$10,607,485	\$5,258,946	\$101,478,710
Computer Equipment, Teleprocessing	49,304,857	90,564,612	83,464,480	35,116,802	29,367,099	13,338,614	301,156,464
Sub-total Equipment	\$62,339,367	\$121,383,353	\$112,514,275	\$47,826,035	\$39,974,584	\$18,597,560	\$402,635,174
Supplies							
Supplies & Materials	\$9,978,885	\$23,040,479	\$22,434,402	\$13,770,598	\$13,060,930	\$8,749,273	\$91,034,567
Sub-total Supplies	\$9,978,885	\$23,040,479	\$22,434,402	\$13,770,598	\$13,060,930	\$8,749,273	\$91,034,567
Other Expenses							
Insurance	\$14,714,697	\$49,301,927	\$36,039,690	\$5,550,595	\$14,539,361	\$6,748,102	\$126,894,372
Communications & Postage	13,185,281	39,652,619	36,567,527	23,677,415	21,662,874	13,668,027	148,413,743
Business Taxes, Membership, Conf., etc	1,710,831	3,048,919	10,762,811	9,801,500	17,545,021	5,322,625	48,191,707
Other Expenses	(3,083)	15,654	5,589,121	53,505,129	39,608,221	10,743,726	109,458,768
Sub-total Other Expenses	\$29,607,726	\$92,019,119	\$88,959,149	\$92,534,639	\$93,355,477	\$36,482,480	\$432,958,590
Total Non-Compensation Expense	\$715,334,919	\$2,248,707,939	\$3,096,746,419	\$2,522,337,314	\$1,797,415,941	\$1,098,646,308	\$11,479,188,840
Grand Total	\$949,744,071	\$2,656,958,673	\$3,577,452,402	\$2,954,357,391	\$2,237,634,397	\$1,472,249,143	\$13,848,396,077

APPENDIX TABLE C

RTC Sources and Uses of Estimated Loss Funds January 1, 1994, through December 31, 1995¹ (unaudited, in \$ billions)

Loss funds received, inception through December 31, 1993	\$86.8	
Estimated loss funds used, inception through December 31, 1993	(81.9)	
Net estimated loss funds carried forward to 1994	\$ 4.9	
Completion Act loss funds received from the Oversight Board on January 5, 1994	4.0	
Estimated loss funds used in 1994 ²	(7.9)	
Net estimated loss funds carried forward to 1995		\$ 1.0
Completion Act loss funds received from the Oversight Board on October 25, 1995 ³		0.6
Net reversal of loss funds used in 1995 ⁴		<u>1.8</u>
Net estimated loss funds carried forward to cover unrealized losses & expenses		\$ 3.4

¹ Resolution Trust Corporation, *1993 Annual Report*, pp 69, 70, and 75, (RTC, September 30, 1994); *1994 Annual Report*, pp 80, 81, and 86, (RTC, August 31, 1995); and *1995 RTC Corporate Financial Statements and Footnotes (unaudited)*, (FDIC, April 16, 1996).

² This includes the cost of resolutions in 1994, net of adjustments made to the cost of all resolutions between the 1993 and 1994 audited financial statements.

³ Rounded up from actual release of \$556 million.

⁴ The \$1.8 billion net reversal of loss funds used in 1995 is the result of \$0.3 billion in estimated loss funds used in 1995 being offset by an approximate net positive \$2.1 billion year-end 1995 valuation adjustment to estimated loss funds used. The net adjustment primarily is attributed to estimates of fewer losses for such items as Securitization Reserve Funds; G&A, OIG, and Operating Expense Reserves; and Representations and Warranties for asset disposition activities.

PART II:

THE 1995 ANNUAL REPORT

OF THE

RESOLUTION TRUST CORPORATION

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CHIEF EXECUTIVE OFFICER'S STATEMENT

In 1995, the Resolution Trust Corporation (RTC) finished a mission that by any standard would be considered extraordinary. Created in August of 1989 to resolve the savings and loan crisis, the RTC, in just six-and-a-half years, resolved 747 failed thrifts, liquidated nearly half a trillion dollars in assets, and protected 25 million depositor accounts. This job was finished a year ahead of the originally projected deadline.

The RTC's task was not easy. Many of the institutions it resolved had scores of branches; the institutions varied in their accounting systems and methods of operation; and describing the RTC's asset inventory as eclectic would be an understatement. Yet, in spite of these challenges, the RTC resolved both large and small thrifts across the country while marketing assets that ranged from multimillion dollar pools of loans to small-dollar items. Sales techniques ran the gamut from national auctions to sophisticated equity partnerships to individual sales. In the end, the RTC succeeded in liquidating all but \$8 billion of its inventory and achieved an average recovery rate of 87 cents on the dollar for assets sold.

The RTC was a unique operation: a temporary agency staffed primarily by temporary employees, many of them from the private sector. Professionals with a wide range of skills -- real estate experts, financial experts, and accountants, to name only a few -- came together to get the job done. Whether it was building a nationwide computer system to track real estate information or finding ways to market land with environmental hazards, RTC employees often pioneered new approaches to solving problems. Many of those ideas will be preserved by the Federal Deposit Insurance Corporation (FDIC) in 1996 and beyond.

The RTC spent most of 1995 bringing its mission to an orderly conclusion. The last thrift in the inventory was resolved and the \$25 billion asset portfolio with which we started the year was reduced to \$8 billion by yearend. Much of the year was devoted to completing the FDIC/RTC transition, a process that involved transferring remaining permanent staff and the remaining assets and operations to the FDIC. An extensive review of RTC practices and automated systems was also conducted, resulting in the recommendation that 50 RTC practices and 49 RTC automated systems be preserved by the FDIC for future use. With these operations completed, on December 31, 1995, the RTC closed its doors and went out of business.

Now that the RTC's mission is truly over, many observers, scholars, and journalists will review its performance in the years to come. However, one chapter of the RTC that may elude the spotlight is the hard work and dedication of its staff. At the outset,

employees faced numerous obstacles in meeting an admittedly difficult mandate. There were few precedents when they began their work; policies and procedures had to be developed in tandem with doing the work itself. Yet, looking back, many employees describe their experiences at the RTC as the opportunity of a lifetime. Their commitment to the taxpayers and depositors, often in the face of criticism, deserves a special mention here.

John E. Ryan
Deputy and Acting Chief Executive Officer
December 28, 1995

INTRODUCTION

In less than six-and-a-half years, 747 failed savings and loans across the country were resolved by the Resolution Trust Corporation (RTC)--most sold to healthy financial institutions--without one account holder losing a cent of federally insured deposits. More than \$450 billion (book value) in thrift assets were liquidated by the RTC during its lifetime. And, as a result of the RTC's aggressive pursuit of wrongdoers, many of those culpable for the thrifts' failures, through negligence or fraud, were brought to justice and ordered to pay millions in restitution.

During the 1980s, a record number of S&Ls around the country had begun spiraling toward collapse, threatening serious financial problems for the United States. With passage of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), Congress created the RTC on August 9, 1989, to resolve the crisis in the thrift industry. On December 31, 1995, its mission largely completed, the RTC shut its doors. All remaining assets and liabilities were transferred to the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, which is managed by the Federal Deposit Insurance Corporation (FDIC).

During its short life, the RTC was faced with one of the most difficult cleanup jobs ever undertaken by the government or the private sector.

One RTC mandate was to manage and sell failed S&Ls that had been insured by FSLIC and for which a conservator or receiver was appointed from January 1, 1989, through June 30, 1995.

When 1995 began, only one conservatorship thrift remained, which the RTC resolved during the year. Two troubled institutions never placed in conservatorship were also sold by the RTC in 1995, bringing the total number of resolutions to 747. This included 706 conservatorship institutions, plus 41 troubled thrifts never placed in conservatorship, 39 of which were resolved through the Accelerated Resolutions Program. The day the RTC opened for business in August 1989, it took over 262 failed thrifts that had been placed in conservatorship by federal regulators before the enactment of FIRREA.

FIRREA and subsequent legislation directed the RTC to lend assistance, under certain circumstances, to minority investors interested in purchasing failed thrifts. These included S&Ls previously owned by like minorities, and thrifts--or thrifts with branches--located in predominantly minority neighborhoods.

Along with the failed thrifts, the RTC acquired a sizable and diverse inventory of their assets, ranging from golf club resorts to mortgage loans to artwork. FIRREA directed the RTC to recover funds by managing and disposing of these assets, while maximizing the assets' return and minimizing the transactions' impact on local real estate and financial markets. At the same time, FIRREA required the RTC to maximize the availability and affordability of residential real property for low- and moderate-income individuals.

Faced with this formidable sales challenge, the RTC drew from its arsenal of innovative sales methods to recover money for taxpayers. Securitizations, equity partnerships with private sector firms, open-cry auctions, and whole loan sales were but a few of the sales strategies the RTC employed to maximize returns on its enormous volume of assets. As Congress intended, the RTC relied heavily on private sector contractors to support its asset management and sales efforts, and became one of the largest contracting organizations in the United States.

By the dawn of 1995, the bulk of the RTC's more attractive assets had been sold. What remained were "hard-to-sell" assets, such as non-performing loans. Still, relying on its tried and true sales methods, the RTC achieved \$12.5 billion (net of putbacks) in asset sales and collections during 1995, bringing total recoveries through asset sales and collections to almost \$400 billion (net of putbacks). At sunset, the FDIC assumed responsibility through its FSLIC Resolution Fund for disposition of the RTC's remaining inventory of assets in liquidation, totaling \$7.7 billion.

The legal pursuit of wrongdoers responsible for the thrifts' failures was of paramount importance to the RTC, and another of the RTC's mandates. Thrift directors and officers, attorneys, accountants, appraisers, brokers and dealers, and other professionals who operated outside of the law, ultimately bringing down the thrifts, were among those the RTC aggressively sought. During its lifetime, the RTC collected over \$2.4 billion from professional liability settlements and judgments. After the RTC shut its doors, the FDIC's legal team took over the effort to pursue wrongdoing and civil fraud at failed institutions.

Among several important pieces of legislation enacted following FIRREA impacting on the RTC were the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991; and the RTC Completion Act of 1993.

The RTC Refinancing, Restructuring, and Improvement Act of 1991 provided the RTC with \$25 billion in funding through April 1, 1992; extended the RTC's ability to

accept appointment as conservator or receiver from August 9, 1992, set forth in FIRREA, to September 30, 1993; redesignated the RTC Oversight Board as the Thrift Depositor Protection Oversight Board and restructured its membership; abolished the RTC Board of Directors and removed the FDIC as exclusive manager of the RTC; and created the Office of the Chief Executive Officer of the RTC, requiring appointment to that office by the President with the advice and consent of the Senate.

The RTC was without funds to resolve failed savings and loans from April 1, 1992, through December 17, 1993. With the December 17, 1993, enactment of the RTC Completion Act, the April 1, 1992, limitation on funds previously established under the RTC Refinancing, Restructuring, and Improvement Act of 1991 was lifted. The RTC was authorized to use up to \$18.3 billion--funds remaining from the \$25 billion authorized under the 1991 act--to resolve failed thrifts.

Among the RTC Completion Act's provisions was extending the deadline for the RTC's appointment as conservator or receiver of savings associations from September 30, 1993, to a date between January 1 and July 1, 1995, to be determined by the Chairman of the Thrift Depositor Protection Oversight Board. Former Secretary of the Treasury Lloyd Bentsen, the board's then-Chairman, determined on December 5, 1994, that the appointment deadline would extend through June 30, 1995.

The RTC Completion Act also shortened the RTC's existence by at least one year; the new termination date for the RTC was to be no later than December 31, 1995. Other provisions were the expansion of the RTC's minority and women's programs and affordable housing responsibilities, and implementation of numerous management reforms.

The FDIC/RTC Transition Task Force was established pursuant to the RTC Completion Act to ensure the orderly transfer of systems and personnel to the FDIC at the RTC's sunset. The FDIC was represented by John F. Bovenzi, Director, Division of Depositor and Asset Services, and Dennis F. Geer, Deputy to the Chairman and Chief Operating Officer. The RTC was represented most recently by Erica F. Cooper, Deputy General Counsel for Corporate Operations, and Barry S. Kolatch, Vice President for Planning, Research, and Statistics.¹

¹ Mr. Kolatch replaced John E. Ryan, Deputy and Acting CEO of the RTC, as a member of the Task Force in November 1994. Ms. Cooper replaced Ellen B. Kulka, formerly General Counsel of the RTC, as a member of the Task Force in July 1995.

The Task Force established a number of committees and task groups, chaired jointly by senior managers of the FDIC and the RTC, and staffed by employees of both organizations, which provided recommendations to the Task Force on a wide variety of transition issues.

On June 30, 1995, the FDIC/RTC Transition Task Force delivered its second and final report to Congress, as required by the RTC Completion Act, detailing its progress in establishing a transition blueprint, meeting the transition requirements of the RTC Completion Act, and effecting an orderly merger of the FDIC and the RTC.

The report included the identification of operational differences between the FDIC and RTC, and recommended RTC "best practices" to be adopted by the FDIC. The Task Force had evaluated scores of RTC practices, automated systems, and statutory RTC management reforms to determine whether they should be recommended for use by the FDIC after sunset. The Task Force ultimately recommended 50 RTC practices, ranging from asset sales efforts pioneered by the RTC to legal policies to procurement procedures; 49 RTC automated systems; and 8 RTC management goals and 15 management reforms.

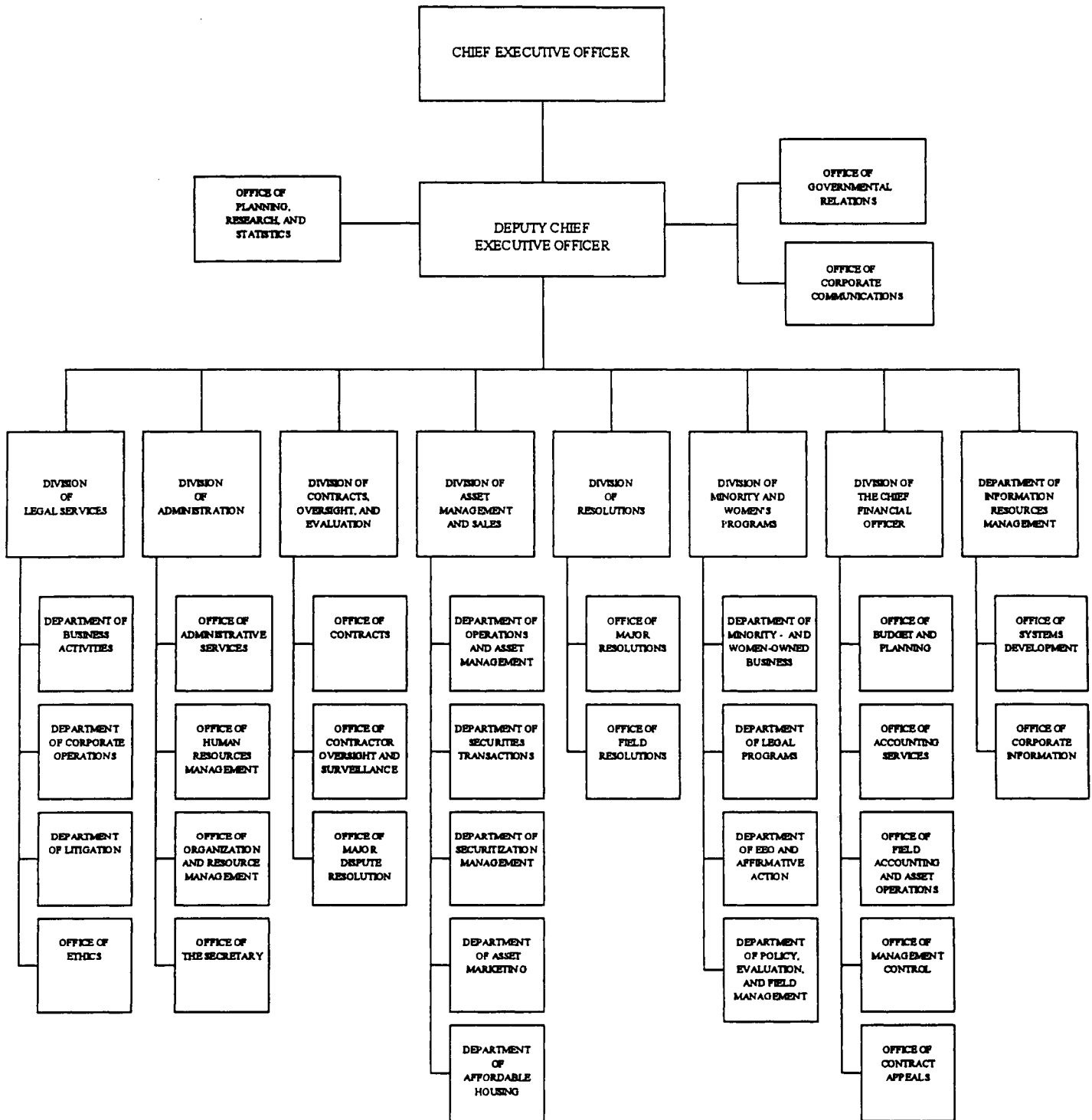
Under the direction of Deputy and Acting Chief Executive Officer John E. Ryan, the RTC operated out of its headquarters and National Sales Center in Washington, D.C., and six field sites: Atlanta, Georgia; Newport Beach, California; Dallas, Texas; Denver, Colorado; Kansas City, Missouri, and Valley Forge, Pennsylvania.

As workloads diminished in the field, two offices shut down most of their operations in 1995, with a small presence remaining in each, and transferred leftover business to FDIC field sites before sunset. The Denver Office closed March 31, and residual work was sent to the RTC's California office. The Kansas City Office shut its doors on June 30, and merged with the FDIC's Chicago Office.

The RTC Executive Committee, the policy-setting body of the RTC, which also addressed major operational matters, consisted of Deputy and Acting CEO Ryan (who served as chairman and a non-voting member); William C. Collishaw, General Counsel; Donna H. Cunninghame, Chief Financial Officer; Barry S. Kolatch, Vice President, Office of Planning, Research and Statistics; Jo-Ann Henry, Vice President, Division of Administration; John W. Lynn, Vice President, Division of Contracts, Oversight, and Evaluation; Thomas P. Horton, Vice President, Division of Asset Management and Sales; J. Paul Ramey, Vice President, Division of Resolutions; and Johnnie B. Booker, Vice President, Division of Minority and Women's Programs.

The Thrift Depositor Protection Oversight Board reviewed the RTC's overall strategies, policies, and goals, including those deemed likely to impact significantly on the RTC's financial condition, its operations or its cash flows; or those it deemed to involve substantial public policy issues. The Board's members included the Secretary of the Treasury, who chaired the Board; the Chairman of the FDIC Board of Directors; the RTC CEO; the Director of the Office of Thrift Supervision; the Chairman of the Board of Governors of the Federal Reserve System; and two independent members appointed by the President, with the advice and consent of the Senate.

Resolution Trust Corporation Organizational Structure



GOVERNMENTAL RELATIONS

The Office of Governmental Relations served as the RTC's liaison with Congress. It maintained communications with the House and Senate, ensuring that Members and their staffs were kept aware of RTC policy and concerns, and the RTC was cognizant of issues of importance to the legislative branch. The office also responded to Member inquiries on behalf of constituents.

During 1995, the office participated in seven hearings and numerous legislative mark-ups affecting RTC operations. The office continued to track legislation of importance to the RTC. From inception to yearend 1995, the office took part in approximately 1,100 meetings with members of Congress or their staffs, and responded to nearly 50,000 telephone and written inquiries from congressional offices. The office also responded to numerous requests from Congress for documents and reports pertaining to congressional oversight of the RTC's operations.

CORPORATE COMMUNICATIONS

As the gateway for information about the RTC's activities, the Office of Corporate Communications fielded numerous daily telephone inquiries from reporters and others throughout the United States and abroad, and issued national and field press releases on a wide range of topics.

The staff also provided the RTC's CEO and other senior officials with a full complement of media and public affairs support, including briefings prior to press interviews and speeches, and talking points in advance of speaking engagements. The office wrote and edited opinion editorials and letters to the editor on behalf of key officials.

Publications, including the RTC's annual report and Resolution Trust News, a monthly employee newsletter, were written, edited, and produced by the office. The staff also compiled and distributed a daily clipsheet of news coverage and a weekly wrap-up of print coverage.

PLANNING, RESEARCH, AND STATISTICS

Supporting activities throughout the Corporation, the Office of Planning, Research, and Statistics provided research, planning, and analytical services.

The office also served as the Corporation's liaison with the Thrift Depositor Protection Oversight Board; coordinated the preparation of semiannual RTC testimony before the House and Senate Banking Committees; and prepared and updated the RTC Business Plan.

In support of the RTC's transition to the FDIC, the office assisted the FDIC/RTC Transition Task Force with various projects, and provided statistical surveys and analyses to offices throughout the RTC and the FDIC.

The Office of Research and Statistics was the principal organizational unit.

Office of Research and Statistics

The Office of Research and Statistics, with its three sections, provided economic, financial, and statistical data and analyses to the RTC, Congress, and the public. Staff of two sections--Financial Markets and Institutions, and Cost Analysis--returned to the FDIC on March 31, 1995.

The Financial Modeling and Statistics Section regularly produced reports on RTC activities for the public, Congress, and internal management. Much of the information was provided in the RTC Review, a monthly publication the section produced. In 1995, the section participated in a joint FDIC/RTC task force to determine RTC funding requirements under several scenarios. Other projects included preparing various financial analyses and assisting with projections of RTC sales activity, operating expenses, and loss fund requirements. As administrator of the Corporate Information System, the section facilitated communication between users and system developers and oversaw the system's standard operations.

During the first quarter of 1995, the Financial Markets and Institutions Section provided policy- and economics-oriented support to the RTC. It participated in the estimated cash recovery (ECR) process for the valuation of receivership assets, and worked with other offices and divisions to compile the RTC's history.

The Cost Analysis Section in the first quarter supplied analytical support and information management in the RTC's resolutions and ECR processes. It also maintained a database on resolution activity. Before transitioning to the FDIC, the section completed the December 1994 ECR process, and determined asset recovery rates. The section also conducted extensive ECR training.

LEGAL SERVICES

From the beginning, unique legal challenges and a mammoth legal workload confronted the RTC. To meet the RTC's needs, the Division of Legal Services provided a host of wide-ranging, comprehensive legal services.

Led by the General Counsel, the division advised the Corporation's Washington and field staffs on such issues as resolutions, conservatorship and receivership operations, asset disposition, contracting, litigation, claims against directors and officers of failed institutions, and special issues, including the RTC's statutory authority and responsibilities, legislation, and environmental matters.

While most asset disposition and other business initiatives supported by the legal division originated at headquarters, primary responsibility for providing legal assistance for the programs' successful implementation rested with the legal staff in the field. Assistant General Counsels in each of the RTC's field offices were in charge of these efforts.

In 1995, along with managing the division's regular operations, the General Counsel devoted substantial effort to the plans of the RTC as a whole, and the legal division in particular, to orderly transfer RTC matters and personnel to the FDIC at RTC sunset on December 31, 1995. Among the General Counsel's duties were serving on the FDIC/RTC Transition Task Force; issuing multiple joint FDIC/RTC legal opinions on complex issues about the effect of RTC sunset on the RTC's and FDIC's operations; and supervising the division's input into plans to merge the RTC's and the FDIC's legal divisions at sunset.

The Division of Legal Services consisted of the Departments of Business Activities, Corporate Operations, and Litigation; and the Office of Ethics.

Department of Business Activities

The Department of Business Activities reviewed the legal aspects of RTC asset sales, including the disposition of real estate, high-yield and other securities, and performing and non-performing loans through securitized transactions. The department also provided legal advice on conservatorship operations and the resolution of failed savings associations, including pension and employee benefits issues, and matters related to RTC contracting activities. In addition, the department provided general oversight for and liaison with attorneys in the field offices.

The department was comprised of the Offices of Real Estate, Securities and Finance, Receiverships/Conservatorships, Contracts, and Field Office Operations.

Office of Real Estate

In 1995, the Office of Real Estate assisted the Corporation in closing billions of dollars in sales of real estate and loans through sealed-bid offerings, portfolio sales, and open-cry public auctions. The office also provided legal support for the settlement activities of the Settlement Workout Asset Team (SWAT) Program and the newly created Special Asset Resolutions Group (SARG) Program; and legal advice to the Corporation on environmental law and other real estate-related issues.

The office provided legal services for several major real estate transactions. They included the Environmental II Initiative, in which nearly \$325 million (book value) in special resource and environmentally impaired land and loans secured by land were sold through a sealed bid auction; and the sale of the Ocean Course at Kiawah Island for over \$27 million in accordance with an approved bankruptcy plan of reorganization.

The office coordinated legal services for the RTC's two 1995 national loan auctions, at which nearly \$1 billion (book value) in loans were sold; and provided support to the Judgments, Deficiencies, and Chargeoffs (JDC) partnership initiative.

The Environmental Section reviewed environmental conditions relating to sales initiatives, advised the Corporation on the disposition of environmentally impaired or environmentally sensitive properties, and addressed environmentally related claims.

Office of Securities and Finance

The Office of Securities and Finance provided support for sales of financial assets. The transaction types included loan securitizations, whole loan sales, and sales of portfolio securities.

Attorneys drafted and reviewed transaction documents; supervised outside counsel for sales conducted through headquarters in Washington, D.C.; and advised field attorneys on transactions conducted through the field offices. The office also advised on the disposition of qualified financial contracts and unwinding contingent liabilities related to bond financing.

Administering mortgage-backed securities transactions was a primary responsibility. In 1995, the office handled post-closing mortgage-backed securitization issues, including the interpretation of the RTC's responsibilities under the related securitization sales documents, and the protection of the RTC's interests in the reserve fund and the residual interest for each securitization trust. The office also advised the RTC's Claims Office on representation and warranty claims brought pursuant to the securitization sales documents.

In 1995, the Office of Securities and Finance assisted with mortgage-backed securities transactions, resulting in the sale of over \$3 billion (book value) of single-family, multifamily, and commercial loans. The office also assisted with the securitization sale of non-performing loans, disposing of approximately \$200 million (book value) of commercial secured and unsecured non-real estate-related loans and approximately \$250 million (book value) of land and construction loans and REO.

The office assisted in disposing of a variety of high-yield and other securities. In 1995, the RTC realized approximately \$1.3 billion in proceeds from the sale of securities, including limited partnership interests, mortgage-related securities, highly leveraged transactions (loans), special purpose finance corporations, various types of equity securities, and junk bonds.

Office of Receiverships/Conservatorships

The Office of Receiverships/Conservatorships provided legal advice, documentation, and other support to the Office of Operations and the Division of Resolutions on receivership claims administration, conservatorship and receivership operations, receivership terminations, subsidiary sales, resolutions of failed savings associations, pension and employee benefits, and tax matters.

During 1995, the office provided legal support and documentation for one major resolution and two field resolutions. A "major resolution" is the disposition (the payoff of the thrift's insured deposits or the sale of its deposit franchises) of an institution with more than \$500 million in deposits at conservatorship; a "field resolution," \$500 million or less in deposits at conservatorship.

Through formal mediation, an alternative dispute resolution process, a number of RTC receiverships reached a global settlement with the Student Loan Marketing Association on more than 1,200 claims.

In 1995, the office assisted in the termination of 140 receiverships, and provided legal review and support for the approval of 167 termination cases.

Office of Contracts

The Office of Contracts provided support in maintaining fair and uniform policies and procedures in the contracting for goods and services, addressed issues arising from the RTC's contractor ethics program and Standard Asset Management and Disposition Agreement (SAMDA) management, participated in the resolution of contract disputes, and assisted in deterring contractor fraud and obtaining restitution relating to it.

The Office of Contracts' client group included the Office of Contracts (of the Division of Contracts, Oversight, and Evaluation), Office of Major Dispute Resolution, Office of SAMDA Program Management, Office of Ethics, Office of Contractor Oversight and Surveillance, and the Department of Minority- and Women-Owned Businesses.

During 1995, the office handled over 775 contracting operation actions, including contract solicitations, reviews, modifications, drafts, and legal opinions; 97 Office of Ethics actions consisting of reviews of cases for suspension (32 cases were pending at yearend), exclusion, or contract eligibility determination; 167 Office of Contractor Oversight and Surveillance contract audit reviews and final certifications of 20 audits; 53 SAMDA Program Management closeout cases (138 cases remained open at yearend), contract interpretations, and legal opinions; and 32 Office of Major Dispute Resolution contract actions (32 settlements of issues were pending at yearend), collection of outstanding claims amounting to \$14 million, initiation/defense of litigation (11 cases were pending at yearend), and negotiations in progress.

Office of Field Office Operations

The Office of Field Office Operations was responsible for general oversight of the division's field components, which provided the majority of legal services used by the RTC. In its liaison role, the Office of Field Office Operations facilitated open communication and coordination between the field offices and headquarters.

In 1995, virtually all office resources were devoted to planning and oversight activities associated with the FDIC/RTC transition. Two of six field sites closed during the year--Denver and Kansas City. The office coordinated the transfer of responsibility for legal work from the Denver Office to the California Office, and from the Kansas City Office to the FDIC Midwest Service Center. The office also contributed significantly to

transition planning efforts for the division's automated systems, particularly the RTC Legal Information System (RLIS).

The office also advised and directly supported field and headquarters staff on litigation brought to implement and enforce various provisions of the RTC's Affordable Housing Disposition Program.

Department of Corporate Operations

The Department of Corporate Operations managed all legal matters pertaining to the RTC's internal corporate structure, governance, and procedure, as well as legislative and policy matters. It oversaw policies and procedures for the retention of outside counsel, including contracting with outside counsel; the RTC Legal Information System (RLIS); and the Accelerated Payment Program/Unpaid Invoice Confirmation project. The department was responsible for all legal matters involving the RTC as a federal employer, including personnel, labor-relations, and general employment matters.

Office of Administration

The Office of Administration met the administrative needs of the Division of Legal Services, including hiring, preparation of personnel actions, office space, budget, and training. The office also served as the liaison between division employees and the Office of Human Resources Management.

The office prepared and executed the budget for the Division of Legal Services nationwide. As the liaison to the Office of Budget and Planning, the Office of Administration monitored and analyzed expenditure variances in accordance with quarterly reporting requirements.

Office of Corporate Issues

During 1995, the Office of Corporate Issues provided legal support and analysis on RTC-related legislation and reviewed congressional correspondence prepared by the Division of Legal Services.

Other duties included providing legal advice concerning Freedom of Information Act (FOIA) and disclosure issues; drafting numerous responses to pending RTC investigations; and preparing numerous FOIA appeals.

The office also assisted in matters involving RTC internal corporate governance, law, and procedure, including drafting CEO resolutions and delegations of authority needed to support the transfer of RTC work and personnel to the FDIC.

During 1995, the office provided significant legal advice on various issues relating to the FDIC/RTC transition, including preparation of the FDIC/RTC Transition Task Force's final report to Congress and an analysis of which laws and regulations would apply to RTC operations after sunset.

Office of Labor and Employment

Throughout 1995, the Office of Labor and Employment provided advice and assistance to RTC management on personnel issues, equal employment opportunity, and labor matters involving the return of RTC-assigned employees to the FDIC, ramifications of RTC reorganization and downsizing, and the RTC's sunset.

Attorneys in the Office of Labor and Employment acted as representatives of the Corporation in all administrative litigation nationwide and as the Corporation's counsel with Assistant U.S. Attorneys in related federal court proceedings, including actions based on alleged whistleblower retaliation.

In 1995, the Office of Labor and Employment represented the RTC in a total of 101 cases, including 19 Merit Systems Protection Board cases, 65 Equal Employment Opportunity Commission cases, and 17 Title VII and whistleblower actions in federal district court. The office also conducted legal reviews of 90 garnishment actions including tax levies, bankruptcy, child/spousal support, and commercial debts.

Office of Outside Counsel Management

The Office of Outside Counsel Management oversaw policies and procedures for retaining outside counsel, contracting with outside counsel, and resolving outside counsel conflicts of interest. The office consisted of the Legal Contracting Unit, Outside Counsel Conflicts Unit, and RTC Legal Information System (RLIS) Unit; and managed the Accelerated Payment Program/Unpaid Invoice Confirmation project.

The Legal Contracting Unit managed and implemented the policies and procedures for outside counsel, including the provisions of the RTC Completion Act as they applied to outside counsel retention. It also managed the Warranted Legal Officer Program, legal

contracting procedures, Fee Cap Directive, Byrd Amendment Policy, and internal controls program.

The unit served as the division's liaison with the RTC Office of Inspector General (OIG) on the OIG's audits of outside counsel. During 1995, the unit responded to 27 final OIG audit reports.

The Legal Contracting Unit provided chair and staff support to the Washington, D.C., Legal Services Committee, which ensured that all RTC policies and procedures were followed in selecting outside counsel, and approved the selection of law firms. During 1995, the committee approved 131 legal referrals with budgeted fees and expenses of approximately \$29.9 million.

In coordination with the RLIS Unit, the Legal Contracting Unit monitored the division's nationwide outreach efforts to minority- and women-owned law firms (MWOLF). As a direct result of the minority outreach program, MWOLFs received 32 percent (\$50.7 million) of all RTC legal fees paid from January 1, 1995, through December 31, 1995.

The Outside Counsel Conflicts Unit continued to provide support to the joint RTC/FDIC Outside Counsel Conflicts Committee, which considered approximately 401 matters in 1995. On May 17, 1995, the unit issued revised Outside Counsel Conflict of Interest Procedures. The unit also coordinated the division's outside counsel background investigations program. At yearend 1995, background investigations had been completed on 4,821 attorneys at 474 RTC law firms (investigations of attorneys at 44 law firms were pending at yearend). As a result of these investigations, six individuals and one firm were barred from performing work for the RTC for failing to report personal conflicts of interest.

The unit continued to maintain the computer-based conflicts tracking system (CTRACK), and added two new reports to the system enhancing its ability to retrieve information quickly and easily. Unit staff completed CTRACK training for all division personnel at all RTC field offices. In September 1995, the unit completed a general conflicts training program, which included CTRACK training, for the newly merged FDIC/RTC Chicago field office. Based on a best practices review, CTRACK was adopted for implementation by the FDIC.

The RLIS Unit processed 51,138 invoices in 1995, representing \$159.1 million in payments to outside counsel. The unit saved the RTC nearly \$7.2 million by reviewing

and adjusting outside counsel invoices in accordance with division policies. In 1995, unit staff distributed a new RLIS users' manual and a new training manual. The RLIS Management Users Group implemented the Data Quality Action Plan, which included data integrity initiatives for all RTC offices.

Through the Accelerated Payment Program/Unpaid Invoice Confirmation project, the division reconciled \$15.9 million in invoices for outside counsel. The division collected, or verified as previously collected, \$1.9 million in overpayments to outside counsel during the same period. For the life of the project, which began in early 1992, the division reconciled \$275.2 million in invoices, and either recovered or verified as previously recovered \$6.3 million in invoice overpayments.

Department of Litigation

The Department of Litigation managed and coordinated all litigation involving the RTC, including trial and appellate litigation in all federal and state courts; claims against directors, officers, accountants, and attorneys of failed financial institutions; and claims and proceedings in bankruptcy. The department carried out its work through the Offices of Litigation and Professional Liability, which oversaw the Office of Investigations.

Office of Litigation

In mid-1995, the Offices of General Litigation and Complex Litigation merged and became the Office of Litigation. The new office consisted of six units: Appellate Litigation; Alternative Dispute Resolution (ADR); Bankruptcy; Complex Litigation (formerly known as the Drexel Task Force); and two Trial Litigation units. The office managed most of the RTC's civil litigation portfolio, in both trial and appellate courts, and the RTC's bankruptcy and ADR caseloads.

In addition to its litigation oversight responsibilities, the office coordinated with other federal agencies, including the FDIC and the Department of Justice, on issues of mutual interest. The office also prepared responses to congressional requests on proposed legislation and other litigation-related matters, and advised senior RTC management on significant cases and matters of litigation policy. During 1995, the office devoted substantial resources to planning the transfer of staff and litigation matters to the FDIC at RTC sunset on December 31, 1995.

At the trial court level, the office primarily managed cases involving "significant issues"--matters affecting RTC policy or for which it was important the RTC take a

coordinated position nationwide. At any given time during 1995, the office was involved in roughly 350 significant issue cases, a 30 percent decrease from the approximately 500 such cases reported in 1994. The drop was attributable to an overall decline in the number of suits to which the RTC was a party, particularly those arising from the actions of failed thrifts prior to federal intervention, as well as a concerted effort by the office in 1995 to resolve active cases.

During 1995, the office noted a relative increase in the proportion of suits involving disputes with RTC contractors, suits seeking relief from the RTC in its corporate capacity, and suits arising from RTC asset sales efforts. In several asset disposition disputes during 1995, the RTC successfully used FIRREA's "anti-injunction" provision, 12 U.S.C. §1821(j), to prevent disappointed bidders, defaulted borrowers, and others from obtaining injunctions halting RTC asset sales. In one instance, the RTC used the provision to lift an injunction less than 30 minutes before the assets involved were to be auctioned.

At yearend 1995, the office was overseeing approximately 98 appellate matters. The portfolio included cases pending in the United States Supreme Court, in all 12 of the United States Circuit Courts of Appeals, and in the appellate courts of many of the states. The caseload had decreased roughly 66 percent from the approximately 290 appeals being handled by the office at yearend 1994. The decline was due to the overall decrease in the RTC's litigation portfolio, as well as the office's close-out of inactive files.

The ADR Unit resolved 62 cases during 1995 using some form of alternative dispute resolution, with estimated legal cost savings of \$7.7 million. A total of \$193.3 million in potential liability payments was avoided and \$4.6 million was collected in settlements. A two-year pilot project involving 39 cases in the RTC's California Office was concluded by the ADR Unit on June 30, 1995, and a comprehensive final report on the project was distributed within the division. Results included 26 settled cases, \$1 million in legal cost savings, and a case settlement rate of 88 percent within one year of referral to the ADR Unit. On September 17, 1995, the unit presented an oral report on the project at the Society for Professionals in Dispute Resolution's annual convention.

The Complex Litigation Unit was responsible for the prosecution of claims arising from junk bond investments by financial institutions placed under RTC or FDIC control, including all claims against Drexel Burnham Lambert and Michael Milken (who headed Drexel's high-yield bond department), and associated individuals and entities. At yearend 1995, the office had obtained cash recoveries of over \$109 million on behalf of the RTC and FDIC, with the RTC's share totaling approximately \$103 million. This brought the total recoveries to the RTC and FDIC to over \$1.08 billion, with the RTC's share totaling

approximately \$1.01 billion. Significant additional recoveries are due or anticipated in 1996 and beyond.

The Bankruptcy Unit managed all bankruptcy cases in which the RTC had an interest. At yearend 1995, the bankruptcy unit was handling 454 active bankruptcy cases with approximately \$3.3 billion of RTC claims. At sunset, all of the active cases were transferred to the FDIC.

Office of Professional Liability

The Office of Professional Liability (PLS) investigated and prosecuted RTC claims arising from improper conduct of directors, officers, attorneys, appraisers, accountants, and other professionals who provided services to failed thrifts. At yearend 1995, the office was in the process of prosecuting 164 offensive civil actions arising from 124 failed institutions.

From the RTC's inception through December 31, 1995, PLS obtained judgments and executed professional liability settlement agreements that will result in recoveries of approximately \$1.55 billion. Of this total, approximately \$1.4 billion in settlements and more than \$22.2 million in judgments had been collected by December 31, 1995. In addition, by yearend 1995, the RTC had recovered approximately \$988.5 million from the Drexel Burnham Lambert/Michael Milken settlements, bringing total yearend 1995 recoveries to approximately \$2.42 billion.

Office of Investigations

The Office of Investigations conducted a general investigation into every thrift under the RTC's supervision to determine the nature and amount of the thrift's losses, identify possible claims, and determine potential recovery sources. When judged to be cost-effective, the RTC pursued professional liability and civil fraud claims against culpable parties.

The office assisted the Department of Justice in prosecuting criminal conduct and recovering misappropriated funds through criminal restitution and forfeiture proceedings. Criminal referrals were filed with the Department of Justice on any apparent criminal activity discovered during the investigative process.

From the RTC's inception through December 31, 1995, the office assisted in the recovery of substantial funds from several sources:

Professional liability recoveries,
including Drexel/Milken: \$2.42 billion

Other recoveries, including civil
and borrower fraud: \$57.7 million

The following reflects the results of legal actions undertaken by the Department of Justice against thrift directors, officers, and related professionals for criminal activity detected by the RTC, the Office of Thrift Supervision, and others. These results are cumulative from the inception of RTC through December 31, 1995.

Number of defendants charged relating to RTC institutions: 2,331

Number of convictions: 2,168

Number sentenced: 2,085

Number awaiting sentence: 83

Total number of restitution orders: 1,657

Total restitution ordered: \$602,943,017

Total restitution collected: \$26,234,532

Office of Ethics

The Office of Ethics administered regulations governing the fitness and integrity of independent contractors that did business with the RTC, and enforced suspension and exclusion regulations.

The office also administered the RTC's compliance with employee ethics and standards of conduct regulations, laws, and related directives and executive orders; and granted or denied waivers for conflicts of interest under RTC contracts. A system of internal controls ensured that employees and contractor ethics policies and procedures were followed in the RTC's field offices.

In anticipation of the RTC's transition to the FDIC at yearend 1995, the office reduced its caseload involving employee and contractor violations during the year. Many of the resolved cases were the result of several years of complex investigation by the Office of Inspector General.

On the administrative level, the office successfully implemented management plans for the downsizing of staff both in the field and at headquarters.

ADMINISTRATION

Essential to the smooth operation of any organization is its administrative backbone—the provider of such critical services as space, equipment, training, and, most importantly, human resources. The Division of Administration was the main provider of the RTC's corporate services. Carrying out the division's work were its four offices: Administrative Services, Human Resources Management, Organization and Resource Management, and the Secretary.

Office of Administrative Services

The Office of Administrative Services (OAS) developed and managed the RTC's corporate services, maintained the RTC's facilities, and developed policies and procedures for many wide-ranging areas, from real property management to administrative services. The office provided direct operational support for all headquarters activities and technical assistance to the field in these areas.

In 1995, OAS continued transition planning on administrative support matters, coordinating efforts between the FDIC and RTC at headquarters and in the field. New management procedures were implemented to ensure a smooth transition and to oversee the office closing process.

During the year, OAS reduced the RTC's lease liability through sub-lease agreements, office consolidations, retractions, and lease buyouts. Total rent mitigated in 1995 approached \$3 million. The office developed stacking plans for combined RTC/FDIC leasehold inventory and coordinated the necessary relocations.

Visiting all field sites, OAS assisted field management with office close-outs, lease dispositions, and auctions of furniture, fixtures and equipment (FF&E) in 1995. Auction proceeds in 1995 exceeded \$1.6 million.

OAS' General Services Branch completed an inventory of all headquarters FF&E during the year. The inventory database contains more than 60,000 FF&E items.

Beginning in early 1995, OAS' Travel Section performed a large-scale audit of travel records of employees on temporary assignments at single duty stations for more than one year. As a result of a 1992 amendment to the Internal Revenue Code affecting travel reimbursements, the section reimbursed applicable taxes incurred by those employees.

OAS contracted with a certified public accountant in April 1995 to provide travel-related financial services and to ensure RTC compliance with IRS regulations.

The RTC Headquarters Records Disposition Schedule, produced by OAS, was approved by the RTC's Office of Inspector General and Division of Legal Services in September 1995. Throughout the year, program offices transferred inactive records to off-site storage. OAS' Records Management Branch provided for storage and retrieval of approximately 2 million cubic feet of RTC and institution records at eight locations across the country.

In October 1995, printing, reproduction, graphic design, and other associated services were transitioned to the FDIC. A centralized copier acquisition and management plan was then implemented by RTC and FDIC management.

Office of Human Resources Management

The Office of Human Resources Management (OHRM) administered personnel and management advisory services in staffing, position classification, employee relations, training, personnel management evaluation, and personnel information systems and processing. In light of the RTC's sunset at yearend, OHRM focused on the RTC's downsizing efforts and transition-planning for the return of RTC personnel to the FDIC.

OHRM's Personnel Services Branch ensured that separation and transition personnel actions were processed timely, and records of employees who were separated or reassigned to the FDIC were complete and accurately reflected their employment histories with the RTC. The branch also ensured that each separating employee received accurate information regarding his or her benefits. OHRM also coordinated the personnel actions necessary to close the Denver and Kansas City offices and transition the remaining RTC functions and employees back to the FDIC.

The Training and Education Section expanded its career transition services so that all employees had the opportunity to participate in training and extensive individualized counseling aimed at helping them to secure other employment. Employees were also provided a variety of presentations and briefings to assist them in their career transitions. Topics included local educational opportunities, separation benefits, and unemployment.

In addition to providing continued advice and assistance to management in complex matters such as adverse actions and employee grievances, in 1995 the Employee Relations

Section successfully negotiated the RTC's first collective bargaining agreement with the American Federation of Government Employees, Local 1400.

Office of Organization and Resource Management

The Office of Organization and Resource Management (OORM) provided organization and management analysis services to the Corporation, and budget assistance to certain divisions and offices. In 1995, OORM continued supporting activities related to the transition of RTC operations and staff to the FDIC.

During the year, quarterly reports reflecting comprehensive employee data were prepared for the FDIC/RTC Transition Task Force. Special analyses and reports were completed for the FDIC's Chief Operating Officer. Internal control reviews were conducted and transition-related areas of vulnerability were identified for monitoring purposes.

OORM planned and coordinated several administrative conferences on the transition, attended by headquarters managers and their field counterparts. The conferences addressed field office closings, transfer of duties to the FDIC, and a host of personnel issues associated with RTC's sunset.

The office was the focal point for all budget formulation, execution, analysis, and reporting for the Division of Administration; the Division of Contracts, Oversight, and Evaluation; and the Offices of Corporate Communications and Governmental Relations. In addition to formulating the 1995 budgets for these divisions, OORM provided policy guidance and direction on the adjustment of the operating budgets over the course of the year.

OORM provided periodic reports on staffing trends at RTC headquarters and field offices; amended and interpreted administrative delegations of authority; and continued to revise and issue organization charts and National Finance Center organization codes.

Office of the Secretary

The Office of the Secretary (OS) governed the decision-making process for senior RTC executives, managed record-keeping and information-dissemination, and administered nationwide programs to provide the public with complaint-resolution services and access to RTC information.

In 1995, OS' Corporate Services Branch processed 830 decisions approved by the RTC Deputy and Acting CEO, the Executive Committee, headquarters vice presidents, and the Information Resources Management Steering and Audit Resolution Committees. The Records Services Branch responded to more than 900 requests for information on actions taken by the former RTC Board of Directors, CEO, and other senior officials; and processed 2,318 litigation filings.

OS' Public Reference Branch and the Public Service Centers responded to 66,620 requests for documents and information in 1995. The Freedom of Information/Privacy Act (FOIA/PA) Branch received 663 FOIA requests during the year. The FOIA/PA Branch closed 710 requests, of which 56 were complete denials and 133 were partial denials, and received 40 appeals of adverse initial decisions.

The Ombudsman's Office resolved 21,204 requests for assistance in 1995, 20,687 of which were processed by the field client responsiveness departments. In the latter part of the year, the FDIC established its own Office of the Ombudsman, which by yearend had absorbed and assumed responsibility for the RTC's Ombudsman's Office.

In 1995, OS' Employee Ombudsman Program, a vehicle for employees to voice concerns and ideas to the CEO, resolved 176 cases. This was a substantial decrease from the previous year's total of 399 resolved cases, largely attributable to systemic improvements in other divisions' responsiveness to employees' problems.

On June 16, 1995, the RTC's Executive Committee approved an RTC Statement of Policy and Plan for indemnification of the RTC CEO and employees of the FDIC assigned to the RTC. The RTC's Secretary was responsible for administering the indemnification program; maintaining permanent records associated with the indemnification process; initiating payment procedures; and approving or disapproving requests for indemnification, advancement, reimbursement, or representation. Through yearend 1995, 32 such requests were processed.

The Office of the Secretary coordinated the efforts of RTC and FDIC staff to compile an RTC history, focusing on how the RTC managed and disposed of \$450 billion (book value) in assets from the 747 failed thrifts it resolved. The project was recommended by the Thrift Depositor Protection Oversight Board. Following RTC sunset, the FDIC will complete and publish the history.

CONTRACTS, OVERSIGHT, AND EVALUATION

As Congress directed, the RTC relied heavily on the use of private sector contractors, particularly in support of its asset management and sales efforts. Servicing loans, managing properties, valuing assets, and providing financial advice were but a few of the services private sector contractors furnished the RTC.

The Division of Contracts, Oversight, and Evaluation oversaw virtually every aspect of the RTC's contracting process through its three offices--Contracts, Contractor Oversight and Surveillance, and Major Dispute Resolution.

Office of Contracts

The Office of Contracts awarded and administered contracts at headquarters, and coordinated, monitored, and oversaw contracting activity at RTC field offices, conservatorships, and receiverships.

The office developed corporate-wide contracting policies and procedures, and ensured that they were communicated to employees through written guidelines and training. The office also administered the Warranted Contracting Officer Program and maintained the Contracting Activity Reporting System (CARS).

In 1995, the office's operational focus shifted to planning for the transition of the contracting staff and its residual workload to the FDIC. A detailed transition implementation plan was developed and communicated to the heads of all RTC and FDIC contracting offices.

The RTC awarded 8,169 contracts in 1995, with estimated fees of approximately \$220.8 million. From August 1, 1989, through December 31, 1995, contract awards totaled 159,725 with estimated fees of \$5.3 billion.²

The Office of Contracts identified 1,090 active contracts necessary to accomplish the RTC's residual workload after sunset, and processed modifications to the contracts in order to transfer them to the FDIC when the RTC closed down. All contract offices nationwide worked to close out existing contracts during the year, resulting in the formal

² Contracting statistics for August 1, 1989, through December 31, 1995, are compiled from the RTC Contracting Activity Reporting System's (CARS) "Contract Summary by Ethnic ID" dated April 15, 1996.

closeout of 5,995 contracts in accordance with the RTC's contracting policies and procedures.

A task force was established at headquarters to develop a methodology for expediting the closeout of 199 Standard Asset Management and Disposition Agreement (SAMDA) contracts nationwide. During 1995, the task force coordinated and assisted in the closeout of 42 SAMDA contracts in the field. The remaining 113 SAMDA contracts were transferred to Washington for closeout by the task force post sunset.

In 1995, approximately 100 FDIC contracting personnel were trained in RTC contract closeout procedures, 310 FDIC employees received claims and disputes training, and approximately 100 FDIC personnel nationwide received general instruction in RTC contracting policies and procedures.

Office of Contractor Oversight and Surveillance

The Office of Contractor Oversight and Surveillance (OCOS) assisted program offices and the Office of Contracts in engaging, monitoring, and evaluating major contractors. It conducted background investigations of contractors and contractor personnel, and financial and performance reviews of contractor operations; investigated allegations of contracting irregularities; coordinated major RTC contract terminations; and initiated suspension and exclusion actions of contractors for fraud, non-performance, and violations of fitness and integrity.

In 1995, OCOS completed background investigations on 4,357 contractors and 10,306 contractor personnel. From inception of the program on January 1, 1992, through RTC sunset, background investigations on 17,990 contractors and 58,112 contractor personnel were completed by OCOS.

More than 250 contractor fitness and integrity investigations were completed by OCOS during 1995, resulting in 50 suspensions and exclusion actions. From inception of the program on January 1, 1992, through RTC sunset, 1,514 such investigations were completed.

The office issued 481 performance and financial review reports of RTC contractors during the year, recommending improvements in contractor operations and identifying more than \$89.1 million in questionable costs.

The RTC began conducting background investigations of law firms and law firm personnel in the fall of 1994. By yearend 1995, OCOS had completed background investigations on 528 law firms and 5,393 law firm personnel.

OCOS established and achieved minority outreach goals for hiring independent public accounting firms to conduct contractor reviews. In 1995, approximately 30 percent of the office's review contracts were awarded to minority- or women-owned (MWOB) firms or MWOB joint ventures.

Office of Major Dispute Resolution

The Office of Major Dispute Resolution addressed selected major claims and disputes arising from RTC contractual relationships with private sector firms. The office also responded to questions raised by audit organizations, including the General Accounting Office, and the RTC's Office of Inspector General and Office of Contractor Oversight and Surveillance.

The Office of Major Dispute Resolution assembled, analyzed, and evaluated documents associated with major claims and disputes, researched and assessed the merits of each claim, and conducted negotiations with contractors in an effort to ultimately resolve all outstanding issues.

During 1995, the office resolved and settled claims exceeding \$23 million, which resulted in a net savings, recovery, or insulation from litigation risk of approximately \$14 million. The office closed and fully resolved 15 matters. Seventeen new matters were accepted for resolution. Twenty Office of Inspector General or OCOS audit reports were closed and certified during the year.

From its inception in late 1993 through RTC sunset, the Office of Major Dispute Resolution saved, recovered, or protected more than \$25 million from potential litigation risk.

ASSET MANAGEMENT AND SALES

One of the RTC's most challenging assignments was to manage, market, and sell its enormous and eclectic asset inventory. RTC assets varied widely in their nature, value, and condition. The inventory included various types of securities, home loans, commercial mortgages, commercial loans not secured by real estate, consumer loans, construction loans, real estate, and subsidiaries, along with a broad array of other asset types.

The disposition of such an inventory called for a complex, flexible, and innovative marketing strategy. The Division of Asset Management and Sales developed a disposition strategy that was designed to attract a wide range of investors and garner higher returns for taxpayers than would have been obtained using only traditional approaches.

Some of the RTC's more inventive sales methods included the securitization of commercial mortgages, nationwide loan auctions, and equity partnerships designed to increase recoveries on hard-to-sell assets. Combined with individual asset sales and local and regional auctions, these sales techniques generated broad investor interest in RTC assets, resulting in strong recoveries for taxpayers.

By yearend 1995, the RTC had liquidated over \$450 billion (book value) in assets -- nearly half a trillion dollars -- with an average recovery rate of 87 percent of book value. In 1995 alone, the RTC achieved \$12.5 billion (net of putbacks) in recoveries from asset sales and collections; book value reductions totaled \$20 billion during the year. At sunset, the FDIC assumed responsibility through its FSLIC Resolution Fund for the RTC's remaining inventory of assets in liquidation, \$7.7 billion (book value).

In addition to managing and disposing of assets acquired from failed thrifts, the division oversaw the management and operation of insolvent thrifts in conservatorship and receivership. From inception through sunset, the RTC assumed control of 747 failed thrifts, 706 of which were managed in conservatorship. By yearend 1995, all thrifts assigned to the RTC conservatorship program had been resolved, including one conservatorship resolved during the year.

The division's work was carried out by the Departments of Operations and Asset Management, Securities Transactions, Securitization Management, Asset Marketing, and Affordable Housing.

Department of Operations and Asset Management

The Department of Operations and Asset Management oversaw conservatorship and receivership operations, coordinated national asset sales initiatives, and developed and implemented policies governing the management and disposition of assets. The department consisted of the Offices of Operations, Settlement Workout, SAMDA Program Management, and Systems and Transaction Review; and the Asset Policy, Environmental, and Seller Financing Branches.

Office of Operations

The Office of Operations, with offices at headquarters and in the field, monitored and operated conservatorships and receiverships, conducted closings of insolvent institutions and subsequent payment of depositor and creditor claims, and administered post-resolution settlement activity with acquirers.

The office analyzed and paid claims resulting from the representations and warranties provisions of asset sales agreements, managed the termination of employee benefit programs, coordinated and directed operations for terminations of receiverships, administered policies promoting the settlement of delinquent obligations of potential asset purchasers with the RTC and the FDIC prior to the sale of assets, and issued reports on program activities.

The headquarters office developed policies and procedures to ensure that all field operation activities complied with applicable laws and supported the RTC's goal of minimizing the costs and risks to the general public. The office provided day-to-day guidance in implementing these policies and procedures.

Institutions and Assets in Conservatorship

From inception in August 1989 through yearend 1995, the RTC managed a total of 706 institutions in the conservatorship program. When the RTC was established, the office immediately assumed responsibility for 262 conservatorships. By yearend 1995, all 706 conservatorships had been resolved, leaving no conservatorships at sunset.

At the beginning of 1995, the RTC was managing only one conservatorship. No additional thrifts entered the program during the year, and the one remaining conservatorship was resolved. Two institutions were resolved through the Accelerated Resolutions Program, bypassing any conservatorship action.

The following chart shows the number of thrifts placed in the RTC conservatorship program and the number of resolutions:

**CONSERVATORSHIP INSTITUTIONS
1989-1995**

	<u>Conservatorships Established</u>	<u>Conservatorships Resolved</u>	<u>Total Resolutions</u>
Pre-FIRREA	262	0	0
Post-FIRREA 1989 (8/9 - 12/31)	56	37	37
1990	207	309	315 ¹
1991	123	211	232 ²
1992	50	60	69 ³
1993	8	26	27 ⁴
1994	0	62	64 ⁵
1995	0	1	3 ⁶
Total 1989-1995	706	706	747⁷

¹Includes six non-conservatorship institutions, four of which were resolved through the Accelerated Resolutions Program (ARP).

²Includes 21 non-conservatorship institutions resolved through ARP.

³Includes nine non-conservatorship institutions resolved through ARP.

⁴Includes one non-conservatorship institution resolved through ARP.

⁵Includes two non-conservatorship institutions resolved through ARP.

⁶Includes two non-conservatorship institutions resolved through ARP.

⁷Includes 41 non-conservatorship institutions, 39 of which were resolved through ARP.

Conservatorship Operations

The RTC prepared a conservatorship for resolution by downsizing it primarily through asset sales. This accelerated the payment of liabilities of the failed institution and reduced dependency on the Treasury Department to fund future operations. On December 31, 1994, gross conservatorship assets totaled \$2.1 billion, including \$714 million in residual assets from one institution that was resolved on November 18, 1994. This balance was reduced to zero by yearend.

No institutions were added to the conservatorship program during the year. One conservatorship was resolved, removing \$1.5 billion in assets from the program. Book value sales and collections involving conservatorship assets totaled \$1.1 billion during 1995.

The overall liability expenses of an institution being prepared for resolution were reduced by eliminating wholesale (high-cost) deposits, Federal Home Loan Bank advances, and short-term collateralized borrowings. Funding was raised for this purpose primarily through asset sales supplemented with borrowings from the RTC, as necessary.

The following chart summarizes RTC advance activity in conservatorships and receiverships during 1995:

1995 RTC CONSERVATORSHIP AND RECEIVERSHIP ADVANCE ACTIVITY Principal Amount Only (dollars in billions)

Advances Outstanding at 12/31/94	\$8.2
Total Advances Made in 1995	.5
<u>Total Advances Paid in 1995</u>	<u>(1.8)*</u>
Advances Outstanding at 12/31/95	\$6.9

*Advances paid balance includes \$62 million in non-cash payments, but does not include \$341 million in interest collections during 1995.

Executive Compensation

Section 3(a) of the RTC Completion Act required the RTC to report, as part of its annual report, the total compensation paid to directors and senior executives of thrifts for which it was appointed conservator or receiver during the calendar year. When an institution was placed into conservatorship, its directors were removed on the day of intervention. As a result, no compensation was paid to any of these directors while the institution was in conservatorship. Whether senior executives were asked to remain in managerial or executive positions with the conservatorship depended on their skills and knowledge and the needs of the managing agent's team.

Salary schedules for senior management of conservatorship institutions were established by RTC directive in 1990. When the RTC intervened in a thrift and established a conservatorship, salaries of those asked to remain in managerial or executive positions were adjusted to the levels established by the directive. Receiverships do not have officers or directors; therefore, there is no schedule for their compensation.

Compensation paid to all officers (including senior executives) is listed below.

Total Executive Compensation for RTC Conservatorships in 1995

Institution Name	City	State	Net Assets at Resolution (in thousands)	Pre-Conservatorship			1995		
				Number of Officers ¹	Annualized Compensation	Average Compensation	Number of Officers ¹	Annualized Compensation	Average Compensation
STANDARD FSA ²	GAITHERSBURG	MD	\$222,574	12	\$1,797,000	\$149,750	1	\$98,249	\$98,249
CARTERET FSB	NEWARK	NJ	1,167,389	106	7,266,329	68,550	38	2,807,431	73,880
TOTAL			\$1,389,963	118	\$9,063,329	\$76,808	39	\$2,905,680	\$74,505

¹ "Number of Officers" represents all officers as well as the three highest paid employees.

² Standard FSA was resolved on November 18, 1994. Some assets remained in the conservatorship, which was placed into a final receivership on June 30, 1995.

Employee Benefit Plans

During 1995, the RTC continued its emphasis on terminating employee benefit plans while adhering to applicable Employee Retirement Income Security Act (ERISA) statutes. According to the RTC's national pension plan tracking system, 494 qualified plans were terminated from inception of the RTC through December 31, 1995; 19 plans remained to be terminated at yearend.

The RTC and the FDIC continued negotiations with the Pension Benefit Guaranty Corporation (PBGC) on the handling of underfunded defined benefit pension plans. The PBGC assumed the first trusteeship of an underfunded RTC plan in 1994. Seven of eight eligible underfunded defined benefit plans were placed in PBGC trusteeship in 1995; one plan remained under review at yearend.

The following chart summarizes the termination of employee benefit plans during 1995:

EMPLOYEE BENEFIT PLANS

Open Plans on 12/31/94	52
Plans Terminated in 1995	(39)
Plans Added*	6
<hr/>	
Open Plans on 12/31/95	19

* Includes plans from 1995 interventions and plans that were previously reported as terminated but were reopened.

Claims and Settlement Activities

Termination of Receiverships

In June 1992, the RTC began terminating receiverships that were at least one year old and for which there were no legal or other compelling reasons to remain open. In 1995, the RTC issued approvals for the termination of 136 receiverships, bringing the total number of receivership terminations approved from inception of the program to 347. The RTC also focused more resources on concluding the operations of these receiverships during the year, terminating 167 receiverships and bringing the total number

of receiverships terminated since inception to 263. At the end of 1995, 400 active receiverships (not yet approved for termination) remained in the RTC's inventory.

Settlements with Acquirers

Receivership settlement with failed thrift acquirers under resolution agreements involved the administration of the purchase and assumption agreements between the RTC and the acquirers. The process, which continues for approximately six months after resolution, allows for the orderly transfer of business associated with the failed thrifts from the RTC to the acquirers.

Three receiverships requiring settlement activity were added to the RTC's inventory during the year; two of the institutions were resolved through the Accelerated Resolutions Program. In 1995, settlement was concluded for 31 institutions, leaving 6 settlements to be completed at yearend.

Liquidating Dividends

The Accelerated Dividend Program (ADP), which began as a pilot program in October 1992, expedited the return of funds to the Corporation and creditors by authorizing field office vice presidents to approve dividend cases. In 1995, cash dividends to the Corporation totaled \$10 billion and non-cash dividends totaled \$1.4 billion. From inception of the dividend process in September 1990 through yearend 1995, the recovery to the Corporation through the program totaled \$82.8 billion in cash and \$57.6 billion in non-cash dividends.

Insurance Payments

During 1995, 213,055 insured deposit accounts, as of the date of resolution, at three failed thrifts were protected through the purchase and assumption of the institutions by one or more acquirers. Of the \$220.6 billion in deposits from the 747 institutions resolved by the RTC since inception, only \$162.4 million, or less than .08 percent of the total, were uninsured.

Creditor Claims

Essential goods and services provided to RTC conservatorships were paid as administrative expenses. General trade creditor claims of former associations, however, were considered to be unsecured claims. Pass-through and final receivership data from

RTC inception through yearend 1995 show that \$1.1 billion in 15,918 claims were allowed, \$29.5 billion in claims from 15,317 creditors were disallowed, and \$2.7 billion in 572 claims were still pending at yearend 1995.

Asset Claims

From RTC inception through 1995, the RTC received approximately 58,000 asset claims seeking \$3.1 billion under the terms of various loan and loan-related asset sales. At yearend, the RTC had approved and paid \$1.2 billion on these claims (including asset repurchases and actual losses), or .4 percent of the \$286 billion of assets under administration.

RTC conservatorships, receiverships, and subsidiaries, which utilized an RTC Corporate Guarantee to facilitate asset sales, placed funds in reserve to cover the cost of future claims under the sales agreements. As of December 31, 1995, the reserve account balance was approximately \$1.5 billion. Approximately \$811 million of the reserve fund was invested by the cash management group to obtain a favorable, conservative yield. To facilitate the orderly transfer of the remaining representation and warranty obligations of the RTC to the FDIC, the asset claims functions in the six RTC field offices were consolidated into headquarters.

Program Implementation and Support

The Program Implementation and Support unit administered the policies and regulations that promoted payment or settlement of outstanding, delinquent obligations by individuals who caused losses to insured institutions under RTC or FDIC control. The unit also enforced restrictions prohibiting these individuals from purchasing assets owned by the RTC until their obligations were paid or settlements were reached.

From inception of the program in September 1992 to yearend 1995, the unit achieved settlements totaling \$312 million; of that total, \$88 million were settlements on assets under the direct ownership or control of the FDIC.

Office of Settlement Workout

The Office of Settlement Workout restructured problem loans and negotiated settlements with defaulted borrowers. Assets assigned to the office generally had a high book value; had the potential for substantial legal costs; were involved in, or had the

potential for involvement in, complex litigation; or remained unsold after a prolonged period of marketing under the existing disposition strategy.

From inception of the program in July 1992 through yearend 1995, the office was assigned 1,507 assets with a book value of \$8.2 billion. All active cases in the Settlement Workout Program were transferred to the FDIC on December 31, 1995.

In March 1993, the RTC also established a litigation review program to monitor and review all litigation matters except for professional liability suits. From inception of the program through December 1995, the program reduced the number of RTC legal cases from 40,972 to 2,402. Pending legal claims were reduced from \$156 billion to \$17 billion; and outstanding legal fees decreased from \$355 million to \$104 million.

In addition to the Settlement Workout Program, a special asset resolutions group was created in March 1995 for use when a typical RTC Settlement Workout Program Team was not considered cost-effective for handling asset assignments.

Office of SAMDA Program Management

The Office of SAMDA (Standard Asset Management and Disposition Agreement) Program Management issued and monitored all SAMDAs, which totaled 199 from inception of the SAMDA program in August 1990 through yearend 1995. SAMDA contractors were assigned approximately \$35 billion in assets and they disposed of approximately \$33 billion (94 percent) during this period.

Most of 1995 was devoted to closing out SAMDA contracts; 44 contracts were closed out during the year. At yearend, \$1.8 billion in assets remained in active SAMDA contracts. The SAMDA Contract Closeout Task Force, formed during the year, assisted in facilitating the closeout of SAMDA contracts prior to sunset.

The office also conducted five internal control reviews of SAMDA programs in the RTC's offices in Denver, Dallas, Newport Beach, Atlanta, and Valley Forge. The reviews focused on overseeing subcontracting; committing all remaining SAMDA and SAMA (Standard Asset and Management Agreement) assets to initiatives, auctions, and other disposition strategies; adhering to contract expiration procedures; and developing a management plan to close the program function at sunset.

Office of Systems and Transaction Review

The Office of Systems and Transaction Review coordinated and monitored the performance of the division's information systems, including the Real Estate Owned Management System (REOMS), Asset Manager System (AMS), and Subsidiary Information Management System (SIMAN). The office also acted as database manager for the RTC's Central Loan Database (CLD), which lists all loan assets marketed by the RTC.

Although the percentage of hard-to-sell assets increased in the 1995 inventory--assets that are typically accompanied by data anomalies--the data quality of the major systems was satisfactory in 1995. For example, REOMS' data quality improved from a rate of 97.8 percent of error-free data in 1994 to 99.1 percent in 1995, while SIMAN's data quality improved from a rate of 89.5 percent of error-free data in 1994 to 98.4 percent in 1995.

The office participated in the FDIC's Asset Disposition System (ADS) Project Task Force, which evaluated the FDIC's future information management requirements for asset management and disposition activities. The project, slated to span several years, will result in the implementation of re-engineered business systems. The office served as the primary RTC contact for ADS, facilitating the direct involvement of subject matter experts from all areas of the Division of Asset Management and Sales. This participation ensured representation of the RTC's policies, business practices, and business system staff expertise in the FDIC's decisionmaking process.

The office also took part in the RTC/FDIC Automated Systems Transition Review Program, which assessed the viability of RTC asset-related systems for future use by the FDIC. Office staff and representatives of the FDIC's Division of Depositor and Asset Services worked together with the RTC and FDIC Information Resources Management organizations to evaluate 63 systems for potential adoption by the FDIC. Of the 25 asset-related systems included in the review, nine systems were adopted by the FDIC for its future business needs, 11 systems will be used to complete RTC business after 1995, and five systems were discontinued.

The office also tracked sales initiatives from inception to final closing transactions through the CLD database. The staff continued to review individual assets and assign them to the sales initiatives considered to be most appropriate and most likely to achieve maximum recovery values. The office began 1995 tracking approximately \$13 billion in loan inventory and ended the year tracking approximately \$6.6 billion, including \$2 billion

in assets offered for sale in the RTC's December 1995 national auction, subject to final closing of those transactions.

Asset Policy Branch

The Asset Policy Branch developed and maintained policies and procedures relating to the management, evaluation, and disposition of real estate, loans, and other assets.

During 1995, the branch focused on carrying out existing asset management programs, such as comparing actual asset sales to the RTC's 1995 sales goals, coordinating asset management-related loan-servicing issues, and assisting in various transition-related projects.

The RTC Major Asset Report was developed and produced bimonthly in 1995. The report summarized the management and disposition status of the top ten assets in each RTC field office, and major sales initiatives in progress throughout the organization.

The staff coordinated and monitored the RTC's rent-free bank branch program, in which certain thrift branches located in predominantly minority neighborhoods were leased on a five-year rent-free basis to minority- or women-owned depository institutions. As of December 31, 1995, 16 branches had been leased through the program.

The branch continued administering the RTC Finder's Fee Program, which permitted the RTC to pay a contingency fee to private-sector firms in return for the recovery of RTC cash accounts determined to be unclaimed, abandoned, or lost. From its inception in October 1993 through December 1995, the program achieved cash recoveries of more than \$2 million. The RTC Finder's Fee Program has been adopted by the FDIC.

Environmental Branch

The Environmental Branch developed policies and procedures governing the management and sale of assets containing environmental resources or environmental hazards. The branch completed its final annual report to Congress on its 1995 activities, as required under the Coastal Barrier Improvement Act of 1990.

In 1995, two significant components of the RTC's environmental program were proposed as "best practices" and recommended for implementation by the FDIC. These practices involved the remediation of hazardous REO assets by future buyers and the

marketing of assets with special environmental resources to conservation agencies and organizations.

During the year, the branch continued coordinating the sale of properties with special environmental resources to public agencies and non-profit organizations. From inception of the program in September 1990 through yearend 1995, a total of 136 properties with an aggregate book value of more than \$550 million were sold for conservation, recreation, or historic preservation purposes.

The office also provided technical environmental support to the National Sales Center as it prepared assets for sale in two national sales initiatives. One offered environmentally contaminated assets; the other, assets with special resources.

The RTC's policies for identifying and treating properties with historic and archeological resources were expanded during the year. The RTC's agreement with the Advisory Council on Historic Preservation was extended through sunset to assist in implementing these policies.

The RTC's most seriously contaminated REO assets were evaluated in 1995 for transition-related purposes and to step up efforts to dispose of the assets.

Commercial Seller Financing Branch

The Commercial Seller Financing Branch originated seller-financed loans for commercial REO sales, and commercial REO and loans in multi-asset sales transactions. The branch also managed equity interests for certain multi-asset sales transactions and securitization partnerships.

During 1995, \$244 million in seller-financed transactions were closed, facilitating \$302 million in asset sales. From the program's inception in March 1991 through yearend 1995, the branch originated approximately \$4.5 billion in seller financing for \$5.6 billion in asset sales, facilitating the sale of more than 5,000 complex real estate assets. At yearend, \$3.9 billion of the \$4.5 billion originated had been paid off or sold.

The branch continued to oversee commercial seller-financed multi-asset sales transactions (MAST) during 1995. By sunset, the branch had originated \$1.9 billion in MAST notes for \$2.4 billion in asset sales. At yearend, \$1.3 billion of the original outstanding principal had been paid down or sold.

During the year, the branch assumed oversight responsibility for approximately \$3.9 billion in equities. These included the Multiple Investor Fund, N and S transactions, and Land Funds. The branch also completed audits of all commercial seller-financing mortgage loan underwriting contractors.

As part of transition planning, in 1995 the branch coordinated the transfer of the commercial seller-financing program to the FDIC, and trained FDIC personnel assuming responsibility for the RTC's program.

Department of Securities Transactions

The Department of Securities Transactions sold securities acquired through RTC interventions and managed the reinvestment of excess RTC receivership and asset claims cash. The types of securities offered for sale included junk bonds, equity securities, U.S. Treasury obligations, federal agency and mortgage-backed securities, limited partnership interests, nationally syndicated bank loans and special purpose finance subsidiaries (SPFSs).

From inception of the securities sales program in March 1990 through yearend 1995, the RTC sold \$65 billion in securities. In 1995, the RTC realized approximately \$1.3 billion in proceeds from the sale of securities. During the year, the office used several programs to sell highly illiquid securities, including limited partnership interests, highly leveraged transactions, SPFSs, and subordinate loan participations. The department also managed over \$1.2 billion in receivership cash and over \$800 million in asset claims cash in 1995.

Noteworthy high-yield transactions in 1995 included the sale of 978,000 shares of Cole National Corporation common stock through a secondary offering; the sale represented 9.4 percent of the shares outstanding. The department also sold \$36 million in floating-rate first mortgage notes of the bankrupt real estate giant Olympia & York Corporation. Despite the corporation's bankruptcy, these securities were sold at record high levels -- an average of 67 percent of book value. Over \$30 million in Mexican and Venezuelan Brady Bonds were sold at prices unseen since the December 1994 peso devaluation crisis. In addition, the fifth and final auction in the HLT (highly leveraged transactions) Bank Debt Sales Program was completed, finalizing the liquidation process of over \$300 million in performing and non-performing nationally syndicated bank loans.

The limited partnership program successfully liquidated approximately \$130 million in limited partnership interests in 1995. The department also marketed 18 SPFSs during

the year, generating more than \$100 million in securities sales. Among the transactions completed were the sales of Salomon Capital Access Corporation conduits, Santa Barbara Funding III, and Uniwest Securities Corporation.

In October 1995, Franklin FSA Zero Coupon Bond litigation was settled. After payment to the bondholders, the RTC realized approximately \$500 million from the sale of the collateral.

Department of Securitization Management

The Department of Securitization Management developed, managed, and implemented programs to securitize financial assets taken over by the RTC, including performing mortgage loans, non-performing commercial mortgage loans, and other loans.

Through the securitization program, approximately \$3.2 billion (book value) in performing loans were sold in 1995. Two transactions totaling about \$2 billion were collateralized by performing single-family mortgages and two transactions totaling about \$1.1 billion were collateralized by performing commercial and multi-family mortgages.

Another \$440 million (book value) in non-performing commercial and multi-family mortgage loans were sold in 1995 through the 1995-S/N transaction. The S/N transaction was a hybrid of the N-Series and S-Series transactions, which disposed of non-performing and sub-performing loans. These transactions involved establishing partnerships between the RTC and private investors who purchased, managed, and then sold portfolios of non-performing and sub-performing loan assets and shared in the profits with the RTC. The structure provided incentives for equity partners to work out portfolios with the highest returns to the partners and the RTC.

From inception of the securitization program in June 1991 to yearend 1995, \$49 billion in performing and non-performing loans were securitized, including single-family, multifamily, and commercial mortgages, and commercial and consumer loans.

Department of Asset Marketing

The Department of Asset Marketing coordinated all marketing programs supporting the sale of RTC assets. The department consisted of the Offices of Financial Instruments and National Marketing.

Office of Financial Instruments

The Office of Financial Instruments planned, coordinated with the field offices, and executed major asset sales. The office disposed of illiquid assets, such as real estate, non-performing loans, and subsidiaries, and conducted portfolio and structured sales (sales of pools of assets chosen by the RTC and a purchaser) of more than \$100 million in assets in a single transaction. The latter offerings were composed primarily of commercial real estate and non-performing mortgages.

The office developed marketing-related data, developed and implemented new sales strategies to dispose of assets, and conducted nationwide auctions of real estate and loans.

During 1995, the office participated with the field offices in conducting the RTC's two final national non-performing loan auctions in Kansas City, Missouri. In the May 1995 auction, approximately 7,200 loans with a total book value of \$350 million were sold, yielding a \$230 million recovery. In the December 1995 auction, approximately 5,500 loans with a total balance of \$600 million were sold, for a total recovery of \$400 million.

In 1995, approximately 18,000 assets totaling \$1.5 billion (book value) were sold through the Judgments, Deficiencies, and Chargeoffs (JDC) national sales initiative, a partnership arrangement designed to sell judgments, deficiencies, and chargeoffs. In addition, approximately 784 subsidiaries and joint ventures were either sold or dissolved in 1995.

Office of National Marketing

The Office of National Marketing coordinated the RTC's marketing nationwide and provided asset sales support through advertising, industry relations, marketing systems, customer services, telemarketing, and small investor programs.

In 1995, the office, through its in-house advertising agency, continued to create and place all national advertising for RTC sales events. More than 1,500 advertisements were placed during the year. As a result of producing all RTC advertising and collateral materials, the office saved taxpayers \$1.5 million in 1995.

Direct mail was used for over 65 separate auctions, sealed bid sales, and other sales-related events, with over 200,000 pieces of direct mail delivered in 1995. The office also managed the nationwide marketing for the RTC's two national loan auctions held in Kansas

City, Missouri, in May and December of 1995; 60,000 pieces of direct mail were delivered to promote the events.

The staff conducted and participated in numerous outreach activities throughout the year to inform potential bidders, including minorities, women, and small investors, of RTC sales events. While the number of events in which the staff participated during the year declined from 1994, as the number of assets decreased, the staff participated in 11 conventions sponsored by national trade associations. As in previous years, the group continued to provide assistance to the RTC's Division of Minority and Women's Programs and the Department of Affordable Housing.

The office continued to provide the public with information about sales initiatives through the RTC's national toll-free telemarketing program. From the program's inception in 1991 through yearend 1995, over 2.7 million calls were answered on the Affordable Housing Hotline, Broker Hotline, Small Investor Program Hotline, and Information Center Line. More than 3.3 million brochures, sales event calendars, and property listings were distributed from the inception of the program through yearend 1995.

The small investor group was responsible for ensuring that RTC assets were offered for sale individually or in sales initiatives that allowed investors with moderate capital to compete. In 1995, the office, in conjunction with the RTC's field offices, held 60 buyer-awareness seminars to assist local and regional investors in learning about the RTC's remaining assets. From the program's inception in April 1993 through yearend 1995, approximately 28,490 investors attended seminars sponsored by the program. In 1995, the Small Investor Hotline provided information, including brochure packages and property listings, to over 6,300 callers.

Department of Affordable Housing

The Department of Affordable Housing identified real estate assets suitable for sale to low- to moderate-income families and individuals, as well as non-profit housing organizations, through its Affordable Housing Disposition Program (AHDP). The program merged with the FDIC's Affordable Housing Program on August 8, 1995.

The Affordable Housing Disposition Program offered income-eligible purchasers and non-profit housing organizations an exclusive 97-day marketing period and an option to purchase eligible properties. Non-profit housing organizations included consumer and public interest groups, as well as state and local housing agencies.

Under the Affordable Housing Disposition Multi-family Program, multiple-unit dwellings were initially marketed exclusively to low-income housing providers who agreed to reserve at least 35 percent (15 percent for low-income individuals and families, and 20 percent for very low-income individuals and families) of the units at restricted rent levels for the remaining useful life of the property (40 to 50 years).

In 1995, 1,255 single-family dwellings were sold through the Affordable Housing Disposition Program for a total of \$32 million. From the program's inception in 1990 to yearend 1995, 23,196 single-family properties were sold for a total of \$632 million. These properties were offered primarily through auctions and sealed bids.

The RTC provided seller financing for 337 single-family homes sold under the Affordable Housing Disposition Program in 1995. From the inception of the AHDP seller financing program in early 1991 through yearend 1995, the RTC provided seller financing for 5,726 single-family homes, or nearly 25 percent of the total sold. Purchasers of single-family homes utilized \$58 million of RTC-sponsored mortgage revenue bonds.

The average income of purchasers of single-family homes from the AHDP's inception in 1990 to yearend 1995 was \$22,041, or 54.8 percent of national median income; the average purchase price was \$27,249. A survey of buyers at 41 nationwide affordable housing auctions conducted from 1991 through 1994 showed 39 percent of the buyers were minorities and 75 percent were first-time buyers.

In 1995, 138 multi-family affordable housing properties were sold for a total of \$81 million; the RTC provided seller financing for 22 of the properties. From the affordable housing program's inception through 1995, the RTC sold 827 multi-family affordable housing properties containing 81,156 units for an aggregate sales price of \$888 million; 35,557 of those units were solely for low- and very-low income tenants. Since the program's inception, the RTC provided seller financing for 35 percent, or 288, of the multi-family residential properties sold.

In addition, 7,288 multi-family residential units in 41 properties were disposed of outside the program's formal multi-family marketing process; however, the new owners agreed to an affordable housing Land Use Restriction Agreement, whereby 3,731 of the units will be designated solely for low- and very-low income tenants.

The RTC donated properties with no reasonable recovery value to non-profit organizations and public agencies that agreed to make these properties available for low-income housing and other public uses. From inception of the affordable housing program

through yearend 1995, 1,007 single-family dwellings and 69 multi-family properties with no reasonable recovery value were made available for conveyance to non-profit organizations and public agencies. Of those, 296 single-family properties and 9 multi-family properties were conveyed in 1995.

PROPERTIES SOLD TO STATE AND LOCAL HOUSING AUTHORITIES

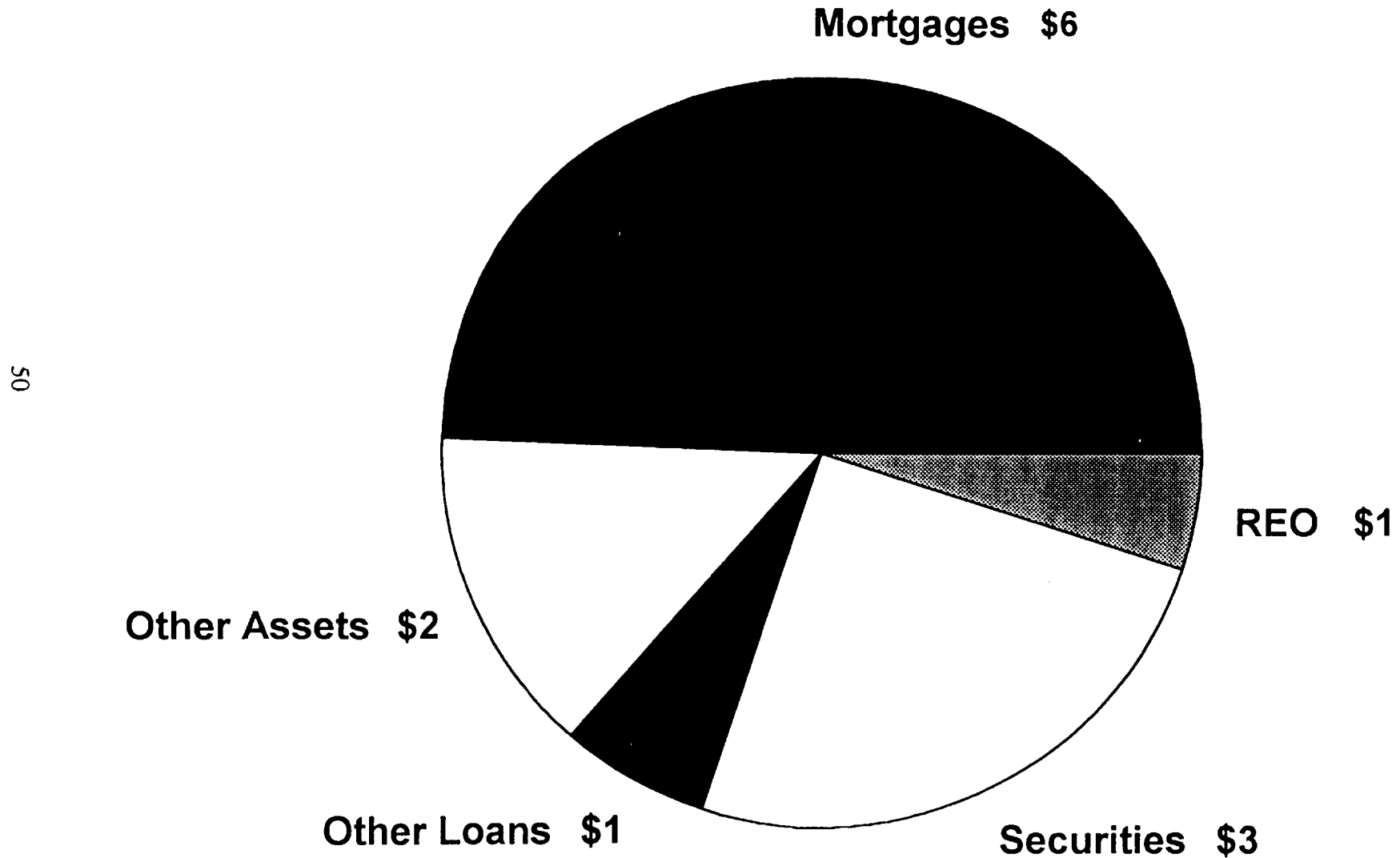
In 1995, the RTC sold the following properties to state and local housing authorities through its Affordable Housing Disposition Program:

Housing Authority	Property	Sales Price	Housing Authority	Property	Sales Price
Battle Creek Housing Authority Battle Creek, MI	Georgetown Estates Battle Creek, MI	\$1,131,057	Housing Authority of Provo Provo, UT	Lookout Point Provo, UT	\$1,915,800
Cameron County Housing Authority Laguna Vista, TX	Tanglewood Apartments Laguna Vista, TX	353,215	Lubbock Housing Authority Lubbock, TX	5th Street Apartments Lubbock, TX	41,375
Colorado Housing Finance Agency Denver, Co	Royalty Manor Apartments Fountain, CO	80,000	Mesquite Housing Mesquite, TX	Pine Oak Apts. Mesquite, TX	3,025,185
City of Abilene Housing Authority	Parkridge Place Abilene, TX	2,208,376	Minot Housing Authority Minot, ND	1511 12th Street NW Minot, ND	40,731
City of College Station College Station, TX	Cedar Creek College Station, TX	701,745		Fair Oaks Apartments Minot, ND	10
City of Durham Durham, NC	616-616 Glendale Street Durham, NC	1		Hillcrest Apartments Minot, ND	10
	619-635 N. Magnum St. Durham, NC	1	Mississippi Regional Housing Authority Gulfport, MS	Colony House II Gulfport, MS	112,341
City of El Paso Housing Authority El Paso, TX	Villa Alegre Apartments El Paso, TX	5,878,876	Pima County Tucson, AZ	Cheery Lynn Apartments Phoenix, AZ	115,495
City of St. Paul Housing & Redevelopment St. Paul, MN	Marshall & Dayton Ave. (10) St. Paul, MN	80		Sierra Linda Apartments Sierra Vista, AZ	116,000
City of Towner Towner, ND	Western Apartments Towner, ND	66,773		Stone Pointe Apts. Tucson, AZ	160,000
City of Waco Housing Authority Waco, TX	Hunnington Apartments Waco, TX	299,669	Redevelopment & Housing Authority Norfolk, VA	9605 6th Bay Street Norfolk, VA	100
	Picadilly Square Apts. Waco, TX	25,847	Rockford Housing & Redevelopment Authority Rockford, MN	Devonshire Apartments Rockford, MN	298,859
	Raintree Apartments Waco, TX	2,062,217	San Antonio Housing Authority San Antonio, TX	Sierra San Antonio, TX	100
	Northwood Apartments Waco, TX	100	San Diego Housing Commission San Diego, CA	National Avenue Apts. San Diego, CA	1
County of Kern Housing Authority Bakersfield, CA	Vintage Apartments Lamont, CA	620,309	Southeast Texas Housing Finance Pasadena, TX	Bankston Apartments Cleveland, TX	32,000
Dallas Multifamily Housing Authority Dallas, TX	Jackson Square Apts. Dallas, TX	16,000	Tampa Housing Authority Tampa, FL	Meridian Apartments Tampa, FL	4,649,282
Dekalb Housing Authority Decatur, GA	Woodcraft Apartments Stone Mountain, GA	1,800,000		River Place Apartments Tampa, FL	940,106
Fairfax Housing & Redevelopment Authority Fairfax, MN	Fairview Apartments Fairfax, MN	210,093	TDHCA/North Texas Mutual Housing Austin, TX	Shadowbrook Apartments Arlington, TX	4,800,000
Grand Prairie Housing Finance Authority Grand Prairie, TX	Western Oaks Grand Prairie, TX	100,000		Sleepy Hollow Apartments Arlington, TX	505,937
Greenville County Redevelopment Authority Greenville, SC	Bear Grass Greenville, SC	287,250	Tift County Community Development Tifton, GA	Tiffany Square Apartments Tifton, GA	89,375
Harris County Houston, TX	Westbrook Square Apts. Houston, TX	1,900,000	Winter Park Housing Authority Winter Park, FL	Winter Park Apartments Winter Park, FL	774,482

1995 Asset Sales and Collections

Conservatorships, Resolutions and Receiverships

(dollars in billions)



Total Sales and Collections: \$12.5 billion (net of putbacks*)

Assets Under RTC Management

As of December 31, 1995

(percentage of gross assets)

Delinquent Loans 14%

Other Performing
Loans 5%

Other Performing
Mortgages 9%

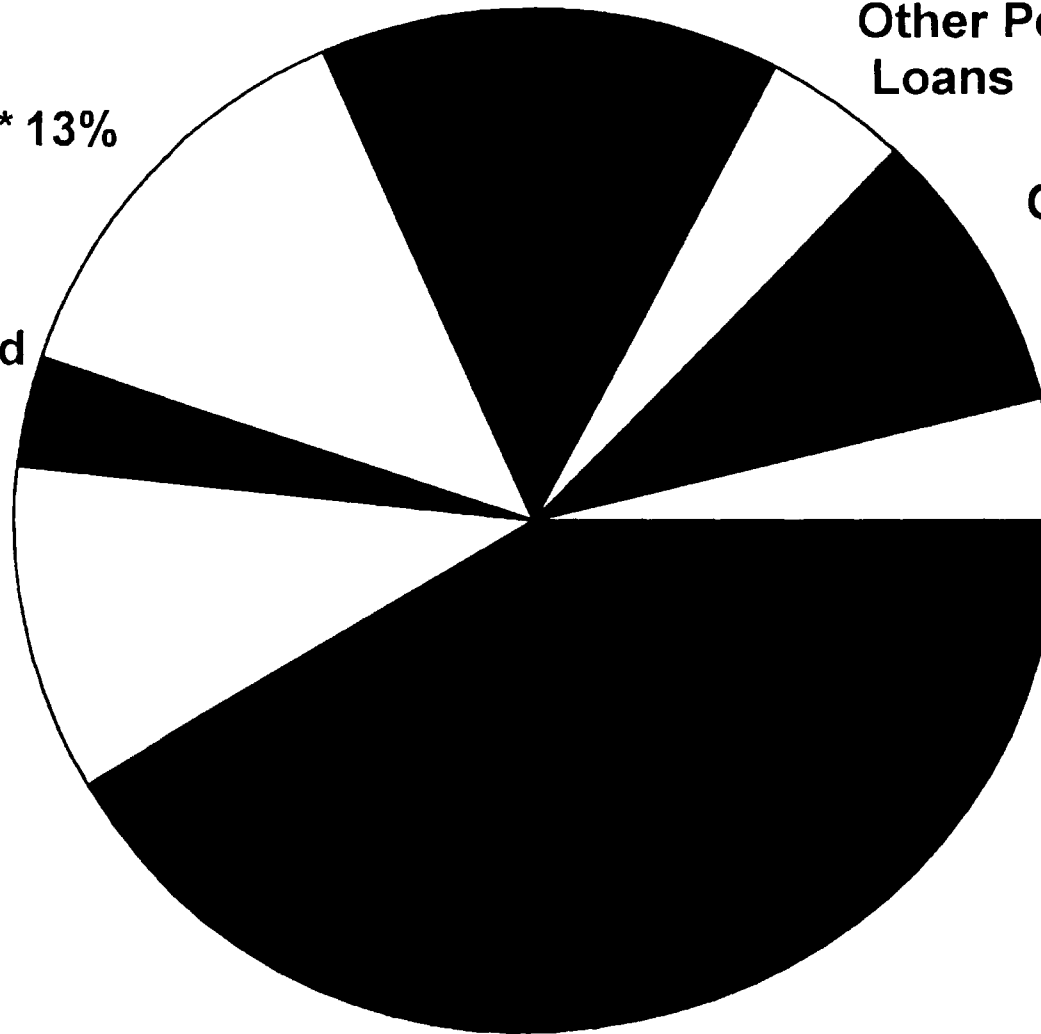
Performing 1-4
Family Mortgages
4%

Other Assets 41%

REO 10%

Mortgage-Backed
Securities 4%

Cash & Securities* 13%



Total Assets: \$7.7 Billion

* Excludes \$12.8 billion in cash, investments (including restricted investments), and accounts receivable

RESOLUTIONS

On day one, August 9, 1989, the RTC assumed 262 failed thrifts that had been placed in conservatorship by federal regulators prior to the enactment of FIRREA. By May 5, 1995, the RTC had resolved all 747 thrifts assigned to it, protecting 25 million deposit accounts with \$221 billion in deposits.

Along the way, the RTC's resolution process faced obstacles and challenges. A periodic lack of congressional funding halted resolutions, resulting in the loss of enormous sums in operating expenses where the institutions remained in conservatorship. Other challenges were presented by FIRREA mandates and the changes in resolution policies required by subsequent legislation.

In the beginning, while still operating under the FDIC's Board of Directors, the RTC adopted the FDIC's resolution methods--those that were least costly to the insurance fund. The RTC's resolution mandate was to ensure the best possible return for the taxpayers, requiring the most cost-effective sales method. Over time, the RTC developed its own innovative sales methods to meet its mandate, a result of changing marketplace demands. Whole-thrift transactions were first pursued. Later, branches were offered in "clusters" or sold individually. In many cases, acquirers did not want to purchase some or all of the thrifts' assets, so they were sold separately. Whenever possible, the RTC presented a menu allowing bidders to choose from a variety of structures. These strategies attracted more bidders, including small investors, and resulted in higher premiums.

The Division of Resolutions' two offices, Major Resolutions and Field Resolutions, carried out the work of marketing and executing the most cost-effective resolutions for insolvent thrifts placed in RTC conservatorship or in the Accelerated Resolutions Program (ARP) by the Office of Thrift Supervision (OTS).

In 1995, the RTC resolved three thrifts, leaving no institutions in conservatorship at yearend. (Sixty-four thrifts were resolved in 1994; 27 in 1993; 69 in 1992; 232 in 1991; 315 in 1990; and 37 in 1989.)

The cost of the three resolutions completed in 1995 was estimated to be \$342 million (the cost is estimated until all assets associated with the institutions are sold). The three resolutions provided a savings of \$154 million over the cost of paying off the insured deposits. The gross RTC funding for the three institutions totaled \$1.5 billion. All deposits of the three institutions were transferred to their acquirers; no resolution involved the payoff of insured deposits.

By the end of the third quarter of 1995, the division had transferred most of its staff to the FDIC.

Office of Major Resolutions

The Office of Major Resolutions managed the disposition of larger conservatorships, generally institutions with more than \$500 million in liabilities at the time of conservatorship. One thrift, Carteret Federal Savings Bank, Madison, New Jersey, was resolved by the Office of Major Resolutions in 1995.

Carteret was resolved in three phases--nine Florida branches were sold on October 28, 1994; 14 New Jersey branches on January 20, 1994; and 16 New Jersey branches on March 10, 1995. Carteret's 39 banking offices were acquired by multiple financial institutions for a combined premium of \$134 million, representing about 11 percent of Carteret's core deposits. As part of this resolution, Banco Popular FSB, Newark, New Jersey, a newly chartered federal savings bank, acquired four of seven offices located in predominantly minority neighborhoods (PMN). Hamilton Bank, N.A., Miami, Florida, a minority-owned institution, purchased two branch offices of Carteret Federal Savings Bank, Newark, New Jersey, one of which was located in a PMN.

Office of Field Resolutions

As the Division of Resolutions downsized in its final year, the Office of Field Resolutions handled the division's administrative tasks and managed its corporate responsibilities, including resolving institutions under the Accelerated Resolutions Program. No field resolutions were completed in 1995. (The office completed 43 field resolutions in 1994; 20 in 1993; 44 in 1992; 166 in 1991; 272 in 1990; and 33 in 1989.)

Accelerated Resolutions Program

The Accelerated Resolutions Program, a joint effort between the RTC and the OTS, was created on the premise that early intervention in a failing thrift could create significant taxpayer savings.

Thrifts selected for ARP were those that the OTS Director determined were in danger of failing, and whose financial condition would cause them to be placed in conservatorship within one year. Unlike other thrifts resolved by the RTC, those resolved through ARP were not placed in conservatorship before resolution.

During 1995, two thrifts, with total deposits of \$414 million, were resolved under ARP (compared to 2 in 1994; 1 in 1993; 9 in 1992; 21 in 1991; and 4 in 1990). Both institutions--Continental Savings of America, a Federal Savings and Loan Association, San Francisco, California; and American Savings and Loan Association, New York, New York--were resolved by the Office of Field Resolutions. The resolutions generated \$20 million in premiums, representing approximately 7.4 percent of total core deposits.

American Savings and Loan Association's Church Avenue banking office, located in a predominantly minority neighborhood, was acquired by Broadway National Bank, New York, New York, a minority-owned thrift. The RTC utilized marketing and bidding procedures giving certain preferences to minority bidders for this banking office.

Minority Participation

The RTC was committed to the goal of maximizing opportunities for minority investors seeking to purchase failed thrifts from the RTC. To increase minority participation in the resolution process, the RTC implemented provisions under its Minority Preference Resolutions Program giving certain preferences to minority bidders. These provisions were mandated by Congress in FIRREA; the RTC Refinancing, Restructuring, and Improvement Act of 1991; and the RTC Completion Act, enacted in December 1993, which amended the Federal Home Loan Bank Act.

The Minority Preference Resolutions Program's incentives included interim capital assistance; options to purchase performing assets from the RTC's inventory; and rent-free leasing options on office space for minority acquirers of RTC-owned thrift branches in predominantly minority neighborhoods.

Also offered under the program were bidding preferences for minorities interested in purchasing like-minority thrifts, thrifts for which no acceptable bids were received, and thrifts or branches in PMNs. The RTC Completion Act expanded opportunities for minority acquirers of thrifts and branches in PMNs, designed, in part, to help preserve banking services in minority neighborhoods served by thrifts resolved by the RTC.

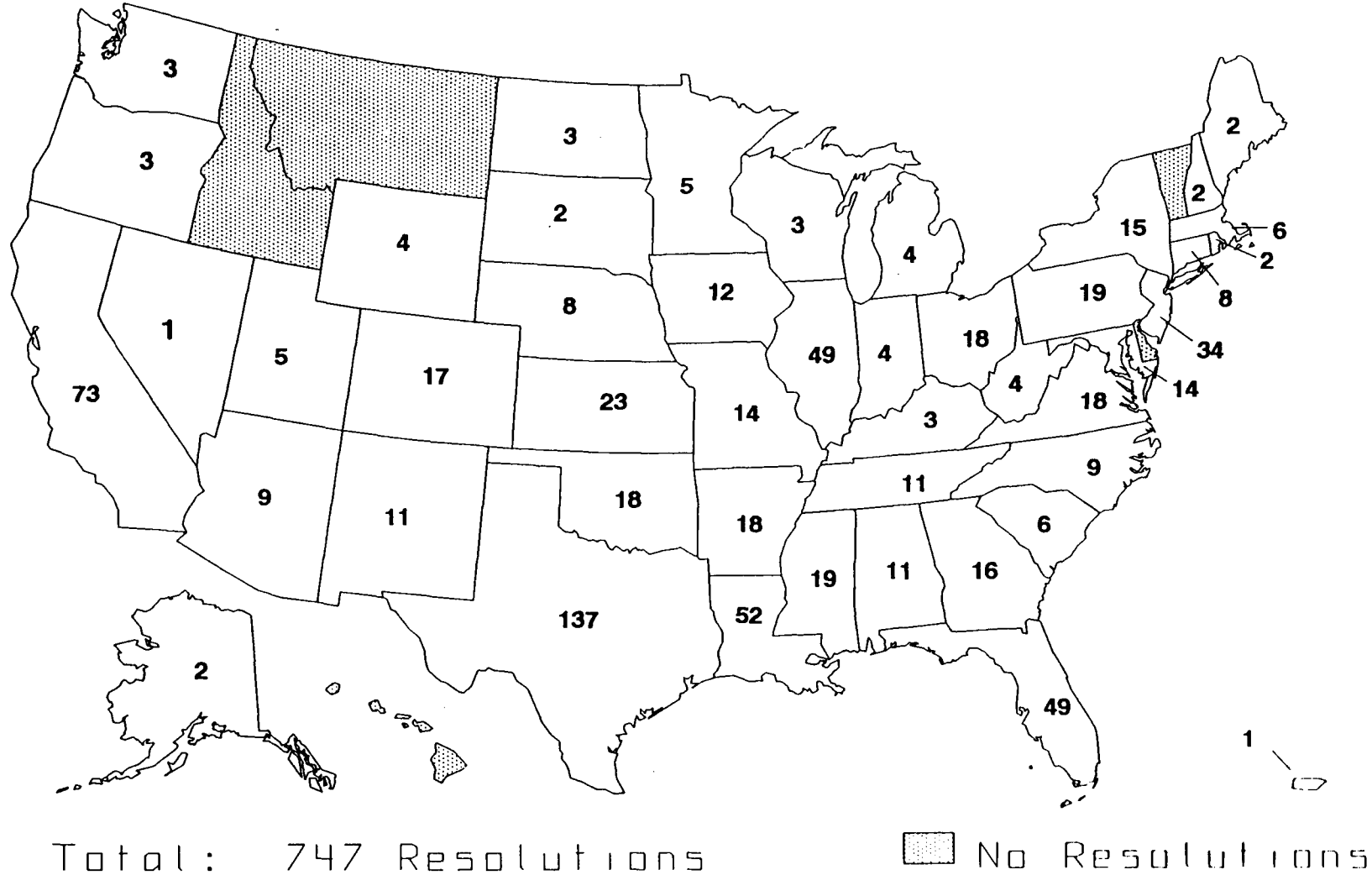
By March 10, 1995, the RTC had resolved all 23 thrifts with branch offices in PMNs. The 23 thrifts had a total of 68 PMN offices; minorities acquired 37 percent (25 of the 68 branch offices). As part of the resolutions, the RTC made available over \$40 million in interim capital assistance to the acquirers. The remaining 43 branch offices located in PMNs were acquired by non-minority-owned institutions. Banking services were expected to continue in those neighborhoods.

The RTC encouraged non-minority acquirers of RTC institutions to participate in its post-resolution program. Under the program, if a non-minority acquirer sold a branch or branches of its thrift to a minority investor within six months of the original resolution, the RTC would make available to the minority acquirer the same minority preference benefits it would have received had it purchased the branch or branches directly from the RTC.

Resolutions, By State

August 9, 1989, through December 31, 1995

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MINORITY AND WOMEN'S PROGRAMS

The RTC continued its commitment to maximizing the involvement of minorities and women in all facets of its operations during 1995. The Division of Minority and Women's Programs (MWP) developed policies and managed programs to expand the participation of minorities and women in all RTC activities, including contracting, purchasing assets and failed thrifts, and securitization. The division also provided leadership and guidance in the Corporation's equal employment opportunity and affirmative action programs.

On February 8, 1995, the RTC published the Minority and Women Owned Business and Law Firm Program Final Rule in the Federal Register, which augmented the RTC's existing minority and women outreach program. The rule set forth regulations governing the RTC's implementation of programs that were legislatively mandated to ensure the inclusion of minority- and women-owned businesses (MWOBs), and entities owned by minorities and women, in RTC contracting to the maximum extent possible.

Contract administration and oversight was a primary focus in 1995. The MWP National Task Force (NTF) was established to perform on-site reviews of the RTC's most active multi-regional contracts to determine their compliance with the RTC Completion Act's MWOB subcontracting requirements. The NTF conducted 111 contract reviews in 11 states. The contracts' estimated fees totaled approximately \$322 million; the MWOB joint venture and subcontracting fees totaled \$90 million. The NTF analysis revealed that 69, or 62 percent, of the 111 contracts reviewed were in compliance with the terms of their contracts' subcontracting commitments. Contractors who were not in compliance were provided with appropriate notice regarding their contract obligations and information on their performance levels.

The Division of Minority and Women's Programs is comprised of the Departments of Minority- and Women-Owned Business; Legal Programs; Equal Employment Opportunity and Affirmative Action (EEO/AA); and Policy, Evaluation, and Field Management.

Department of Minority- and Women-Owned Business

The Department of Minority- and Women-Owned Business ensured that firms owned and operated by minorities and women had the maximum opportunities available to do business with the RTC. During 1995, the department continued its commitment to

increase the participation of minorities and women in the RTC's contracting, acquisition, and sales opportunities.

The department continued to focus on ensuring the integrity of the MWOB certification program. Several initiatives were implemented in 1995 to prevent fraud and misrepresentation. A revised letter of certification was developed that included each firm's tax identification number to ensure accuracy in tracking. A Recertification/Bonus Point Eligibility Affidavit was also implemented, improving the recertification process by reducing the required paperwork.

Due to its stringent MWOB certification requirements, the RTC became nationally recognized by other federal agencies as having one of the most effective certification programs in the federal sector. With RTC MWOB certification, MWOBs were often permitted to forego some of the lengthy certification processes required by other agencies. Approximately 1,000 firms were added to the MWOB database in 1995, bringing the total number of firms to 4,183. During 1995, the RTC performed 128 on-site verification reviews of MWOBs whose contracting fees totaled \$100,000 or more.

In 1995, minorities acquired five branches of two RTC thrifts, Carteret Federal Savings Bank, Newark, New Jersey; and American Savings and Loan Association, New York, New York. The five branches had total deposits of \$190.5 million.

During the year, the division worked with the resolutions and the asset management and sales staffs to implement the Rent Free Lease Program for Depository Institution Branches located in Predominantly Minority Neighborhoods (PMNs). Through the program, the RTC successfully marketed and leased six PMN branches to the following minority and/or women depository institutions in 1995: Commonwealth National Bank, Pritchard, AL; Dryades Savings Bank, New Orleans, LA; First American Savings Bank, Jackson, MS; and First Tuskegee Bank, Tuskegee, AL.

Department of Legal Programs

The Department of Legal Programs established and implemented programs designed to ensure the maximum inclusion of minority- and women-owned law firms (MWOLFs) and minority and women attorneys in non-MWOLFs in legal contracting with the RTC.

The department continued its efforts to ensure adherence to the Joint Referrals and Representations Program through compliance reviews of MWOLFs and non-MWOLFs.

The department participated in national and local seminars and workshops, resulting in outreach to thousands of attorneys and other legal professionals.

To further ensure that the RTC maximized the use of minority and women attorneys as outside counsel, the division continued serving as a voting member of the Legal Services Committee in 1995. The committee, which operated both at headquarters and in the field, participated in the selection of outside counsel to handle RTC work.

In 1995, the RTC made 2,016 referrals to MWOLFs, representing 62.3 percent of all RTC referrals to outside counsel, and paid these firms fees totaling \$50.7 million, or 31.8 percent of all fees paid to outside counsel during the year.

Department of Equal Employment Opportunity and Affirmative Action

The Department of Equal Employment Opportunity and Affirmative Action transitioned to the FDIC on April 1, 1995, becoming part of the FDIC's Office of Equal Opportunity (OEO). OEO provided leadership and guidance to both the RTC and the FDIC in all areas of the equal employment opportunity program, and processed administrative complaints of employment discrimination filed by employees and applicants for employment with both corporations.

In 1995, EEO/AA addressed the policies and issues associated with the RTC's downsizing and transition to the FDIC. EEO/AA monitored the downsizing to ensure that minorities and women were not adversely affected. Because of the hiring freeze, the office focused on internal hiring and promotions as they pertained to EEO/AA issues.

Mandatory EEO training of all permanent RTC managers and supervisors was completed in 1995, and offered on a voluntary basis to non-supervisory personnel during the year. Additional training sessions, designed to raise sensitivity to EEO matters, were added to accommodate employee interest. New EEO counselors were selected at headquarters and in the field. During the year, they attended training courses to increase their effectiveness in resolving EEO matters.

To recognize and promote understanding of diverse cultures, the office organized events during the year to observe Women's History Month, Asian-Pacific American Heritage Month, Hispanic Heritage Month, Dr. Martin Luther King's Birthday, Black History Month, and American Indian Heritage Month.

The office continued to process informal and formal complaints of employment discrimination, with an increased emphasis on resolving complaints at the earliest possible stage of the administrative process. EEO/AA expedited complaints in the Denver and Kansas City offices, which closed on March 31, 1995, and June 30, 1995, respectively. EEO/AA kept managers informed of discrimination complaint activity in their respective areas, and encouraged communication between EEO/AA managers and other managers throughout the RTC to resolve potential EEO problems before they escalated to the informal or formal complaint levels. This dialogue frequently yielded positive results.

Department of Policy, Evaluation, and Field Management

The Department of Policy, Evaluation, and Field Management developed, implemented, monitored, and interpreted nationwide program standards, policies, and procedures for the RTC's minority and women's programs, ensuring that they were in compliance with all applicable laws, including FIRREA; the RTC Funding Act of 1991; the RTC Refinancing, Restructuring, and Improvement Act of 1991; and the RTC Completion Act of 1993. In 1995, the department continued to ensure standardized implementation of minority and women's programs nationwide.

The department also played a key role in interpreting, implementing, and monitoring the requirements of the RTC Completion Act. The act contained several provisions designed to increase opportunities for minorities and women, including mandatory MWOB/MWOLF subcontracting provisions; requirements to establish guidelines to effect a more reasonable distribution of contract awards among minority and women subgroups; and expanded opportunities for minority investors to acquire thrift institutions located in predominantly minority neighborhoods. The department monitored compliance with the act through comprehensive on-site program reviews at headquarters and in the field.

The final rule for the RTC's Minority- and Women-Owned Business and Law Firm Program (12 CFR, Part 1617) incorporated provisions of the RTC Completion Act. The rule, drafted by the department, increased bonus points for MWOBs and MWOLFs that bid on RTC contracts; revised contracting procedures to ensure that MWOBs and MWOLFs were not inadvertently excluded; and required an approved MWOB and MWOLF subcontracting plan for all contracts (including legal service contracts) under which the contractor would receive fees or other compensation equal to or greater than \$500,000.

The department developed and implemented guidelines for achieving a reasonably even distribution of contract awards among MWOB subgroups. On a monthly basis, the department monitored contracting data and the levels of contracting by each MWOB subgroup within each office.

Throughout the year, the department closely tracked, analyzed, and evaluated data used in reports submitted to Congress on the implementation of the RTC's MWP policies, emphasizing progress in addressing requirements of the RTC Completion Act.

The data showed that from August 1, 1989, through December 31, 1995, the RTC awarded 159,725 contracts with related estimated fees of \$5.3 billion. MWOBs were awarded 56,597 contracts with related estimated fees of \$1.5 billion, or 28.3 percent of all estimated fees. Non-minority men were awarded 103,128 contracts with related estimated fees of \$3.8 billion, representing 71.7 percent of all estimated fees. Non-minority women were awarded 36,837 contracts with related estimated fees of \$608.7 million, or 11.4 percent of all estimated fees. Minorities were awarded 19,760 contracts with related estimated fees of \$896.1 million, representing 16.9 percent of all estimated fees.³

For 1995 alone, the RTC awarded 8,169 contracts with related estimated fees of \$220.8 million. MWOBs were awarded 4,171 contracts with related estimated fees of \$106.9 million, or 48.9 percent of all estimated fees. Non-minority men were awarded 3,998 contracts with related estimated fees of \$113.8 million, representing 51.6 percent of all estimated fees. Non-minority women were awarded 2,486 contracts with related estimated fees of \$39.8 million, or 18 percent of all estimated fees. Minorities were awarded 1,685 contracts with related estimated fees of \$67.2 million, or 30.4 percent of all estimated fees.

³ Contracting statistics for August 1, 1989, through December 31, 1995, are compiled from the RTC Contracting Activity Reporting System's (CARS) "Contract Summary by Ethnic ID" dated April 15, 1996.

CHIEF FINANCIAL OFFICER

With operations around the country and business transactions totaling in the billions of dollars, the RTC's financial affairs were complex. Oversight of the RTC's wide-ranging financial management activities--from administration of the corporate budget, to field and corporate accounting of the RTC's asset sales and disposition operations, to financial reporting and cash management--was the responsibility of the Division of the Chief Financial Officer (CFO).

Comprising the division were the Offices of Budget and Planning, Accounting Services, Field Accounting and Asset Operations, Management Control, and Contract Appeals.

On June 22, 1995, the RTC received an unqualified opinion on its 1994 financial statements from the General Accounting Office (GAO). This marked the fourth consecutive year the GAO had issued an unqualified opinion on the RTC's financial statements, which were produced by the Division of the Chief Financial Officer.

During the year, the division executed a transition plan to prepare for the RTC's closure and transition to the FDIC. The plan was designed to ensure the orderly transfer of CFO functions at sunset.

Office of Budget and Planning

Among the Office of Budget and Planning's duties were coordinating and managing the RTC's budget process, planning business activities, estimating resource requirements, measuring corporate performance, and monitoring progress in achieving corporate goals.

During the year, the office continued with several initiatives established in 1994 that supported budget formulation and execution. They included analyzing budget policies and procedures, improving resource-reporting capabilities, and using the Quarterly Report of Performance Indicators to report progress in achieving the RTC Business Plan goals.

The office focused on evaluating the budget effects of the RTC's sunset and transition of personnel and operations to the FDIC. It developed a new report to track combined RTC/FDIC personnel resources, and reviewed RTC budget policies, procedures, and information systems as part of the "best practices" review for continued use by the FDIC after sunset.

The Budget Information System (BIS) was increasingly relied upon as the primary vehicle for resource reporting in 1995. The system's structure for expenses and staffing allowed consistent, accurate reporting in these areas across all locations, organizations, and functions down to expense account level.

In 1995, non-interest RTC operating expenses totaled approximately \$1.47 billion, 34 percent below expenses for 1994. Of this amount, outside services accounted for 45 percent; employee compensation, 26 percent; and receivership real estate expenses, 16 percent. On-board RTC staff transferred to FDIC at yearend 1995 totaled 1,730 employees, of which 966 were permanent employees. In addition, several hundred RTC employees, who were returned to the FDIC during the year, continued to work exclusively on RTC functions.

Office of Accounting Services

The Office of Accounting Services performed the corporate accounting and official financial reporting functions. It produced and maintained the corporate accounting records and related systems, the corporate funding/cash-management operations, and the official corporate financial statements and reports reflecting the financial performance of the RTC in its corporate, conservatorship, and receivership capacities.

In 1995, the office continued to record and reconcile all corporate accounting transactions to ensure data integrity and consistency in the RTC General Ledger, the Corporation's official accounting system.

The office managed the nationwide RTC Accounts Payable System and performed all vendor maintenance for the system. In 1995, the system processed 180,000 invoices to disburse approximately \$19.2 billion.

The office managed the appropriated funds received from the U.S. Treasury, and the borrowings from and repayments to the Federal Financing Bank. Federal Financing Bank funds were used in the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. As of December 31, 1995 and 1994, the RTC had \$10.5 billion and \$23.2 billion, respectively, in borrowings and accrued interest outstanding from the Federal Financing Bank. The office also managed the disbursement of initial funding for the resolution of failed savings associations.

The office prepared all corporate financial information. These included the Corporation's statements of financial position (audited by GAO), legislatively mandated

reports, and reports to the Thrift Depositor Protection Oversight Board, other government agencies, senior RTC management, and the general public.

Office of Field Accounting and Asset Operations

The Office of Field Accounting and Asset Operations provided receivership accounting and asset operations services for the Corporation.

The office directed and managed all accounting and asset operations functions supporting the RTC's asset sales, management, and disposition activities. Through yearend 1995, the office facilitated \$18.8 billion in asset sales. In 1995, the office standardized its national loan-servicing contracts, saving the RTC more than \$1.2 million per year. In the RTC's final year, the office focused on asset disposition and continued improvement of internal controls over RTC financial operations.

The RTC's national network of four financial service centers, located in Atlanta, Dallas, Denver, and Kansas City, was directed by the office, which ensured the centers' compliance with corporate asset operations and accounting policy. As part of its oversight of the service centers, the office regularly assessed each center's operational effectiveness using a performance measurement system.

The RTC's daily operations for all assets held in receivership were managed by the office. As of January 1, 1995, receivership assets totaled approximately \$23 billion (book value). During the year, \$1.7 billion (book value) in assets from three resolved thrifts were added to the inventory. Sales transactions and principal collections processed in 1995 totaled \$12.5 billion.

The office's national cash-management program oversaw corporate wire-transfer activity, cash disbursements, and internal controls. During 1995, the office averaged 700 wire transfers per month, with an average of \$1.3 billion in monthly disbursements.

In 1995, the office improved the asset and accounting systems' reporting capabilities to track financial transactions at detail levels. With the enhancements, the office could validate 95 percent of all real estate sold within 60 days. The office also provided management-reporting services to the RTC's asset management and sales offices.

As part of the Office of Field Accounting and Asset Operations, the National Sales Support Office (NSSO) provided accounting and asset operations support for the RTC's special sales initiatives. In 1995, NSSO reviewed and accepted approximately 4,800

reconciliations on national sales transactions and resolved approximately 2,100 problem resolution inquiries. The office also supported the closings of 17 national sales transactions totaling \$4 billion. From inception of the NSSO in 1993 through yearend 1995, the office reviewed and accepted approximately 8,800 reconciliations on more than 120 national sales transactions.

The GAO's unqualified opinion of the RTC's 1994 financial statements cited continued improvement of the RTC's internal controls over its financial operations. In 1995, the office implemented an audit management tracking system to improve audit follow-up practices. The system was demonstrated to other government agencies in an effort to improve audit follow-up practices throughout the government.

In preparation for a smooth transition of RTC operations to the FDIC, the office updated all asset operations and accounting policies, procedural manuals, and directives. The office offered additional training to RTC and FDIC personnel on the latest enhancements to the RTC's financial systems and related procedures.

Office of Management Control

The Office of Management Control oversaw the RTC's internal control programs. This included administering the corporate internal control and audit follow-up policies and procedures, managing the internal control and audit follow-up programs, serving as the liaison with internal and external auditors, responding to requests from the Thrift Depositor Protection Oversight Board and preparing the management tables which accompany the OIG's semiannual report to Congress as well as the annual Chief Financial Officer's Act report on the RTC's internal controls.

During the year, the office supplied managers and staff support to the Transition Internal Controls Policy Committee (ICPC). The ICPC was chartered by the Transition Task Force to ensure that adequate internal controls were in place for the transition of RTC matters to the FDIC.

The office managed the resolution of audit issues and recommendations, reported to management on the status of corrective actions, and participated in monitoring the Corporation's compliance with the Chief Financial Officers Act of 1990 and associated policies of the Thrift Depositor Protection Oversight Board.

During 1995, the office assisted headquarters and field offices in preparing responses to 471 audit and review reports from the General Accounting Office, Office of

Contractor Oversight and Surveillance, and RTC Office of Inspector General. It cleared approximately 2,130 unresolved actions related to these and previous reviews; closed 169 Hotline cases and Reports of Investigation referred by the OIG; and coordinated approximately 25 internal control and program compliance reviews.

Office of Contract Appeals

The RTC created the Office of Contract Appeals and the Contract Appeals Committee in late 1994.

The Office of Contract Appeals provided technical, analytical, and administrative support to the Contract Appeals Committee, which heard appeals of major decisions on contractor and RTC disputes arising during the administration of contracts. This independent review process minimized the necessity for litigation between the RTC and its contractors.

The Contract Appeals Committee was authorized to render final RTC decisions on all appeals of contract dispute decisions involving contractor claims of \$100,000 or more. The committee consisted of four impartial members--senior representatives from the Divisions of the Chief Financial Officer, Legal Services, Administration, and Minority and Women's Programs. All communication and information exchanged between parties was managed and controlled by the Office of Contract Appeals.

During 1995, the Office of Contract Appeals administered 19 appeals. Of the 19 appeals, the Contract Appeals Committee rendered 18 decisions, which involved 62 dispute issues totaling approximately \$10 million. At yearend, 4 additional appeals were under review, which involved 6 issues totaling \$715,843.

INFORMATION RESOURCES MANAGEMENT

The Department of Information Resources Management (DIRM) developed and managed national automated information systems to support the RTC's vast operations, and provided technical support for the information systems until June 25, 1995. On that date, RTC DIRM merged into FDIC DIRM as part of the RTC's transition to the FDIC. For the remainder of the year, FDIC DIRM provided necessary support and maintenance to the RTC's information systems.

Before the June 25, 1995, merger, RTC DIRM fulfilled its responsibilities through two offices: Systems Development and Corporate Information. Major department activities were guided by the Information Resources Management (IRM) Steering Committee, which reviewed selected system projects, and the IRM strategic plan and budget. The IRM Steering Committee also reviewed recommendations on actions requiring the attention of the RTC Executive Committee, which evaluated more substantial expenditures and established strategic IRM policy.

Office of Systems Development

The Office of Systems Development (OSD) created and managed the RTC's national information systems through its two branches: Software Management and Business Applications Analysis.

The Software Management Branch developed, implemented, and maintained the national information systems, and provided user training, documentation, and other support for these systems.

The Business Applications Analysis Branch worked closely with program areas to identify and address issues that might impede effective systems development or support. It focused primarily on issues affecting clients who crossed organizational lines. These issues included user group interaction, cost-benefit analysis, and general policy development projects. The branch also acted as a liaison between RTC and FDIC staffs on joint systems-development projects.

With RTC sunset approaching, OSD focused on RTC/FDIC transition-planning activities during the year. This included the Automated Systems Evaluation Process, which was developed to ensure the timely review of all national RTC systems and prompt determination of their disposition/transition to the FDIC. Coordinating with its FDIC counterparts, OSD arranged meetings between technical and business staffs to analyze 63

RTC applications and, in many cases, corresponding FDIC applications. Following the evaluation, 49 RTC systems were recommended for transition to the FDIC. These recommendations were included in the FDIC/RTC Transition Task Force's June 30, 1995, report to Congress, and reported to the Secretary of the Treasury on July 31, 1995.

Other OSD activities included supporting information systems in the following RTC areas: finance, internal controls, assets, resolutions, contracts, legal services, professional liability actions and criminal investigations, and administration. As DIRM's customers wound down operations with sunset nearing, DIRM's functions shifted toward maintaining the application systems inventory. As needed, the office also developed or enhanced corporate information systems, which included the following:

Asset Systems

Affordable Housing Compliance Monitoring System (AHDP-CMS)--AHDP-CMS is used by 28 states to monitor whether purchasers of properties sold under the RTC's Affordable Housing Disposition Program are complying with the program's regulations. In eight states that elected not to use the AHDP-CMS, non-profit organizations are operating the system to monitor program compliance. During 1995, AHDP-CMS was enhanced to support a network-based multi-user environment, and the collection and reporting of tenant income certification information.

Asset Management System (AMS)--AMS is a cash-management system that captures all income and expense data associated with RTC assets managed by Asset Management and Disposition Agreement contractors. In 1995, the office improved nightly processing efficiency and enhanced AMS so that data from prior years could be viewed on-line on a transaction summary table.

Control Totals Module (CTM)--CTM is used to capture summary asset-related financial activity, post it to the General Ledger, and assist in the reconciliation process between the General Ledger and subsidiary records. The system was enhanced during the year to capture and track documentation required to process financial transactions.

Internal Controls System

Management Reporting System (MRS)--MRS supports the Corporation's internal control activities by recording, monitoring, and tracking RTC-related audit findings, and the RTC's resulting decisions and actions. In 1995, the system was enhanced to accommodate the significant increase in audit findings, recommendations, actions, and

milestones during the year. The office also simplified MRS' access controls, as well as modified current reports and added new reports to provide summary and detail management-tracking capabilities that monitor compliance with audit follow-up requirements.

Contract Systems

Contracting Activity Reporting System (CARS)--CARS is the official repository of information on the RTC's headquarters and field contracting activities in its corporate receivership capacity. The system monitors the award process of each contract from inception, and provides summary information on the status of the overall contracting program. Three upgrades were added to CARS in 1995: several new fields to facilitate the RTC/FDIC transition, the inclusion of transition-status information, and the capability to transfer contracts from one contractor to another.

Office of Contractor Oversight and Surveillance Status System (OCOS3) and Office of Contractor Oversight and Surveillance Investigations Tracking System (OCOS-ITS)--OCOS3 tracks the results of background investigations performed on prospective RTC contractors' key corporate and project management personnel. OCOS-ITS tracks contractor complaints and related cases brought against the RTC. OCOS-ITS received hardware and software upgrades in 1995.

Legal System

Thrift Investigation Management System (TIMS)--TIMS stores data on failed thrifts, and on organizations and individuals associated with failed thrifts. In 1995, the office upgraded TIMS to include a module to track civil fraud cases, and added several new reporting capabilities to provide detail and management reports, audit reports, and monthly institution and office summary reports. Preparations were underway in 1995 to install TIMS in FDIC service centers.

Professional Liability System

Professional Liability Section Case Tracking System (PLSCTS)--PLSCTS allows Professional Liability Section staff to quickly track PLS information requested by internal and external sources, including RTC management, the General Accounting Office, and Congress. PLSCTS tracks authority to sue memoranda, authority to settle memoranda, case close-out memoranda, orders of investigation, tolling agreements, lawsuits, settlements, recoveries made as a result of judgments and settlements, and appeals.

PLSCTS was enhanced in 1995 to improve screen navigation, reduce memory requirements, and provide additional reports.

Administrative System

Records Management Tracking System (REMATS)--REMATS is a records-management application with bar-code technology that provides an automated inventory of failed savings and loan records. Upgrades to the system in 1995 included enhanced search capabilities for users, reduced disk-storage requirements by more than 50 percent, increased system performance/speed, and reduced system support required by field staff.

Office of Corporate Information

The Office of Corporate Information (OCI) provided the technical infrastructure and other support necessary to enable RTC headquarters and field staffs to use corporate information resources effectively. Through its two branches--Information Resources Management and Information Systems--OCI ensured that the RTC's information and reporting needs were met.

The Information Resources Management Branch administered and managed Information Resources Management (IRM) programs, including the oversight of systems quality, standards, security, and internal controls. The branch also oversaw IRM planning and policy formulation.

The Information Systems Branch managed the RTC's data center, Local Area Network (LAN) and Wide Area Network (WAN) operations, and telecommunication services (voice and data).

In 1995, OCI implemented the Security Monitoring Program to ensure that users of automated information systems complied with security policies, standards, and procedures, and to detect and identify potential security exposures and integrity issues.

Also during the year, OCI developed the LAN Security Guide and implemented technical security training for LAN administrators at headquarters and in the field to identify security issues and requirements that LAN administrators should address in their network operations.

OCI established the LAN Resources Center for assessing new technologies, software upgrades, and LAN compatibility issues. The center allowed RTC staff to

develop RTC standard PC configurations, test Paradox version compatibility, and analyze application portability between the RTC and the FDIC, facilitating RTC/FDIC merger activities.

In 1995, OCI published an expanded data center Business Recovery Plan for the recovery of critical RTC application systems in the event of a disaster precluding the use of the RTC Virginia Square Data Center. OCI successfully conducted the Application Systems Business Recovery Test in April 1995, the first time that full RTC application systems operations were tested.

OCI developed and implemented a new quality management procedure for RTC Data Center Help Desk activities, which improved problem-reporting feedback and enhanced services to users of RTC application systems.

Since the 1994 merger of the RTC and FDIC Banyan networks, the RTC and FDIC DIRMs cooperated in improving network management, technical support, and cost-effective contracting support. All network routers and servers were upgraded to common versions of software, allowing increased access between the two networks. In 1995, the RTC and the FDIC headquarters buildings operated as one fully integrated local area network capable of handling the increased traffic loads anticipated from transition-related office moves.

During the first quarter of 1995, OCI assisted with the transfer of the asset-related functions of the RTC's Kansas City Office, Overland Park, Kansas, which closed down most operations on June 30, to the FDIC's Midwest Service Center in Chicago. OCI transferred hardware and applications from the Kansas City Office to the new site. The lessons learned from the transition were integrated into an RTC/FDIC field transition plan. OCI worked with other RTC sites to assist in transitioning RTC systems, and provided continued contractor and headquarters support as local network engineers left the Corporation.

In 1995, the office established basic e-mail, file transfer, and connectivity to the Internet for RTC staff nationwide. A corporate bulletin board was established with a directive on the Internet's usage and information about accessing the Internet. In June 1995, a draft Internet gopher menu structure was developed and submitted to the RTC's Internet provider to place on a prototype gopher server.

DIRM Transition to the FDIC

In 1995, RTC DIRM and FDIC DIRM worked hand-in-hand to accomplish several critical DIRM transition-related projects.

In April 1995, the two DIRMs jointly prepared and submitted a comprehensive implementation report detailing the plans to transfer RTC DIRM's functions to FDIC DIRM on June 25, 1995.

During May and June 1995, the two DIRMs conducted seven best practice reviews in the IRM areas of change management, compliance reviews, application systems certification and accreditation, virus protection and detection, data quality, systems development life cycle methodology, and client server versus mainframe technology. The reviews identified operational differences and provided final recommendations to the FDIC/RTC Transition Task Force on the practices that should be adopted by the FDIC.

Finally, in June 1995, the two DIRMs developed the Functional Integration Plan with 14 individual project plans outlining the responsibilities, actions, and timeframes necessary for fully integrating the two DIRM functions.

REGULATION

Final Rule

Minority- and Women-Owned Business and Law Firm Program

Published February 8, 1995

Effective February 8, 1995

The RTC adopted a final rule that augmented the RTC's outreach program, ensuring the inclusion of minorities and women, and entities owned by minorities and women, in RTC contracting to the maximum extent possible by meeting the mandates in the RTC Refinancing, Restructuring and Improvement Act of 1991 (RRIA) and the RTC Completion Act of 1993. The rule augmented the bonus points required by RRIA for firms owned or controlled by minorities or women, as well as for other entities in which they had substantial involvement. The final rule also implemented new requirements imposed by the RTC Completion Act, including the requirement that the RTC revise its contracting procedures to ensure that minority- and women-owned businesses and law firms were not inadvertently excluded, and that contracts with fees equal to or greater than \$500,000 not be awarded unless the contractor subcontracted specified percentages of work to minority- or women-owned businesses and law firms.

STATISTICS

RTC Conservatorships
January 1, 1995, through December 31, 1995

STATE	ASSOCIATIONS IN CONSERVATORSHIP DECEMBER 31, 1994	ASSOCIATIONS PLACED INTO CONSERVATORSHIP JANUARY 1, 1995 – DECEMBER 31, 1995	CONSERVATORSHIP RESOLUTIONS JANUARY 1, 1995 – DECEMBER 31, 1995			ASSOCIATIONS IN CONSERVATORSHIP DECEMBER 31, 1995
			P&A	PAYOFF	TOTAL	
NEW JERSEY	1	0	1	0	1	0
TOTAL	1	0	1	0	1	0

* Does not include two non-conservatorship institutions resolved under the Accelerated Resolutions Program.

Note: P&A – purchase and assumption, Payoff – insured deposit payoff.

RTC Resolutions

JANUARY 1, 1995, THROUGH DECEMBER 31, 1995

(dollars in millions)

Date of Resolution	Name of Institution and Location	Type	Gross Assets	Total Liabilities	Total Deposits	Number of Deposit Accounts	Estimated Cost of Resolution	Estimated Savings Over Payout	Acquiring Institution and Location
10-Mar	Carteret FSB, Madison, NJ	PA	\$1,376	\$1,485	\$1,238	154,851	\$276	\$134	Branch Sale
28-Apr	Continental Savings of America, FS&LA, San Francisco, CA*	PA	388	369	357	18,521	57	15	California FB, a FSB, Los Angeles, CA
05-May	American S&LA, New York, NY*	PA	68	62	57	5,314	8	5	Branch Sale
Total	3 Institutions		\$1,832	\$1,916	\$1,652	178,686	\$342	\$154	

- Notes:
- 1) Data on assets, liabilities, deposits and accounts are based on TFR data for the quarter prior to the date of resolution.
 - 2) PA - purchase & assumption
 - 3) "Estimated Cost of Resolution" based on December 1994 ECR/LLR results.

* Institution was resolved under the Accelerated Resolutions Program.

RTC RESOLVED CONSERVATORSHIPS
August 9, 1989, through December 31, 1995
(dollars in billions)

	Number	Assets	Liabilities	Deposits	Number of Accounts (thousands)
In Conservatorship as of 8/9/89	262	\$ 118.69	\$ 122.87	\$ 92.70	8,819.11
Added in 1989	56	27.39	26.14	20.18	2,267.73
Resolved in 1989	37	14.03	14.38	11.50	1,158.41
In Conservatorship as of 12/31/89	281	\$ 132.05	\$ 134.63	\$ 101.37	9,928.43
Added in 1990	207	130.73	128.93	94.83	9,205.49
Resolved in 1990	309	137.97	140.65	106.03	11,188.77
In Conservatorship as of 12/31/90	179	\$ 124.81	\$ 122.91	\$ 90.17	7,945.16
Added in 1991	123	73.76	72.05	57.47	5,124.15
Resolved in 1991	211	125.44	124.26	94.39	8,373.78
In Conservatorship as of 12/31/91	91	\$ 73.13	\$ 70.71	\$ 53.26	4,695.52
Added in 1992	50	36.19	34.75	25.26	2,996.55
Resolved in 1992	60	36.84	35.66	28.25	2,703.94
In Conservatorship as of 12/31/92	81	\$ 72.48	\$ 69.80	\$ 50.27	4,988.13
Added in 1993	8	6.30	5.92	4.79	392.71
Resolved in 1993	26	19.63	18.83	14.25	1,599.99
In Conservatorship as of 12/31/93	63	\$ 59.14	\$ 56.89	\$ 40.80	3,780.85
Added in 1994	0	0.00	0.00	0.00	0.00
Resolved in 1994	62	54.22	52.12	38.18	3,502.87
In Conservatorship as of 12/31/94	1	\$ 4.92	\$ 4.77	\$ 2.62	277.98
Added in 1995	0	0.00	0.00	0.00	0.00
Resolved in 1995	1	4.92	4.77	2.62	277.98
In Conservatorship as of 12/31/95	0	\$ 0.00	\$ 0.00	\$ 0.00	0.00
Institutions never placed in conservatorship prior to resolution in 1990 *	6	\$ 4.04	\$ 4.42	\$ 3.72	560.41
Institutions resolved under the Accelerated Resolutions Program in 1991	21	\$ 8.87	\$ 8.57	\$ 7.39	1,053.70
Institutions resolved under the Accelerated Resolutions Program in 1992	9	\$ 9.79	\$ 9.71	\$ 8.51	993.25
Institutions resolved under the Accelerated Resolutions Program in 1993	1	\$ 0.04	\$ 0.04	\$ 0.04	6.96
Institutions resolved under the Accelerated Resolutions Program in 1994	2	\$ 0.14	\$ 0.14	\$ 0.13	6.09
Institutions resolved under the Accelerated Resolutions Program in 1995	2	0.46	0.43	0.41	5.32
All Institutions:					
Conservatorships	706	\$ 393.05	\$ 390.66	\$ 295.22	28,805.73
Non-conservatorships	41	23.34	23.31	20.21	2,625.74
Total	747	\$ 416.39	\$ 413.97	\$ 315.43	31,431.47

Note: Data at quarter prior to date of conservatorship (date of resolution for non-conservatorship resolutions).
Data revises previous RTC Annual Report data where applicable.

* Four non-conservatorship institutions were resolved under the Accelerated Resolutions Program in 1990.

RTC Resolutions
August 9, 1989, through December 31, 1995
(dollars in billions)

STATE	RESOLUTIONS				COST OF RESOLUTION **	SAVINGS ***
	P&A	IDT	PAYOFF	TOTAL		
Alabama	10	1		11	\$ 0.51	\$ 0.07
Alaska	1	1		2	0.21	0.01
Arizona	5	4		9	5.86	0.21
Arkansas	12	3	3	18	2.34	0.02
California * (8)	44	16	13	73	12.04	0.75
Colorado	8	6	3	17	1.92	0.02
Connecticut	7	1		8	0.19	0.02
Florida * (4)	38	9	2	49	6.78	0.54
Georgia	14	2		16	0.60	0.04
Illinois * (3)	41	8		49	1.47	0.27
Indiana	4			4	0.05	0.01
Iowa * (1)	11		1	12	0.30	0.06
Kansas	13	10		23	2.10	0.12
Kentucky * (1)	3			3	0.05	0.01
Louisiana * (2)	11	28	13	52	4.03	0.07
Maine	1	1		2	0.03	0.00
Maryland * (1)	10	4		14	1.45	0.07
Massachusetts	5	1		6	1.37	0.03
Michigan	4			4	0.09	0.03
Minnesota * (1)	2	3		5	0.98	0.03
Mississippi	12	5	2	19	0.68	0.04
Missouri * (2)	10	4		14	1.55	0.06
Nebraska	5	3		8	0.55	0.01
Nevada * (1)	1			1	0.01	0.00
New Hampshire	2			2	0.05	0.01
New Jersey * (1)	28	5	1	34	3.82	0.31
New Mexico	6	2	3	11	1.99	0.00
New York * (3)	15			15	3.16	0.18
North Carolina	8	1		9	0.41	0.06
North Dakota	2	1		3	0.17	0.00
Ohio * (5)	17		1	18	0.66	0.29
Oklahoma * (1)	14	4		18	0.72	0.03
Oregon	3			3	0.39	0.16
Pennsylvania * (1)	19			19	3.20	0.15
Puerto Rico	1			1	0.33	0.04
Rhode Island	1		1	2	0.10	0.16
South Carolina	6			6	0.18	0.03
South Dakota * (1)	2			2	0.04	0.01
Tennessee	8	3		11	0.32	0.03
Texas * (2)	61	29	47	137	26.27	0.57
Utah	4	1		5	0.55	0.03
Virginia * (1)	16	1	1	18	2.33	0.15
Washington	3			3	0.13	0.01
West Virginia	4			4	0.02	0.01
Wisconsin	2	1		3	0.09	0.00
Wyoming * (2)	3		1	4	0.04	0.01
TOTAL (45 STATES & PUERTO RICO)	497	158	92	747	\$ 90.10	\$ 4.72

* Forty-one non-conservatorship institutions were resolved, 39 of which were resolved under the Accelerated Resolutions Program. Number, by state, is indicated in parentheses.

** Estimated resolution cost based on December 1994 ECR/LLR results.

*** Estimated savings over the the estimated cost that would have been incurred had the RTC paid off the insured deposits.

Note: Detail may not add to totals due to rounding.

P&A – purchase and assumption; IDT – Insured deposit transfer; Payoff – insured deposit payoff.

PART III:

**COMPTROLLER GENERAL
OF THE UNITED STATES
REPORT ON THE AUDIT OF
THE RESOLUTION TRUST CORPORATION'S
1995 AND 1994 FINANCIAL STATEMENTS**



Comptroller General
of the United States

Washington, D.C. 20548

B-262036

To the Thrift Depositor Protection
Oversight Board

We have audited the Resolution Trust Corporation's (RTC) statements of financial position as of December 31, 1995 and 1994, and the related statements of revenues, expenses, accumulated deficit, and cash flows for the years then ended as reported by the Federal Deposit Insurance Corporation (FDIC).¹ We found:

- RTC's financial statements referred to above were reliable in all material respects.
- Although internal controls should be improved, RTC management fairly stated that internal controls in place on December 31, 1995, were effective in safeguarding assets from material loss, assuring material compliance with relevant laws and regulations, and assuring that there were no material misstatements in the financial statements.
- No reportable noncompliance with laws and regulations we tested.

The following section discusses each of the above conclusions in more detail. In addition, with the termination of RTC on December 31, 1995, an important phase of the savings and loan crisis has ended. Accordingly, the report also presents an historical perspective on the savings and loan crisis and RTC, the costs of the crisis, and remaining fiscal implications of the crisis.

¹RTC's final day of operation was December 31, 1995, and all of RTC's assets and liabilities were transferred to the Federal Deposit Insurance Corporation's FSLIC Resolution Fund. FDIC also assumed responsibility for RTC's financial records and systems, and for preparing RTC's final financial statements.

OPINION ON FINANCIAL STATEMENTS

The financial statements including the accompanying notes present fairly, in all material respects, in accordance with generally accepted accounting principles, the Resolution Trust Corporation's

- assets, liabilities, and equity;
- revenues, expenses, and accumulated deficit; and
- cash flows.

However, misstatements may nevertheless occur in other RTC-related financial information as a result of the internal control weakness described below.

OPINION ON RTC MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROLS

We evaluated RTC management's assertion about the effectiveness of its internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- assure the execution of transactions in accordance with management's authority and with laws and regulations that have a direct and material effect on the financial statements; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

RTC management fairly stated that those controls in place on December 31, 1995, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. RTC management made this assertion based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). RTC management, in making its assertion, recognized the need to improve internal controls. Our work also identified the need to improve internal controls, as described in the following section. The weakness in internal controls, although not considered a material weakness, represents a significant deficiency in the design or operation of internal controls

which could have adversely affected RTC's ability to fully meet the internal control objectives listed above.²

REPORTABLE CONDITION

RTC acted during 1995 to resolve the reportable condition related to the weaknesses in general controls over some computerized information systems³ identified in our audit of its 1994 financial statements. However, as reported by RTC, many of those corrective actions were not completed until late in 1995. In addition, our audit of RTC's 1995 financial statements identified additional weaknesses

²Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with management's authority and in accordance with laws and regulations, or (3) properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets. A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of their assigned duties. Reportable conditions which are not considered to be material nevertheless represent significant deficiencies in the design or operation of internal controls and need to be corrected by management.

³General controls are policies and procedures that apply to an entity's overall effectiveness and security of operations which create the environment in which application controls and certain user controls operate. General controls include the organizational structure, operating procedures, software security features, system development and change control, and physical safeguards designed to ensure that only authorized changes are made to computer programs, that access to data is appropriately restricted, that back-up and recovery plans are adequate to ensure the continuity of essential operations, and that physical protection of facilities is provided.

related to general controls over its computerized systems such that this reportable condition continued to exist.

Because RTC relied on its computerized information systems extensively, both in its daily operations and in processing and reporting financial information, the effectiveness of general controls is a significant factor in ensuring the integrity and reliability of financial data. Because corrective actions for many of the general control weaknesses identified in our 1995 and 1994 audits were not implemented until late 1995 and early 1996, our audit found that general controls still did not provide adequate assurance that some of RTC data files and computer programs were fully protected from unauthorized access and modification.

In response to the weaknesses we identified, RTC and FDIC developed action plans to address the weaknesses. Prior to the completion of our audit work on June 7, 1996, FDIC reported that most of the corrective actions had been implemented, with those remaining scheduled for implementation by September 30, 1996. We plan to evaluate the effectiveness of the corrective actions as part of our 1996 audit of FDIC.

During 1995, RTC performed accounting and control procedures, such as reconciliations and manual comparisons, which would have detected material data integrity problems resulting from inadequate general controls. Without these procedures, weaknesses in the general controls would raise significant concern over the integrity of the information obtained from the affected systems.

Other less significant matters involving the internal control structure and its operation noted during our audit will be communicated separately to FDIC's management, which assumed responsibility for RTC's remaining assets and liabilities since RTC's termination on December 31, 1995.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on the overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

THE SAVINGS AND LOAN CRISIS: HISTORICAL
PERSPECTIVE AND FISCAL IMPLICATIONS

With the termination of RTC's operations on December 31, 1995, a significant phase of the savings and loan crisis has ended. The following sections present an historical perspective on the savings and loan crisis and RTC's role in resolving the crisis. Specifically, the information describes (1) background on the savings and loan crisis and the creation of RTC, (2) the completion of RTC's mission, (3) RTC's estimated costs and funding, (4) RTC's controls over contracting, (5) the cost of resolving the savings and loan crisis, and (6) remaining fiscal implications of the crisis.

The Savings and Loan
Crisis and RTC

During the 1980s, the savings and loan industry experienced severe financial losses because extremely high interest rates caused institutions to pay high rates on deposits and other funds while earning low yields on their long-term loan portfolios. During this period, regulators reduced capital standards and allowed the use of alternative accounting procedures to increase reported capital levels. While these conditions were occurring, institutions were allowed to diversify their investments into potentially more profitable, but risky, activities. The profitability of many of these activities depended heavily on continued inflation in real estate values to make them economically viable. In many cases, diversification was accompanied by inadequate internal controls and noncompliance with laws and regulations, thus further increasing the risk of these activities.

As a result of these factors, many institutions experienced substantial losses on their loans and investments, a condition that was made worse by an economic downturn. Faced with increasing losses, the industry's insurance fund, the Federal Savings and Loan Insurance Corporation (FSLIC), began incurring losses in 1984. By the end of 1987, 505 savings and loan institutions were insolvent. The industry's deteriorating financial condition overwhelmed the insurance fund which only 7 years earlier reported insurance reserves of \$6.5 billion. In 1987, the Congress responded by creating the Financing Corporation (FICO) to provide financing to the FSLIC through the issuance of bonds. Through August 8, 1989, FICO provided \$7.5 billion in

financing to the FSLIC; however, the insurance fund required far greater funding to deal with the industry's problems.

In response to the worsening savings and loan crisis, the Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) on August 9, 1989. FIRREA abolished FSLIC and transferred its assets, liabilities, and operations to the newly-created FSLIC Resolution Fund (FRF) to be administered by the FDIC.⁴ In addition, FIRREA created a new insurance fund, the Savings Association Insurance Fund (SAIF).

FIRREA also created the RTC to resolve all troubled institutions placed into conservatorship or receivership from January 1, 1989, through June 30, 1995.⁵ RTC's overall responsibilities included managing and disposing of receivership assets and recovering taxpayer funds. In 1993, the Resolution Trust Corporation Completion Act required RTC to cease its operations on or before December 31, 1995, and transfer any remaining assets and liabilities to the FSLIC Resolution Fund.

FIRREA provided RTC with a total of \$50 billion in funding to resolve failed institutions and pay related expenses. FIRREA also established the Resolution Funding Corporation (REFCORP) to provide RTC with \$30 billion of the \$50 billion in funding through the issuance of bonds. However, funding provided to RTC by FIRREA was not sufficient and the

⁴The funds needed to settle FSLIC's remaining liabilities were provided from a variety of sources, including appropriations from the general fund of the Treasury (hereafter referred to as appropriations), industry assessments, and recoveries from asset sales.

⁵FIRREA created RTC to manage and resolve all troubled institutions that were previously insured by FSLIC and for which a conservator or receiver was appointed during the period January 1, 1989, through August 8, 1992. This period was extended to September 30, 1993, by the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991. In December 1993, the period was again extended to a date not earlier than January 1, 1995, nor later than July 1, 1995 by the Resolution Trust Corporation Completion Act. The final date of June 30, 1995, was selected by the Chairperson of the Thrift Depositor Protection Oversight Board.

Congress enacted subsequent legislation resulting in a total of \$105 billion being made available to RTC to cover losses associated with resolutions.⁶

RTC's Mission Substantially Completed

RTC closed 747 institutions with \$402 billion in book value of assets when they entered the conservatorship phase. During conservatorship, assets were reduced by \$162 billion to \$240 billion through sales, collections, and other adjustments. In the receivership phase, assets were further reduced by \$232 billion. Thus, at December 31, 1995, RTC assets in liquidation totaled approximately \$8 billion. The remaining assets were transferred to the FSLIC Resolution Fund effective January 1, 1996.

RTC also fulfilled the government's pledge to insured depositors by protecting 25 million depositor accounts. Of the \$277 billion in liabilities at resolution, approximately \$221 billion represented liabilities to depositors. At resolution, RTC generally transferred the deposit liabilities, along with the required funding, to one or more healthy acquiring institutions. During the receivership phase, RTC used asset recoveries to pay the remaining creditors, and to recover a portion of the amount it advanced to cover deposit liabilities.

Another important part of RTC's activities included ensuring that as many thrift violators as possible were brought to justice and that funds were recovered on behalf of taxpayers. RTC investigated, initiated civil litigation, and made criminal referrals in cases involving former officers, directors, professionals, and others who played a role in the demise of failed institutions. Approximately \$2.4 billion was recovered from professional liability claims, and \$26 million was collected in criminal restitution.

⁶The Resolution Trust Corporation Funding Act of 1991 provided an additional \$30 billion. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 provided \$25 billion in December 1991, which was only available for obligation until April 1, 1992. In December, 1993, the RTC Completion Act removed the April 1, 1992, deadline, thus making the balance of the \$25 billion available to RTC for resolution activities.

RTC's Estimated Costs and Funding

As of December 31, 1995, RTC estimated that the total cost for resolving the 747 failed institutions was \$87.9 billion. These costs represent the difference between recoveries from receivership assets and the amounts advanced to pay depositors and other creditors of failed institutions plus the expenses associated with resolving institutions. As shown in table 1, \$81.3 billion, or 92 percent, of RTC's total estimated costs have already been realized through December 31, 1995, and therefore, are known. The estimated \$6.6 billion remaining at December 31, 1995, represents expected future losses on remaining receivership and corporate assets. The ultimate recoveries on those assets are subject to uncertainties.

Table 1: RTC's Realized and Estimated Losses and Expenses Through December 31, 1995

(Dollars in billions)

Realized losses and expenses through December 31, 1995	
Losses from receiverships and terminations	\$72.2
Interest expense on FFB borrowing	10.2
Administrative expenses not charged to receiverships	0.4
Offsetting revenue and interest income	(1.5)
Subtotal: Realized losses and expenses through December 31, 1995	\$81.3
Estimated future losses and expenses	6.6
Total realized and estimated future losses and expenses	\$87.9

Losses of \$72.2 billion were realized while institutions were in receivership and after termination. Receivership losses were realized when amounts realized from asset sales were not sufficient to repay the amounts advanced by RTC. For those institutions that were terminated, RTC realized further losses if it later sold assets for less than the price it paid when it purchased the assets from the receiverships at termination.

RTC borrowed working capital funds from the Federal Financing Bank (FFB) to provide funding for insured deposits and to replace high-cost borrowing of the failed institutions. In general, these funds were expected to be repaid with the proceeds from receivership asset sales, with any shortfall being covered by loss funding. Through December 31, 1995, RTC incurred \$10.2 billion in interest expense on amounts borrowed from the FFB for working capital.

RTC's administrative expenses represent overhead expenses not otherwise charged or billed back to receiverships. The portion of expenses billed back to receiverships is not included in RTC's administrative expense total, but is included in the loss from receiverships. In addition, receiverships pay many other expenses directly which are also included in the losses from receiverships. The estimated \$6.6 billion of future costs include expected losses from receiverships and terminations as well as estimated future administrative expenses.

In total, the Congress provided funding to cover \$105 billion of losses and expenses associated with RTC's resolution of failed institutions. As shown in table 2, after reducing the \$105 billion available for RTC's estimated losses of \$87.9 billion, an estimated \$17.1 billion in unused loss funds will remain.

Table 2: Estimated Unused Loss Funds After Completion of RTC's Resolution Activities

(Dollars in billions)

Total loss funds provided	\$105.0
Less: Total estimated loss funds needed	(87.9)
Estimated unused loss funds	\$17.1

The final amount of unused loss funds will not be known with certainty until all remaining assets and liabilities are liquidated. Loss funds not used for RTC resolution activity are available until December 31, 1997, for losses incurred by the SAIF, if the conditions set forth in the Resolution

Trust Corporation Completion Act are met.⁷ Also, according to the act, unused loss funds will be returned to the general fund of the Treasury.

Controls Over Contracting
May Have Affected
Receivership Recoveries

RTC used thousands of private contractors to manage and dispose of assets from failed thrifts, including activities such as collecting income and paying expenses. The estimated recoveries from receiverships included in RTC's financial statements include the receipts collected and disbursements made by contractors that perform services for receiverships. As we previously reported,⁸ weak operating controls over contract issuance and contractor oversight may have affected the amounts RTC ultimately recovered from its receiverships. While we assess, as part of our financial statement audit, internal accounting controls over receivership receipts and disbursements, RTC's operating controls over contract issuance and contractor oversight are not part of the scope of our audit. These operating controls were reviewed by RTC's Inspector General and Office of Contract Oversight and Surveillance, as well as by GAO in other reviews.⁹

⁷The RTC Completion Act makes available to SAIF, during the 2-year period beginning on the date of RTC's termination, any of the \$18.3 billion in appropriated funds made available by the RTC Completion Act and not needed by RTC. However, prior to receiving such funds, FDIC must first certify, among other things, that SAIF cannot fund insurance losses through industry premium assessments or Treasury borrowings without adversely affecting the health of its member institutions and causing the government to incur greater losses.

⁸Financial Audit: Resolution Trust Corporation's 1994 and 1993 Financial Statements (GAO/AIMD-95-157, June 22, 1995).

⁹High-Risk Series: An Overview (GAO/HR-95-1, February 1995); High-Risk Series: Quick Reference Guide (GAO/HR-95-2, February 1995); and Resolution Trust Corporation: Efforts Under Way to Address Management Weaknesses (GAO/GGD-95-109, May 12, 1995).

RTC took various actions to improve the process of contract issuance and contractor oversight, and had placed increased emphasis on the process of closing out¹⁰ contracts to ensure that contractors have fulfilled all contractual responsibilities. However, results of audits conducted by RTC's Inspector General and Office of Contract Oversight and Surveillance demonstrated that despite RTC's actions to correct contracting problems, the effects of early neglect of contracting operations remained. These audits identified internal control problems with RTC auction contracts and with RTC's general oversight of contractors. These audits also identified significant performance problems with contracts that were issued before many contracting reforms and improvements were implemented by RTC.

During 1995, RTC closed many contracts, pursued contract audit resolution, identified contracts necessary to accomplish the remaining workload after RTC's termination, and processed contract modifications to transfer them to FDIC. However, estimated future recoveries from RTC receiverships remain vulnerable to the risks associated with early weaknesses in contractor oversight and performance. As a result of these operating weaknesses, RTC could not be sure that it has recovered all it should have recovered from its receiverships.

RTC's Costs Represent Only a Portion of
the Total Cost of the Savings and Loan Crisis

RTC's costs for its responsibilities in resolving the savings and loan crisis represent only a portion of the total costs of the savings and loan crisis. The cost associated with FSLIC assistance and resolutions represents another sizable direct cost. In addition, the total cost includes indirect costs related to tax benefits granted in FSLIC assistance agreements.

¹⁰RTC's contracting manual states that a contract closeout includes, among other things, a determination by the contracting officer that (1) all deliverables, including reports, have been received by RTC and accepted, (2) final payment has been made, (3) all collections of funds due to RTC have been completed, (4) all financial documents are in the file, (5) all RTC property has been returned and accounted for, and (6) all RTC files have been returned.

Table 3: Estimated Direct and Indirect Costs of Resolving the Savings and Loan Crisis and Related Funding Sources

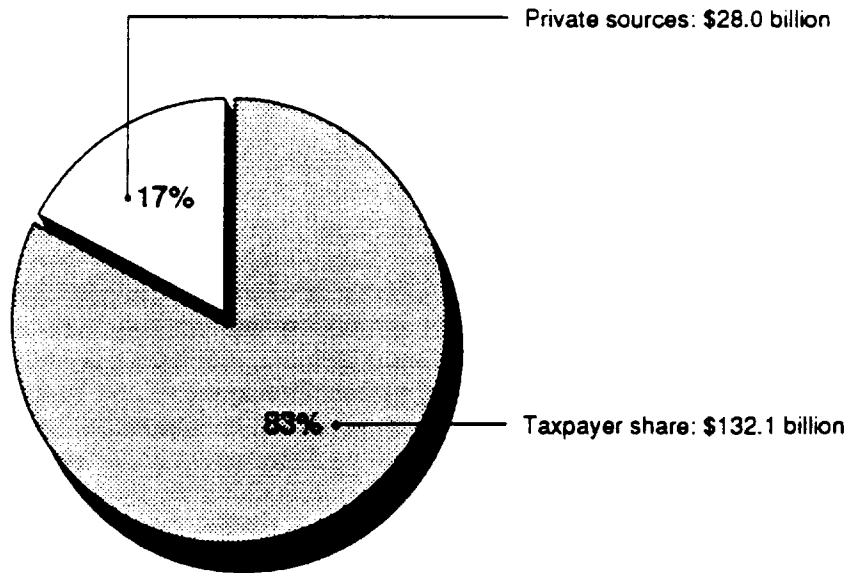
(Dollars in billions)

	Total	Funding source	
		Taxpayers	Private sources
Direct costs			
Resolution Trust Corporation	\$ 87.9	\$ 81.9	\$ 6.0
FSLIC costs	64.7	42.7	22.0
Supervisory goodwill claims	---	---	---
Total direct costs	\$152.6	\$124.6	\$28.0
Indirect costs			
Tax benefits under FSLIC assistance agreements	7.5	7.5	0.0
Total indirect costs	\$ 7.5	\$ 7.5	\$ 0.0
Total estimated direct and indirect costs	\$160.1	\$132.1	\$28.0

Note: Excluded from this table are the interest costs associated with financing the direct costs of the crisis. See tables 4 and 5, and associated discussion for further information on interest expense.

Of the \$160.1 billion in total direct and indirect costs, approximately \$132.1 billion, or 83 percent was provided from taxpayer funding sources. The remaining \$28.0 billion, or 17 percent was provided from industry assessments and other private sources. (See Figure 1.)

Figure 1: Direct and Indirect Costs: Taxpayer Versus Private Sources of Funding



Total direct and indirect costs: \$160.1 billion

Direct Costs

As shown in table 3, the direct costs associated with resolving the savings and loans crisis include the cost of RTC resolutions, FSLIC activity, and supervisory goodwill claims. All of the funding for the estimated \$152.6 billion in estimated costs related to FSLIC and RTC has been provided as of December 31, 1995. However, the cost of the claims is currently uncertain.

Resolution Trust Corporation

RTC resolved 747 failed institutions through June 30, 1995, when its authority to close failed thrifts expired. As of December 31, 1995, the total estimated losses associated with RTC's resolved institutions is \$87.9 billion. Taxpayer funding for RTC's direct costs is estimated to be \$81.9 billion, which is made up of \$56.6 billion in appropriations and \$25.3 billion related to the government's

responsibility attributable to the REFCORP transaction.¹¹ The private sources of funding for RTC activity totaled \$6.0 billion, consisting of \$1.2 billion contributed to RTC from the Federal Home Loan Banks, and \$4.8 billion from SAIF and the Federal Home Loan Banks to support the REFCORP transaction.

FSLIC Costs

As of December 31, 1995, the total estimated costs associated with FSLIC activity was \$64.7 billion. The estimated cost includes expenses and liabilities arising from FSLIC assistance provided to acquirers of failed or failing savings and loan institutions and FSLIC resolution activity since January 1, 1986.¹² Taxpayer funding for FSLIC's costs consists of appropriations used by the FSLIC Resolution Fund and totaled \$42.7 billion. The private sources of funding

¹¹The REFCORP financing transaction is a hybrid transaction, supported by both taxpayer and private industry funding. REFCORP was established with the sole purpose of borrowing funds to finance savings and loan resolutions. A principal redemption fund was established using funds contributed by the Federal Home Loan Banks and SAIF. Annual interest expense on the REFCORP bonds is being paid mainly through appropriations, along with annual contributions from the Federal Home Loan Banks. REFCORP provided funding to RTC for resolution losses by issuing \$30.0 billion of noncallable, 30- and 40-year bonds to the public. To calculate the taxpayer and private sources of funding related to the REFCORP transaction, we used the present value of the contributions made from taxpayer and private sources for both principal and interest payments.

¹²Calculation of costs begins in 1986 because FSLIC equity was depleted from a positive balance of \$4.6 billion on January 1, 1986, to a negative balance of \$6.3 billion at December 31, 1986.

for the FSLIC costs include \$13.8 billion from FSLIC capital and industry assessments and \$8.2 billion provided by FICO.¹³

Supervisory Goodwill Claims

An additional cost of the savings and loan crisis results from the federal government's legal exposure related to supervisory goodwill and other forbearances from regulatory capital requirements granted to the acquirers of troubled savings and loan institutions in the 1980s. As of December 31, 1995, there were approximately 120 pending lawsuits which stem from legislation that resulted in the elimination of supervisory goodwill and other forbearances from regulatory capital. These lawsuits assert various legal claims including breach of contract or an uncompensated taking of property resulting from the FIRREA provisions regarding minimum capital requirements for thrifts and limitations as to the use of supervisory goodwill to meet minimum capital requirements. One case has resulted in a final judgement of \$6 million against FDIC, which was paid by FRF.

On July 1, 1996, the United States Supreme Court concluded that the government is liable for damages in three other cases in which the changes in regulatory treatment required by FIRREA led the government not to honor its contractual obligations. However, because the lower courts had not determined the appropriate measure or amount of damages, the Supreme Court returned the cases to the Court of Federal Claims for further proceedings. Until the amount of damages is determined by the court, the amount of additional costs from these three cases is uncertain. Further, with respect to the other pending cases, the outcome of each case and the amount of any possible damages will depend on the facts and circumstances, including the wording of agreements between thrift regulators and acquirers of troubled savings and loan institutions. Estimates of possible damages suggest that

¹³FICO was established with the sole purpose of borrowing funds to finance FSLIC's costs. A principal redemption fund was established using funds contributed by the industry. The annual interest expense on these bonds is also being paid by the industry through insurance premium assessments. FICO provided funding for FSLIC-related costs by issuing \$8.2 billion of noncallable, 30-year bonds to the public. FICO provided \$7.5 billion to FSLIC and \$0.7 billion to the FSLIC Resolution Fund.

billions of dollars in additional costs may be associated with these claims. The Congressional Budget Office's December 1995 update of its baseline budget projections increased its projection of future federal outlays for fiscal years 1997 through 2002 by \$9 billion for possible payments of such claims.

Indirect Costs

As shown in table 3, the estimated cost of special tax benefits related to FSLIC assistance agreements represents an indirect cost of the savings and loan crisis. The estimated total cost for these tax benefits is \$7.5 billion, which will be funded using taxpayer sources.

Acquiring institutions received various tax benefits associated with FSLIC assistance agreements. For instance, for tax purposes, assistance paid to an acquiring institution was considered nontaxable. In addition, in some cases, acquiring institutions could carry over certain losses and tax attributes of the acquired troubled institutions to reduce their own tax liability. The effect of these special tax benefits was to reduce the amount of FSLIC assistance payments required by an acquiring institution for a given transaction because of the value of tax benefits associated with the transaction. Thus, total assistance received by an acquiring institution consisted of both FSLIC payments and the value of these tax benefits.

Because these tax benefits represented a reduction in general Treasury receipts rather than direct costs to FSLIC, we are presenting tax benefits as indirect costs associated with FSLIC's assistance transactions. Of the \$7.5 billion in estimated tax benefits, \$3.1 billion has been realized through December 31, 1995. The remaining \$4.4 billion represents an estimate of the future tax benefits that could be realized by acquiring institutions in the future. However, the amount of future tax benefits depends greatly upon the future actions and profitability of the acquirers. For example, reduced or enhanced earnings, institutional acquisitions, and changes in corporate control would all affect acquirers' taxable income or the amount of tax benefits allowed to offset such taxable income in the future. The current estimate of future tax benefits is based on assumptions which are currently deemed most likely to occur in the future. However, if conditions change, the amount of future estimated tax benefits realized could be substantially higher or lower than the estimated \$4.4 billion.

Remaining Fiscal Implications of the Savings and Loan Crisis

Although most of the direct and indirect costs of the savings and loan crisis had been funded or provided for through December 31, 1995, significant fiscal implications remain as a result of the crisis. Substantial funds were borrowed through bonds specifically designed to provide funding for a portion of the direct costs. Both taxpayers and the industry are paying financing costs on those bonds. In addition, a significant portion of direct costs were paid from appropriations at a time when the federal government was operating with a sizable budget deficit. Therefore, it is arguable that additional borrowing was incurred. In view of these circumstances, we are presenting information on the known and estimated interest expense associated with financing the crisis because the future stream of payments associated with interest will have continuing fiscal implications for taxpayers and the savings and loan industry.¹⁴ An additional fiscal implication is that SAIF is currently undercapitalized and the savings and loan industry continues to pay high insurance premiums to build the fund.

FICO and REFCORP Bonds

In 1987, the Congress established FICO, which had the sole purpose of borrowing funds to provide financing to FSLIC. FICO provided funding for FSLIC-related costs by issuing \$8.2 billion of noncallable, 30-year bonds to the public. In 1989, the Congress established REFCORP to borrow funds and provide funding to RTC. REFCORP provided funding to the RTC for resolution losses by issuing \$30.0 billion of noncallable, 30- and 40-year bonds to the public. The annual interest expense on the \$38.2 billion of bonds issued by FICO and REFCORP has and will continue to have a significant impact on taxpayers and the savings and loan industry. The annual FICO bond interest is funded from the industry's

¹⁴An economic analysis of the costs of resolving the savings and loan crisis would present the amounts in present value terms. In present value terms, the amount borrowed is equal to the sum of interest costs plus debt repayment. While it is relevant to show interest payments to illustrate the remaining implications for the federal budget and the industry, adding the amount borrowed to the sum of interest payments would overstate the true economic cost of resolving the crisis.

insurance premiums and represents an increasing burden on the savings and loan industry. In addition, the government's portion of annual interest expense on the REFCORP bonds will continue to require the use of increasingly scarce budgetary resources.

Annual interest on the FICO bonds is \$793 million and is currently being paid from industry assessments and interest earnings on FICO's cash balances. The annual interest obligation on the FICO bonds will continue through the maturity of the bonds in the years 2017 through 2019. The total nominal amount of interest expense over the life of the FICO bonds will be \$23.8 billion.

Annual interest expense on the REFCORP bonds is \$2.6 billion. The Federal Home Loan Banks contribute \$300 million annually to the payment of REFCORP interest expense, and the remaining \$2.3 billion of annual interest expense is paid through appropriations. Annual interest expense will continue through the maturity of the REFCORP bonds in the years 2019, 2020, 2021, and 2030. The total nominal amount of interest expense over the life of the REFCORP bonds will be \$88 billion.

Estimated Treasury Interest Expense Associated with the Crisis

The largest source of funding to pay the direct costs of the savings and loan crisis was provided by taxpayers as a result of legislation enacted to specifically deal with the crisis. This legislation was enacted during a period in which the federal government was financing--via deficit spending--a sizable portion of its regular, ongoing program activities and operations. Under these circumstances, it is arguable that substantial, incremental Treasury borrowing occurred in order to finance the taxpayer portion of the crisis.¹⁵

To arrive at an amount for estimated future interest associated with appropriations, we made various simplifying assumptions. For purposes of estimating Treasury interest expense associated with resolving the savings and loan

¹⁵A budgetary measure of costs does not attribute general Treasury interest to programs because general federal receipts and borrowings are not tied to specific programs. From the perspective of the budget as a whole, the general funding sources, whether borrowing or revenue, are fungible.

crisis, we assumed that the entire amount of appropriations used to pay direct costs was borrowed. Various other simplifying assumptions were made regarding interest rates and the financing period.¹⁶ We assumed that the \$99.3 billion¹⁷ in appropriations for the FSLIC Resolution Fund and the RTC would be financed for 30 years at 7 percent interest,¹⁸ with no future refinancing. Under these assumptions, approximately \$209 billion in estimated interest payments would be needed over 30 years to cover the interest expense related to appropriations used to cover the direct costs of the crisis.

Table 4 presents the known and estimated interest expense components associated with the financing mechanisms used to provide funds for the direct costs of the savings and loan crisis.

¹⁶This analysis rests on assumptions about inherently uncertain long-term fiscal and market behavior. Different assumptions could be made regarding interest rates, the mix of short-term versus long-term financing, the financing period and the portion financed with general receipts and borrowing.

¹⁷We based our estimate of interest on the total appropriations for the FSLIC Resolution Fund and RTC, which were \$42.7 billion and \$56.6 billion, respectively. Total appropriations of \$99.3 billion for FSLIC and RTC differ from the \$124.6 billion in taxpayer costs presented in table 3. The difference of \$25.3 billion represents the taxpayer share of the REFCORP transaction, which is the present value of the taxpayers' share of future interest expense on the bonds issued by REFCORP. The \$25.3 billion has been excluded from the calculation of estimated Treasury interest in order to avoid charging interest on interest expense.

¹⁸We used 7 percent because it represents a reasonable approximation of the average long-term and short-term rates during the years in which the appropriated funds were provided to FRF and RTC. A 30-year term was consistent with the majority of FICO and REFCORP financing terms.

Table 4: Known and Estimated Interest Expense Related to the Savings and Loan Crisis

(Dollars in billions)

	Total	Funding Source	
		Taxpayers	Private sources
Known interest expense			
Interest expense on FICO bonds	\$ 23.8	\$ 0.0	\$23.8
Interest expense on REFCORP bonds	88.0	76.2	11.8
Total known interest expense on bonds	\$111.8	\$76.2	\$35.6
Estimated interest expense			
Estimated interest expense on appropriations	209.0	209.0	0.0
Total estimated interest expense on appropriations	\$209.0	\$209.0	\$ 0.0

Future Financing Costs Associated with the Crisis

Significant resources will be needed in the future to pay the known annual interest expense on the FICO and REFCORP bonds as well as the estimated Treasury interest expense related to the crisis. As shown in table 5, \$20.4 billion, or 18 percent of the total nominal interest expense on FICO and REFCORP bonds has been paid through December 31, 1995. The remaining \$91.4 billion, or 82 percent, will be funded in the future.

Future interest expense of approximately \$18 billion remains to be paid to cover the FICO bond interest. Currently, insurance premiums paid by certain SAIF-insured institutions

are used to pay annual FICO bond interest expense.¹⁹ In 1995, the FICO interest expense represented about 69 percent of insurance premiums earned on SAIF's FICO-assessable base. In recent years, the FICO-assessable base has been shrinking, thereby increasing the burden of the FICO interest expense relative to the size of the assessment base, and calling into question the future ability of the FICO-assessable base to cover the annual FICO interest expense.²⁰

Future interest expense of approximately \$73.4 billion remains to be paid on the REFCORP bonds. The Federal Home Loan Banks will continue to be responsible for paying \$300 million each year toward the cost of REFCORP interest expense until the bonds mature. The remaining portion of the REFCORP bond interest expense will be paid with Treasury funds until the bonds mature in the years 2019, 2020, 2021, and 2030.

For purposes of analyzing the timing of estimated Treasury interest expense on funds provided to pay the direct costs, we estimated that approximately \$176 billion of the \$209 billion in estimated Treasury interest expense, shown in table 5, related to future periods.²¹ Under these assumptions, future estimated Treasury interest would represent a significant claim on future federal budgetary resources.

¹⁹Insurance premium assessments paid to SAIF for thrift deposits acquired by banks and deposits held by former thrifts that converted to bank charters cannot be used to pay FICO bond interest expense.

²⁰Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/AIMD-95-84, March 3, 1995).

²¹The breakout of estimated Treasury interest between the amount paid through December 31, 1995, and the future amount, was based on the assumption that borrowing generally corresponded with the transfer of appropriated funds to RTC and FRF.

Table 5: Known and Estimated Interest Expense: Timing of Funding

(Dollars in billions)

	Total	Timing of Funding	
		Through 12/31/95	Future
Known interest expense			
Interest expense on FICO bonds	\$ 23.8	\$ 5.8	\$ 18.0
Interest expense on REFCORP bonds	88.0	14.6	73.4
Total known interest expense on bonds	\$111.8	\$20.4	\$ 91.4
Estimated interest expense			
Estimated interest expense on appropriations	209.0	33.0	176.0
Total estimated interest expense on appropriations	\$209.0	\$33.0	\$176.0

Capitalizing SAIF

FIRREA created SAIF to insure deposits previously insured by the FSLIC, and set a designated reserve requirement of 1.25 percent of insured deposits. We consider the need to capitalize SAIF a remaining fiscal implication of the crisis because insurance premiums that could have been used to capitalize SAIF were used to pay a portion of the direct costs of the crisis,²² as well as annual interest expense on the FICO bonds. As a result, SAIF's capitalization has been delayed, creating ongoing implications in terms of high deposit insurance premiums.

²²The SAIF premiums used to resolve the savings and loan crisis are included in the \$22 billion of funding from private sources used to pay FSLIC costs shown in table 3.

In order to be fully capitalized, SAIF would have needed \$8.9 billion in reserves based on the level of insured deposits at December 31, 1995. However, at that date, SAIF had reserves of only \$3.4 billion, \$5.5 billion below the designated reserve amount of \$8.9 billion.

OBJECTIVES, SCOPE, AND METHODOLOGY

Management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing the internal control structure to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are free of material misstatement and presented fairly, in all material respects, in conformity with generally accepted accounting principles and (2) RTC management's assertion about the effectiveness of internal controls is fairly stated in all material respects and is based upon the criteria established under FMFIA. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information appearing in the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the internal control structure related to safeguarding assets, compliance with laws and regulations, including the execution of transactions in accordance with management authority and financial reporting;

- tested relevant internal controls over safeguarding, compliance, and financial reporting and evaluated management's assertion about the effectiveness of internal controls; and
- tested compliance with selected provisions of the following laws and regulations:
 - section 21A of the Federal Home Loan Bank Act (12 U.S.C. 1441a) and
 - Chief Financial Officers Act of 1990, sections 305 and 306 (Public Law 101-576).

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our opinion on RTC management's assertion about the effectiveness of internal controls. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

With the termination of RTC on December 31, 1995, an important phase of the savings and loan crisis ended. To provide an historical perspective on RTC and its role in resolving the crisis, we obtained and reviewed background information and data from RTC and FDIC. In addition, we obtained and analyzed audited financial information from the following entities which had varying roles in resolving the savings and loan crisis: FSLIC, FICO, RTC, REFCORP, FSLIC Resolution Fund, and SAIF.

We conducted our audit from July 7, 1995 through June 7, 1996 in accordance with generally accepted government auditing standards.

FDIC COMMENTS AND OUR EVALUATION

We provided FDIC a draft of this report because of its responsibility for RTC's remaining assets and liabilities and its role in preparing RTC's final financial statements. In

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commenting on the draft report, FDIC's Chief Financial Officer acknowledges the weaknesses in general controls over RTC's computerized information systems and discusses the status of RTC and FDIC actions to correct them. We plan to evaluate the adequacy and effectiveness of those corrective actions as part of our audit of FDIC's 1996 financial statements. The Chief Financial Officer's comments also discuss FDIC's involvement in RTC's transition and FDIC's plans in assuming responsibility for closing out RTC's active and completed contracts.



Charles A. Bowsher
Comptroller General
of the United States

June 7, 1996

RESOLUTION TRUST CORPORATION
STATEMENTS OF FINANCIAL POSITION

(Dollars in Thousands)

	<u>December 31,</u> <u>1995</u>	<u>December 31,</u> <u>1994</u>
<u>ASSETS</u>		
<i>Cash (Note 3)</i>	\$1,251,278	\$4,034,900
<i>Net advances (Note 4, 6, 8 and 14)</i>	1,334,505	2,963,704
<i>Net subrogated claims (Note 5, 6, 8 and 14)</i>	11,168,504	17,378,274
<i>Net assets purchased by the Corporation (Note 6, 7 and 15)</i>	458,834	235,097
<i>Other assets</i>	<u>47,840</u>	<u>26,290</u>
TOTAL ASSETS (Note 14)	<u><u>\$14,260,961</u></u>	<u><u>\$24,638,265</u></u>
 <u>LIABILITIES</u>		
<i>Accounts payable, accrued liabilities, and other (Note 16 and 17)</i>	\$216,021	\$192,622
<i>Notes payable and accrued interest (Note 9)</i>	10,498,042	23,222,278
<i>Estimated cost of unresolved cases (Note 6, 10 and 15)</i>	0	410,517
<i>Estimated losses from corporate litigation (Note 6 and 11)</i>	<u>136,636</u>	<u>199,030</u>
TOTAL LIABILITIES	<u>10,850,699</u>	<u>24,024,447</u>
<i>Contingencies and commitments (Note 15)</i>		
 <u>EQUITY</u>		
<i>Contributed capital (Note 5)</i>	60,058,924	59,526,884
<i>Capital certificates</i>	31,286,325	31,286,325
<i>Accumulated deficit</i>	<u>(87,934,987)</u>	<u>(90,199,391)</u>
TOTAL EQUITY (Note 12)	<u>3,410,262</u>	<u>613,818</u>
TOTAL LIABILITIES AND EQUITY (Note 14)	<u><u>\$14,260,961</u></u>	<u><u>\$24,638,265</u></u>

See accompanying notes

RESOLUTION TRUST CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND ACCUMULATED DEFICIT
(Dollars in Thousands)

	<u>Year Ended December 31, 1995</u>	<u>Year Ended December 31, 1994</u>
<u>REVENUES</u>		
<i>Interest on advances and subrogated claims</i>	\$598,553	\$853,396
<i>Other interest income</i>	28,716	8,696
<i>Other revenue (Note 3)</i>	78,229	52,644
TOTAL REVENUES	<u>705,498</u>	<u>914,736</u>
 <u>EXPENSES</u>		
<i>Interest expense on notes issued by the Corporation</i>	932,480	1,100,133
<i>Interest expense on amounts due receiverships</i>	17,842	78,433
<i>Reduction in provision for losses (Note 6)</i>	(2,617,449)	(1,138,118)
<i>Administrative operating and other expenses (Note 2, 14 and 17)</i>	108,221	90,007
TOTAL EXPENSES	<u>(1,558,906)</u>	<u>130,455</u>
 NET REVENUE	 2,264,404	 784,281
ACCUMULATED DEFICIT, BEGINNING	<u>(90,199,391)</u>	<u>(90,983,672)</u>
ACCUMULATED DEFICIT, ENDING (Note 12)	<u><u>(\$87,934,987)</u></u>	<u><u>(\$90,199,391)</u></u>

See accompanying notes

RESOLUTION TRUST CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	<u>Year Ended December 31, 1995</u>	<u>Year Ended December 31, 1994</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
<i>Cash inflows from:</i>		
Receipts from subrogated claims	\$9,828,943	\$9,087,943
Repayments of advances and reimbursable expenditures	2,578,302	6,020,467
Receipts of interest on advances and subrogated claims	553,429	402,416
Receipts from asset liquidations	131,515	67,783
Receipts from other operations	185,293	64,272
<i>Cash outflows for:</i>		
Disbursements for subrogated claims	(1,375,341)	(10,281,291)
Disbursements for advances	(530,413)	(1,977,813)
Disbursements for reimbursable expenditures	(904,863)	(1,077,711)
Administrative operating and other expenditures	(115,229)	(94,434)
Interest paid on notes payable	(1,185,962)	(1,050,652)
Disbursements for asset liquidations	(45,942)	(28,202)
Net Cash Provided by Operating Activities (Note 13):	9,119,732	1,132,778
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
<i>Cash inflows from:</i>		
Contributed capital	567,400	4,032,000
Notes payable	0	2,300,000
<i>Cash outflows for:</i>		
Repayment of notes payable, principal	(12,470,754)	(9,900,306)
Net Cash Used by Financing Activities	(11,903,354)	(3,568,306)
Net decrease in Cash	(2,783,622)	(2,435,528)
CASH – BEGINNING	4,034,900	6,470,428
CASH – ENDING	\$1,251,278	\$4,034,900

See accompanying notes

RESOLUTION TRUST CORPORATION NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1995 and 1994

1. Impact of Legislation:

The RTC, a Government Corporation, was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage and resolve all troubled savings institutions that were previously insured by the Federal Savings and Loan Insurance Corporation (FSLIC) and for which a conservator or receiver was appointed during the period January 1, 1989 through August 8, 1992. This period was extended to September 30, 1993 by the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 and in December 1993, the period was extended to a date not earlier than January 1, 1995 nor later than July 1, 1995 by the Resolution Trust Corporation Completion Act of 1993. The final date of June 30, 1995 was selected by the Chairperson of the Thrift Depositor Protection (TDP) Oversight Board.

The activities of the RTC were subject to the general oversight of the Oversight Board, which was redesignated the TDP Oversight Board and increased in size by the 1991 Act. The TDP Oversight Board monitored the operations of the RTC, provided the RTC with general policy direction, and reviewed the RTC's performance. The seven members on the TDP Oversight Board included: the Secretary of the Treasury; the Chairperson of the Board of Governors of the Federal Reserve System; the Director of the Office of Thrift Supervision (OTS); the Chairperson of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC); the Chief Executive Officer of the RTC; and two independent members appointed by the President, with the advice and consent of the Senate.

Under current law, the RTC terminated on December 31, 1995. All remaining assets and liabilities were transferred to the FSLIC Resolution Fund which is managed by the FDIC. Proceeds from the sale of such assets will be transferred to the Resolution Funding Corporation (REFCORP) for interest payments after satisfaction of any outstanding liabilities.

Source of Funds:

The RTC was funded from the following sources: 1) U.S. Treasury appropriations and borrowings; 2) a contribution from the Federal Home Loan Banks through REFCORP; 3) amounts borrowed by REFCORP which is authorized to issue long term debt securities; 4) the issuance of debt obligations and guarantees as permitted by the TDP Oversight Board; and 5) income earned on the assets of the RTC, proceeds from the sale of assets, and collections made on claims received by the RTC from receiverships.

The Secretary of the Treasury had contributed capital of \$60.1 billion to the RTC as of December 31, 1995. \$18.8 billion of which was authorized by FIRREA, \$30 billion of which was authorized by the Resolution Trust Corporation Funding Act of 1991, \$6.7 billion of which related to the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991, and \$4.6 billion of which related to the Resolution Trust Corporation Completion Act of 1993 (see Note 12). The legislation signed in December 1991 authorized the Secretary of the Treasury to provide an additional \$25 billion in capital to the RTC for its operations through March 31, 1992. These funds were received in January 1992. In April, 1992, the RTC returned \$18.3 billion to the Treasury which represented funds not committed by the March 31, 1992 deadline.

In December 1993, the Resolution Trust Corporation Completion Act authorized funding of the \$18.3 billion which had been returned to Treasury in 1992. Expenditure of funds in excess of \$10 billion required certification by the Secretary of the Treasury that certain statutory requirements had been met. In January 1994, the TDP Oversight Board received \$10 billion in funds, of which \$4 billion was forwarded to the RTC. In October 1995, an additional \$556 million was forwarded to the RTC.

The RTC had also issued capital certificates of \$31.3 billion to REFCORP as of December 31, 1995 (see Note 12). FIRREA prohibited the payment of dividends on any of these capital certificates. The RTC was also authorized to borrow directly from the Treasury an amount not to exceed in the aggregate \$5.0 billion. There had been no draws against these authorized borrowings through the end of 1995.

2. Summary of Significant Accounting Policies:

General. These statements pertain to the financial position, results of operations and cash flows of the RTC, and are presented in accordance with generally accepted accounting principles. These statements do not include the reporting of assets and liabilities of closed thrifts for which the RTC acted as receiver/liquidating agent or of thrifts in conservatorship for which the RTC acted as managing agent. However, these statements do reflect the RTC's transactions with these thrifts. See Note 14 for more detailed information.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affected the amounts reported in the financial statements and notes. The use of estimates and assumptions have been disclosed throughout the notes, where applicable. Actual results could differ from those estimates.

Allowance for Losses on Advances. The RTC recognized an estimated loss on advances. The allowance for losses represented the difference between amounts advanced to conservatorships or receiverships and expected repayments.

Allowance for Losses on Subrogated Claims. The RTC recorded as assets the amounts disbursed for assisting and closing thrifts, primarily the amounts for insured deposit liabilities. An allowance for losses was established against subrogated claims representing the difference between the amounts disbursed and the expected repayments. The allowance was based on the estimated cash recoveries from the assets of the assisted or failed thrifts, net of estimated asset liquidation and overhead expenses, including interest costs.

Estimated Cost of Unresolved Cases. The RTC recorded the estimated losses related to thrifts in conservatorship and those identified in the regulatory process as probable to fail on or before June 30, 1995.

Litigation Losses. The RTC recognized an estimated loss for litigation against it in its Corporate, conservatorship and receivership capacities. The RTC Legal Division recommended these estimated losses on a case-by-case basis.

Due to Receiverships - Assets Sold. The RTC established a contra asset account to record the amount payable to receiverships for the purchase price of receivership assets sold to acquiring institutions in resolution transactions. This was done in lieu of the receivership receiving the cash proceeds from the sale of its assets. This contra account offsets the balance due from the receiverships for subrogated claims. The amounts that exceeded the expected recovery of subrogated claims due from the receiverships were recorded as a liability entitled "Due to receiverships." The RTC accrued interest on the total of the contra asset and liability accounts.

National Judgments, Deficiencies and Charge-offs Joint Venture Program. The RTC purchased assets from receiverships, conservatorships, and their subsidiaries to facilitate the sale and/or transfer of selected assets to several Joint Ventures in which the RTC retained a financial interest.

Allocation of Common Expenses. The RTC shared certain administrative operating expenses with FDIC's Bank Insurance Fund, FSLIC Resolution Fund, and Savings Association Insurance Fund. The administrative operating expenses included allocated personnel, administrative, and other overhead expenses.

Allocation of Corporate Expenses. The RTC recovered costs incurred by the Corporation in support of liquidation/receivership activities, including a portion of administrative expenses. These costs were billed to individual receiverships with the offsetting credits reducing the Corporation's "Administrative operating and other expenses."

Depreciation. The cost of furniture, fixtures, equipment and other fixed assets was expensed at the time of acquisition and was reported as "Administrative operating and other expenses." Although this policy was a departure from generally accepted accounting principles, the financial impact was not material to the RTC's financial statements.

Cash Equivalents. The RTC considered cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. As of December 31, 1995 and 1994, the RTC did not have any cash equivalents.

Fair Value of Financial Instruments. The balances of financial instruments included in the RTC's Statement of Financial Position approximated their estimated fair values. The values of "Net advances" and "Net subrogated claims" were based on the discounted net cash flows expected to be received from those instruments. The frequent repricing of the balances of "Due to receiverships" and the short-term nature of "Notes payable" resulted in face amounts of such instruments which approximated their fair values.

3. Office of Inspector General:

FIRREA established an Inspector General of the Corporation and authorized to be appropriated such sums as may be necessary for the operation of the Office of Inspector General (OIG). All financial transactions related to the OIG were included in the Corporation's financial statements.

The OIG received \$152.3 million of appropriated funds from the U.S. Treasury since it was established of which \$11.4 million related to the Government's Fiscal Year (FY) 1996 and \$32.0 million related to FY 1995. These funds were used to finance the activities of the OIG. Restricted

amounts of \$7,339,823 for FY 1996, \$4,297,092 for FY 1995, \$3,195,031 for FY 1994, \$3,328,996 for FY 1993, \$8,125,768 for FY 1992 and 773,671 for FY 1991 were included in "Cash."

Reductions to the OIG appropriated funds resulting from obligations were recorded as "Other revenue." Accordingly, the OIG appropriated funds were reduced by \$35,361,109 and \$29,108,773 during 1995 and 1994, respectively, and recorded as "Other revenue."

Disbursements of the OIG appropriated funds for expenditures were recorded as "Administrative operating and other expenses." These disbursements totaled \$28,450,696 during 1995 and \$32,000,098 during 1994. As of December 31, 1995 and 1994, the unobligated OIG appropriation balances included in "Contributed capital" were \$17.7 million and \$41.7 million, respectively.

4. Net Advances (in thousands):

The RTC made advances to receiverships and conservatorships. Advances were made to conservatorships to provide funds for liquidity needs and to reduce the cost of funds, and to receiverships to provide working capital. The advances generally were either secured by the assets of the conservatorship or receivership at the time the advances were made or had the highest priority of unsecured claims. The Corporation accrued interest on these advances which was included in the Statements of Revenues, Expenses and Accumulated Deficit. The Corporation expected repayment of these advances, including interest, before any subrogated claims were paid by receiverships. The advances carried a floating rate of interest based upon the 13-week Treasury Bill rate. Interest rates charged during 1995 ranged between 5.30% and 6.29%, and between 3.27% and 6.25% in 1994. At December 31, 1995 and 1994, the interest rates on advances were 5.30% and 5.97%, respectively.

	December 31,	
	<u>1995</u>	<u>1994</u>
Advances to conservatorships/others	\$ 46,055	\$ 81,089
Advances to receiverships	6,810,741	8,084,024
Reimbursements due from receiverships and conservatorships	152,273	130,031
Accrued interest	253,993	154,140
Write-offs at termination - advances (Note 6 and 7)	(142,076)	(20,489)
Allowance for losses on receivership advances (Note 6)	(5,786,481)	(5,434,002)
Allowance for losses on conservatorship advances (Note 6)	<u>-0-</u>	<u>(31,089)</u>
	<u>\$1,334,505</u>	<u>\$ 2,963,704</u>

Reimbursements due from receiverships and conservatorships represented operating expenses paid by the RTC on behalf of the receiverships and conservatorships for which repayment was expected in full. Interest was not accrued on these reimbursements.

5. Net Subrogated Claims (in thousands):

Subrogated claims represented disbursements made by the RTC primarily for deposit liabilities. The Corporation recognized an estimated loss on these subrogated claims. These estimates were based in part on a statistical sampling of receivership assets subject to a sampling error of plus or minus \$0.3 billion with a 95 percent confidence interval.

The value of assets under RTC management could be lower (or higher) than projected because general economic conditions, interest rates and real estate markets could change. Because of these uncertainties, it is reasonably possible that the actual losses could be higher (or lower) than the current "Allowance for losses on subrogated claims."

Receiverships frequently sold a portion of their assets to institutions acquiring their deposit liabilities. In lieu of the receiverships receiving cash for the sale, the purchase price of the assets sold was recorded by the receivership as a receivable and by the RTC in a contra asset account entitled "Due to receiverships - assets sold." This account was offset against subrogated claims expected to be collected from the receivership. The portion of the contra asset account, if any, in excess of expected subrogated claim recoveries was recorded as a liability entitled "Due to receiverships." The RTC accrued interest payable to the receiverships on the total of the contra asset and liability accounts. The rates used by the RTC to accrue interest were based upon the Chicago FHLB Daily Investment Deposit Rates. Interest rates paid during 1995 ranged between 5.17% and 6.21%, and between 2.73% and 5.91% in 1994. At October 31, 1995 and December 31, 1994, the interest rates paid on these accounts were 5.77% and 5.90%, respectively.

	December 31,	
	<u>1995</u>	<u>1994</u>
Subrogated claims	\$224,281,715	\$222,450,889
Recovery of subrogated claims	(140,419,527)	(129,042,815)
Claims of depositors pending and unpaid	6,956	10,905
Due to receiverships - assets sold	(3,196)	(716,196)
Write-offs at termination - subrogated claims (Note 6 and 7)	(5,899,585)	(1,984,435)
Allowance for losses on subrogated claims (Note 6)	<u>(66,797,859)</u>	<u>(73,340,074)</u>
	<u>\$ 11,168,504</u>	<u>\$ 17,378,274</u>

6. Changes in Allowance for Losses (in thousands):

	Allowance for losses on subrogated claims (Note 5)	Allowance for losses on advances (Note 4)	Allowance for losses on corp assets (Note 7)	Estimated cost of unresolved cases (Note 10)	Estimated losses from corporate litigation (Note 11)	<u>TOTAL</u>
Balance, Dec 31, 1993	\$68,667,882	\$ 4,967,864	\$ 16,250	\$8,097,851	\$ 171,633	\$81,921,480
Provisions (reductions)	(314,443)	513,901	(9,124)	(1,355,849)	27,397	(1,138,118)
Write-offs at termination (Note 7)	(1,344,850)	(16,674)	-	-	-	(1,361,524)
Cost of resolutions	<u>6,331,485</u>	<u>-</u>	<u>-</u>	<u>(6,331,485)</u>	<u>-</u>	<u>-0-</u>
Balance, Dec 31, 1994	73,340,074	5,465,091	7,126	410,517	199,030	79,421,838
Provisions (reductions)	(2,968,956)	442,976	54,438	(68,626)	(62,394)	(2,602,562)
Write-offs at termination (Note 7)	(3,915,150)	(121,586)	-	-	-	(4,036,736)
Cost of resolutions	<u>341,891</u>	<u>-</u>	<u>-</u>	<u>(341,891)</u>	<u>-</u>	<u>-0-</u>
Balance, Dec 31, 1995	<u>\$ 66,797,859</u>	<u>\$ 5,786,481</u>	<u>\$ 61,564</u>	<u>\$ -0-</u>	<u>\$ 136,636</u>	<u>\$ 72,782,540</u>

The "Allowance for losses on subrogated claims" included future interest costs and overhead expenses. Total "reductions" in loss allowances contained the offset of net interest costs incurred in the current period that were previously included in provisions. "Cost of resolutions" represented amounts transferred from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" as a result of case resolutions in each year.

7. Net Assets Purchased by the Corporation (in thousands):

In order to pay a final dividend to the receiverships' creditors and to expedite the process of legally terminating the receivership entities, the RTC purchased the remaining assets of selected receiverships. As of December 31, 1995, the RTC had purchased assets from 301 receiverships for \$687 million (assets from 161 receiverships for \$295 million at December 31, 1994). Upon termination, the RTC realized a loss on advances and subrogated claims that was previously included in the respective allowances and recognized in the provision for losses in a prior year. Additionally, as of December 31, 1995, the RTC had purchased assets from receiverships, conservatorships, and their subsidiaries for \$133 million to facilitate the sale and/or transfer of selected assets to several Joint Ventures in which the RTC retained a financial interest.

	December 31,	
	<u>1995</u>	<u>1994</u>
Assets in liquidation purchased	\$820,341	\$396,377
Sales, collections and adjustments	(299,943)	(154,154)
Allowance for losses on corporate assets (Note 6)	<u>(61,564)</u>	<u>(7,126)</u>
	<u>\$458,834</u>	<u>\$ 235,097</u>

Assets purchased included mortgage loans backed by 1-4 family homes, multi-family dwellings or commercial real estate; consumer loans; real estate; and other assets including receivership interests in credit enhancement reserve funds created when receiverships participated in RTC loan securitizations.

8. Concentration of Credit Risk:

The RTC had receivables from conservatorships and receiverships located throughout the United States which were experiencing problems with both loans and real estate. Their ability to make repayments to the RTC was largely influenced by the economy of the area in which they were located. The gross balance of these receivables at December 31, 1995 was \$91.1 billion (against which \$78.6 billion of reserves and contra assets had been recorded). Of the total receivables, \$26.3 billion was attributable to institutions located in Texas, \$13.8 billion was attributable to institutions located in California, \$6.5 billion was attributable to institutions located in Florida and \$5.7 billion was attributable to institutions located in Arizona.

9. Notes Payable and Accrued Interest:

Working capital was made available to the RTC under an agreement between the RTC and the Federal Financing Bank to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding notes matured at the end of each calendar quarter, at which time they were generally refinanced at similar terms. Payments on the

note balance were also made during each calendar quarter. The notes payable carried a floating rate of interest established by the Federal Financing Bank and ranged between 6.01% and 5.52 % during 1995 and between 3.17% and 5.03% in 1994. As of December 31, 1995 and 1994, the RTC had \$10.5 billion and \$23.2 billion, respectively, in borrowings and accrued interest outstanding from the Federal Financing Bank. These borrowings, approved by the TDP Oversight Board, were within the limitations imposed under FIRREA.

10. Estimated Cost of Unresolved Cases:

The RTC had no liability at December 31, 1995 for the anticipated costs of resolving troubled institutions (\$411 million at December 31, 1994) (see Note 6). June 30, 1995 was the last date the RTC could have been appointed Conservator. All conservatorships had been resolved as of that date.

11. Estimated Losses from Corporate Litigation:

As of December 31, 1995, the RTC had been named in over a thousand lawsuits while serving in its Corporate, conservatorship or receivership capacities. It was not possible to predict the outcome for all of the various actions. An allowance for loss totalling \$136.6 million had been established as of December 31, 1995 for the 31 actions that management felt were probable to result in a significant loss (\$199.0 million at December 31, 1994 for 57 actions) (see Note 6). Additionally, the Corporation could possibly incur further losses of up to \$347.7 million from other pending lawsuits and other yet unasserted claims.

12. Changes in Equity (in thousands):

	<u>Contributed Capital</u>	<u>Capital Certificates</u>	<u>Accumulated Deficit</u>	<u>Total Equity</u>
Balance, Dec 31, 1993	\$55,523,993	\$31,286,325	\$(90,983,672)	\$(4,173,354)
1994 Net revenue	-	-	784,281	784,281
Resolution Trust Corporation				
Completion Act of 1993	4,000,000	-	-	4,000,000
FY 95 OIG appropriation	32,000	-	-	32,000
1994 Obligated OIG funds	<u>(29,109)</u>	<u>-</u>	<u>-</u>	<u>(29,109)</u>
Balance, Dec 31, 1994	59,526,884	31,286,325	(90,199,391)	613,818
1995 Net revenue	-	-	2,264,404	2,264,404
Resolution Trust Corporation				
Completion Act of 1993	556,000	-	-	556,000
FY 96 OIG appropriation	11,400	-	-	11,400
1995 Obligated OIG funds	<u>(35,360)</u>	<u>-</u>	<u>-</u>	<u>(35,360)</u>
Balance, Dec 31, 1995	<u>\$60,058,924</u>	<u>\$31,286,325</u>	<u>\$(87,934,987)</u>	<u>\$ 3,410,262</u>

13. Supplementary Information Relating to the Statements of Cash Flows (in thousands):

Reconciliation of net revenue to net cash provided by operating activities:

	For the Year Ended December 31.	
	<u>1995</u>	<u>1994</u>
Net Revenue	\$ 2,264,404	\$ 784,281
Reduction in provision for losses	(2,617,449)	(1,138,118)
Interest expense financed as additional notes payable	-0-	-0-
Increase (decrease) in accrued interest on notes payable	(253,482)	49,481
Increase in accrued interest on amounts due to receiverships	17,842	78,433
(Increase) decrease in accrued interest due from advances and subrogated claims	133,204	(200,758)
Receipts from subrogated claims	9,828,943	9,087,943
Repayments of advances and reimbursable expenditures	2,578,302	6,020,467
Receipts from asset liquidations	131,515	67,783
Increase in accounts payable, accrued liabilities and other	119,201	57,239
(Increase) decrease in reimbursable portion of liabilities above	20,756	(19,877)
Disbursements for advances	(530,413)	(1,977,813)
Disbursements for subrogated claims	(1,375,341)	(10,281,291)
Disbursements for reimbursable expenditures	(904,863)	(1,077,711)
Disbursements for asset liquidations	(45,942)	(28,202)
OIG income recognized	(35,360)	(29,109)
Interest accrued on subrogated claims	(175,687)	(235,083)
Other non-cash (income) expenses (net)	(36,111)	(24,797)
(Increase) decrease in other assets	<u>213</u>	<u>(90)</u>
Net cash provided by operating activities	<u>\$ 9,119,732</u>	<u>\$ 1,132,778</u>

Noncash transactions incurred from thrift assistance and failures:

- \$341,891 and \$6,331,485 were reclassified from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" during 1995 and 1994, respectively, due to the resolution of 3 cases in 1995 and 64 cases in 1994.
- "Due to receiverships - assets sold" decreased by \$66,418 and \$1,020,715 in 1995 and 1994, respectively, with offsetting decreases of \$62,462 and \$900,933 to "Advances to receiverships" and of \$3,956 and \$119,782 to "Accrued interest" to repay receivership advances and related interest.
- No interest expense was financed through increases in notes payable in 1995 and 1994.

- "Recovery of subrogated claims" increased by \$1,331,609 and \$4,406,990 during 1995 and 1994, respectively, with an offsetting decrease in "Due to receiverships - assets sold", to record liquidating dividends declared by receiverships.
- "Subrogated claims" increased by \$279,596 and \$4,060,927 in 1995 and 1994, respectively, resulting from resolution activity with an offsetting increase in "Due to receiverships - assets sold."
- "Due to receiverships" decreased by \$2,062 and \$11,334 in 1995 and 1994, respectively, with the offset to "Due to receiverships - assets sold" (a component of "Net subrogated claims") for amounts exceeding the expected recovery of subrogated claims due from the receiverships.
- "Reimbursements due from receiverships and conservatorships" decreased by \$59,086 and \$130,573 during 1995 and 1994, respectively, with an offsetting decrease to "Due to receiverships - assets sold."
- "Due to receiverships - assets sold" increased by \$391,706 and \$123,670 in 1995 and 1994, respectively, with an offsetting increase to "Net assets purchased by the Corporation" relating to the purchase of receivership assets by the Corporation.

14. Related Party Transactions:

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 established the RTC to manage and resolve failed savings institutions that were formerly insured by the FSLIC and for which a receiver or conservator was appointed after January 1, 1989. At December 31, 1995, there were 747 institutions with \$20.5 billion of assets for which the RTC had been appointed conservator or receiver (745 institutions with \$40.5 billion of assets at December 31, 1994).

In its fiduciary capacity as receiver or conservator, the RTC had substantial control over the operations of the institutions placed in receivership or conservatorship by the OTS. The RTC, as receiver or conservator, had ultimate authority in the day-to-day operations, including the timing and methods of the disposal of the institutions' assets in an effort to maximize returns on such assets.

The RTC did not include the assets and liabilities of the receiverships and conservatorships in its financial statements. However, certain transactions with these institutions, including advances to and receivables from the institutions, as well as interest paid or received on such items, were included in the RTC's financial records. At December 31, 1995, the net balances of advances and subrogated claims were \$1.3 billion and \$11.2 billion (net of "Due to receiverships - assets sold" of \$3.2 million), respectively. The RTC owed \$3.2 million to receiverships at December 31, 1995 resulting from resolution transactions (see Note 5). Interest income earned on advances and subrogated claims was \$599 million during the year ended December 31, 1995 and interest expense on amounts due receiverships was \$18 million. At December 31, 1994, the net balances of advances and subrogated claims were \$3.0 billion and \$17.4 billion (net of "Due to receiverships - assets sold" of \$0.7 billion), respectively. Total amounts due receiverships were \$0.7 billion, including the liability account of \$2 million. Interest income on advances and subrogated claims was \$853 million during the year ended December 31, 1994 and interest expense on amounts due receiverships was \$78 million.

RTC receiverships and conservatorships were holders of limited partnership equity interests as a result of various RTC sales programs which included the National Land Fund, Multiple Investor Funds, N-Series and S-Series programs. Through 1995, the RTC sold \$8.1 billion of loans through these programs (\$7.1 billion through 1994).

The RTC funded the activities of the TDP Oversight Board based on its fiscal year budgets. The amounts funded in 1995 and 1994 were \$0 and \$5.2 million, respectively. These amounts were subject to the Corporation's policy of allocating corporate expenses to the receiverships.

"Administrative operating and other expenses" for the Corporation were \$108.2 million and \$90.0 million for the years ended December 31, 1995 and 1994, respectively (total costs of \$729.1 million and \$848.3 million less \$620.9 million and \$758.3 million billed back to receiverships during 1995 and 1994, respectively). The Corporation assumed the costs of administrative expenses for the assets purchased from receiverships in the termination process since they were managed by the Corporation (see Note 7).

15. Contingencies and Commitments:

Securitization Credit Reserves:

Through 1995, the RTC sold through its mortgage-backed securities securitization program \$42.4 billion of receivership, conservatorship and Corporate loans (\$39.2 billion through 1994). The loans sold were secured by various types of real estate including 1-4 family homes, multi-family dwellings and commercial real estate. Each securitization transaction was accomplished through the creation of a trust, which purchased the loans to be securitized from one or more institutions for which the Corporation acted as a receiver or conservator or purchased loans owned by the Corporation. The loans in each trust were pooled and stratified and the resulting cash flow was directed into a number of different classes of pass-through certificates. The regular pass-through certificates were sold to the public through licensed brokerage houses. RTC and its receiverships and conservatorships retained residual pass-through certificates which were entitled to any remaining cash flows from the trust after obligations to regular pass-through holders had been met.

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular pass-through certificates, and thus the marketability of such certificates, a portion of the proceeds from the sale of the certificates was placed in credit enhancement reserve funds (reserve funds) to cover future credit losses with respect to the loans underlying the certificates. The reserve funds' structure limited the receiverships', conservatorships' or Corporation's exposure from credit losses on loans sold through the RTC securitization program to the balance of the reserve funds. The initial balances of the reserve funds were determined by independent rating agencies and were subsequently reduced for claims paid and recovered reserves. Through December 1995, the amount of claims paid was approximately 12% of the initial reserve funds. At December 31, 1995 and 1994, reserve funds related to the RTC securitization program totalled \$6.8 billion and \$6.9 billion, respectively. RTC management expected to recover a substantial portion of the reserve funds over time. In 1995 and 1994, the RTC estimated Corporate losses related to the receiverships' reserve funds as part of the RTC's allowances for losses. In 1994, the RTC also estimated Corporate losses related to conservatorships' reserve funds as part of the RTC's "Estimated cost of unresolved cases." As of December 31, 1995, the RTC included \$1.1 billion in these provisions to cover future estimated losses on the reserve funds (\$1.7 billion as of December 31, 1994). As of December 31, 1995, the provisions were offset by \$0.8 billion, the market value of the residual pass-through certificates (\$0.6 billion as of December 31, 1994).

Representations and Warranties:

The RTC provided guarantees, representations and warranties on approximately \$103 billion in unpaid principal balance of loans sold and approximately \$163 billion in unpaid principal balance of loans under servicing right contracts which had been sold. In general, the guarantees, representations and warranties on loans sold primarily related to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were sold. The representations and warranties made in connection with the sale of servicing rights were limited to the responsibilities of acting as a servicer of the loans.

For loans which were sold through the securitization program or for which the sales terms provided corporate guarantees, the receiverships and conservatorships which sold the loans had established escrow accounts containing a portion of the sales proceeds to honor any obligations that might arise from the guarantees, representations and warranties.

Future losses on representations and warranties could significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as twenty years. In 1995 and 1994, the RTC estimated Corporate losses related to the receiverships' representations and warranties claims as part of the RTC's allowances for losses. In 1994, the RTC estimated Corporate losses related to the conservatorships' representations and warranties claims as part of the RTC's "Estimated cost of unresolved cases." In both years, the Corporation also established a liability for the estimate of losses related to representations and warranties claims associated with loan sales that involved corporate purchased assets. As of December 31, 1995, the RTC included \$810 million in these provisions to cover the estimated costs of representations and warranties claims (\$1.2 billion as of December 31, 1994).

Letters of Credit:

The RTC had adopted special policies for outstanding RTC conservatorship and receivership collateralized letters of credit. These policies enabled the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit were used to guarantee tax exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1995, the RTC had issued a commitment to honor \$413 million of these letters of credit. The Corporation had also established a liability for the estimate of losses related to letters of credit in the amount of \$142 million.

Affordable Housing Program:

As part of its Affordable Housing Program, RTC management had committed to expend up to \$6 million to pay reasonable and customary commitment fees to various state and local housing authorities who, in turn, assisted in providing financing to low and moderate income families. Under that program, the RTC worked with state and local housing finance agencies to secure commitments of Mortgage Revenue Bond and Mortgage Credit Certificate funds which were lent to qualifying families to enable them to purchase properties from the RTC. As of April 15, 1994, all commitments had expired and the Mortgage Revenue Bond program closed. At December 31, 1995, \$2.1 million remained unexpended. No substantial recoveries were anticipated from the program.

Rental Expense:

The RTC leased office space at several locations to accommodate its staff. As of December 31, 1995, these offices included: (1) Washington, D.C. Headquarter offices, (2) six megasite offices, and (3) one satellite office located throughout the country. Additional satellite offices had been closed, but the RTC remained obligated for the remainder of their lease terms pending negotiations for lease buyouts or subleases. These obligations totaled \$0.2 million. The RTC's rental expense for 1995 and 1994 totalled \$45.5 million and \$49.8 million, respectively. The RTC's total contractual obligations under lease agreements for office space were approximately \$61.3 million. These agreements often contained escalation clauses which could result in adjustments to rental fees for future years. The minimum yearly rental expense for all locations was as follows (in thousands):

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001/Thereafter</u>
\$ 21,661	\$ 6,616	\$ 7,069	\$ 7,069	\$ 7,069	\$ 11,782

Lease obligations for 1997 and beyond were exclusively for the RTC headquarters building in Washington, D.C. This lease was entered into by the now defunct FSLIC in 1987. At RTC's termination on December 31, 1995, all of the RTC's debts, obligations and assets, including the above lease obligations, were transferred to the FSLIC Resolution Fund which is managed by the FDIC.

16. Pension Plan and Accrued Annual Leave:

The FDIC eligible employees assigned to the RTC were covered by the Civil Service Retirement System and the Federal Employees Retirement System. Employer contributions provided by the RTC for all eligible employees for the years ended December 31, 1995 and 1994 were approximately \$16.1 million and \$18.4 million, respectively.

Although the RTC contributed a portion of pension benefits for eligible employees and made the necessary payroll withholdings from them, the RTC did not account for the assets of either of these retirement funds and did not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts were reported by the U.S. Office of Personnel Management (OPM) and were not allocated to the individual employers. OPM also accounted for Federal health and life insurance programs for those RTC retired eligible employees who had selected Federal government sponsored plans.

The RTC's liability to employees for accrued annual leave was approximately \$23.1 million at December 31, 1995, and \$24.8 million at December 31, 1994.

17. Health, Dental and Life Insurance Plans for Retirees:

The RTC, through its association with the FDIC, provided certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Eligible retirees were those who had elected the FDIC's health and/or life insurance programs and were entitled to an immediate annuity (dental coverage was automatic at retirement). The health insurance coverage was a comprehensive fee-for-service program, with hospital coverage and a major medical wraparound. These employee plans will continue under FDIC management.

Corporate contributions for retirees were the same as those for active employees. Premiums were paid to the FDIC, where they were held until plan fixed costs and expenses were paid. The life insurance program provided for basic coverage at no cost and allowed converting optional coverages to direct-pay plans. The cost of providing this benefit was not separable from the cost of providing benefits for active employees, as the charge for retirees was built into rates for active employees.

The RTC recorded charges of \$8.5 million and \$6.9 million for the current periodic cost, for 1995 and 1994, respectively. All amounts had been reflected in the "Administrative operating and other expenses" line of the Statements of Revenues, Expenses and Accumulated Deficit.

The net periodic postretirement benefit cost for 1995 and 1994 included the following components (in millions):

	<u>1995</u>	<u>1994</u>
Service cost, benefits attributed to employee service during the year	\$ 7.2	\$ 7.2
Interest cost on accumulated postretirement benefit obligations	4.7	4.1
Net amortization and deferral	(1.1)	(1.4)
Return on plan assets	<u>(2.3)</u>	<u>(3.0)</u>
Net periodic postretirement benefit cost	<u>\$ 8.5</u>	<u>\$ 6.9</u>

The RTC, as a government corporation terminated on December 31, 1995, had decided, in conjunction with the FDIC, that the liability for postretirement benefits for eligible employees assigned to the RTC would be recorded on the books of the FDIC. The RTC paid the FDIC an amount equal to the RTC's obligation. In return, the FDIC agreed to pay the costs associated with postretirement benefits due to eligible employees assigned to the RTC upon their retirement. As of December 31, 1995, the RTC had included as a current liability on its Statement of Financial Position an amount equal to \$14.2 million for a revised 1995 net periodic postretirement cost (\$6.1 million as of December 31, 1994).

The discount rate used in the calculation of the postretirement benefit obligation was 6.0% in 1995 (6.0% in 1994). The assumed medical inflation trend in 1995 was 12.0% (12.5% in 1994), decreasing to an ultimate rate of 8.0% in 1999 and remaining at that level thereafter. The dental cost trend rate in 1995 and thereafter was 8.0%. Both the assumed discount rate and health care cost trend rates had a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost trend rate was increased one percent, the accumulated postretirement benefit obligation for health care benefits as of December 31, 1995 would have increased \$21.9 million, or 25.5% (\$15.3 million, or 26.2% as of December 31, 1994). Additionally, a one percent increase would have increased the aggregate service and interest costs of the 1995 net periodic postretirement health care benefit cost by \$3.8 million, or 29.3% (\$2.9 million, or 29.9% of the 1994 cost).



RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

Chief Financial Officer

December 31, 1995

1995 Management Report on Internal Controls

Corporate Internal Control Objectives

The Resolution Trust Corporation (RTC) maintained an internal control system which provided reasonable assurance that:

- assets are safeguarded against loss from unauthorized acquisition, use or disposition;
- transactions are executed in accordance with management's authority and with laws and regulations; and
- transactions are properly recorded, processed, and summarized in accordance with generally accepted accounting principles and to maintain accountability for assets.

The internal control system established by RTC included a documented organizational structure, division of responsibility, and established policies and procedures. The corporate policy set a positive tone for the organization and is intended to influence the control consciousness of RTC personnel.

During 1995, the Corporation's objectives were to build on past successes by managing and maintaining its existing programs, by continuing to aggressively pursue its internal control and review activity and to develop control plans related to RTC's downsizing and transition of its functions to the Federal Deposit Insurance Corporation (FDIC) in a manner that preserves accountability and fiscal integrity.

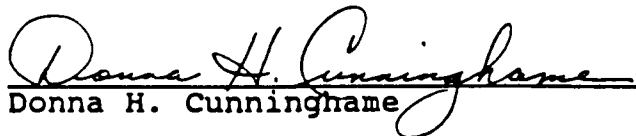
Management's Assertion

Management acknowledges its responsibility for establishing and maintaining an effective system of internal control. During the year, management evaluated the Corporation's internal control system to determine whether it achieved its objectives. The

evaluation was based on the control criteria established under Federal Managers Fiscal Integrity Act, federal directives and applicable policy statements of the Thrift Depositors Protection Oversight Board. Based on that evaluation, management believes that the Corporation's internal control system as of December 31, 1995, was effective in safeguarding material assets against loss from unauthorized acquisition, use, or disposition; assuring the execution of transactions in accordance with management's authority and applicable laws and regulations; and assuring that there were no material financial misstatements.

There are, however, inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even the most effective internal control system can provide only reasonable assurance with respect to safeguarding of assets against unauthorized acquisition, use or disposition, compliance with laws and regulations, and preparation of financial reports. Furthermore, the effectiveness of an internal control system can change with circumstances.

It should be noted that, notwithstanding management's overall conclusion on the adequacy of RTC's system of internal control, high risk areas and control weaknesses were identified and disclosed through internal control reviews undertaken and audits conducted by external entities in 1995. However, management does not consider the high risk areas and control weaknesses disclosed to be material in relation to the administrative functions or to the financial records relative to the Corporation's operations. Through December 31, 1995, known high risk areas and significant control weaknesses, along with the status of corrective actions taken or proposed, were disclosed in the Corporation's 1995 Internal Control Report to the TDPOB dated December 31, 1995.


Donna H. Cunningham

June 25, 1996

Gene L. Dodaro
Assistant Comptroller General
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Dodaro:

We appreciate the opportunity to respond to the General Accounting Office (GAO) report on its audits of the 1995 and 1994 financial statements of the Resolution Trust Corporation (RTC). In accordance with statute, the RTC terminated on December 31, 1995, and its remaining assets and liabilities were transferred to the FSLIC Resolution Fund (FRF), managed by the FDIC. The FDIC has, therefore, assumed responsibility for the RTC's remaining workload.

In that regard, we note that the GAO has concluded that the RTC's financial statements are fairly presented in all material respects and that RTC management fairly stated that the RTC's system of internal controls provides reasonable assurance that losses, non-compliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. Additionally, we note that the GAO found no reportable instances of non-compliance with laws or regulations during the course of the audit.

THE SAVINGS AND LOAN CRISIS: HISTORICAL PERSPECTIVE AND FISCAL IMPLICATIONS

We commend the GAO for its discussion of the savings and loan crisis. The discussion is a concise and accurate account of the history, costs, and ongoing fiscal implications of the crisis and will serve as a valuable resource.

TRANSITION OF THE RTC TO THE FDIC

The FDIC worked with the RTC during 1994 and 1995 through its participation on the FDIC/RTC Transition Task Force to ensure the smooth transition of RTC operations, personnel, and assets to the FDIC. In addition, the FDIC is implementing numerous RTC systems and "best practices" recommended by the Task Force.

As part of its ongoing responsibility for residual RTC work, the FDIC will be addressing the concerns identified by the GAO in its report. These include the reportable condition relating to computerized information system controls as well as the concerns expressed about controls over RTC contracting and their possible impact on receivership recoveries.

DISCUSSION OF THE COMPUTERIZED INFORMATION SYSTEM CONTROLS
REPORTABLE CONDITION IDENTIFIED IN THE GAO'S 1994 AND 1995
FINANCIAL STATEMENT AUDITS

The RTC reported to the GAO that corrective actions for many of the computerized information system internal control weaknesses identified in the 1994 audit were completed late in 1995. However, the GAO identified additional weaknesses relating to general controls over the RTC's computerized systems during the 1995 audit.

Effective June 25, 1995, the FDIC began providing information resource management (IRM) services to the RTC pursuant to the terms of a "Letter of Agreement", which provided for the continued separation of RTC systems and IRM support until termination of the RTC on December 31, 1995. Most of the general control weaknesses that the GAO identified were addressed late in 1995 and early in 1996. FDIC management plans to implement corrective actions for the remaining two control weaknesses by September 30, 1996. To ensure final resolution, FDIC staff will monitor the completion and progress of the corrective actions.

CONTROLS OVER CONTRACTING

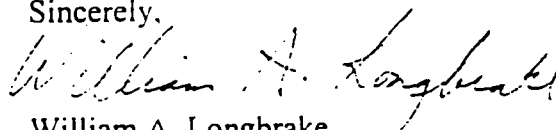
The GAO report notes that although the RTC took numerous actions in recent years to improve controls over its contracting activities, the effects of the RTC's early neglect of its contracting operations remained, particularly for contracts issued prior to the implementation of RTC contracting reforms and improvements. The result was that the RTC could not be sure that it had recovered all that it should have recovered from its receiverships.

A large number of active RTC contracts were transferred to the FDIC on December 31, 1995, and the FDIC has assumed responsibility for closing out and resolving open audit issues for a much larger number of completed RTC contracts. During 1995, the RTC intensified its efforts to close out completed contracts and to resolve open contract audit issues. The FDIC and the RTC also worked together through the transition process to identify RTC contracts that would be needed to accomplish remaining RTC work after the RTC's termination, and the RTC modified those contracts during late 1995 to enable their transfer to the FDIC.

In assuming responsibility for the RTC's remaining contracting work, the FDIC will make its best efforts to recover any funds due under these contracts, recognizing the limitations that may exist because of the factors cited in the GAO report.

Please contact me if any further assistance may be provided by this office.

Sincerely,



William A. Longbrake
Deputy to the Chairman for Finance
and Chief Financial Officer