

Semiannual report and appearance by the Oversight Board of the Resolution Trust Corporation : hearing before the Committee on Banking, Finance, and Urban Affairs, House of Representatives, One Hundred First Congress, second session, June 14, 1990.

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SEMIANNUAL REPORT AND APPEARANCE BY THE OVERSIGHT BOARD OF THE RESOLUTION TRUST CORPORATION

HEARING

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

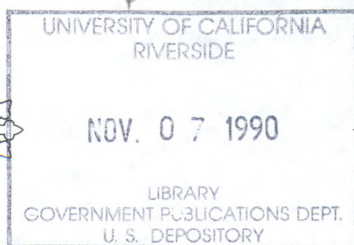
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SEMIANNUAL REPORT AND APPEARANCE BY THE OVERSIGHT BOARD OF THE RESOLU- TION TRUST CORPORATION

Thursday, June 14, 1990

HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2128 Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman] presiding.

Present: Chairman Gonzalez, Representatives Annunzio, Neal of North Carolina, Hubbard, LaFalce, Oakar, Vento, Barnard, Schumer, Carper, Torres, Kleczka, Kennedy, Flake, Mfume, Price, Pelosi, McDermott, Hoagland, Neal of Massachusetts, Engel, Wylie, Leach, Parris, McCollum, Roukema, Hiler, Roth, McCandless, Saxton, Stearns, Gillmor, Paxon.

The CHAIRMAN. The committee will please come to order. And we will try to dispense with some of the preliminaries so we can proceed expeditiously. We are very grateful to the witnesses who have so much on their shoulders and yet have responded to our invitation.

Today the Oversight Board of the Resolution Trust Corporation makes its first semiannual appearance before this committee as required by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

As you will recall, we had the first hearing in January, I believe it was January the 24th and 25th. We appreciate the appearance of Treasury Secretary Brady, who is Chairman of the Board, Chairman Greenspan, Secretary Kemp, and Mr. Robert Larson, one of the two public members appointed by the President. We would also like to thank Bill Taylor, who has just completed his post as acting president of the board, for the job he has done, and to welcome the new president, Mr. Peter Monroe. I think I speak for all the members of this committee when I wish you, Mr. Monroe, good luck and much success in your job.

Since the passage of FIRREA, this committee has held a series of oversight and investigative hearings on the savings and loan industry and on the administration's implementation of their plan. Progress has been painfully slow at times, but we have been and we must be patient. We know that it takes time to start any new enterprise, but we remain concerned that keeping insolvent institutions open simply means more losses—this was our concern, individual concern, in 1987 and 1988 before FIRREA—a deterioration

(1)

in the value of the assets of the institutions and that open insolvent or near insolvent institutions are competing with healthy institutions knowing that Uncle Sam, in the form of the American taxpayer, will pay the costs.

Just yesterday the Congressional Budget Office provided this committee with the estimates of the number of institutions that will eventually have to be resolved by the RTC. Once again, the estimates of the number of institutions and the cost of their resolution is going up. Again, I caution, we didn't have all kind of estimates, but I think that all depends upon—as I said last year, what is done today, this year, will determine what will happen next year as far as eventual resolution cost. No one knows what the ultimate cost will be.

We do know that the faster the job's done, as I said, the lower the cost will be. We have asked the Oversight Board to tell us their plans, to tell us how much money they're going to need and when. It is my hope that today we will get that information. I know that the American people are as concerned as we all are.

We are also concerned about the tremendous amount of assets coming in the RTC's hands, but we knew that. We knew that last year. We knew that we were going into something the country had never faced before. And so, this is the reason why I have tried to express patience and tolerance, and also some sustainment of goodwill and bipartisan effort. This is an election year, and we want to be restrained so that we don't obstruct unwittingly and with the best of intentions.

We will spend 2 days in the field hearings in Texas next week, looking specifically at asset disposition, and I know the information we receive today will help us prepare for those hearings.

Finally, we have also asked the board for a report on progress made in implementing FIRREA's minority contract and outreach program, an update on the conservatorship program, the status of the accelerated resolution program, and implementation of FIRREA's affordable housing programs.

We look forward to receiving your testimony, gentlemen. And with that, I'll recognize—oh, I might state that the ranking minority Member of this committee—and let me say for the record that without his tremendous help and assistance we probably wouldn't have accomplished anything—is on the House floor attending to legislative business that he has to perform and paramount, but he will be here soon, and therefore the Chair recognizes Mr. Leach.

[The prepared statement of Mr. Gonzalez can be found in the appendix.]

Mr. LEACH. Mr. Chairman, I have an opening statement, but I would like to simply indicate that we are meeting on a day in which one of the most significant indictments have come down in the S&L industry. This is good news for the American public and also sets a tone for the seriousness with which this administration is approaching the criminal implications of this issue. Thank you.

The CHAIRMAN. Thank you. Mr. Annunzio.

Mr. ANNUNZIO. Thank you, Mr. Chairman. Mr. Chairman, the American people are disgusted with the lack of progress of the savings and loan cleanup. Every constituent is deeply frustrated with the slow pace of both the RTC and the Justice Department. The

people want to know the answers to two questions. When is the cleanup going to get out of first gear, and when are the savings and loan crooks going to jail? I hope to get the answer to the second question from the Attorney General in 2 weeks. That is if he decides to accept my invitation to testify at the Financial Institutions Subcommittee hearing.

Maybe today's hearings will help get an answer to the first question. The American people have been told that the billions of dollars is going to bail out the depositors of the failed institutions. That is a misleading statement. The money has not gone to the depositors, except in the case of a few liquidations. Most of the money has gone to acquirers of institutions.

Some argue that this money is put in these deals to compensate for the deposit liabilities. But it is important to recognize that the acquirer gets a chance to examine the assets of the institution as a result.

The extensive use of put options by the RTC has created a situation in which the acquirers have up to an 18-month free ride period to examine an institution's assets.

Take the case of Murray Federal Savings in Texas. The RTC announced that this case was resolved with the acquisition of the institution by United Savings. But United has the right to return to the RTC hundreds of millions of dollars worth of bad assets during the next 18 months. This is a can't lose proposition for United. If the assets turn out to be good, the acquirer keeps it and its profits. If the asset is bad, the RTC and the taxpayers get the loss.

Taxpayers should also be aware that much of the money given to the RTC for thrift resolutions is going, not to pay the depositors, but for a wide range of RTC service contracts. For instance, the RTC is currently soliciting asset management contracts for \$2.6 billion in assets. Let me quote what one newsletter reporting on the RTC has to say about these solicitations: "Asset management firms are salivating at the prospect of being awarded contracts of these proportions. Fees are expected to mount into the hundreds of millions, and the duration of some will last years."

The American people want their money to go to the depositors of the failed institutions, not the managers, consultants, and advisors. It is bad enough that billions of dollars must be paid out to bury the failed institutions without hundreds of millions going to the swarms of vultures picking at the corpses of the dead.

If all this sounds familiar, it should. This is FADA all over again. Rather than hire the so-called experts directly like FADA did, the RTC contracts with them. Different system, same results. The taxpayers are getting fed up with this.

Ten months have passed and still the RTC is not up to full speed. We have a major crisis, the biggest financial disaster in the history of the country. Yet the RTC is selling assets not like hotcakes, but like boomerangs. First they get rid of them and then they come back. It's time to sell the assets without strings.

[The prepared statement of Mr. Annunzio can be found in the appendix.]

The CHAIRMAN. Does any other Member have a preliminary statement? I'll ask on this side.

Mr. ROTH. Mr. Chairman.

The CHAIRMAN. Yes, Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman. Mr. Chairman, I think that our hearing today is most appropriate. The New York Times this morning reports that the RTC will need another \$57 billion and that as many as 1,700 savings and loan may ultimately fail. This story is getting worse by the day. Mr. Chairman, we have assembled here those who are responsible for leading the savings and loan rescue.

It is disturbing to me that, with the extraordinary brain power and experience on this RTC board, the whole is less than the sum of its parts. The American people now understand what some of us on this committee have been saying for 3 years: this catastrophe was no accident. It could have been prevented by effective regulation and vigorous enforcement. The regulators of that time had the authority, but they didn't use it. And, also, we could have fixed this just 2 years ago, with a tiny fraction of the \$300-500 billion that we are now facing.

The truth is that the crooks and con artists invaded the thrift industry and caught some regulators sleeping at their posts. Others who tried to sound the alarm were pressured into silence by the political muscle willingly applied by top officials who had sold out to those who had made millions by running thrifts into the ground, and all this with the taxpayers' insurance of the money.

You may not get out among the American people as I do and many of our colleagues do, but you must realize that support for this operation is gone. Yesterday the RTC said it needs more money. We, here, have the bottom line. You cannot get another dollar of public funds for this operation until the taxpayers' interests come first, and the crooks, the con artists, and the financial gunslingers are put in jail.

We have some 10,000 cases of fraud before the Justice Department. This leads me to my final point. We need to have the Attorney General up here. And I'm glad to hear that members of the committee are working to have the Attorney General come up here to give us an account of the Justice Department's failure to prosecute some 1,300 major fraud cases which the FBI has identified. So I hope, Mr. Chairman, that we can have the Attorney General up here, also, to tell us what is being done, because the time for talk has long since come to an end. We need action, and we need action right now. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Hubbard.

Mr. HUBBARD. Thank you, Mr. Chairman. First, I must congratulate you on the hearing this morning and express appreciation to the distinguished members of the Oversight Board of the Resolution Trust Corporation for being with us. Much could be said in these opening statements. I do have an opening statement and would ask unanimous consent for it being entered into the record, but not being given right now.

The CHAIRMAN. Without objection, it is so ordered.

Mr. HUBBARD. In closing, I would say that, indeed, as we hear from the members of the Oversight Board of the Resolution Trust Corporation, we will anxiously await their semiannual report on the progress being made in the liquidation of the assets of those

savings and loans which have been taken into custodianship by the U.S. Government.

There are those who appreciate what these distinguished gentlemen are trying to do. We realize the difficulties you have with the tremendous task and we hope you will bring this to a resolution—no pun intended—as soon as possible.

[The prepared statement of Mr. Hubbard can be found in the appendix.]

The CHAIRMAN. Mr. Parris.

Mr. PARRIS. Mr. Chairman, I would ask unanimous consent that my statement be included in the record at this point.

The CHAIRMAN. Without objection, so ordered.

Mr. PARRIS. I will not trespass on the time of these gentlemen, nor the committee, to enter into that statement; other than to say that we're delighted to have you gentlemen here.

I think that the actions that you will take and have taken and will take in these next 2 years, may have a more impact on the economic opportunities of our society and the citizens that we all serve, perhaps more than any other element of government. I wish you well in that regard and look forward to working with you in the resolution of those difficult problems. Thank you, Mr. Chairman.

Mr. FLAKE. Mr. Chairman, I ask unanimous consent to have my remarks read into the record.

The CHAIRMAN. Without objection, so ordered.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Mr. LaFalce.

Mr. LaFALCE. Thank you, Mr. Chairman. Mr. Chairman, last year and now, I believed that the administration and the Congress had misdiagnosed the problem and therefore had come forward with a very incorrect solution. As every day passes, I think it's quite clear that the problem was misdiagnosed and that the solution is wrong.

No matter how well you effectuate FIRREA, if you're pursuing the wrong solution, it's not going to work. The whole idea of the Federal Government coming in and taking over these institutions and taking over all of this real estate and then attempting to dump it into the market exacerbates the problems.

This is not simply not my perspective, a so-called liberal Democrat's. I remember Professor Paul Craig Roberts saying that the administration proposal was going to exacerbate the problem, to make it a national problem rather than simply a regional problem, and that's what's happened.

So, if you're going to fix up FIRREA, that's one thing, but that's not going to deal with the fundamental problem, in my judgment, of the misdiagnosis, of the wrong prescription. I think at some point along the line, we're going to have to face up to that fact and change course. Thank you.

The CHAIRMAN. Yes, Mr. Gillmor.

Mr. GILLMOR. Mr. Chairman, I don't have a prepared statement, but I'd like to make a brief comment on one subject that I hope that the panelists will be able to address. I have been receiving—and I would think that a number of the members of the committee

have as well complaints by not high flyers, but responsible businessmen about an over-strict clamp down on credit.

I am fully aware that the problem we had is that we extended credit in the past to projects that were not credit worth and things were much too loose. We had a lot of problems and to avoid that recurrence, regulators have been clamping down. But I am hearing from a number of people that businesses with security who are credit worthy, because of the clamp down, are now being denied credit and this has had an adverse impact on our business climate.

I'm not saying that that is, in fact, the case, but I do hope that that point would be addressed. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, Ms. Pelosi.

Ms. PELOSI. Mr. Chairman, I, too, ask unanimous consent to have my statement placed in the record.

The CHAIRMAN. Without objection, so ordered.

Ms. PELOSI. I do want to say that I know I speak for many of my colleagues in Congress when I say that our constituents are very interested in today's testimony and that oversight on the implementation of FIRREA and the importance of the report that we will receive today from our distinguished witnesses is being watched very closely by all people throughout America.

As I don't want to take any more time so that we get on to listening to our witnesses, I, again, thank you for your unanimous consent agreement. Thank you.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Mr. McCandless, were you seeking recognition?

Mr. McCANDLESS. Thank you, Mr. Chairman. In the interest of time and to give us some opportunity to listen to our panel, I would defer till later and ask that my opening statement be part of the record.

The CHAIRMAN. Without objection, it is so ordered.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Mr. Wylie has arrived. I don't know if he has an statement, but I think we ought to recognize him. Mr. Wylie.

Mr. WYLIE. Mr. Chairman, I will ask unanimous consent that my statement be included in the record, right after your's.

The CHAIRMAN. Without objection, so ordered.

[The information referred to can be found in the appendix.]

[The prepared statement of Mr. Engel can be found in the appendix.]

Mr. WYLIE. I want to welcome our witnesses. This is a very distinguished panel and we look forward to receiving their testimony. I think we need all the help we can get and they can give us some. Thank you very much.

The CHAIRMAN. Thank you. Well, with that, we'll proceed and hear from our witnesses. Unless there's some reason—perhaps some members of the panel have some overriding commitments—we will recognize Secretary Brady first.

Mr. Secretary, thank you very much for responding to our invitation. You may proceed as you deem best.

STATEMENT OF HON. NICHOLAS F. BRADY, SECRETARY OF THE TREASURY

Mr. BRADY. Thank you, Mr. Chairman. Generally speaking, my statements before Congressional committees have been very short and most of the time not over 5 or 6 minutes. This morning I would ask your forbearance and sufferance to let me be more expansive because of the size of the problem and the details connected with it. So I'm afraid it may take me longer than my usual time, if that's understandable.

The CHAIRMAN. The Chair will say that the gentleman will have no limitations imposed on him and will observe that, if the Secretary testified before other committees unlimited after 5 minutes, I'm jealous, because we haven't been that lucky before with other witnesses. Mr. Secretary, you may proceed as you see best.

Mr. BRADY. Thank you, Mr. Chairman. We are pleased to have this opportunity to present our views on the progress to date under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, so-called FIRREA, and to discuss the outlook for the months to come.

I address the committee this morning in my capacity as Chairman of the Oversight Board, and am accompanied by the other members of the board, Chairman Greenspan, Secretary Kemp, and Robert Larson. Our fifth member, Philip Jackson, Jr., is out of the country and unable to join us today. We are also accompanied by William Taylor, who has served for the last several months as acting president of the Oversight Board, and Peter Monroe, the incoming president.

I would just like to say two things. First of all, we are enormously grateful to Robert Larson and to Phil Jackson, who are private citizens with their own businesses, in Mr. Larson's case, an enormously successful real estate business in the mid-West. We approach the time that they have taken to contribute to our deliberations.

With regard to Bill Taylor, as he moves on, I can only say thank you for a job very well done, not only from the Oversight Board's point of view, but I think also from the view of Members of Congress and the public in general. As I think we all know, Mr. Taylor is the President's nominee to succeed Bill Seidman, and he's also Bill Seidman's first choice for that job.

This testimony will cover our efforts since the enactment of FIRREA 10 months ago. As we proceed, we do so under 3 principles which have guided us from the start. First, we will make sure that the millions of men and women who put their savings in savings and loan institutions are protected to the full extent of their Federal deposit insurance. Second, we will do all within our power to do the job at the least cost to the taxpayer. And third, we will aggressively pursue and prosecute the crooks and fraudulent operators who helped created the S&L problem.

There are many who are impatient to wish these unpleasant problems behind us. We must remember, however, that it took over a decade for the thrifts to become so costly and so difficult to fix. The enactment of FIRREA less than a year ago was only the begin-

ning of the solution. We still have a long way to go before we reach the end.

This morning I will present a summary of major issues covered in our prepared testimony, and ask that the full statement be placed in the record.

The CHAIRMAN. Certainly. Without objection, it is so ordered. And I might advise all of the witnesses that their prepared text will be placed in the record as it was submitted to us.

Mr. BRADY. Thank you. As with the written statement, my comments today will cover the following areas: a brief look back at the circumstances which led up to the enactment of FIRREA; a progress report from last August to the present, including the conservatorship program; orderly operating plans; status of accelerated resolution and clean sweep programs; and compliance with the Community Reinvestment Act. And finally, a look ahead to consider the question of resources.

Before we do so, we should face squarely the fact that the real estate market in a number of areas in the United States is in a weakened state, and that's become particularly so during the last year. This affects every aspect of the problem we face, especially the job of estimating the size of the problem. The condition of the real estate market affects the number of institutions which fail, the value of their assets, the speed at which assets can be sold, and thus, the ultimate loss.

FIRREA requires that we provide an estimate of the remaining exposure of the U.S. Government from institutions which will come under the control of the RTC. We have attempted to do so, but note that such estimates are highly uncertain because they require market predictions, which are themselves highly uncertain. For that reason, no one should assume that the estimates presented today will not change: they will.

As this committee knows well, the problems we are wrestling with today have roots which reach back over many years. The savings and loan problem was there to greet President Bush when he took office in January, and he wasted no time in responding. Less than a month after taking the oath of office, the President came forward with a plan and made it one of his highest priorities to enact into law.

You in the Congress and we in the administration worked together last year as architects of the plan to repair the damage and reform the system. With your leadership, Mr. Chairman, and that of your committee, we took an important step toward resolving this serious problem.

It is important to bear in mind that we undertook this effort with a single purpose in mind: protecting depositors. We are not bailing out shareholders of S&Ls, we are not bailing out management, we are not in this to preserve the institutions; in fact, many will be lost. Monies spent are spent to protect depositors.

It was just over a year ago that Congress took up consideration of FIRREA. This committee preserved the essence of the administration's bill but added its imprint. Just a few months later, FIRREA was enacted and the machinery was put in place.

Now let me turn to a report on the progress of the RTC. I will briefly cover several major areas: case resolutions; asset disposition;

enforcement efforts; affordable housing; and minority outreach. I would refer you to the written statement for a detailed discussion of these and other areas of concern.

It is important to remember that the key purpose of FIRREA is to provide the money and mechanism to remove insolvent and failing thrifts so that the industry which remains can compete successfully and safely in the financial marketplace. The evidence is that FIRREA is working. Outside of the universe of RTC institutions, the industry which remains is profitable, has on the average more than 3 percent tangible capital, and is growing by adding deposits.

Now let me turn to the status of case resolutions. When the RTC started its work on August 9, 1989, there were 262 institutions in conservatorship. Since August through June 8 of this year, the RTC has resolved 148 cases, while adding 181 institutions to the caseload. That left the RTC, as of June 8, 1990, in control of 295 conservatorships. While there has been a great deal of discussion about the RTC's relatively slow start in case resolutions, progress in recent months has been substantial.

The RTC in March laid out an ambitious schedule of case resolutions for the third quarter of fiscal year 1990. The plan calls for resolving 141 institutions with assets totaling nearly 50 billion between April 1 and June 30, 1990. As of June 8, the RTC had resolved 96 institutions with assets of \$21 billion, and we are advised by the RTC that they expect to reach the target of 141 by the end of this month.

Whatever the final number, the RTC deserves enormous credit for its accomplishments during the third quarter. Nearly 100 cases in just 11 weeks represents an achievement by any standard. The Oversight Board is involved in on-going discussions with the RTC about projections for case resolutions during the quarterly periods beginning on July 1 and October 1, 1990. However, no operating plan has yet been presented or adopted for these quarters. It seems reasonable to expect that the RTC could resolve institutions with assets ranging from \$20-\$40 billion per quarter.

We recognize that both the Congress and the administration have a need for information about the RTC's spending plan. We hope to move toward planning for 6-month periods, and we'll work with the RTC to achieve that end.

Finally, the Oversight Board and the RTC are concerned about the effect of the conservatorship program—in essence, the Government warehousing of private sector assets—on franchise values. To address these concerns, the RTC, in cooperation with the Office of Thrift Supervision, is in the process of developing a pilot program to test the concept of accelerated resolution.

The Oversight Board is monitoring the development of this program to ensure its consistency with FIRREA and the strategic plan. We also recognize that the General Accounting Office has raised concerns about the conservatorship program, specifically the training and turnover of managing agents. The Oversight Board intends to watch the situation and provide policy guidance as necessary.

The next issue is asset disposition. There are two groups of assets under the control of the RTC: those in conservatorship and those in receivership. As of March 31, 1990, there were 350 institutions in

conservatorship with gross assets and book value of roughly \$160 billion, based on year-end financial data. As of the same date, there were 52 receiverships with assets totalling \$13 billion.

Throughout March, 1990, the RTC has reduced the volume of assets under its control, including both conservatorship and receiverships by nearly \$42 billion through March 31, 1990.

While the RTC has compiled a substantial record on sales from conservatorships, there has been less progress in disposing of receivership assets. To some extent this is understandable because the receivership assets are the most trouble. The Oversight Board and the RTC however are anxious to establish a record of steady and solid progress in the sale of assets.

It becomes critically important to achieve greater progress in the area of asset sales as the number of resolutions increases. For example, we must take advantage of the opportunity to dispose quickly of assets which have a ready market such as single family mortgages. With the encouragement of the Oversight Board, the RTC recently adopted a policy of providing representations and warranties as are customary in the marketplace.

We also support the RTC in the procedures recently adopted for determining the market value of assets and establishing prices for sales by auction. We believe that the RTC has taken an initial step forward toward dealing with appraised values which may in some cases overstate market values and have so communicated that to the RTC during its deliberations. We find the approach which they have taken to be responsible.

At this point let me briefly report on the progress in enforcement activities, although the Oversight Board does not have a direct role in them.

The RTC has established an Office of Investigations in Washington and has teams of investigators throughout the country. These investigators will help to identify negligent and reckless mismanagement, fraud and criminal conduct that contributed to thrift insolvencies.

They will be involved throughout civil litigation proceedings and also will assist the FBI and the U.S. attorneys in criminal prosecutions. Thrift regulators and institutions have made over 17,000 criminal referrals in the last 3 years. These include requiring 664 institutions to enter into binding agreements terminating unsafe and unsound practices, removing over 150 senior officers and directors from the thrifts and forbidding them ever again to be employed by an insured thrift institution and issuing 111 cease and desist orders to stop unsafe and unsound practices and to require restitution.

In addition there are over 1000 civil law suits seeking to recover billions of dollars from former directors, officers and professionals including accountants and lawyers. Criminal referrals have already resulted in prosecutions and convictions.

Despite the extent of our present enforcement activities, the Government needs to do more. We must vigorously pursue those whose criminal and fraudulent activities helped create the present situation.

Let me now turn to affordable housing. Since we last appeared before the committee, the RTC has proposed and the Oversight

Board has approved an interim rule for the affordable housing disposition program. The rule implements the provisions of FIRREA requiring the RTC to offer certain residential properties to qualified purchasers for a 90 day marketing period. We are also working with the RTC to develop guidelines for the disposition of properties having no reasonable recovery value. The guidelines will provide for the conveyance of such properties to be used as shelters for the homeless, housing for lower income families and other public purposes.

To provide a financing alternative for the affordable housing properties, in March the Oversight Board approved a policy encouraging the RTC to enter into agreements with State and local housing finance agencies to provide low interest financing for RTC affordable housing properties. The RTC has entered into commitments in Arizona and Texas and is now negotiating with other key States.

A major obstacle to the implementation of the affordable housing program has been the difficulty of getting thousands of small properties ready for sale. As private sector asset managers are selected and placed under contract in the next month or two, the flow of properties into the program is expected to increase dramatically.

Based on the information currently available about the affordable housing inventory, it appears that the program will be able to serve the needs of a broad range of lower income families, not just those at or near 115 percent of the median level. Approximately 84 percent of the homes currently in the inventory are appraised at \$50,000 or less. The average appraised value actually is \$35,000. With low interest bond financing, a \$50,000 home is affordable to a family with an income of \$18,500, which is just over 50 percent of the median income in Texas.

As you know, the strategic plan did not provide for immediate use of direct subsidies such as price discounts and concessionary financing. However, for the past several weeks the Oversight Board has had the issue of subsidies under study and is examining various options.

Attached to our statement is a listing of the 100 single family properties offered for sale under the first phase of the program along with information about the property and the buyers.

Yesterday the RTC released its second inventory of properties which includes a listing of all properties eligible for the affordable housing disposition program.

Now let me say a few words about minority outreach. The RTC's efforts on behalf of minorities and women generally fall into two categories, outreach to minority and women contractors and preservation of minority and women-owned institutions. The RTC is developing its final policies and procedures for contracting with minority contractors. Thus far, the RTC has concentrated on getting eligible minority contractors registered. This is critically important because it forms the basis for the selection of contractors.

Of the nearly 5,400 contractors registered today, about 1,100—20 percent—are firms that are owned by minorities and women.

Based on preliminary data from the first quarter of calendar year 1990 the RTC tells us that over 200 contracts for almost \$4 million in fees have been awarded to minority and female-owned

businesses. This represents about 15 percent of the total in both numbers and dollar terms.

The second major area of outreach is an effort to facilitate the continuation of minority institutions.

Now let me turn to the issue of future requirements of the RTC. Since the thrift crisis first emerged, there have been a number of sources providing explanations and estimates of the size of the problem. Each has a projection as to how many thrifts will require government expenditures and how much the entire cleanup will cost.

Some give cost estimates on a present value basis while others given them on a cash basis. Some estimate total cost for resolving the thrift crisis, while others focus on additional funds needed. Estimates also vary on whether they include REFCORP interest costs, interest on working capital and even the effect of government borrowing on cost. Including interest costs treats the saving and loan program differently from the vast majority of Government programs and has the effect of dramatically increasing cost estimates.

In short, there are a myriad of estimates prepared using a variety of methods. Of course, the highest estimates get the most attention. Let me give you our view of where things stand.

FIRREA established a funding structure which has three parts.

First, it provided for the payment of prior commitments of FSLIC from the old FSLIC fund. At the time FIRREA was signed into law, it was estimated that the cost of winding down FSLIC in present value terms would be about \$40 billion. Given market conditions, it now appears that the cost will be higher than originally estimated.

Second, FIRREA provided \$50 billion, \$18.8 billion in appropriations, \$1.2 billion from the Federal home loan banks and \$30 billion from REFCORP, to resolve the RTC case load, that is, insolvent savings and loans which fail during the 3 years subsequent to the enactment of FIRREA.

At the time FIRREA was enacted there were approximately 350 insolvent thrifts with assets of \$170 billion and roughly another 150 institutions with \$100 billion in assets that would almost certainly become insolvent in the near term.

The \$50 billion requested was based on the most credible estimates at the time, prepared by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the General Accounting Office.

Finally, FIRREA established the Savings Association Insurance Fund, SAIF, to bear the cost of thrift failures which occur after August 9, 1992. Though we did not have a firm estimate of the funds that would be required by SAIF to meet its obligations, FIRREA authorized the Treasury to provide up to another \$32 billion for this purpose. The present value of these future commitments is approximately \$23 billion.

At the time of the legislation, there was a great deal of uncertainty about the long-term cost of fixing the problem, a difficulty which exists to this day.

Let me quote from the letter which I sent to the chairman of the Senate Banking Committee on June 23, 1989, in response to his question about the adequacy of funds to be provided in FIRREA.

I quote: Let me emphasize that this level of resources, no matter how thoroughly researched or how widely agreed upon, is still based only on estimates. Uncertainties include the level of interest rates, the strength of the economy, as well as many other factors that could have a significant impact on the size of the problem. As a result, the actual cost of case resolutions could be higher or lower, depending on the actual circumstances.

It is now clear that the amounts projected and authorized for the RTC and FIRREA will fall short of what is required. The causes of these increased RTC losses appear to fall into three different categories. The losses in individual thrifts are larger than expected. Marginal thrifts are likely to fail sooner than expected, becoming the responsibility of the RTC and not SAIF. And the total number of projected thrift failures has increased.

Why has this happened? The fact is that we now have what we simply could not have had at the time FIRREA was considered and enacted: actual experience with the cost of marketing insolvent thrifts and their assets. This experience, with 148 resolutions, has made us more pessimistic about losses embedded in thrifts, both inside and outside the RTC's current caseload.

A number of factors have contributed to these higher projections, including ones with which this committee is very familiar: a general decline in regional real estate markets, particularly commercial real estate; the fact that healthy banks and thrifts have become much more leery about taking real estate assets into their balance sheets in view of current market conditions, which means more bad assets piling up at the RTC; higher than projected interest rates, which translate directly into increased operating losses for thrifts in conservatorship, and indirectly into softer real estate markets; unexpected losses in below-investment-grade bonds, sometimes referred to as high-yield, or junk bonds. At least for some purchasers, thrifts just are not as attractive a franchise relative to banks as they once were.

These factors have produced not only higher-than-expected losses, but also an increase in the population of savings and loans that will require attention. To some extent, this results from the fact that cases which we expected to be handled in the future by SAIF—and for which FIRREA provided \$32 billion, will in fact be handled by the RTC. These cases are merely moving forward in time.

The Office of Thrift Supervision has indicated that there are some 299 institutions with assets totalling \$193 billion which are likely candidates for transfer to the RTC. Let me note that as of June 8, 30 of the 299 have already come under the control of the RTC. We cannot say for sure how many of the remaining group will have to be resolved by the RTC.

There are another 315 thrifts with \$152 billion in assets for which the future is uncertain, but which currently have positive tangible net worth and do not require assistance. We simply do not know which and how many of these institutions will come to the RTC and what condition they will be in when they get there.

In short, at this point in time, the number of institutions which the RTC will have to resolve is simply precisely unknowable. Yet this number drives the cost estimate.

Another source of uncertainty is the level of loss incurred by the RTC on the assets of institutions which come under its control. Those losses, in turn, depend on the kinds of unpredictable factors which I have just described earlier: the state of the real estate market, interest rates, and other market conditions.

When will we need more funding? Even though the RTC has committed only about a third of the \$50 billion, it could, with an aggressive schedule of case resolutions, run out of funds by the end of this calendar year or early next year. If progress occurs at a slower pace than we would hope, RTC resources will last longer. Of course, it would be possible to slow the pace in the future, in the hope that market conditions will improve.

We believe that there has been too much speculation already. Our job is to be steady, do the work, and take no further gambles with the taxpayers' money.

How much more will be needed? There are too many variables to pin a single number on it. Again: number of cases, losses on assets, interest rates, and real estate market conditions, to name a few.

The most responsible course, we believe, is to consider a range of outcomes. For example, a reasonably lower limit on the number of institutions which will have to be resolved, together with small, medium, and high levels of losses on selling the assets in these thrifts, produces cost estimates in present-value terms of \$89 billion, \$97 billion, and \$114 billion. The estimates in this statement should be compared with the \$73 billion provided by the FIRREA legislation.

The same loss factors applied to a reasonable upper limit on the number of institutions to be resolved yield cost estimates in present value terms of \$99 billion, \$113 billion, and \$132 billion. Again, these figures should be compared with the amounts already provided by FIRREA, not added to them.

Of course, one could make even bleaker assumptions, and make an estimate based on even higher populations of failed thrifts and even higher loss factors. This would dramatically increase the top range of the cost estimate.

While such a scenario is theoretically possible, we believe it to be quite unlikely under any reasonable set of economic assumptions.

All of this suggests that there are too many unknowns to provide a single estimate of the ultimate cost. 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. Again, these figures are in present value terms and include the amounts provided in FIRREA. They are not added to those amounts.

How should additional funds be raised? The Federal Home Loan Bank System simply does not have the capacity to back substantially more Resolution Funding Corporation (REFCORP), borrowing. Additional resources will have to come from the Treasury funds.

Finally, how should the funds be provided?

There appear to be two basic choices. Either provide a specified amount to cover some or all remaining losses, or provide the RTC such sums as are necessary to complete the job.

No matter how the funds are provided, it will not change the cost of resolving the savings and loan crisis. This is not a discretionary activity. The Government's deposit guarantees must be fulfilled. Congress can choose to provide resources to the RTC in increments, but that means having to face the prospect of returning at relatively short intervals as markets change, and along with them, the estimates.

The RTC faces another important constraint in the form of FIRREA's obligation limitation, or note cap. This is the provision which limits obligations, most notably, working capital borrowings, to the amount of unused REFCORP authority, cash on hand, and 85 percent of the fair market value of assets held by the corporation.

The RTC is likely to run up against the obligation limit, as soon, or even sooner than, it reaches \$50 billion in losses. If the RTC cannot raise additional working capital, and the cost of acquiring assets exceeds the amount generated from sales, it cannot proceed with resolutions.

The Oversight Board intends to work with the Congress and the administration to develop an approach which will provide the RTC the resources necessary to finish the job while maintaining adequate controls.

Given the enormous significance of this issue for the Federal budget, we believe that this is a matter which should be considered in the current budget negotiations, between the administration and Congressional leadership.

In closing, we would echo a view expressed recently by Chairman Seidman. This is a long, hard job and it will take an extended period of time to finish it. However, we stand behind the commitment made by President Bush in his first weeks in office: protect depositors, clean up the industry at the least cost to the taxpayers, and punish the criminals.

Thank you, Mr. Chairman for your patience, for this long statement.

I would also like to say, some of the information involved in this problem is fairly specific. And we have with us Bill Taylor and Peter Monroe this morning to provide those specific answers, as you may want them.

I also again thank Bob Larson who has the view of the outsider, a person in business who is here with us this morning, as well as HUD Secretary Kemp and Chairman Greenspan.

Thank you very much.

[The prepared statement of Mr. Brady can be found in the appendix.]

The CHAIRMAN. Thank you. Mr. Greenspan, do you have a statement?

Mr. GREENSPAN. I do not.

The CHAIRMAN. Secretary Kemp.

Mr. KEMP. Secretary Brady covered the affordable housing progress, Mr. Chairman, and he and I and Mr. Greenspan would be please to respond to any of your questions.

The CHAIRMAN. Thank you. Mr. Larson, do you have a statement?

Mr. LARSON. I have no statement, Mr. Chairman, but I appreciate your invitation to be here today and I identify with the remarks of the chairman.

The CHAIRMAN. Well, thank you very much. Mr. Taylor, do you have a statement?

Mr. TAYLOR. I do not have a statement, Mr. Chairman.

The CHAIRMAN. Thank you, sir. Of course, Mr. Monroe, do you?

Mr. MONROE. Nor I, sir.

The CHAIRMAN. Thank you very much, Mr. Secretary, for a very comprehensive report. I have three questions. The first is addressed to Secretary Brady.

Now that you have been involved with this problem for a while, I believe we would all be very much appreciative of your thoughts on deposit insurance reform. I noticed in your statement, the basic commitment is to the protection of the depositor and that this is where, if anything should be called a bailout, that's what it should be.

I'm wondering if you would share your general thoughts on the direction which this committee and the Congress should be considering now with respect to that?

Mr. GREENSPAN. Thank you, Mr. Chairman. As I think some members are aware, we have a complete study on the banking industry, including deposit insurance which is due later this year. I can't really give you any advance information on that study.

I would only point out that we should go back to the guiding principles that we use, the first of which is to make sure that everybody who has relied on a Federal Government guarantee gets his money back, but I do not have at this time advance notice of what the banking study, which will include a complete review of deposit insurance, will contain.

The CHAIRMAN. All right, sir. Chairman Greenspan, we have heard that some commercial bankers requested regulatory leniency from the Fed during a recent private meeting of the Fed's Federal Advisory Council, including asking the Fed to bend capital standards while they hold troubled loans and repossess real estate.

Now, this gives me, particularly, a great concern. Can you tell us your thoughts on this in light of what we have learned from these insolvent savings and loans?

Mr. GREENSPAN. Mr. Chairman, as I recall that meeting, there was considerable discussion about the impact of the regulatory structure on commercial banks. But while a number of examples were put forward, I certainly do not recall any requests from the commercial banking industry to significantly alter the extent of supervision on the part of the regulators.

It struck me that they are aware as we are that to maintain a fairly sensible degree of regulation is important and that were we to backtrack at this particular stage, that we'd create more problems than solutions. I think they're as acutely aware as we are that there's a very important balance that must be reached at this point between the appropriate levels of regulation; neither going too far nor being too lax.

The CHAIRMAN. Well, in fact, their capital standards may be the most important aspect of deposits. I notice that through the years, even the designation of the fund has changed. It was originally a

depositors' insurance fund. Today we call it a deposit insurance fund and I think therein is encased the dilemma we're facing.

But there are others. I know you have some thoughts on this. What are the key elements to a safe and sound and rational depositors' insurance system?

Mr. GREENSPAN. Well, Mr. Chairman, I think you are raising one of the fundamental questions which will be addressed in the study that the Secretary mentioned earlier and to which we at the Federal Reserve will contribute. We are obviously looking over the whole question of banking structure, the safety net in general and deposit insurance in particular with respect to seeing how the evolution of banking and finance over the 50-year period since most of our legislation was in place has affected the structure.

Hopefully we will be able, within a period of a few months, to come forward with analyses of the various aspects of this problem and with recommendations to the Congress which will address the types of issues which you raise.

The CHAIRMAN. Thank you very much, Mr. Chairman. I am very hopeful, too, and I hope we do. Mr. Taylor, we do appreciate the job you have done as acting president of the Oversight Board. Now that you have been involved with this problem for a while and with the benefit of your experience at the Federal Reserve, we would very much appreciate your thoughts on depositor insurance reform.

I'm wondering if you would share your general thoughts on the directions which this committee and the Congress should be considering now?

Mr. TAYLOR. Thank you, Mr. Chairman. Now that I'm back at the Federal Reserve, I'm requesting to take a very active part in our contribution to this study, based on the experience at the Oversight Board. I think, just in general, that any depositor or deposit insurance scheme must assure the confidence of the public. If it doesn't do that, it doesn't do anything.

The CHAIRMAN. I don't know what time I have remaining. I do want to express the intention to hold strictly to the 5 minute rule so that we can move expeditiously and release you all.

My time is up. I then ask unanimous consent to submit questions in writing to the witnesses. Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman. Secretary Brady, you delivered the bad news that the thrift crisis is certain to cost the taxpayers more than was estimated last year, and you're now up to \$90-\$130 billion as compared \$50 billion. This is certainly not good news, but I don't see any reason to shoot the messenger.

In fact, I think you should be congratulated for your candor. But, you have estimated that another 299 thrifts will definitely come under RTC's control. Can you tell me why these thrifts were not identified earlier in the process?

Mr. BRADY. Congressman Wylie, I would give you two reasons in answer to that question. First of all, we now have been some 9 months into an operational set of circumstances. In other words, the institutions have been up and running for 9 months and we've been resolving institutions during that period of time, selling assets, and dealing with the market as it exists, instead of dealing with it as we thought it might be.

The experience from that 9 months of operations has increased our estimate of the number of institutions that would have to be resolved. At the same time, I think we should all face the fact that the real estate market has worsened. As I've said before, anybody who drives from here to Dulles Airport and looks at the buildings that are along those roads, doesn't need a special course from me on the state of the real estate market.

We've got too much building and that's had an effect on prices. As that effect has turned from realization of assets, more institutions have become troubled and therefore subject to the need for help from the RTC.

Mr. WYLIE. Thrift operators are telling me that FIRREA's tougher capital standards and the goodwill provisions are in part responsible for the failure of some of these institutions. How would you respond to that?

Secretary BRADY. Well, I don't really think so. And I would only point out that if there has been some slight effect, that's a small penalty to pay to correct the obvious faults we all found when we put FIRREA together. We got into this problem, this mess, because standards for capital were too low.

As we see from daily newspaper reports, anybody could get into the business and could invest in anything they wanted to. FIRREA corrected that problem and required more of the owners of the institutions to put their own money before the taxpayers' money. That's sound business practice and so were a lot of the other things we adopted in FIRREA.

If they're having a marginal effect on the market—and some may say that's the case—we haven't really noticed it to a great extent. It certainly would be something of a penalty, but if it's part of the solution, it's well worthwhile.

Mr. WYLIE. I've said that it might have some harmful impact now, but certainly our new capital standards and not allowing goodwill to be counted as capital will serve us well in the future so we're thinking along the same lines there. Secretary Brady, I was with a group of realtors on Tuesday and some of them are concerned that by expediting a solution to the thrift crisis, by selling assets too quickly, the Government will actually lose money; that is, they say that we recognize that the real estate market is not as strong as it could be right now.

Some of us have suggested that you ought to move more quickly and try to get some assets back into the system. How do you balance those considerations?

Secretary BRADY. Well, I think you've stated the problem very clearly. If you go too fast, you pump a lot of assets out onto the market. If you go too slow, the Government is in the position of gambling on the future prices that may be obtained in the real estate market. There is also the fact that we're putting the Government in the business of running private sector assets. I think most people agree that that's not the right way to do it.

So, you've got the horns of two dilemmas. You go too fast, you do put some pressure on the market. If you sit there and say, "I'm not going to go that fast because I don't want to affect the market," you put the Government in the real estate business. You, in effect,

take the position that you think real estate assets are going to be higher at some later date.

As I said in my testimony, there's been enough gambling in the savings and loan industry and I don't think we ought to do any more on behalf of the Government.

Mr. WYLIE. Chairman Greenspan, Michael Boskin, the President's Chief Economic Advisor, suggested that if a budget agreement is reached with the Congress it would be irresponsible for the Federal Reserve Board not to lower interest rates. Do you agree or disagree?

Mr. GREENSPAN. I am not going to comment on his choice of words, but—[Laughter.]

I do think it is correct to assume, that if there is a credible budget compromise, that that will have a significant effect on long-term interest rates and, through arbitrage, it will affect the short end of the market, as well, and I think that under those conditions, the pressures from the market for the Federal Reserve to move lower, I think, would be rather pressing.

So while I would not subscribe to the actual choice of words that he has in mind, I do think that the concept that he had appropriately reflects the way market forces work and how the markets would react to a credible budget compromise.

I purposely use the word "credible" because that's what the crucial issue is. If it is something which is merely a bookkeeping smoke-and-mirrors operation, the markets will yawn, and I think, appropriately, it will have no effect. But if it is a real and formidable assault on this problem, I suspect you will see some very significant reductions in interest rates.

Mr. WYLIE. You don't subscribe to the choice of words, but perhaps the meaning behind them?

Mr. GREENSPAN. That is correct.

Mr. WYLIE. Thank you. Thank you, Mr. Chairman. My time has expired.

The CHAIRMAN. Thank you.

Mr. ANNUNZIO. Secretary Brady, the American people want to see the S&L crooks in jail. I mean, that's very obvious. Every Congressman can attest to the fact that when they go back to their districts on weekends, this is the question that the American people are asking: When will the S&L crooks be put in jail? It is the job of every regulator to ferret out fraud. What kind of program does the RTC have to identify possible criminal fraud it discovers in the institutions under its control? And I'd like to know about how many referrals does the RTC make concerning the institutions under its control?

Mr. BRADY. I am going to ask Mr. Taylor to answer that question.

Mr. TAYLOR. Mr. Chairman, Congressman.

Mr. ANNUNZIO. Yes, sir.

Mr. TAYLOR. The total number of referrals made by all of the regulatory agencies and the S&L themselves, as it relates to savings and loan activities, approaches, I believe, 17,000.

Mr. ANNUNZIO. Seventeen thousand referrals. Can you tell us something about the type of program that you have in RTC to identify possible criminal fraud it discovers?

Mr. TAYLOR. Well, with respect to the RTC and the OTS, who were the ones actively involved in the examination and supervision of thrifts, especially the OTS, their examination procedures, as well as the regulations covering the savings and loans, require that any instance of fraud suspected or uncovered be reported to the Justice Department. The examiners are instructed in their examination of the institution to review the institution's record of reporting and report anything that's uncovered during the examination.

Mr. ANNUNZIO. Of the 17,000 referrals, can you give the committee some estimate about how many of these referrals—I mean, 17,000 have been turned over to Justice, I assume, that's what I understand, but how many of these 17,000 would you know if the Justice Department is actively pursuing?

Mr. TAYLOR. I do not have that figure, Mr. Congressman. I would be happy to get it for the record.

Mr. ANNUNZIO. I'd appreciate it that. They will be before my subcommittee and I will be asking the same questions about the referrals and what action they have taken.

Now Secretary Brady, put options seem to give acquirers—I mentioned that in my opening statement—the opportunity to examine the assets of an institution and cherry-pick the best of the assets. All the bad assets, then, are returned to the RTC. It seems to me that this kind of program only assures that the RTC remains stuck with the worst assets. Anyone can sell quality assets, quality merchandise, but problem assets are harder to sell. Why is the RTC deferring the harder work by giving put options to acquirers of these institutions?

Mr. BRADY. Congressman Annunzio, that's a good question.

Mr. ANNUNZIO. I appreciate that. I want an answer. [Laughter.]

Mr. BRADY. I'm going to give you the answer.

Mr. ANNUNZIO. Thank you.

Mr. BRADY. A basic problem that we have with the whole S&L problem is sales thrust. In other words, getting enough pressure outward for the assets that we have in the RTC that the Government owns back into the public. We simply don't have the resources to do that in a fashion which would give us the most sales thrust. We think that this idea of put options that you've referred to puts these assets out into the hands of the public. They can look and see whether institutions want to keep them or whether they want to sell them. It's an added sales power which we have in the RTC.

To some extent, it does leave the RTC with the less favorable assets to contend with, but we're going to be in that position anyway. The people with whom we are getting into transactions involving put assets weren't going to take the bad assets anyway, so we feel this is an additional sales factor.

Mr. TAYLOR. Mr. Congressman, I might add that most of the puts are indeed shorter than 18 months on most of the assets. Those that extend for 18 months are really the more difficult to sell assets. And indeed, even in those cases of an 18-month put, at the end of 6 months, the purchaser of the institution is required to buy at least 25 percent of those assets in order to get the put extended another 6 months. And at the end of that second 6 months, the purchaser is required to purchase another 25 percent. So indeed,

there is a performance criteria along the way that should limit what you call a free look for 18 months.

Mr. ANNUNZIO. My time has expired, but I want the panel to understand, as far as Congressmen are concerned, when we go back home, the public would like to know from us when the RTC sells an asset where that money is going? Is it going into lowering the amount of the loss? In other words, that is the vital question, gentlemen. And believe me when I tell you, it's not a question of politics here. The American people only know—they read that Secretary Brady has \$50 billion in assets but when in the hell are we going to get rid of those assets? When are they going back into the pot, so we don't have to be stuck with all that money. This is the criteria.

Mr. BRADY. The money goes to pay off the depositors and lower the loss.

Mr. ANNUNZIO. Thank you.

The CHAIRMAN. The time of the gentleman has expired. Mr. Leach.

Mr. LEACH. Thank you, Mr. Chairman. I would like to address for a little bit the timetable of the Government, particularly the RTC. As everybody knows, the RTC has been criticized for some tardiness. My concern is that maybe in the not too distant future you're also going to be criticized for a little bit too much alacrity, and that you're putting into place not orderliness, but the whole notion that you have to meet time tables. And I'm concerned both with the meaningfulness of those timetables as well as the meaninglessness of them. Let me explain what I mean.

To meet timetables, you've made a decision that you're going to sell property and you're going to sell deposits, but not the assets. And so when you make predictions to us, which you've done with some degree of certainty, and frankly, I think dubious certainty, Mr. Secretary, about the depth of the whole, you don't have a means of measuring it until you've taken a large chunk of these institutions and sell their assets as well as their deposit base. The assets are where your big losses are going to be, and you have no way of measuring them.

The second thing I would like to stress is the meaningfulness of some of these sales when you seek speed. It was noted the other day that a major California institution bought the deposits of a major thrift in Arizona. It paid \$81 billion for 61 branches and \$3½ billion in deposits. Most people have said the deposits are worth 2-5 percent. And so it looks like what this bank in California bought is, for free, 61 pieces of property in a State with some growth potential.

A lot of us have been very concerned on the size of the chunks you're selling. If you had sold this off in littler chunks, perhaps you could have gotten a little bit better return, but that's a matter of some discretion.

In any regard, coming back to the timeliness issue, it strikes me the Government has panicked and decided to sell deposits on a hurried-up basis, but not assets. Nor has it decided under a hurried-up basis to seek the kinds of resources that may be needed for prosecution. And here I don't think there's anyone in America that isn't saying, damn the consequences, full speed ahead. If anything,

S&L executives have taught the world that you don't have to break into Fort Knox to steal the Government's gold.

As far as I am concerned, and I think Mr. Annunzio's got it exactly right, that failure to move against white collar financiopaths does risk a great degree of public confidence. Whether banks are robbed from within or without, you've got to pursue justice. So the question I have is, first of all, how meaningful is this June 30 deadline, when at the end of the June 30 deadline you've sold 140-145 deposit bases, but all the assets are left unsold? Second, how would you, from your perspective, judge the Government's attention to this whole issue of seeking some sort of justice for those that might be held accountable?

Mr. BRADY. With regard to the June 30 deadline, it was a goal that Chairman Seidman put forward which the Oversight Board welcomed because we agreed with him that the pace of S&L resolutions was not going as fast as it ought to.

Congressman Leach, it gets back to the same condition that Congressman Wylie was talking about. If you go too slow, you warehouse a lot of assets inside the Government. If you go too fast, you put a lot of pressure on the market. So, we think that if you've got to err, you ought to err on the side of getting the Government out of the business of owning real estate assets. That's the reason for Chairman Seidman's program.

I've forgotten the second part of your question.

Mr. LEACH. First of all, I mean, I think you're exaggerating a little bit. You've gotten the Government out of owning the thrift deposits. You haven't gotten the Government out of owning the assets, and those are two very separable issues.

Mr. BRADY. That's correct, and they are separable.

Mr. LEACH. But the second question relates to how do you assess the speed of resolving the criminal proceedings?

Mr. BRADY. Well, let me say this. Again, the three-part program which we've put forward is to make sure depositors are paid off, do it at the least cost to taxpayers, and put the crooks in jail. So, those are three different initiatives that proceed towards the same goal but in different areas.

We, like everyone in this room want to make sure that the crooks are prosecuted. Again, we have to realize that these are white collar cases. It isn't like a bank robbery, where a guy comes in with a gun, sticks up the bank, and runs out with the money, but there are 6 cameras taking pictures of him. That's a relatively simple thing to take care of.

When you're talking about bringing one of these people to justice, you're talking about an enormous amount of time. They're very complicated cases, with accountants, lawyers, and files of one kind or another.

But I do take some solace from the fact that on the front page of the New York Times this morning was a headline reading "Savings Executive Indicted in Texas in Payments Case." Here is a gentleman facing maximum penalties of 190 years and \$9.5 million in fines. So, as important as the number of scalps we hang on our belt is the fact that when we get one, he or she is dealt with firmly, harshly, and with appropriate justice for the kind of crime that he or she has committed. I think that examples of justice such as this

will deter anybody from committing such crimes in the future when what you may expect is 190 years in the slammer and \$9.5 million worth of fines.

Mr. LEACH. Thank you.

The CHAIRMAN. Ms. Oakar.

Ms. OAKAR. Thank you, Mr. Chairman.

I wanted to do a little follow-up with Secretary Brady on what you just held up. You mention in your testimony that the RTC investigation staff is planned to reach 300 by the year end, and I added the amendments related to personnel in trying to give you the leverage to hire really excellent, outstanding people. But why is it taking so long to assemble this staff, because you also state that despite the extent of our present enforcement activities, the Government needs to do more. To accomplish this, you and the Attorney General are working to see the financial misconduct is punished. Why does it take so long to get a top-notch staff to go in there and do the types of research and investigations so that, despite the fact that it's a white collar crime, something can be done?

I don't think we can ever find a resolution of this problem if the American people don't feel that those who created the problem are punished. If they don't feel that that's happening, then you're going to have a quagmire with respect to any new actions that the administration or Congress should take, because the American people just won't tolerate this kind of conduct going unchecked.

Mr. BRADY. Well, I agree with you. I don't think it's going unchecked. I would only say, with regard to not only the question which is specific to the punishment of criminal activities—

Ms. OAKAR. But the 300 staff people that you're trying to assemble—my God, there must be thousands who would love to have a job and work for you who have the expertise to do that, so you can get the data, get—

Mr. BRADY. Well, we are well along towards getting the 300 people you've referred to. Let's not forget that the RTC started in August of this last year. It is already the largest financial institution in the United States.

Let me just give you an example of what's been going on. The RTC has initiated over 1200 criminal referrals. We've established 18 regional and consolidated offices and hired 2,300 people. It goes on and on. It takes a while to get one of these efforts going. It's not fast enough, but believe me, we're bending every effort to make sure that this operation is up and running. It isn't even a year old. It's going to take some time to get the right people. Certainly, the job of pursuing the criminals is right at the top of the agenda.

Ms. OAKAR. Let me ask you one other question, or whoever would like to respond. Mr. Mfume and I were very concerned about women and minorities. I notice you have your full board now, which did take a while to assemble. There is not one woman, not one minority, on this board.

You know, having said that, what are doing with respect to critical minority and women contracting? I'm told by people from Ohio who are all black firms, all female firms, all black and female firms, that, you know, they get put on some list and, you know, get patronized, and then that's about the end of it.

In view of the fact that this board is an all white male board, don't you think you ought to reach out a little more in terms of networking for at least the contracting for eligible minority and female contractors?

Mr. BRADY. What you see, Congresswoman Oakar, here is just the very, very tip of the iceberg, and I'll ask Bill Taylor to give you the details. But we have a national board, plus regional boards where minorities are represented, and I did comment in my opening statement—

Ms. OAKAR. Well, I'd like to know how you determine those procedures because I'm getting complaints from people in Ohio. With the sensitivities about Congress getting involved and all that, you know, I have shied away from saying anything specifically. But I do have a concern, and for the record, you ought to tell us what you're doing and how—is it favoritism? I mean, do they have to prove something? How do they become eligible? Or is it the only large, sort of hot-shot firms in the country that get access to this business?

Mr. BRADY. We would be glad to supply you with a list of the people on the board, but I would, in answer to your question, ask Bill Taylor to speak to it specifically.

Mr. TAYLOR. A couple of points, Congresswoman. One is that on our regional boards—as you know there are six boards.

Ms. OAKAR. Yes.

Mr. TAYLOR. And we have six minorities or women on those boards. In fact, I would—

Ms. OAKAR. Out of how many?

Mr. TAYLOR. Out of a total of 30, plus a chairman, so it would be 31.

In addition, I think the RTC—

Ms. OAKAR. So, is that minority women, or does that cover—is it a two-for, or what? [Laughter.]

Mr. TAYLOR. There are a total, I believe, of six—

Ms. OAKAR. I mean, because if Ms. Pelosi and I don't ask these questions, I don't know who is going to ask them.

Mr. TAYLOR. There are a total, I believe, of six minorities and women, of which some are both minority and women. But there are 6 separate individuals that fit one or the other category.

Ms. OAKAR. Oh, I see. Well, I don't want to dissect it, but I would like to, for the record, in writing, ask a question about the Oakar amendment, whether that would infuse more capital and how we could help that. But maybe Mr. Greenspan, for the record, you could answer it in writing. Thank you.

The CHAIRMAN. The time of the gentle lady has expired.

Mr. Parris.

Mr. PARRIS. Thank you, Mr. Chairman. I have one specific question that I guess should be addressed to Mr. Taylor. That is, in Secretary Brady's comments on page 27, he talks about the 140 resolutions has made us more pessimistic about losses imbedded in thrifts both inside and outside the RTC current caseload. Then, on page 8, he talks about the ambitious schedule, which I endorse, by the way, of case resolutions and the third quarter plan. Fifty one billion in spending on case resolutions during the third quarter, of which \$19 billion is net losses and \$32 is recovery of receivership assets.

In 1986, September 23, 1986, I got a letter from Ed Gray, who was then at the Federal Home Loan Bank Board. He says the cost of the savings and loan resolution situation is going to be \$26 billion because the estimate asset loss is 17 percent. At that time, the historical precedent was 30 percent, which at least doubled the resolution cost.

My question, Mr. Taylor, very simply, is what—you say—Secretary Brady says, on the one hand, the status of a two or three rated institution—you get in there, and it's a disaster area. What is the resolution cost estimate currently in vogue at the RTC?

Mr. TAYLOR. Let me start by pointing out that when you say there is going to be almost a \$30 billion cumulative loss if they complete the full quarter, that loss is a combination of the projected loss on the sale of assets plus the negative net worth of the institutions that have been dealt with.

Mr. PARRIS. I understand that.

Mr. TAYLOR. If you were to cut the industry basically, that is, the 2,800-plus S&Ls that exist, and if you were to judge them based on two primary elements of financial responsibility net worth and ability to earn money—and you were to take the amount of S&Ls who had a negative net worth and just simply summed that negative net worth as kind of a going in factor, you would be at about \$28 billion plus whatever percentage lost occurs on the assets as you liquidate them.

Mr. PARRIS. Apparently I misled you. The statement says \$32.5 billion in the third quarter alone will be the recovery value of receivership assets.

My question is where do you base—what figure in terms of the inventory values, the expected loss, is that figure predicated on?

Mr. TAYLOR. I believe that figure is predicated on the net value of what is now shown as \$50 billion worth of assets. In other words, there are \$50 billion in total assets of institutions projected to be resolved in the third quarter. Of that, \$32 billion will be collected.

Mr. PARRIS. OK, so it is a 60 percent return, is that—can I extrapolate it in that way? That is a mathematical exercise, right?

Mr. TAYLOR. Yes.

Mr. PARRIS. Roughly 60 percent?

Mr. TAYLOR. Yes.

Mr. PARRIS. So it is a 40 percent reduction?

Mr. TAYLOR. Yes.

Mr. PARRIS. Thank you. That's really all I wanted to know.

Could I ask Secretary Kemp—Jack, excuse me, if I might—

Secretary KEMP. I was discussing interest rates, another important topic.

Mr. PARRIS. That is part of what I want to get into.

Secretary Brady's premise running throughout his testimony was that the resolution costs are exacerbated by a diminished real estate market, and I think we would all accept that.

Chairman Greenspan's suggested there needs to be a credible budgetary summit.

My question is, under TEFRA with capital gains, TEFRA in the 1986—

Secretary KEMP. In the 1986 Tax Act, right.

Mr. PARRIS. Reduced the incentive for real estate, commercial real estate investment. Capital gains will enhance that. If we are going to have a credible budget summitry, does it, should it include capital gains reduction and, if so, why?

Secretary KEMP. Well, it would be predictable that a member of the administration would say yes, but I would take it a step further, Stan, and suggest that the delay last year in passing the President's request to the Congress and policy of lowering the tax rate on capital gains I think is exacerbating the cost of the bail-out, diminishing the value of all financial assets, all capital assets—bonds, stocks, including real estate, commercial and otherwise, expanding the exposure of the taxpayer to higher costs.

The 1986 Tax Act while strongly supported by myself and members on both sides of the aisle had some unintended consequences, one of which is what you just mentioned and FIRREA had some unintended consequences in the loan to one borrower rules and the capital requirements although as Nick Brady pointed out and I believe very wisely that it was necessary to tighten up our regulatory process, particularly on this capital standards. It seems to me that there is an unintended consequence in shutting off some of the type of loans that would be important for a healthy real estate, housing, home building market.

There are a number of things that I think need to be looked at and I would hope that we would not wait too long before we got back to the urgent business of lowering that tax rate on the value of capital assets, that is, lowering the capital gains rate.

Mr. PARRIS. Thank you. My time's expired, Mr. Chairman.

The CHAIRMAN. Mr. Vento.

Mr. VENTO. Thank you, Mr. Chairman and Secretary Brady, I must tell you that, you know, I think most of us were please last year when the President came forward with this package and made the proposals, rewrote the law and created this Oversight Board according to what the President wanted. We gave a certain amount of money. I think that all of us understood that that was imprecise.

I must say that I think that you should have the message conveyed to you by me and by others—I chair a special task force on the RTC as no doubt you are aware—that I think there is an appearance to the American public and to many of us that this is floundering, that the RTC is floundering and that frankly the Oversight Board isn't doing what it can.

I mean you point out it's only been 10 months but many of the institutions have been in the FDIC/RTC since a year ago in February, so it's been well over a year that these have been within the ambit of the administration.

Frankly, three presidents in 10 months I think speaks to the issue. I realize that that's a problem, the board members, the fact that today we still don't have a Deputy Director for Administration, personnel management, a position that probably should have been filled months ago, speak to this issue.

Now I don't care what the structure is, Mr. Secretary, I think that with a coherent hand on this from the administration that much of this could be done. I think the initiatives here in terms of simply depository sales, the fact is you talked about the size of the RTC growing, the biggest financial institution. It's going to contin-

ue to grow unless we deal with the asset question and frankly all we are dealing now with are Treasury Certificates and whoever happens to be paying back in their loan, so it is going to continue to grow.

While there was great reluctance and concern that there would be a dumping on the market of assets, the fact is that it's been quite the opposite, that there has been no movement and frankly one of the concerns is the reason that there hasn't been movement is because there is an unwillingness to face up to what the actual market to market resources would be, Mr. Secretary, as opposed to any other factor.

Now my question is basically whether or not you are seeking changes. I thought maybe the problem was the Oversight Board. Let's eliminate it! Let, for instance, the RTC do its job and try to look for other means in terms of accountability. You have two more members on the FDIC board today that you didn't have before.

I am very concerned about that and what is happening. We are simply not moving the assets. The fact is it isn't just the real estate problem. Real estate is only 10 percent of the assets. We don't want the real estate. We don't want it to become a real estate problem. Why aren't we selling home thrift institutions, because we would have to admit even with the puts—you talked about 18 months in terms of puts and 25 percent coming back in at that point but admittedly it should only take 6 months to make those assessments.

Why aren't we moving these assets today? Are we going to have to—and now, Mr. Secretary, we are suggesting we are going to revise a whole new system in terms of accelerated resolution process.

What is the position of the Oversight Board on the full-blown proposal of Chairman Seidman for the accelerated resolution process, Mr. Secretary?

Secretary BRADY. Let me first comment on your quite accurate point about real estate assets. There is no question that the problem we face today is the fact that although the resolutions and conservatorship program are proceeding apace, the part of the program that is most difficult is the sale of these assets. That's why some of the programs to put puts whereby the assets can be returned, are aimed in that particular direction.

With regard to the fact that we are floundering, Congressman Vento, I just have to respectfully disagree. I think that we—I say “we”—are in the Oversight Board and the action of course is down in the RTC. I think that the statistics that I gave you earlier with regard to 2,000 people hired, 18 regional offices opened and the like, speak to that progress.

Obviously we wish it could be more. We are trying to help the RTC and Chairman Seidman wherever we can, where he has a note program such as the ones that you referred to he's just put forward. We are saying go try it, let's see if it works.

Mr. VENTO. Well, Mr. Secretary, most of the employees you have hired have come out of FSLIC, a lot of them. That isn't—I don't believe that that is adequate. Some have not but most have.

I fail to understand. You are talking about a real estate problem and we are hearing about more cuts in terms of real estate taxes

here today as opposed to recognizing the fact that that is a major reason that we have the overbuilding of those buildings between here and Dulles Airport was because of a tax policy that made tax sense but no business sense.

You know, I am a strong supporter of the bill that we passed. We thought it would work. You have got the tools that you need. We see a hesitancy. I mean we're out here doing a high wire act and we feel like someone is losing their concentration in terms of this issue.

One of the reasons we are getting the feedback from the public is every day they pick up a paper the problem seems to grow worse and it appears to the public that we don't have a handle on it and I must confess that, you know, listening to some of the answers coming back today, that that is the impression.

We are not going to be able to satisfy those questions until we can deal with the issue of dealing with the assets and selling them.

I understand the downside of that but I think that you are here trying to outguess the market, pretending that these assets are something they're not. They should be put in the market. The market can absorb these. They should be put back in private hands. We are passively managing them. Every day it is costing us \$14 to \$20 million and Mr. Chairman, I hope that we can resolve this.

The CHAIRMAN. The time of the gentleman has expired.

Mrs. Roukema.

Mrs. ROUKEMA. Mr. Secretary, I want to go to the question of the statement that you have made with respect to the fact that we do not have enough working capital even to get us through this year as well as your projections for the future and its implications for the budget summit, especially since there has been reference made here to credible budget summit.

I would like you to amplify with a little more specificity on the one hand how much more money you think you are going to need this year before the end of the fiscal year and at what point, and if you would, unless you consider it a closed case, do you expect, I mean, you obviously propose that the monies for next year be off budget. And I would like to hear you amplify on that and make your case as to why it should be a closed case, particularly in the context of this budget summit and our mutual desire for a credible budget summit.

Secretary BRADY. Well, let me speak first of all to the question of working capital, which we estimate to be for this next year, 1991, are somewhere between \$13.5 billion and a total of \$26 billion, depending on how fast you resolve, how many institutions are involved, and the like.

We have, in the budget discussions which have been going on since last week, pointed out that this is a figure which will be an out-go in 1 year and an in-go in another year. In our opinion, on an ongoing basis, you are only going to confuse the issue, if you want to include working capital as part of the budget figures.

Obviously, no U.S. corporation does that. When they borrow money for working capital, it is not reflected in the profit and loss account on the balance sheet. It is something that does not affect

profits, except to the extent that there is interest on the borrowed money.

So I think it is pretty much as I have heard the discussion, although no decisions have been made. Everybody is looking quite closely at the fact that working capital blows the figures and the deficit up in this particular year. Yet in 1992 it could bring it down by as much as \$20 billion or \$30 billion if that money comes back. People are looking at the problem as though this is something that is not a normal budgetary item.

With regard to the losses themselves, which run, in 1991, from \$31 billion to \$52 billion, the question becomes, do you want to pick a figure or do you want to take it off-budget?

The argument is if you pick a figure, that certainly faces the issue; people can see what it is. But the minute you put that figure down, you know it is going to be wrong, because the real estate market is gyrating around, as you try to face that problem.

So I think the issue is pretty much as I tried to allude to in my testimony. If you want to pick a figure—and the administration wants to work with Congress in coming to this result—let us pick it. But the minute we pick it, it is going to be wrong.

So again, there are arguments for putting a specific figure in the budget. There are also arguments for saying that we are going to have to pay all this money anyway because of the Federal guarantee, so let us just pay it.

Mrs. ROUKEMA. And I understand that there has been no agreement on that, as yet.

Secretary BRADY. No. We had long discussions in the early days of the summit meetings, but it has been put aside until we get through a whole range of other subjects.

Mrs. ROUKEMA. I see. All right. Thank you.

Briefly going back to the references of Chairman Gonzalez with respect to some reforms, and he talked about the deposit insurance, I did not hear in your response any reference to risk-based premiums.

Are they under consideration with respect to projected reforms?

Secretary BRADY. Well, I think everything is under consideration.

Mrs. ROUKEMA. Well, let me put it this way. I would like to have your personal assessment of risk-based premiums.

Secretary BRADY. Well, with all due respect, we have a lot of hard work going on inside the Treasury and the Federal Reserve for this study which is due later this year. And I would wait until that study has been completed before I answer the question.

Mrs. ROUKEMA. All right. I respect that.

Mr. Kemp, if I have some time, let me just quickly refer to the FIRREA requirement with respect to disposition of properties for the homeless, the vacant properties that have been up for sale for some time, and they have been deteriorating.

The law requires that there be guidelines issued. We are past due date, and I am not being critical of you on that subject. But I just wondered if you could tell this committee, since we have just completed our markup of the housing bill, and the homeless issues are very much on our minds, where are we; what is the status of the development of those guidelines?

Secretary KEMP. Marge, the guidelines put out by the RTC in compliance with FIRREA's request that the no-reasonable-recovery value that is expected could be used to allow a property to be put in the hands of a homeless group, a provider of social services, or a nonprofit, is imminent.

I have, and Secretary Brady, and Chairman Greenspan, and the staff, have all been trying to work on the guidelines and the regs that would allow some of the outstanding nonprofits in the country to participate in this very worthwhile objective of FIRREA.

Mrs. ROUKEMA. Good.

Secretary KEMP. It is imminent.

Mrs. ROUKEMA. Well, thank you.

Secretary KEMP. Days.

Mrs. ROUKEMA. Days. That is wonderful. That is very good.

Secretary KEMP. I mean, within days.

Mrs. ROUKEMA. I understand that.

Secretary KEMP. I do not want to put a burden on the staff. But it is behind the schedule. They are working on this. And we all expect that progress will be announced quite soon.

Mrs. ROUKEMA. With all the problems that we have—

The CHAIRMAN. The time of the gentlelady has expired.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Barnard.

Mr. BARNARD. Thank you, Mr. Chairman.

Mr. Secretary, on page 33 of your testimony, you indicated that additional resources will have to come from Treasury funds. You have eliminated the Federal home loan banks.

Could you sort of speculate with us as to where these additional funds will come from?

Secretary BRADY. Well, they will come from the Treasury.

Mr. BARNARD. Well, I mean, how do you plan to raise them?

Secretary BRADY. Regular Treasury financing.

Mr. BARNARD. Is there any speculation as to whether or not the corpus of the FDIC would be used to leverage the additional funds?

Secretary BRADY. No.

Mr. BARNARD. So in other words, these additional funds would just be from taxpayer sources?

Mr. BARNARD. That is correct.

Excuse me. I should correct that. There is still \$17 billion worth of REFCORP financing that can be used, and that will be used as well.

Mr. BARNARD. There has been some concern whether or not the corpus of the FDIC was being targeted in that regard. And I know that it had a lot of the financial institutions concerned.

Mr. Secretary, on page 10, my arithmetic indicates that there are 295 institutions in conservatorship, 299 have been identified for conservatorship, and 315 likely candidates, which is a total of 909. That seems to me like a lot of institutions that are going to be under conservatorship.

What problems is the RTC having in disposing of these institutions; why are not more being acquired by bank holding companies or other thrifts or other financial interests?

Secretary BRADY. Well, I would ask Bill Taylor to answer the specifics of that question. But fundamentally, with the real estate

market in the shape that it is in today, we have found that the interest by banks and bank holding companies has simply dropped off. It is not there to the extent it was a year ago.

Mr. BARNARD. You do not find that there are provisions in FIRREA which make it unattractive for these bank holding companies to buy the thrifts, Mr. Taylor.

Mr. TAYLOR. Congressman Barnard, the provisions in FIRREA make the purchase less attractive in the sense that now one has to put up 3 cents worth of capital for every 97 cents put up by the public, and some of the other regulations have been more restrictive. But I also think a reason for the lack of interest is the fact that the banks are tending to their own concerns with real estate which is, it seems, most appropriate.

Mr. BARNARD. Do you think that we could do something to make these thrifts more attractive to be acquired by these successful institutions?

Mr. TAYLOR. Well, I think to the extent subsidies are provided, they're more attractive, but I don't think that's necessarily the most efficient way for the taxpayer to solve the problem.

Mr. BARNARD. It looks like to me we are going down an endless road as far as trying to straighten out the savings and loan industry. It doesn't look like to me that we're really making much progress. Has the time come when we should give consideration as to whether or not we should consolidate the savings and loan industry with the banking industry?

Mr. BRADY. Well, again, the study on depository institutions in the United States will be finished later this year, Congressman Barnard. Just as a general comment, I don't think shaking this tree at this particular point in time while we're trying to work on an orderly, steady, calm basis to resolve this problem would add to the stability of the situation. That's my opinion.

Mr. BARNARD. Well, I think that the question is there whether or not we are making that type of progress. I think that the Treasury is trying hard, the RTC is trying hard. I take no credit away from you for trying. But, we are fast looking down the road for some type of restructuring anyhow, and it looks like to me that there would be time right now to get some consideration as to whether the savings and loan is a viable industry for the future.

Mr. BRADY. Well, without commenting on that question, that's exactly what we're doing in the study I just mentioned. It's due, I think either in the middle of December or January 1 of next year.

Mr. BARNARD. That's just the deposit insurance study though, isn't it?

Mr. BRADY. Well, we also have a study that's coming out later this June on the whole banking industry. And at that particular time—

Mr. BARNARD. June of this year?

Mr. BRADY. Excuse me, I'm told it is part of the deposit insurance study.

Mr. BARNARD. So restructuring is part of the deposit insurance study?

Mr. BRADY. That's correct.

Mr. BARNARD. There's been some question about that. I know that it was indicated by Mr. Sununu that it was a part. And then I understood that the Treasurer said it was not a part, so.

Mr. BRADY. No, it is part.

Mr. BARNARD. Thank you very much.

The CHAIRMAN. Mr. Hiler.

Mr. HILER. Thank you, Mr. Chairman. Mr. Chairman, I would like to get back into the line of questioning the gentleman from Virginia, Mr. Parris, was approaching. Secretary Brady, in your testimony on page 2, in talking about the increase in projection of the cost of the resolution of this, you say we are dealing with a moving target made greatly more expensive by a weakening real estate market and constantly changing economic conditions. How much of the increase in projection of costs that you have come up with would you estimate as due to this change in the real estate environment—and you talk about the change in the economic conditions. I presume you are referring to the slower economic growth?

Mr. BRADY. Yes, slower economic growth. I would say nearly all of it. We're getting two things, as I answered earlier. The changing real estate market, and the real estate market, Congressman, is no different than the stock market. It does up and it goes down, and you can't predict it precisely. But our estimates are totally driven by what we can realize on the assets that are being sold out of these institutions as we resolve them and place them in conservatorship. So, the answer is, nearly all of the increase in our projection of costs is based on the slower real estate market. We do get better at making that estimate as we're 8 or 9 months into the problem.

Mr. HILER. Sure. Getting back maybe to a point that Secretary Kemp made earlier. The effect of the 1986 tax bill was probably particularly strong on the real estate industry. Part of that was by design and part of it was maybe one of the unintended consequences. I think most of us felt in the bill that finally became law that we needed to have a tax system which was more neutral as it regarded investment decisions. And in the past, we had had so many different incentives and whatnot into investment in real estate. In a sense, we made that a favored type of investment.

So, in the 1986 bill, we changed appreciation. We changed the passive loss rules. And of course, we increased the capital gains tax on real estate. The net result of all of those was to lower significantly the value of existing real estate by lowering the expected return on real estate in the future. And so as a result, part of that moving target that you're talking about is, as the 1986 tax bill continues to unwind, more and more people get out of real estate investment. Would that be a safe statement or at least a presumptive statement?

Mr. BRADY. That's a correct statement, but it has a flip side to it. Probably some part of the inventory of real estate that we've got now, which I think we'd all would agree is too much, was caused by some of the incentives that were in that bill.

Mr. HILER. Correct. So that maybe what we need to do is to try to see if there isn't a way to overcome some of the negative unintended consequences of the 1986 bill, while maintaining the general

proposition that we ought not try to encourage inefficient investment. So it gets back to, I guess, this capital gains tax, and I think about the things that we could do in this body to try to do something about real estate.

And there's not a lot we can do about real estate in Arizona, or Southern California, or Texas, or in New England, but if we were to pass a reduction in the capital gains tax, it would seem to me that that would have an immediate impact on increasing the net present value of all the real estate in the country. And in a sense you would then create a better market for that tremendous amount of assets that the RTC is holding.

Mr. BRADY. Well, I don't think there's much question that you're right. And of course, the President's budget includes a substantial capital gains proposal and I hope we can work toward including one in these budget discussions. I think it would be a big help.

Mr. HILER. Thank you. Mr. Chairman, at this point, I wonder if it might be appropriate to ask unanimous consent to include in the record an editorial that appeared in Tuesday's Wall Street Journal. Would that be appropriate to ask that unanimous consent?

The CHAIRMAN. Is there any objection to the request?

[No response.]

The CHAIRMAN. Hearing none, it is so ordered.

Mr. HILER. Thank you. Another line of questioning here. Another thing that we did in the FIRREA bill is that we increased somewhat dramatically the cost of being in the S&L industry. Or, on the converse, we decreased some of the reasons why someone would want to be in the S&L industry. We depreciated the value of the franchise.

Now we did that through a variety of means. We did it through the increase in capital requirements, not so much that we had to have more capital in the future, but the speed at which we had to achieve that capital requirement. The second thing we did is we increased the premium cost. The third thing we did is that we took some of the profits generated by the Home Loan Bank Board System that in the past would have been distributed to the S&Ls, and now we're putting them into affordable housing programs and other areas.

Have we, in the actions in FIRREA, each individual action on its own merits maybe making sense, but collectively we have depreciated the value of the S&L franchise so much that there literally is no market for these things out there.

Mr. BRADY. Well Congressman, I think there is a market for good, solid S&Ls. The ones that have fallen off the profitable path, obviously, are going to be hard to sell. But I'm rather hopeful about it. In the long run, we'll have a good, solid S&L industry. It may be smaller than it was, but to be honest about it, obviously with the activities that we've all seen, there were too many of them operating in an unprofitable and unsavory manner in the past.

So what I think we'll wind up with is an industry that does work. We'll have solid capital requirements where it's not too much to ask that the owners to put up 3 cents out of 100 cents to put up capital. And in the meantime, if we're putting a little pres-

sure on the industry, that comes with the positive view of the future.

Mr. HILER. My time has expired. My concern would be not about the value of the good S&Ls, it's the value about the marginal S&Ls and whether or not we have decreased their value more precipitously than maybe we should have. I would yield back.

The CHAIRMAN. The time of the gentleman has expired. Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman. And I want to thank all the gentlemen here for testifying. But I have to tell you, Mr. Secretary, I listened to your testimony, and I am a little bit frustrated. Let me lay out why.

You have laid out five reasons that there are increased costs, increased, that is, doubled, since a year ago. You say regional real estate values have caused some of the increased costs. But we all know that the biggest problem is in the Southwest, and real estate values have gone up in the Southwest since the cost.

You say that the banks don't want real estate. But the administration could not have seriously expected the banks ever would agree to take over these half-built office buildings, particularly given the status of the banking industry.

You say interest rates were higher than you predicted. Sure. You predicted they would be 4 percent when the bill came, and everyone knew that was laughable, and we told you that would be when the bill came up.

You said junk bonds have plummeted in value. That one I give you. But that is at most less than 10 percent of the crisis.

Finally, you say S&L franchise values have gone down. Everyone again knew, we had in the testimony, in the hearings, that the franchise values would go down.

Let me tell you at least my view, two reasons why the cost is now so much greater, your coming to Congress saying we need more money for this.

One is that this administration severely underestimated the problem, just as the previous administration did when the came before us in 1989. And we said that over and over again, did not get anywhere.

But there is a second reason. And the second reason is what I call the second S&L crisis.

The first one was related to all the problems in the early 1980's, plenty of blame to go around: an administration ideologically hell-bent on deregulation; a Congress willing to give the S&Ls just about anything they wanted. That caused the basis problem.

But there is a second S&L crisis which dates from August 9, 1989, the day FIRREA was signed.

You stepped up to the plate, this administration—we publicly praised you for it—and put the bill in. But the minute the bill was signed, there has been an abdication of responsibility. Indifference. Infighting that is well known everywhere. Two of the leading people have left because of that. Delay, confusion. We have all heard, every one of us, stories of people calling up the RTC or the agency saying they want to buy some of the property and they cannot get any answers, even to this date, about what the properties are.

But I guess in the coup de gras, you talk about S&L prosecutions, which the public demands, and justifiably wants. We do not want to be laughed at; the American people do not want to be laughed at seeing these fat cats live high lives if they have done wrong, while we are spending all this money.

Well, this committee, and this Congress voted \$75 million to go after the S&L crooks, and the administration only took \$50 million, despite the fact that the FBI and the U.S. Attorney requested even more than the \$75 million.

So I guess I would say the second S&L crisis, this one, there is not plenty of blame to go around, unlike the first one. This is the most major financial crisis that we have had, certainly since the Depression.

We have heard more from the President about broccoli than we have heard about this crisis. And it has not been given the attention, the magnitude, the force that it needs.

So I guess my question to you, and I will certainly give you a chance to reply to this is, how can you expect . . . And my views, I think, are shared by large numbers of Members of Congress. One hundred Republicans yesterday signed a letter that I regarded as a rebuttal of the administration most people did, asking for an independent counsel to prosecute S&L crimes. How can you expect the Congress to vote more money, when at this point there is not a great deal of confidence, either in the Congress or in the country about how this second S&L crisis has been handled?

Your turn.

Secretary BRADY. Well, Congressman, you can probably assume I agree with very little of what you have said.

First of all, I am surprised that you would try to characterize the state of the real estate market in this country by referring to an uptick of a minor amount of Texas real estate. I think anybody who has a view of this problem and says that the real estate has in effect gone up in the last year does not have a very clear view.

Mr. SCHUMER. No. Mr. Secretary, I just said in the Southwest.

Secretary BRADY. You used the example of Texas.

Mr. SCHUMER. Where the bulk of the real estate is.

Secretary BRADY. Excuse me?

Mr. SCHUMER. Where the bulk of the real estate that has been sold is.

Secretary BRADY. That is not the point. The point is that the real estate market in this country is severely down. That is the reason we are talking about future estimates, not what has been sold. We are trying to provide Congress with a realistic, common sense, steady, calm view of how to deal with this problem.

Our view is that if we operate ourselves on a day-to-day basis with calm, steady attention to details and get this job on a clear path to being solved, it will be fine in the long run.

I do not happen to be long on words. I do happen to feel that if we do our job on a day-to-day basis, we will get it done. And I do not think that by characterizing the market as up, when it is down we are getting there.

Frankly, the estimates that you say were off were shared by GAO and the FDIC. They were put before Congress; they were thoroughly aired.

I am sorry not to be able to tell you that they are better. But the truth of the matter is the real estate market is worse. Let us face it and get on with the job.

Mr. SCHUMER. My time has expired.

The CHAIRMAN. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

I know my good friend from New York, one of our astute members, wants me to respond quickly. I would say that my good friend from New York was voting for \$5 billion at a time when the previous administration was asking for \$15 billion to resolve this.

And it seems to me that we have a new Speaker in the House of Representatives and a new Majority Leader basically because of the S&L scandal. So he is right. There is a lot of blame to go around.

The more we dig into this S&L scandal, the more it stinks. It is like digging around a manure pile. One could joke that if the Mafia had gotten involved with some of these S&Ls, they could have learned something.

Mr. ROTH. Mr. Brady, in your testimony, you said there were 17,000 possible cases of fraud before the Justice Department. Is that right?

Secretary BRADY. There have been 17,000 referrals. Yes.

Mr. ROTH. Yes, 17,000 referrals. I am curious. Why is this not a top priority of our Justice Department, then?

Secretary BRADY. Well, I think, again, you have put your finger on a key point. Everybody wants the criminals brought to justice. I tried to say earlier that I know it is not a satisfactory full explanation. White collar cases are very hard to bring. When they are brought, they are ones that are clear and hopefully provide real deterrence to people who wanted to try this same kind of thing before.

We mentioned this morning the man who is now being indicted and whose sentence is supposed to be 190 years and \$9.3 million worth of fines.

Mr. ROTH. Yes. But I know how the Justice Department works. How much is he going to get? One year and \$1 million? And he ripped off hundreds of millions.

Secretary BRADY. Well, I do not know. I think he is going to get more than 1 year. But maybe neither one of us should be speculating.

Mr. ROTH. Well, Mr. Secretary, people who have money in S&Ls are protected. They are not going to lose 1 cent, right?

Secretary BRADY. Sorry?

Mr. ROTH. The people who have money in S&Ls, the depositors, are not going to lose one cent?

Secretary BRADY. That is correct.

Mr. ROTH. Right. Now, I have a question for you.

We take care of the people who put money in the S&Ls. The criminals seem to walk the streets freely with impunity.

Who is watching out for the taxpayer?

Secretary BRADY. Well, I hope all of us are.

Mr. ROTH. Well, Mr. Secretary, you know, I like you personally; I think you are a wonderful man. But I heard you answer some of these questions. When you were asked about we need another \$57

billion; and Mr. Barnard asked, where is it going to come from; and the bottom line is, well, from the taxpayer. Rather nonchalantly, billions are thrown around here. At some point, someone is going to have to get serious about this problem. This thing is going to get worse before it gets better.

Mr. Seidman is already waving "goodbye". In the paper I read that he said that over 1,700 savings and loans are going to close down. Is that possible?

Secretary BRADY. I think that is the CBO estimate, not Seidman's. That did come out yesterday, but it was a CBO estimate.

The CHAIRMAN. That is correct. If the gentleman would yield to me, that was not Mr. Seidman's estimate. As I understand the newspaper report, Mr. Seidman gave Mr. Brady's statement by mistake. But that estimate is CBO. And I was going to have a question after all of this. And the CBO came out of a request that I made to it to give us that estimate.

Mr. ROTH. Well, whether it's CBO or whether it's Mr. Seidman, 1,700 S&Ls—that's half of the S&Ls in this country.

Mr. BRADY. Exactly.

Mr. ROTH. In that case, why don't we close down the S&Ls now? How much is it costing us, Mr. Secretary, to keep these S&Ls open daily?

Mr. BRADY. Well, it depends on which one and for how long. One thousand seven hundred S&Ls out of a population of 2,800, in my view, is a very, very conservative and pessimistic view. I personally believe you always make money betting against the end of the world.

Mr. ROTH. Well, you know, Mr. Secretary, I would say maybe that's right, except that every time people have come before this committee and have given us estimates, they have always been low, never high. Never once have they been high. They have always been low. And 1,700—I'm still curious—how much is it costing us to keep these insolvent S&Ls open on a daily basis?

Mr. BRADY. I'm going to ask Bill Taylor to try to give you an estimate of that.

Mr. ROTH. OK.

Mr. BRADY. But I would say, as the real estate market gets worse, the problem is going to get worse. I'm not going to apologize for that. As the real estate market gets better, the problem will get better. I just think we have to face that fact. We have an overbuilding of real estate in this country which directly reflects on the viability of S&Ls. It's like any other market in the world. There's no point in trying to guess about it; we better just buckle down and try and do something about it. I know that's what you want. It's certainly what we want.

Mr. ROTH. Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Congressman. There are two losses that come out of the savings and loan industry. One is the operating loss, and the other is the loss from the write-down in assets. Now, if you take the combination of those two factors, and you just add in the provisions, plus the operating loss, at the end of the fourth quarter of 1989, they lost about \$6.5 billion. Now, those—

Mr. ROTH. That's a loss of \$6.5 billion in one quarter.

Mr. TAYLOR. That's the entire industry for—

Mr. ROTH. That's \$25 billion a year.

Mr. TAYLOR. The point of it is that the faster you close the institutions and stop the operations of institutions who are losing money on an operating basis, and the faster you absorb what is going to be the loan losses, that figure will shrink dramatically. That's why closing institutions does tend to blunt the loss, although it doesn't totally solve the problem, and you do have to sell the assets. I think you're going to see that figure, as these institutions are closed, go down.

Mr. ROTH. Well, if that's the case, what's the rationale for using RTC funds to keep these failing thrifts afloat?

Mr. TAYLOR. Well, there is not a desire to use RTC institutions to keep them afloat. The object is to sort through a tremendous number of them as fast as one can, and I think this quarter is proving to be a fairly impressive one for them in the sense that they will do 141 institutions—

Mr. ROTH. I'm sorry, Mr. Taylor, I couldn't agree with that. That's just blowing a lot of smoke. The truth of the matter is it's costing us \$25 billion a year to keep these—

Mr. TAYLOR. No, it is not costing \$25 billion a year. The loss taken in the fourth quarter of 1989 represented in the main a provision for loan losses, so that the assets were written down. The ongoing operating losses of the industry will therefore be less, not only because of the losses taken in the fourth quarter, but because of the institutions that have been closed since the fourth quarter.

Mr. ROTH. I'm sorry, I don't accept that.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Kleczka.

Mr. KLECZKA. Thank you, Mr. Chairman. Mr. Chairman and members, a lot has been said about this deposit insurance study that's forthcoming. I think some expectations are pretty high. I don't really think it's going to the cure-all to the problem. But nevertheless, in answer to a question from Chairman Gonzalez, Mr. Taylor, you indicated that one of the major concerns will be guarantees for the depositor. I was surprised that there was no concern shown for the taxpayer.

If we use the FDIC example, we find that the taxpayers are liable, their exposure in insured deposits in the banking industry is some \$1.8 trillion. That's backed by a reserve, an insurance fund of \$15 billion. So, basically, the taxpayers are shouldering the exposure or a possible liability of some 99.3 percent, where the industry has reserves of .7 percent. I think that's a pretty heavy load for the taxpayers to carry, and I would hope that the insurance study would possibly readjust some of those figures.

Also, I have introduced legislation over the years, and hopefully you folks who are doing this study will also give some thought to a merging of the three insurance funds. These insurance funds aren't the property of the institutions; they are the property and the liability of the taxpayer. I think one deposit insurance account, insuring all deposits from all three types of institutions, one which is safe, one which is sound, I think is in the best interest of the taxpayers, and I would ask you to look into that.

Part of the financing package that we provided in FIRREA was a contribution from the Federal home loan banks of some \$1.2 bil-

lion. There is pending out of the Chicago bank two withdrawals of Milwaukee institutions. I know, Secretary Kemp, you had a hand in that. But clearly, if, in fact, the S&Ls start withdrawing their funds from the banks, we're going to see the banks collapse, and one of the major funding portions of FIRREA will naturally go with it.

Secretary Brady or Secretary Kemp, with two pending withdrawals out of the Chicago bank, what is your view of this activity?

Mr. KEMP. It has actually happened in one case. Wiatosa Bank in Wisconsin—

Mr. KLECZKA. I thought that was still pending, because they might lose their deposit insurance.

Mr. KEMP. Well, they requested it, and we have—are taking appropriate steps to make sure that the integrity of the Federal Home Loan Bank System, (a) is protected, and the earnings are such that it can attract thrifts rather than lose them. So, I think this is an issue that the Congress might very well face in the near future. You've raised a very important issue, and I think it's an appropriate one, Congressman, and I know that the Secretary of Treasury wants to comment on it, but I am profoundly concerned about what a run on the Federal Home Loan Bank System would mean—

Mr. KLECZKA. Mr. Secretary, you are aware that the largest S&L in Wisconsin has now also filed for withdrawal, Security S&L?

Mr. KEMP. That's my understanding, yes.

Mr. KLECZKA. Which would take out a heck of a lot more money than Wiatosa. I think it's something that we should be concerned about.

Mr. KEMP. I think there are 3 totally.

Mr. KLECZKA. Who is the third one?

Mr. KEMP. One in Des Moines.

Mr. KLECZKA. OK. Well, as part of the financing package, I think we should be concerned about that, plus also the health of the banks.

Mr. KEMP. Certainly.

Mr. KLECZKA. Another piece of the funding is growth in deposits, and Mr. Secretary, Secretary Brady, you indicated that we're seeing deposits growing in S&Ls. FIRREA envisioned a growth rate of some 7½ percent per year. Clearly, we're not reaching that. Again, if, in fact, the deposits aren't sufficient, at least 7½ percent, there will be a shortfall in the premiums coming in on those insured deposits. Where are we as far as the growth in deposits go?

Mr. BRADY. Well, it's my understanding, and I'll check this fact for you, we're talking about, obviously, there are a whole bunch of these institutions that are going out of business. Those deposits, if they're returned in the form of cash, they may go back into another insured deposit, or they may go into mutual funds, they may go in various different places. My remarks with regard to the growing were really with respect to those institutions which are sound and have franchises that are going on and operating on a profitable basis.

Mr. KLECZKA. OK. Thank you.

Another concern I have, which was also part of FIRREA, was the creation of an inspector general's office. Well, sad to say, it took a

year for that office to come on board. I did have the opportunity in March of this year, March 15, to send a letter to the Inspector General, asking him to look into a situation where some questions were raised on a sale of some deposits.

Well, we sent the letter over on March 15, we followed up a month later, and they indicated that they couldn't locate the letter. So, then, we faxed them one immediately. Two months have gone by with no response. I ask Mr. Monroe, when you get back to the office, to see if we could be favored with some type of response to this.

In conclusion again, we're anticipating the deposit study. Gentlemen, I ask you to look at emerging of the funds. Mark, make a note of that. Also, let's have some concern for the exposure to the taxpayers. Thank you very much.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Flake.

Mr. FLAKE. Thank you very much, Mr. Chairman.

I would like to pose a question and that is back to the one word that we don't like to use on this committee or some don't like to use but one that I think is important and imperative if we are in consideration of trying to get additional money from the Congress and that word is good will.

I raise the question, is it so damaging for us at this point as we talk about trying to get additional capital to look at those institutions which have by virtue of their historical good management, were invited to participate in the process of saving insolvent institutions who now do not meet capital standards merely by virtue of the fact that they assisted the Government—is it out of order, is it damaging, what kind of problems do we create by at least looking at those institutions and once again considering the question of gap accounting to the degree that those institutions are able to survive without us having to put additional capital in them.

Again, I am only talking of institutions with a history of excellent management, institutions who are only in the predicament that they are in by virtue of the fact that they assisted the Government in the first place. Is there a possibility that this body that sits before us today would give some consideration to assisting those institutions by once again considering good will, at least for those institutions?

I am not asking for just opening the whole process but merely at looking at those institutions as a way of saving the taxpayers some money.

Secretary BRADY. Well, you have put your finger on a part of the solution to this problem that is difficult to explain, where institutions previously in the process came along and tried to help.

Unfortunately, they are affected by the solution of the problem we had where an institution, without putting up any capital, could borrow money on the basis of a Federal guarantee to invest in undesirable things, such as casinos and questionable real estate properties. So we have said that in the future that we want 3 cents out of every 100 cents in savings and loans if someone wants to operate that franchise.

Now unfortunately in the past there were people who you have referred to who took over institutions in trouble by putting good

will on their balance sheet. We are trying to work with those institutions. They are invited to come forward with operating plans which would give them time to work their way out of this particular situation. I think to some large extent that those plans have been satisfactory to the people who have a legitimate gripe.

I do take the point that after they came in on basis the rules got changed, but that happens.

Mr. FLAKE. Are you saying then that in the instances where the only reason they are in the predicament that they currently are in, and you give some consideration to that in making a determination about what you are going to do with them as it relates to insolvency or conservatorship?

Secretary BRADY. Fundamentally the philosophy is that if they can show plans which show that they are viable, they can stay open. If they can't, then they have to face the consequences of not having adequate capital to get the job done.

Mr. FLAKE. All right. Mr. Kemp, one question on affordable housing.

The statement of the body this morning indicates to us that there are plans or there has been the development of an approach approved by the Oversight Board that allows for certain residential properties for qualified purchasers for a 90-day marketing period, an interim rule that has been developed.

Could you please explain that to the committee?

Secretary KEMP. Well, 100 of those single family homes in the inventory I think in March were put up for sale as a demonstration of the ability of RTC to move them into the hands of low and moderate income people coming under the broad designation of affordable housing, and after 90 days we expect to have a better idea as to not only the mechanism by which those homes can be made available but how to expand or what type of financing would be necessary or discounts or other forms—buy-down of mortgages, et cetera—would be appropriate in the future of our affordable housing program through the RTC.

Mr. FLAKE. Is it too early in the process to really get results on that?

Secretary KEMP. It really is, Floyd, a very strong effort by RTC to demonstrate our ability to use the guidelines given to us by the Congress and the mission given to us by the Congress under FIRREA to have the type of an affordable housing program that both meets the needs alluded to by Secretary Brady with regard to the overall tax consequence but also make sure there is a socially acceptable, progressive goal of making certain that we apply some of these properties to the needs of low income and moderate income people in America.

Mr. FLAKE. All right, thank you.

My last question, perhaps Mr. Taylor maybe it's for you, in your listing of eligible minority contractors you indicate that there are 5,378 contractors that have registered with RTC. Of that number, 1,101 are considered to be minorities and women.

What I would really like to know is if there is a breakdown that gives a more concise definition of the number of minority versus women, because the numbers get a little bit fuzzy when you talk

about minorities and women and generally what we find is that represents a much lower number in terms of minorities.

Is there a breakdown anywhere on that?

The CHAIRMAN. The time of the gentleman has expired.

Mr. FLAKE. May I ask for unanimous consent for just one second?

The CHAIRMAN. Hearing no objection, the gentleman is given one second.

Mr. TAYLOR. There is a breakdown and the 1,101 includes 715 women.

The CHAIRMAN. The additional time has expired again.

Secretary KEMP. Mr. Chairman, in answer—

The CHAIRMAN. Yes, Mr. Kemp.

Secretary KEMP. One slight postscript to Secretary Brady's response to Congressman Flake, one thing that has not yet been brought up and I think RTC can take—well, if not pride at least some hope and cautious optimism is our ability through the minority institutions that have been saved. I understand 18 separate minority thrifts, 11 have been resolved. They are kept in the hands of minority men and women and they are in various stages I should say of resolution.

It is the Oversight Board's policy to make sure that everything is done to have a continuity of minority participation in the resolution of these thrifts, so I want you to know that, knowing of your interest and the chairman's interest in making sure that we do not neglect that important social and public policy goal.

The CHAIRMAN. The Chair will ask unanimous consent the gentleman from New York be permitted an additional half minute in order that—and if the gentleman will yield to me—in order to also elicit something that I think the gentleman from New York was leading up to.

In your testimony as we saw it, Mr. Secretary, you mentioned that the average income of the purchase under the pilot program is 83 percent of median income. The question would be what steps can you take, if any, to increase the participation of even lower income families. That would be our prime concern.

Mr. TAYLOR. Mr. Chairman, if I could take that—

The CHAIRMAN. All right, sir, fine.

Mr. TAYLOR. And answer it. First of all, the amount of sales. There have been 37 sales so it really doesn't reflect, you know, what will happen. It will amount to somewhere over 15,000 affordable properties but the average price of the affordable properties is \$36,000 and 84 percent of the full inventory is below \$50,000 in appraised value.

So the properties are more or less affordable, being low priced, and what we have focused our efforts on is to make sure that financing is provided so that people can buy those houses. That is what this State Housing Authority loan commitment for \$140 million is all about in Texas and those that are being negotiated in other States.

The CHAIRMAN. Thank you. The time has expired.

Mr. Mfume.

Mr. VENTO. Mr. Chairman, I ask unanimous consent to place in the record the CBO Budget Office Estimate, that is, a letter to chairman Gonzalez on June 13 yesterday, and "The Present Condi-

tion of the Thrift Industry," a May 23, 1990 document from the Office of Thrift Supervision, which includes charts, graphs, and new identification of, we talk about them as groups now, Mr. Chairman, not likely to fail. They are Group 1, 2, 3, 4.

The CHAIRMAN. If the gentleman will amend his unanimous consent request, I would like to add for the record my letter to Mr. Robert D. Reischauer, the Director of the Budget Office.

Mr. VENTO. Yes, Mr. Chairman, I would be happy to include that.

The CHAIRMAN. Without objection, so ordered.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Mr. Mfume.

Mr. MFUME. Thank you, Mr. Chairman. My thanks to the panel also for their time here this morning.

I want to go back and revisit this issue of minority participation and participation by women, which has been raised twice this morning, so that it is not lost in the sauce, and so that the concern expressed, and being expressed by members of this committee, is fully realized.

Mr. Monroe, let me, if I might, take you back to page 22 of Secretary Brady's testimony, which states that approximately 206, or 15 percent of the 1,411 contracts awarded by the RTC, have been to minority and woman-owned businesses.

The testimony further states that these contracts represent about \$3.9 million in actual dollars of the approximately \$25 million in total that was estimated to be paid out in contracting fees.

As the exclusive manager of the RTC in many respects, the FDIC provides certain services back to the RTC. And among those services is the management of RTC legal services, the contracting with outside fee attorneys and contracting with law firms.

And yet, I have here figures released by the FDIC in March that have been widely publicized, that show that as of that date in March \$177 million in legal fees had been paid out as a result of the S&L crisis.

May I point out that zero of those dollars went to black, Hispanic, or Asian fee attorneys or law firms.

Now, with regard to your oversight abilities to ensure that an effective outreach program is in place for women and minorities, have you in the past, do you now, or do you plan to in the future, exercise any oversight whatsoever regarding such services provided to the RTC by the FDIC?

I ask that because, if we take that mentioned \$177 million in legal fees that have been paid, and add that to the reported \$25 million in Secretary Brady's testimony, that results then in an estimated total of about \$202 million, work being done for or by the RTC, in which case, minorities then actually have received \$3.9 million of 202 as opposed to \$3.9 of 25, which results in a net participation, Mr. Monroe, of about 1 percent rather than 15 percent, as shown in the testimony today.

I would suspect that many people subscribe to the adage that figures lie and liars figure, because they see things like this and they realize that it is not benefitting them in the way that is was perhaps intended to be or reported to be.

I have to say that, as a Member of this committee, and someone who has been concerned with this for a long time, I am dismayed and disheartened, and I would assume that there are a great number of black, Hispanic, and Asian Americans who sought to participate in this program that feel the same way in many respects.

And while the awarding and contracting of fees does not violate the letter of the Mfume-Torres amendment, I think it certainly violates the intent. And I would strongly urge that whether we look at combining those two or look at the reality that in one instance, and particularly in terms of the legal fees, there was zero participation, that the Oversight Board honestly, carefully, and with a great deal of diligence, look at how that can be corrected, because it sends the wrong message.

Mr. MONROE. Absolutely, I understand. Our planning and our thinking is to reflect the fact that the silver lining within this whole S&L crisis is to be able to carry out a program of minority outreach. And I can assure you that that will be a major priority of the Oversight Board, and we will follow up your suggestions carefully.

Mr. MFUME. I appreciate that. But I am getting old in this job, getting assurances that this is not going to happen. I have sat at too many hearings, and I would hope that this is the last in that long number, in which I receive another assurance. I would like to see some action, quite frankly, something that is measurable.

Yes, sir.

Mr. TAYLOR. Mr. Congressman, we would also like, I think, to look into one of the figures that you have said and provide you back with a report. I think the figures that we have been given and that you have are really for one quarter. And I would like to go back and check the full outside contracting of the RTC and put it right before you.

Mr. MFUME. I would appreciate it very much.

Let me just quickly ask one other thing. Mr. Annunzio earlier asked about the number of referrals that were made to the Justice Department for prosecution. Someone gave the number 17,000. This is prosecution for possible fraud.

Is the RTC, as suspected by some, artificially inflating the number of cases that are being referred for prosecution for fraud so as to give the appearance of being tough, and in the process, creating a situation, actually, where the Justice Department—and this goes back to Mr. Schumer's point—essentially is in a position that it is chasing its own tail because of the sheer magnitude of the number of cases that they have to follow up on.

I would like to know is, in fact, there a set of standards or benchmarks or criteria that is utilized by the RTC that are triggered somewhere in the process, that will say to you that this is actually a case that we are to pursue, and one that, in fact, might be able to be resolved by the Justice Department; or do you just forward everything over there, and we think that there is a great effort toward prosecution and the Justice Department is looking like they are crazy, because they do not understand how, with their resources, they are able to pursue all of this?

Mr. TAYLOR. Mr. Congressman, the number 17,000 really represents the sum of those submitted by the agencies and the institutions themselves, and therefore, the agencies do not have control over a good part of that number.

I take your point very well. And I think the RTC has done a good job trying to set up an internal group that deals with fraud to work with the Justice Department so that the minor referrals can be separated from those that really represent cases that should be pursued.

It is a good point, and I think they take it well, too.

Mr. MFUME. Thank you. My time has expired.

The CHAIRMAN. The time of the gentleman has expired.

Ms. Pelosi.

Ms. PELOSI. Thank you very much, Mr. Chairman. I want to welcome our witnesses here today, especially our new head of the RTC. I want to welcome him and hope that he will develop as good a rapport with Congress and the American people as his predecessor did, and if he does, that he does not lose his job over it.

I noticed that our witnesses who gave testimony today did not have opening statements, just Secretary Brady. And I want to directly ask each witness if he associates himself with Mr. Brady's testimony. I assume he was speaking for the group.

[A chorus of ayes.]

Ms. PELOSI. OK. Then I would like to ask you each individually what is your estimate of how much money is needed now.

Mr. Kemp. Mr. Secretary.

Secretary KEMP. Are you asking me first?

Ms. PELOSI. Yes.

Secretary KEMP. First of all, I do strongly associate myself with the remarks of Secretary of Treasury Brady.

I made the point in answer to a previous question that I thought that there was no inevitability about the decline of the real estate market, or the decline of the economy.

Ms. PELOSI. I heard that, Mr. Kemp. I just wanted a figure.

Secretary KEMP. Well, I associate myself with the figures used by Secretary Brady.

Ms. PELOSI. Which are?

Secretary KEMP. I guess it was between \$90 billion and \$130 billion. I did not listen to every word of his testimony.

Ms. PELOSI. No, but that is a very critical 2 words in the testimony, what those figures were. And I just wanted to have, for the record, what you were associating yourself with.

Secretary KEMP. Well, I am not in a position to disagree with the Secretary of the Treasury. So I would associate myself with his remarks.

Ms. PELOSI. So because you are not in a position to disagree, you associate yourself with his remarks.

Mr. Greenspan.

Mr. GREENSPAN. I had occasion to look at the actual calculations that were made in order to come up with those estimates. And with the obvious qualification that there were a considerable number of assumptions that must be made to make those judgments, the numbers in the Secretary's testimony were quite rea-

sonable in the context of what it is we know about the size of this problem.

Ms. PELOSI. And that would be?

Mr. GREENSPAN. The same numbers, 90 to 130.

Ms. PELOSI. So, Mr. Greenspan, you are associating yourself with 90 to 130.

Mr. TAYLOR.

Mr. TAYLOR. I would also——

Mr. KEMP. Give us the number, Bill.

Ms. PELOSI. Give us a number.

Mr. KEMP. No fudging.

Mr. TAYLOR. I guess I associate myself with the Secretary's statement, which I think couches it pretty well as to why it is the estimate that it is.

Mr. KEMP. You're dodging the question. Please give us the answer.

Ms. PELOSI. And those numbers are?

Mr. TAYLOR. Ninety to 130.

Ms. PELOSI. Well, I ask because the previous gentleman who had a job that corresponded to yours came and told us it was a figure which, I believe, was too low and I think that this is part of the problem. And when he presented his testimony he told us he arrived at the figure by adding what the asset recovery would be plus the increased premium to the healthy S&Ls, and that equalled the size of the problem. And I didn't believe that that was necessarily the best way to calculate the total. So I just want it for the record to be precise about your estimate of the problem I'm trying not to be duplicative of my colleagues who go before me in seniority on this panel, so I will go on.

Mr. Secretary, I know that you're not going to answer question on deposit insurance because of your hearing, but I do want you to know what my constituents are saying to me about, and I will just say this briefly. That (a) they don't know why everyone should have \$100,000 in any number of banks and that would be insured, and also (b) why can't we come up with something where there's some risk involved for the depositor at a certain level if we're talking \$100,000. Perhaps \$85,000 insured by the taxpayer, \$15,000 at some risk, so that a broker deposit situation might not occur again where people have no interest in the health of the financial institution because they have no risk and are just seeking the highest interest rate. You may comment if you wish, but you made clear that you were going to wait, and I respect that.

I also am concerned about minority concerns that my colleagues have brought up, and I have two specific questions about them. One is that, it's my understanding that the RTC Oversight Board eliminated the statutory authority for price discounting its seller financing provided by the committee in our bill. Is that your understanding that this was rescinded in the strategic plan?

Mr. TAYLOR. If I understood, it was the seller financing rescinded in the strategic plan?

Ms. PELOSI. It was the strategic authority for price discounting its seller financing in relationship to affordable housing.

Mr. TAYLOR. It wasn't taken away, I think it was the strategic plan that said they should try to market the houses that they have

and do a test program, and then come back to us with recommendations as they relate to subsidies.

Mr. KEMP. Yes, that's what we're engaged in right now, a 90-day demonstration of the type of marketing of those properties, and seller financing and deep discounts and buy-downs of mortgages, all of those possibilities might very well be part of a future strategic plan, notwithstanding the fact that there's a few more days to go to get this demonstration program completed.

Ms. PELOSI. Do we have a copy of the strategic plan, Mr. Chairman? Can we get a copy of the strategic plan?

The CHAIRMAN. We have it, and we had a prior hearing earlier this year. The time of the gentlelady has expired.

Ms. PELOSI. Well, Mr. Chairman, I would just like to say that I also would like to associate myself with remarks of those who are concerned about the minority, of the regional advisory boards really do not have on them any persons who can pretend to even have expertise as modern income consumers, small business, and so forth, and I would hope that as you look to the future you would consider that. We're hoping that in the business that goes forward that the American taxpayers will find the silver lining you refer to for themselves rather than the golden parachutes for the crooks that seem so obvious to them.

The CHAIRMAN. The time of the gentlelady has expired.

Ms. PELOSI. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. McDermott.

Mr. McDERMOTT. Thank you, Mr. Chairman. I would like to ask unanimous consent to enter into the record an article from The Washington Post dated June 3, 1990, "A Tale of Two Billionaires."

The CHAIRMAN. Without objection, it is so ordered.

Mr. McDERMOTT. It's a pleasure. I've always admired Harry Truman, who had a statement on his desk that "The Buck Stops Here," and it's nice to see the people where the buck stops. The President asked for this committee and said this is the one that's going to resolve the problem.

I would like to bring up a specific, because I think of the American people sitting out there trying to figure out what's going on. They can't get all these figures, so they need some specifics. And there's a specific example I would like to ask you about contained in the article I reference.

In December, a man named Gerald Ford and another man named Ron Pearlman made a deal to take over some savings and loans. They put up \$171 million to buy assets equalling \$1.5 billion. Those have been valued down to nothing. So, for about 11 cents on the dollar, they've got \$1.5 billion. In 1 year, Mr. Pearlman is going to get back \$250 million in profits and tax benefits. Now that is getting all his money back in less than 1 year. Now that's a very good deal for him.

I would like to have somebody on this panel explain to me how that's a good deal for the American taxpayers.

Mr. BRADY. Well, if it turns out exactly the way you've stated it, it's obviously not. However, I would just say two things. One, that type of transaction is not being carried on anymore. That stopped at, I believe, the end of 1988 or 1989.

Mr. McDERMOTT. We ordered in our bill that you study all those deals. You have a report that's coming out in August. What is your preliminary estimate of the cost to the American taxpayers of those deals made just before the end of the year to avoid the Congress having any oversight on them?

Mr. BRADY. You've gotten ahead of me, Congressman. I was just going to say the report is coming out at the end of August. I do not know any of the specifics. My guess would be, as I said in testimony, that the \$40 billion will be a low figure. It will be higher than that.

Mr. McDERMOTT. You think less than \$40 billion?

Mr. BRADY. No, I said that the \$40 billion figure, which was in the estimates that were put together at the time of FIRREA, will be low. In other words, the figure, when we finally get the report in August, will show a higher figure than the \$40 billion.

Mr. McDERMOTT. The estimates we've heard are that it's going to be an additional \$12 billion for those deals made 3 days before the end of the year. I would like to ask you what you have put in place to prevent this same kind of deal being made in the future. Because as we go into the 1992 election—

Mr. BRADY. Well, we're not doing those transactions anymore.

Mr. McDERMOTT. You're not selling savings and loans anymore?

Mr. BRADY. We're selling savings and loans but we're not doing the kinds of transactions that you just referred to.

Mr. McDERMOTT. You mean the ones where they gave them the benefit—they promised them that they would get money no matter whether they were profitable or not? That kind of deal?

Mr. TAYLOR. That's correct.

Mr. McDERMOTT. Sort of a cost-plus in the banking business? You're not doing those anymore? What do you recommend to us?

The CHAIRMAN. Will the gentleman yield to me on that?

Mr. McDERMOTT. Yes.

The CHAIRMAN. Those were the 1988—the Southwest plan, the December blizzard. The gentleman is well aware of the fact that this committee initiated oversight and investigatory hearings since last October, which the committee is sustaining, we're continuing on that. And the particular deal the gentleman had reference to is the Gibraltar, and that's on our list. We're looking into that.

Mr. McDERMOTT. I understand that, Mr. Chairman. I just want them to know we're watching exactly what they're up to.

The CHAIRMAN. OK.

Mr. McDERMOTT. Because we expect you to renegotiate some of those deals. Those were bad deals. The American people lost big.

Mr. VENTO. If the gentleman would yield.

Mr. McDERMOTT. Yes, I yield you the balance of my time.

Mr. VENTO. I just think the issue of the asset management that is obviously going on in Texas, with or without the same guarantees, is still a factor. Almost all of the major institutions that have been sold have been deposit sales, and there is a contract that is put out with regard to the asset management. So, indeed, we have these assets being managed on a fee basis by these institutions that are not buying the assets. In other instances, there are agreements for puts.

So, I think that Mr. Taylor could explain this more thoroughly. The problem is they're not selling whole thrifts. In other words, they're all in the portfolio. So, whatever was wrong with that with regard to taxes is a real problem here, and I think that the members on the Oversight Board ought to be aware of the fact that we are concerned about that.

Mr. McDERMOTT. I hope I made that clear.

The CHAIRMAN. The time of the gentleman has expired. The gentleman may respond for the record.

Mr. Neal.

Mr. NEAL OF MASSACHUSETTS. Thank you, Mr. Chairman. I'd like to follow up on the point that was made by Mr. Schumer and Mr. Roth, and I'd like to direct my comments to Mr. Brady, but since Mr. Jack Kemp has been such a good fan and friend of this committee, I hope he would feel free to involve himself.

I think that we're sitting on a volcano of public opinion over this issue, and the perception has been created, for whatever reason, that our response has been ineffective. I'd like you, Mr. Secretary, if you might, to offer an opinion, and knowing that Jack Kemp has been pleased to share his opinions with this committee on many occasions, that he might speak to the issue as well. Why is it that after 17,000 cases have been referred to the Justice Department, that there appears to be so little action in bringing these individuals to the court of justice and to the court of public opinion?

Mr. BRADY. Well, first of all, there is less action than we would want as well. Second, I am not an apologist for the fact that these crimes are white collar crimes. They are very difficult to get your hands around.

I said earlier, perhaps when you weren't in the room, Congressman, that we got on the front page of the New York Times—

Mr. NEAL OF MASSACHUSETTS. I was here, Mr. Brady.

Mr. BRADY. An indictment of 190 years and \$9.3 million dollars. Somebody else said, "I hope he gets more than one year." I notice that the president of this institution got 30 years, so I don't think that we're going to see any diminution of justice in this particular case. We'll have to wait and see.

These cases are clear to put out. They will be prosecuted. It is what the American people want. You are on the right track. The process is underway, and I'm convinced that examples like this on the front page of the newspapers do a lot to make sure that it doesn't happen again.

Mr. NEAL OF MASSACHUSETTS. Mr. Secretary, you used the analogy earlier that it was difficult to discern between the two crimes because in one case, an individual used to walk into a bank with a gun and a mask, and in this case, it was white collar crime. I want to submit to you today that the public no longer makes that distinction; that it was robbery.

Mr. BRADY. I didn't say the public made a distinction between the robbery. What I said is I think the public does understand that for white collar crime it is a lot more difficult to get the goods on the person you're trying to prosecute than the person who walks into a bank and has his picture taken by six cameras while he's doing it.

Mr. NEAL OF MASSACHUSETTS. I wouldn't suggest that I'm any closer to public opinion than you are, but I return home every weekend, and I hear continuously at the corner store, at the supermarket, at the gas station, "When are you guys going to do something about putting these guys in jail?" That's a simple point that I want to make.

Mr. BRADY. I think it's a good point.

Mr. KEMP. Let me introduce a thought. Having been a Member of this body for 18 years, I can't help but recall, for members of both sides of the aisle, and not pointing any fingers, but that there was an incredible effort by some Members of the Congress to reduce or to be lax with regard to some of the regulatory standards—phone calls being made, letters being written, friendships being abused, et cetera, ad nauseam.

Let's not forget that on both sides of this question, I think there's enough blame to go around, and I just hope this is not going to erupt into the type of a political attack on either side, because I think the spirit the Chair and this committee showed in passing FIRREA, the effort by President Bush and Secretary Brady to cooperate in getting that legislation passed—if we turn it into an issue of who and when and just exactly which party, I think it's going to be a serious blow to the necessity of finding some area of cooperation between the administration and the Congress.

There are some issues upon which we have to battle, you know, hammer and tong, on into 1992, but I think there should be some issues, that is, affordable housing, helping resolve this problem, fighting poverty, helping the homeless—that we ought not to make a Republican or a Democratic issue out of.

I was disturbed by the statement this morning by one of the colleagues—if my party did it, you can bet I'll speak out, but a Member of your party said he thinks the greatest issue his party ever had is beating up on the administration. Frankly, I don't think you believe that, but let's not let it turn into that type of a political campaign.

Excuse me, Mr. Chairman.

Mr. NEAL OF MASSACHUSETTS. My effort here was not to assign any sort of partisan blame.

Mr. KEMP. I totally acknowledge that. I just got rolling a little bit, and wanted to remember the efforts by Members of Congress in both parties, in both parties, who were forcing, or attempting to force regulators to be more lax with regard to the standards that we all know are ours by virtue of our public responsibility.

Mr. NEAL OF MASSACHUSETTS. My simple point is this, as I concluded: The perception has been accurately created that we have not moved as swiftly as we might on these issues, and I'm hopeful that the 17,000 cases are going to receive a boost in terms of rectifying public opinion on that issue.

Mr. KEMP. Don't forget—there is a mountain of paperwork, a mountain of lawyers and accountants, and it's an incredible thing. It took 4 years to get the goods on the gentleman alluded to by Secretary Brady that's on the front page of the New York Times today.

Mr. NEAL OF MASSACHUSETTS. Thank you, Mr. Chairman.

The CHAIRMAN. The time of the gentleman has expired.

Mr. NEAL OF MASSACHUSETTS. I got the yellow slip here, Mr. Chairman.

The CHAIRMAN. Pardon?

Mr. NEAL OF MASSACHUSETTS. I got the yellow slip. My time is over.

The CHAIRMAN. OK. Well, the time of the gentleman has expired. We'll come back now to senior Members that have been waiting their turn, and Mr. Stephen Neal is recognized at this point.

Mr. NEAL OF NORTH CAROLINA. Thank you, Mr. Chairman.

I'm sorry I had to miss some of your testimony. I was chairing hearings on the Fed budget this morning and couldn't be here.

First, Mr. Chairman, let me ask unanimous consent that I be allowed to put some questions to the gentleman, environmental questions for the record. I won't have time to ask them this morning.

The CHAIRMAN. The gentleman asks unanimous consent to submit questions in writing. There being no objection, it's so ordered.

Mr. NEAL OF NORTH CAROLINA. Thank you, sir.

Well, let me say first that it seems to me that if we're to avoid this sort of thing happening again, that we need to understand it as clearly as possible.

In my trying to come to an understanding of it, I've come to think that probably 80 percent of it—and I realize that that's a little bit of an arbitrary number, that we can't quantify this exactly, but that roughly 80 percent of the problem could be attributed to—I don't want to characterize it as totally criminal activity, but a lot of criminal activity, mismanagement, risk taking that wouldn't otherwise have been there if there had been adequate supervision. So, improper activity, and then a lack of supervision.

Yes, I know that there are a lot of other factors—the downturn in the economy in the Southwest, and just a whole lot of things that went on—the high inflation of the late 1970's, and so on—but about 80 percent of the problem can be attributed to improper activity and then a lack of supervision. I'd just like to ask all of you if you disagree. If you don't say anything, I'll assume you agree.

So, that's really the first question, and then I have a brief second question, if I can. I know I'll run out of time, so I'll go ahead and ask it.

It seems to me that insomuch as we attract private capital into this to solve the problem, we save the taxpayers money, so that we ought to do everything we can to attract private capital.

I'd like to ask you, do you think that the bill that you're operating under now, the legislation you're operating under, does that adequately? If not, what improvements would you suggest so that we can attract more private capital into this industry and reduce the cost to the taxpayer?

So, I would certainly appreciate all of you taking a shot at these two questions, if you would.

Secretary BRADY. Congressman, let me give a general answer, and I might ask Bob Larson, who after all is our representative for the private sector, if he would comment.

I think that when you get through distilling the industry as it is being distilled into hard core, profitable institutions, that those

franchises will be sought out. I think ultimately the situation will turn around and people will want to buy S&L franchises.

For sure they don't want to buy the bum ones that we are now trying to take care of, so I would just make that comment. Bob, maybe you would say something about it. You are probably closer to it than I am.

Mr. LARSON. Mr. Neal, I suspect no one would be as foolhardy as to say the legislation couldn't be improved in some way but in my view that is not where our attention as the Oversight Board or the RTC should be devoted at this time. Nor, for that matter, would it be my inclination that that would be an appropriate place for the Congress to concentrate its efforts.

It seems to me that the real challenge and the place where meaningful progress is now beginning to take place is taking that legislation and establishing the mechanisms, procedures, selling techniques, and the rules, regulations and policies that will implement it. It's far too early to give up on the hard work that has been invested by what I have found to be a remarkably talented, competent, and highly motivated group of people who are just beginning to get their arms around what, as the Secretary indicated, is an incredibly complex and sizable institution—that is, the size of Citibank.

Mr. NEAL OF NORTH CAROLINA. I'm sorry, I am going to run out of time.

What about the qualified thrift lender test? Is that discouraging private capital from coming into the industry? Are there other aspects of the legislation you are operating under that are discouraging private capital?

I know you have got a tough job. I am not arguing about that—

Secretary KEMP. It's my view that—

Mr. NEAL OF NORTH CAROLINA. Please, let me just make this point. I know I am going to get called on time. We have a terribly awkward situation in these kind of hearings. We just don't have enough time so I am going to assume all of you agree with my analysis in the first instance that about 80 percent of the problem—if you don't speak up and say you disagree—and then on the second question, please tell me, is there anything you want to see changed so that we can get some private capital in here?

Mr. LARSON. I would encourage you to listen to Secretary Kemp's comments earlier about the things that can be done to strengthen the state of the economy and particularly the issues he addressed in terms of capital gains, passive loss, and other related economic issues.

I think that is the single most important thing the Congress can do at this point to assist in minimizing the cost of the thrift bailout.

Secretary KEMP. I talked earlier, Steve, about the unintended consequences of FIRREA, that is, the abrupt move in the capital requirements, the loan to one borrower rules.

I think while I don't have the empirical evidence that I would just hand over to you, I have the feeling that there is a very strong impression among people involved in real estate and home building and housing in America that there is a crunch on the supply of

credit and capital. You ask can we do something. At the margin I believe, I am speaking here personally now, the single most important thing that we can do right now is to make up for the mistake that was made last year when we failed to pass a lower capital gains tax rate.

We forget I think that the nominal value of all assets has been dropping as well as the real value given this high tax gate through which people must move their financial assets, capital stock, whether it is bonds, stock, real estate, and so forth, and as the Wall Street Journal pointed out, a high tax doesn't help Government revenue if there are no gains to tax.

If you want to infuse some oxygen into the economy right now, we ought to seriously move on President Bush's request to the Congress to get the rate down to 15 or some level of capital gain that makes sense.

Mr. TAYLOR. Mr. Congressman, I would have to indicate some disagreement with not necessarily the reasons for fault, but with the percentage, which seems a little high. I sound defensive because I am a bank supervisor so I would guess it's poor supervision. I would guess it's a combination of bad regulation, a tax policy that allows really non-economical projects to be built, and inflation that encourages people to push speculative bubbles too far.

I think I am prepared to take our share of it for our little industry but I think there is plenty to go around everywhere.

Mr. NEAL OF NORTH CAROLINA. I am told my time has expired and I thank you.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Hubbard.

Mr. HUBBARD. Thank you very much, Mr. Chairman.

Today's Wall Street Journal has been referred to and I would mention the quote by our friend William Seidman, Chairman of the Federal Deposit Insurance Corporation, who has said, quote, "One of the things that we have learned is that if you put these things in a junk yard they lose value."

Unfortunately and embarrassingly he's talking about the RTC but let me just ask you this. I have two newspaper articles here from California.

The first is from the San Jose Mercury News of Tuesday, June 5. The headline is "Bank Buys Saratoga Deposits." The first and the third paragraphs I would read. This is just last June fifth: "Pacific Western Bank Shares, Incorporated, said Monday it has bought the deposits of failed Saratoga Savings and Loan Association from the Federal Government's Resolution Trust Corporation. The acquisition of more than 2,000 accounts and about \$75 million in deposits from Saratoga Savings represents a small coup for Pacific Western, which has been on an acquisition campaign lately. Philip Boyce, Chairman and Chief Executive of Pacific Western, said yesterday he paid only \$76,501 for the deposits."

Remember, there were \$75 million in deposits.

"Mr. Boyce said this was a tiny fraction of their value. Normally banks pay a premium of as much as 5 percent or about \$3.8 million in the case of Saratoga. 'This definitely was a very good deal for us,' Mr. Boyce said."

Another newspaper from California, the Monterey Herald of March 30, the headline is "North County to Gain a 49 Acre Land Donation for Park."

Just a few sentences from this article, "A multi-million sports and recreation center is in the works for North County as the result of a pending land donation. It is said that the land was donated by the Resolution Trust Corporation to the recreation district. It seems that 88 houses could be built on another 74 acres between the high school and Meridian Road and the other 49 acres south of the high school could be used for any other purpose."

According to this newspaper, the Resolution Trust Corporation gave the 49 acres to the county, North County, California.

I guess I would have to ask in light of the spiraling cost of the bailout, Mr. Taylor or Mr. Monroe, how can we explain such things as these two—one a gift and one a sale, how can we explain these nowadays to a growing cynical public about these assets being given away or sold at cheap cost?

Mr. TAYLOR. I would be pleased to look into the two transactions you mentioned and get the specifics as to what the values were and what the appraisals were on the acreage and so forth. As far as the sale of the deposits, it has been candidly true that the premiums paid for deposits by acquirers has been extremely low based on deposits paid over the last 10 or 15 years. And it is true in some cases where there are negative bids received. In other words, people would charge you to pay out the deposits.

It really is a question of the actual and potential acquirers, and judging the value of those deposits, whether they're core deposits and will stay, or whether they are volatile, and will not.

Mr. HUBBARD. When the RTC puts up thrift up for bidding, do you accept the best offer even if it is grossly inadequate? Or do you hold that institution back if there's no reasonable offer?

Mr. TAYLOR. Well, you would hold the institution back if it were not going to cost you more to do that. In other words, if you're going to speculate that at a future time receive an even lower price, you might go ahead with the transaction.

Mr. HUBBARD. There have been complaints that the managing agents appointed by the RTC for some of these thrifts that have been taken over are simply not the most qualified for the job and are not handling these assets competently. Just how do you go about selecting a managing agent and what controls do you put on that agent's disposition of the thrift's assets?

Mr. TAYLOR. Well, first of all, the RTC/FDIC is aware of the complaints and is working to see that they are addressed. I would point out that you're talking potentially here by, some current estimates, of entering somewhere close to 500. You've been in 500, you could enter as many as 700 or 800. And to build a staff of competent managers that all follow the policy in a precise manner is difficult. I think they made an awful lot of progress, and I think they are very attuned to seeing that their managers of the savings and loans that are in conservatorship are indeed qualified individuals.

As far as the way that they dispose of assets within the conservatorships, they have been given guidelines on a central basis indicating how in general the business is to be conducted. And it basically says that you are to conduct the business so as to preserve, to the

extent you can, franchise value without expanding the business of the organization.

Mr. HUBBARD. One last question if you would, Mr. Chairman. The RTC's expected massive sale of mortgage servicing rights acquired from failed thrifts has recently shaken the market for these rights in the United States. Question: What is being done to lessen the adverse effects of these massive sales on the markets for mortgage servicing rights?

Mr. TAYLOR. Well, mortgage servicing rights have been going down in price prior to the FDIC or RTC doing any liquidation of those that they control through conservatorships. Basically, the purchase of mortgage servicing rights is the payment today for the receipt of a future income stream, and there was a time when people thought that future income stream would go on for the full term of the mortgage. And of course any time you have a change in rates, and everybody refinances, you have to have a production team capable of replacing what's maturing if you're going to retain the income stream that you purchased.

As a result of the basic forces of supply and demand, mortgage servicing rights have gone down in value rather dramatically, which is one of the reasons some of us in the bank supervision business are cautioned about accepting them as assets, and therefore, correspondingly giving credit as capital.

Mr. HUBBARD. Thank you, Mr. Taylor. Mr. Chairman, I would like to ask unanimous consent to introduce into the record of the hearing today the two newspaper articles to which I referred earlier.

The CHAIRMAN. Without objection, it is so ordered. Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman. A couple of thoughts. First of all, I guess I'm getting a little sick and tired of hearing the Democrats feel so hamstrung on this issue, because we somehow or another have 4 or 5 guys that went out and helped out one particular thrift owner who has lost a couple billion dollars. That does not in any way justify the escalating cost of this bailout. When I first came to this committee 3 or 4 years ago, they were telling us it was somewhere between \$5-\$15 billion. Then it goes up to \$50 billion. Then it goes between \$90-\$130 billion. CBO says \$150 billion. GAO, OMB say \$456 billion.

The fact is that there has to be some element of trust between the legislative and the executive branch, and at the moment, I don't see how it is incumbent on any member of the legislative branch to take the blame for this debacle. The fact is that somehow or another you're not finding out what the true cost of this estimate is. And you're not telling us what it is, and we don't have a realistic way of being able to make the correct and proper determinations as to what funds are necessary in order to deal with the crisis.

I don't think that's it right what those fellows have done, but I also don't think that it's right to suggest that because 4 or 5 Democrats got themselves mixed up over a particular individual should that mean that we somehow are not allowed to talk about what's right and what's wrong with regard to this issue.

I am also a little bit upset, to be honest with you, about how the issue has developed with regard to who pays. It seems to me that

you've seen a dramatic change in this country in terms of the shifting of wealth over the course of the last 10 years. You've seen the wealthiest Americans seen their taxes reduced by some 23 percent. Incomes—I'm one of them—have gone up around 94-95 percent. The poorest Americans have had their incomes reduced, and yet, they're still having their taxes increased.

The reality is that what we see here is a plan put forth by this administration that says that whatever the cost of this bailout is, that we're going to say no new taxes. That that's our basic bailout plan is no new taxes. Because we don't want to be honest with the American people that this is just a way of creating a facade that covers up the fact that this is the greatest transfer of wealth from the poor and the working people of this country to the very wealthy.

I want to know why you feel that it's good public policy, and I see all the smirks and everything else. And I understand what you're doing up there, and I'm letting you know that it isn't right. It isn't right to have the working people and the poor people of this country turn around and have to bail out the very wealthy who are the ones who were the greatest participants in the entire crisis.

So I want to know whether or not you feel that the existing way that you've put forward to pay for this crisis is the way that you feel that we should come out on round 2. And whether or not we have a round 3 and round 4 is something left to be determined. But whether or not you feel that saying to the American people, you can run up a trillion dollar debt on this particular issue, but it's not going to cost you any new taxes. And any increases that were necessary we're going to just simply send a bill to your children and to their children in order to pay for it. Is that what you think is right, Mr. Brady?

Mr. BRADY. Let me attempt to answer your question, and Congressman Kemp may want to answer as well. First of all, let's go to Secretary Kemp.

Mr. KEMP. My teammate.

Mr. BRADY. Yes, you've been promoted again. First of all, you've used the word "blame." I think that what we are attempting to do here, Congressman Kennedy, is to try to ascertain what the true cost is and badger this problem as we will from whatever angle we're going to badger it from. The truth of the matter is, the cost of this program will vary with the degree of sickness that there is in the real estate market. It has a direct relationship to the amount of dollars that will be involved.

The real estate market goes down, the cost is going to go up. The next time I'm in front of you, 6 months from now, you're probably going to say the same thing to me: how come it's bigger? If the real estate market is down—

Mr. KENNEDY. Mr. Secretary, are you telling me that the cost of real estate has changed—between the 3 years that I've been sitting here from a bailout cost of \$5-\$15 billion to a cost of—

Mr. BRADY. No, Congressman Kennedy. If you'd taken the bull by the horns and spent the \$5-\$15 billion, I wouldn't be here telling you that.

Mr. KENNEDY. Oh, come on! That is just—I can't believe that. You're honestly saying that if we bailed out \$5-\$15 billion—

Mr. BRADY. Could I have the courtesy of answering your question?

Mr. KENNEDY. That none of this crisis would have taken place? I don't believe it.

Mr. BRADY. I gave you an estimate last Fall. I'm saying the difference between that estimate last Fall and the present estimate is exactly what I've said: a difference in the real estate market, which has a number of different effects. More institutions have to be resolved, they have to be resolved at a faster date, and the discount on assets you take as you resolve those institutions is greater. It's almost mathematical.

Second, you've made the point about the wealthiest Americans paying. I don't think the studies that are being made indicate that that's the case. If you take the case of the Social Security System, which is one that's put forward as an example, the taxes have gone up but the system is progressing. The benefits of that system are paid back.

Mr. KENNEDY. And it's being used to be scored against the deficit.

Mr. BRADY. I'd like to answer the question if I could.

Mr. KENNEDY. Well, I'm trying to get you to answer it myself.

Mr. BRADY. Well, I'm answering it. Third, you have raised the issue of taxes. I would only ask you to calmly reflect on what the President has said about these budget negotiations. It was very simple. There are no preconditions to the discussions that are going on now. And I've been in some 40 hours of meetings and I have not had preconditions raised by either Republicans or Democrats. So I don't know what you're talking about.

The CHAIRMAN. The time of the gentleman has expired. And the Chair will advise that the Secretary was promised that we would excuse him at about this point because he has to be, at 1:30, at the summit budget meeting.

But, if the Secretary would be kind enough, I was going to sum up something that I would like for him to hear before he leaves.

And that is that, and I think this is essential for us to do our work, if we are going to do our job, we need to know your plans. We need more than the quarterly reports, at least sooner than a few days before the quarter begins.

In your testimony, you did say that you are hoping to develop a 6-month projection for spending needs. I wanted to say that, in my opinion, that will be critical, because it will help us to avoid some of these conjectures about blank checks and the like.

If you will need more money, we do have to have some idea of your business plans. I am not at all affixed to this question of numbers and getting you to give us an approximate number of cost, because I agree with you that is going to depend on so many variables that we cannot ascertain that.

But we do have to have an idea of what your business plan is, what the number of institutions that will have to be resolved, and on what basis, if it is at all possible.

I realize that is the plan that you are working on. But I wanted to stress its importance.

The other was the CBO report that we received yesterday. And you may answer this for the record. But how will this affect—you

know, they are saying that there will be at least 1,700 savings associations ultimately to be closed—how will this affect your estimates of the costs and the amount of resources which will be necessary, if at all?

If you have given it any thought, yes, we would like to hear it. If not, we can reserve it for the record.

Secretary BRADY. We had better reply to you by submitting an answer, Congressman. All I know is that, during the weeks leading up to the study, the CBO told us their estimates were going to be about the same as ours. Our estimates do not include 1,700 institutions, so we have a little pick and shovel work to do to figure out how that is used.

The CHAIRMAN. All right, sir. Thank you very much. And thank you for your patience and your cooperation with this committee.

Secretary BRADY. Thank you.

The CHAIRMAN. And you may be excused at this point.

Mr. Carper.

Mr. CARPER. Thank you, Mr. Chairman.

Gentlemen, welcome. Thank you for your patience today.

There has been some discussion during the time that I have been here as to who is at fault for the failure of our, massive failure of our S&L industry.

Let me just say that, there is an old saying that: "Success has many fathers; failure is an orphan." Failure is an orphan. And this is an failure of enormous proportions. We do not find a lot of people coming around saying they would like to take credit for this failure.

I just want to take a couple of minutes, as dispassionately as I can, to share some thoughts as to how we got into this mess, and what we need to get out of it.

I think there are really three factors that contributed to our getting into this mess.

One of those is, we followed a policy endorsed by the last administration, endorsed by the Congress at that time, of what I call "desupervision," giving the thrifts broad new powers, and at the same time, while we are having deregulation, broad new power, we had "desupervision." We had fewer thrift examiners, less supervision, at a time that the thrifts were given incredible new powers to use, especially for State-chartered thrifts, which set the stage, laid the groundwork, for the failures that followed.

The second thing, the second area where we screwed up, and we cannot blame the last administration for this, they were sounding the right note in this regard. The industry itself, the healthy thrift industry, should have paid higher insurance premiums. In the mid-1980's, we realized that. The Reagan administration, to their credit, tried to convince the Congress to raise the insurance premiums, to force the healthy thrifts to set money aside in the FSLIC to shut down the sick thrifts. And regrettably, a majority of my colleagues in the House and Senate, Democrats and Republicans, listened to the siren's call of the S&L lobby, and they elected not to require them to set those monies aside, not to increase their premiums to the extent that they should have. And we did not have the money, for a long time, to shut down the institutions that should have been shut down.

The third problem we had was capital, inadequate capital standards. People who did not put their own money up, they are gambling with the FSLIC money, they are gambling with taxpayers' money, they took big risks.

And those, if there are any three factors that we can point to, deregulation coupled with desupervision, with the emphasis on desupervision; inadequate insurance premiums; and finally, inadequate capital standards.

We, in passing FIRREA last year, decided to do something about all of those. It is a little bit like closing the barn door after the horses have escaped, unfortunately.

We also said that we want to do something about sending a message to those who might think of fraudulently or criminally raping institutions in the future. And we provided some tough penalties; we provided some money—\$75 million—that we authorized in FIRREA, as I recall, to go after the crooks. And we find out a year later, the administration has only asked for \$50 million, $\frac{2}{3}$ of the money. They are not using all of that \$50 million, to hire prosecutors, investigators, judges, FBI agents, to go after the crooks.

We have a responsibility, we in the Congress have a responsibility to appropriate the full amount of money that has been authorized. And next week, we will have the opportunity to do that, and my hope is that we will. And my further hope is that the administration will use the money to go after the crooks.

With regard to how do we get out of this mess, that is your job. That is your job, as the RTC. We want to help you. We want to help you; we want to give you the tools. To the extent that you need them, you need to tell us. And this conversation, this discussion that we have had today is helpful toward this end.

I have a couple of questions, Mr. Chairman, that really relate to environmental issues. Kind of far afield from most of the discussion that we have had here today.

There is a growing concern out there about the environmental sensitivity of the RTC in dealing with its property assets, especially those that have some natural or recreational or scientific value.

As the Merchant Marine and Fisheries Committee, another committee that I serve on, has jurisdiction over the application of the National Environmental Policy Act, to Federal activities that affect the environment, there is a concern that some of us have that those NEPA requirements apply to the actions of the RTC.

I had some questions that I wanted to ask Secretary Brady. He has left. But what I am going to simply do is to ask for unanimous consent to forward these questions to him and to Mr. Taylor, or Mr. Monroe, and ask that they be responded to.

The CHAIRMAN. Without objection, so ordered.

Mr. CARPER. Thank you.

The CHAIRMAN. Mr. LaFalce, I understand that Secretary Kemp will have to be leaving us soon, but the Chair will recognize you.

Mr. LAFALCE. I appreciate that very much. I am sorry that I was not able to stay for more of the hearing.

Secretary Kemp, in my opening statement, I said that I thought the administration had misdiagnosed the problem and had come forth with an inappropriate description, that Congress went along with this.

I suggested that it probably would be well for us to re-examine whether or not we should have a different prescription, rather than just following the path that FIRREA had set out.

I thought you indicated some degree of sympathy or empathy with that opinion. But I am not sure. I want to give you the opportunity to express yourself on it.

Secretary KEMP. Well, I was nodding my head when you made your opening comments, to the degree, John, that you are suggesting that there might be some unintended consequences of previous acts of Congress or those of us in the administration that might be re-examined in the light of the increasing costs of the problem, coupled with the projection that there might be more at-the-margin thrifts that go into conservatorship and, ultimately, receivership.

I do not think there has been an industry more subject to changes in the tax code and in the economy than real estate. I am sorry Congressman Kennedy left, because I was the one that smiled, and he thought it was a snicker. I was not snickering at his comment. I did smile, because I thought I wanted to ask him could he have foreseen in the Northeast of the United States, in his own home State, a decline in the value of real estate to the extent that it has hit Massachusetts and the Northeast in the last, say, year and a half, much less the 3 years that he was suggesting that we should have had a perfect number to give him.

But be that as it may, I think the consequence of the 1986 tax law, John, and I was a strong supporter of it, I cannot remember whether you were, but I would imagine you were, knowing your progressive view about tax reform.

The CHAIRMAN. Will the gentleman yield to me? Let the record—

Secretary KEMP. Mr. Chairman, I—

The CHAIRMAN. Let the record show that I voted against that tax bill.

Secretary KEMP. Well, you will be sorry. But notwithstanding that—[Laughter.]

You were right last night, Mr. Chairman, when you helped shepherd through this very important committee, with the help, I know, of Chalmers-Wylie, and Democrat-Republican, a very important piece of housing legislation. And we are very grateful in the administration for including about 90 percent of President Bush's HOPE proposal, and your sound ideas. I am sure that we are going to see positive legislation this year.

But John, I think the 1986 tax law had some unintended consequences. I had mentioned FIRREA several times having some unintended consequence on the acquisition and development and construction in real estate. It is having a diminishing of credit and capital going into this very important industry. And I strongly favor higher capital requirements. But I also want to make sure that we do not shut off the oxygen and the supply of capital, as it were, to this very important segment of the American economy.

But I did also say that I thought, and I guess it is predictable coming from me, but I want to say, with all due regard, I think the loyal opposition, of which you are a very key Member, has made unfortunately, I think, a mistake in delaying a tax change that would have a very positive impact on all of the capital stock finan-

cial assets, including real estate, in the United States of America, that is, cutting the capital gains rate.

The only point I wanted to make, and I know it will be debated, is that in the 1970's, before inflation, with the 50 percent exclusion on capital gains, most taxpayers, 95 percent of all taxpayers in the United States of America were in about a 6 or maybe an 8 percent capital gains tax rate.

Today, after inflation, notwithstanding the increase in the capital gains rate from 20 to 33, or 20 to 28, but 95 percent of the American people, homeowners, real estate developers, owners of stock, equity bonds, but 90 percent of all of the financial assets are being taxed on nominal increase, not real increase in the asset.

So you now are paying a much higher capital gains rate and far more people are paying it, and I think it is a gate through which a lot of people do not want to shove their capital asset and thus is leading to a decline in the value of real estate and the holding of those thrifts, and I think we ought to get cracking and get that rate down so we can increase the value of real estate.

Mr. LAFALCE. Sounds like a strong argument for indexation——
Secretary KEMP. Pardon me?

Mr. LAFALCE. It sounds like a strong argument for indexation as opposed to a——

Secretary KEMP. It is argument for indexing.

Mr. LAFALCE. Preferential rate.

Secretary KEMP. But it wouldn't make any sense to index an income tax rate that used to be at 70 percent. That is only part of the answer. We got it down to 28, and I strongly supported that. I would not want to index it at 33, or in New York State, 49, John. New York State is losing, daily, a lot of revenue that would flow into that State by virtue of the fact that the capital gains tax rate has hurt New York, it has hurt the Northeast, it has hurt the value of real estate and bonds and stock. I think it is a big mistake. I hope the sooner we get the rates down, the better off our country, our economy, and incidentally, the revenues of the Federal and State and local government would be. I am glad you asked.

The CHAIRMAN. What about Texas?

Secretary KEMP. Texas. Every State in the Union—it is a win-win solution. It really is. It is a win-win solution. It is not a win-lose solution.

The CHAIRMAN. OK.

Secretary KEMP. Even Buffalo, New York would be advantaged.

The CHAIRMAN. Well, I have had some of my colleagues here say that all the money was going to Texas. So that is why I was interested in knowing how capital gains would affect Texas.

Anyway, Mr. Wylie.

Mr. WYLIE. Thank you, Mr. Chairman.

I would just conclude by saying I think the panel did an excellent job today under sometimes adverse circumstances. I think it is to your credit that you did not blow your cool on occasion. I think you gave a most reassuring performance, which makes me feel the problem is in good hands.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Wylie. And I, in turn, extend my sincere thanks to the witnesses and deeply appreciate the coopera-

tion that you have shown this committee. And I ask unanimous consent on behalf of Congressman Engel that his statement be included in the record, as he had to leave soon after we opened the meeting.

Secretary KEMP. May I thank the Chair again, very personally, on behalf of the Bush administration and also my colleague, Chalmers-Wylie. You, Mr. Chairman, and you, Chalmers, deserve a lot of credit for making sure that there is going to be progressive and positive housing, national housing legislation in 1990, and I just want to salute you both and the members of your committee for the great work.

There will be some changes, I am sure, as it goes through this process, but I want to say that the American people owe both of you a great debt of gratitude.

The CHAIRMAN. Thank you very much, Mr. Secretary. We feel the same way.

Secretary KEMP. I look forward to working with you.

The CHAIRMAN. We feel you have been indispensable. Certainly, the record shows that.

I might add also that it is our intent, and I am sure that Mr. Wylie agrees with me, to continue to work in these other areas on the same basis. Thus far, we have in the full Banking Committee as well as on the Subcommittee on Housing.

At this point, this is one reason I was, and have been attempting to calm down some agitation with respect to actions that would tend to divide, polarize, and on a partisan basis, make it very difficult to address the very, very distressing problems we face.

I happen to believe, and have thought so all along, not only last year, but before, that the problems we face are of such a magnitude that even working with the best of intentions, with the utmost good will and honesty, it is going to task the best of our abilities, not only on the Congressional level, but in the private sector and everywhere else.

So I want to thank you, and as I said before, each member of this panel, because I think that working together as we did last year, we can arrive at, under our processes, at the most happy solution possible.

Mr. WYLIE. Mr. Chairman, would you yield at that point?

The CHAIRMAN. Certainly.

Mr. WYLIE. I think I would be remiss if I did not acknowledge the kind remarks of the Secretary and say that he, too, deserves a lot of credit. His office has been accessible at every step of the way. The Secretary himself has been accessible on occasion when we needed to talk.

But I also wanted to just say that we have worked very well together, the chairman and I, in a bipartisan way so far, and I think the chairman deserves a lot of credit for his persistence and fair-mindedness. And I use the word "persistence" advisedly, too, because we have had some long hours.

But I do think that we are going to have a very good housing bill before this is all over. As I said to the chairman the other day, it would be very nice to be at a bill-signing ceremony in the Rose Garden and to hear the President say something nice about the chairman of this committee—

Secretary KEMP. You will.

Mr. WYLIE. Rather than try to override a veto.

The CHAIRMAN. Well, that is true.

Secretary KEMP. Well, I used the metaphor "shepherd," and maybe the good work will combine with that metaphor and——

Mr. WYLIE. I think it will.

Secretary KEMP. Lead to that type of ceremony.

The CHAIRMAN. Thank you very much.

Secretary KEMP. Thank you.

The CHAIRMAN. Thank you, Mr. Wylie. And the committee stands adjourned until further call of the Chair.

[Whereupon, at 1:35 p.m., the hearing recessed, subject to the call of the Chair.]

APPENDIX

June 14, 1990

MINUTE STATEMENT BY HENRI B. SANDER, CHAIRMAN
 HOUSE COMMITTEE ON BANKING, FINANCE AND CURRENCY
 RTC OVERSIGHT
 June 13, 1990

TODAY THE OVERSIGHT BOARD OF THE RESOLUTION TRUST CORPORATION MAKES ITS FIRST SEMI-ANNUAL APPEARANCE BEFORE THIS COMMITTEE AS REQUIRED BY THE FINANCIAL INSTITUTIONS REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989.

WE APPRECIATE THE APPEARANCE OF TREASURY SECRETARY BRADY, WHO IS CHAIRMAN OF THE BOARD, CHAIRMAN GREENSPAN, SECRETARY KEMP AND MR. ROBERT LARSON, ONE OF THE TWO PUBLIC MEMBERS APPOINTED BY THE PRESIDENT. WE WOULD ALSO LIKE TO THANK BILL TAYLOR, WHO HAS JUST LEFT HIS POST AS ACTING PRESIDENT OF THE BOARD, FOR THE JOB HE HAS DONE, AND TO WELCOME THE NEW PRESIDENT, MR. PETER MONROE. I THINK I SPEAK FOR ALL THE MEMBERS OF THIS COMMITTEE WHEN I WISH YOU, MR. MONROE, GOOD LUCK AND MUCH SUCCESS IN YOUR JOB.

SINCE THE PASSAGE OF FIRREA, THIS COMMITTEE HAS HELD A SERIES OF OVERSIGHT AND INVESTIGATIVE HEARINGS ON THE SAVINGS AND LOAN INDUSTRY AND ON THE ADMINISTRATION'S IMPLEMENTATION OF THEIR OWN PLAN. PROGRESS HAS BEEN PAINFULLY SLOW AT TIMES BUT WE HAVE BEEN PATIENT. WE KNOW THAT IT TAKES TIME TO START ANY NEW ENTERPRISE BUT WE REMAIN CONCERNED THAT KEEPING INSOLVENT INSTITUTIONS OPEN SIMPLY MEANS MORE LOSSES, A DETERIORATION IN THE VALUE OF THE ASSETS OF THE INSTITUTIONS, AND THAT OPEN INSOLVENT OR NEAR INSOLVENT INSTITUTIONS ARE COMPETING WITH HEALTHY INSTITUTIONS KNOWING THAT UNCLE SAM IN THE FORM OF THE AMERICAN TAXPAYER WILL PAY THE COSTS.

JUST YESTERDAY THE CONGRESSIONAL BUDGET OFFICE PROVIDED THIS COMMITTEE WITH NEW ESTIMATES OF THE NUMBER OF INSTITUTIONS THAT WILL EVENTUALLY HAVE TO BE RESOLVED BY THE RTC. ONCE AGAIN, THE ESTIMATES OF THE NUMBER OF INSTITUTIONS AND THE COST OF THEIR RESOLUTION IS GOING UP.

NO ONE KNOWS WHAT THE ULTIMATE COST WILL BE. WE DO KNOW THAT THE FASTER THE JOB IS DONE, THE LOWER THE COST WILL BE.

WE HAVE ASKED THE OVERSIGHT BOARD TO TELL US THEIR PLANS, TO TELL US HOW MUCH MONEY THEY ARE GOING TO NEED AND WHEN. IT IS MY HOPE THAT TODAY WE WILL GET THAT INFORMATION. I KNOW THAT THE AMERICAN PEOPLE ARE AS CONCERNED AS WE ARE.

WE ARE ALSO CONCERNED ABOUT THE TREMENDOUS AMOUNT OF ASSETS COMING INTO THE RTC'S HANDS. WE WILL SPEND TWO DAYS IN FIELD HEARINGS IN TEXAS NEXT WEEK LOOKING SPECIFICALLY AT ASSET DISPOSITION AND I KNOW THE INFORMATION WE RECEIVE TODAY WILL HELP US PREPARE FOR THOSE HEARINGS.

FINALLY, WE HAVE ALSO ASKED THE BOARD FOR A REPORT ON PROGRESS MADE IN IMPLEMENTING FIRREA'S MINORITY CONTRACTING OUTREACH PROGRAM, AN UPDATE ON THE CONSERVATORSHIP PROGRAM, THE STATUS OF THE "ACCELERATED RESOLUTION" PROGRAM AND IMPLEMENTATION OF FIRREA'S AFFORDABLE HOUSING PROGRAMS.

WE LOOK FORWARD TO RECEIVING YOUR TESTIMONY.

Opening Statement for the Honorable Chalmers P. Wylie
RTC Oversight Board Hearing
June 14, 1990

Thank you Mr. Chairman.

I want to welcome our witnesses today, a very distinguished and capable panel, here representing the RTC Oversight Board.

Almost three weeks ago, Secretary Brady delivered the bad news that the thrift crisis is certain to cost the American taxpayer more than was estimated last year. Mr. Brady estimated that it could increase in cost anywhere from \$16 to \$59 billion dollars, on a present value basis.

This is certainly not good news, but I see no reason to shoot the messenger. In fact, I believe that the Bush Administration should be congratulated for its candor. Just 18 days after the President's inauguration he gave the Congress a plan to deal with the thrift debacle. Now less than a year after the passage of FIRREA, the Administration has come to the Congress with its best estimate of the cost of the thrift crisis, and has been willing to take the heat for doing so. I think the Congress should appreciate the Secretary's forthrightness in keeping the Congress informed.

So I for one, will not be using the Secretary as a convenient "punching bag" because the estimated costs of the bailout have risen!

I do want to explore with the Board when additional funds will be needed, and I would like their recommendations on how we can fund the new costs.

While the news on cost is certainly not good, I am encouraged with the progress the RTC has been making. The task before the RTC, beginning last August, was nothing short of monumental. The RTC is managing institutions with over \$172 billion in assets. How could anyone believe that start up problems were not going to be evident! To date, the RTC has resolved a total of 133 institutions, including 96 in this last quarter. It appears that the Administration could very well meet its goal of resolving 141 thrifts by the end of June. I will be interested in exploring the progress that the RTC is making towards meeting this goal. Moreover, I would like the Secretary to comment on goals beyond June 30th.

I am also encouraged with the progress that is being made with respect to asset disposition. A large, televised auction, with nation-wide hook up is planned for the fall, and I note in yesterday's Wall Street Journal that new and innovative ways are being considered to sell RTC property. It is estimated that the RTC could come into control of over \$40 billion in real estate assets by the end of June, thus, the task that lies ahead is a difficult one, to which there are no easy answers.

Finally, let me add that I remain concerned about the degree and pace of prosecution of fraud in the thrift industry. I am delighted that Don Dixon as been indicted, someone that I insisted be subpoenaed by this Committee. But more needs to be done, for that reason, I introduced legislation today to give the regulators and the Justice Department and our banking regulatory agencies new tools to fight bank crimes. I will be interested to find out from the Board what is being done to bring those to justice that have caused this crisis.

In concluding, I have confidence in the RTC's Oversight Board. As I said, there are no easy answers, but I believe this Board is as capable a group as any in developing solutions to these massive problems, and again, I want to thank them for being here.

OPENING STATEMENT OF
THE HONORABLE FRANK ANNUNZIO
AT HEARINGS
ON THE ACTIVITIES OF THE RTC OVERSIGHT BOARD

THURSDAY, JUNE 14, 1990

Mr. Chairman, the American people are disgusted with the lack of progress of the savings and loan cleanup. Every constituent is deeply frustrated with the slow pace of the both the RTC and the Justice Department.

The people want to know the answers to two questions: When is the cleanup going to get out of first gear and when are the savings and loan crooks going to jail.

I hope to get the answer to the second question from the Attorney General in two weeks; that is, if he decides to accept my invitation to a Financial Institutions Subcommittee hearing.

Maybe today's hearing will help get an answer to the first question.

The American people have been told that the billions of dollars is going to bail out the depositors of the failed institutions. That is a misleading statement. The money has not gone to the depositors, except in the case of a few liquidations. Most of the money has gone to acquirers of institutions.

Some argue that this money is put in these deals to compensate for the deposit liabilities. But it is important to recognize that the acquirer gets the chance to examine the institution's assets as a result.

The extensive use of put options by the RTC has created a situation in which the acquirers have up to an 18-month free ride period to examine an institution's assets.

Take the case of Murray Federal Savings in Texas. The RTC announced that this case was "resolved" with the acquisition of the institution by United Savings. But United has the right to return to the RTC hundreds of millions of dollars worth of bad assets during the next 18 months. This is a can't lose proposition for United. If an asset turns out to be good, the acquirer keeps it and its profit. If the asset is bad, the RTC, and the taxpayer, get the loss.

Taxpayers should also be aware that much of the money given to the RTC for thrift resolutions is going, not to pay the depositors, but for a wide range of RTC service contracts. For instance, the RTC is currently soliciting asset management contracts for \$2.6 billion in assets. Let me quote what one newsletter reporting on the RTC has to say about these solicitations: "Asset management firms are salivating at the prospect of being awarded contracts of these proportions. Fees are expected to mount into the hundreds of millions, and the duration of some will last years."

The American people want their money to go to the depositors of the failed institutions, not to managers, consultants, and advisors. It is bad enough that billions of dollars must be paid out to bury the failed institutions, without hundreds of millions going to swarms of vultures picking at the corpses of the dead.

If all this sounds familiar, it should. This is FADA all over. Rather than hire the so-called experts directly like FADA did, the RTC contracts with them. Different system, same result.

The taxpayers are getting fed up with this. Ten months have passed and still the RTC is not up to full speed. We have a major crisis, the biggest financial disaster in the history of the country. Yet the RTC is selling assets not like hotcakes, but like boomerangs -- first they get rid of them and then they come back. It's time to sell the assets without any strings.



**OVERSIGHT BOARD
RESOLUTION TRUST CORPORATION
Washington, D.C. 20232**

**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

Mr. Chairman, members of the Committee, we are pleased to have this opportunity to present our views on the progress to date under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and to discuss the outlook for the months to come.

I address the Committee this morning in my capacity as Chairman of the Oversight Board and am accompanied by three other members of the Board: Chairman Greenspan, Secretary Kemp and Robert Larson. Our fifth member, Philip Jackson, Jr., is out of the country and unable to join us today.

We are also accompanied by William Taylor, who has served for the last several months as the Acting President of the Oversight Board, and Peter Monroe, the incoming President.

Speaking for a moment for the three charter members of the Board, let me tell you how pleased we are to have been joined by two such able individuals as Philip Jackson and Bob Larson. We are all grateful for their willingness to sign on and of course for their experience and judgment.

This testimony will cover our efforts since the enactment of FIRREA ten months ago. We are dealing with a moving target, made greatly more expensive by a weakening real estate market and constantly changing economic conditions. It is not susceptible to easy answers or simple solutions. The problems are complex and massive -- as we knew they were a year ago as we worked together to adopt legislation. If anything, the experience of ten months has revealed that the task is even more formidable than any of us then imagined.

As we proceed, we do so under three principles which have guided us from the start:

- First, we will make sure that the millions of men and women who put their life savings in savings and loan institutions are protected to the full extent of their federal deposit insurance.
- Second, we will do all within our power to do the job at the least cost to the taxpayer.
- Third, we will aggressively pursue and prosecute the crooks and fraudulent operators who helped create the S & L problem.

It is important to bear in mind that money spent on the savings and loan crisis is spent with a single purpose in mind. The United States government made a promise to millions of Americans. We promised to protect their savings if deposited in a federally-insured savings and loan. Now we make good on that promise.

We are not using taxpayer dollars to bail out any thrift institution, their owners, or the savings and loan industry in general. We are living up to the government's end of the agreement represented by federal deposit insurance.

There are many who are impatient to wish these unpleasant problems behind us. We must remember, however, that it took over a decade for the thrift problem to become so costly and so difficult to fix. The enactment of FIRREA less than a year ago was only the beginning of the solution; we still have a long way

to go before we reach the end.

There are no magic solutions. We cannot predict with certainty the amount of money or the amount of time it will take to finally resolve this problem. What we can promise is to seek sound advice, use common sense, and see that the problem is effectively managed.

Our statement first takes a brief look back at the circumstances which led up to the enactment of FIRREA. It then provides a report on progress from last August to the present, covering the following areas: case resolutions; assets acquired and sold; enforcement efforts; affordable housing; and minority outreach. We address in this progress report several issues raised by the Committee in addition to housing and minority programs: the conservatorship program; quarterly operating plans; status of the accelerated resolution and clean sweep programs; compliance with the Community Reinvestment Act. Finally, we look ahead to consider the question of resources.

Before we do so, we should face squarely the fact that the real estate market in a number of areas in the U.S. is in a weakened state and has become particularly so in the last year. This affects every aspect of the problem we face, especially the job of estimating the size of the problem. The condition of the real estate market affects the number of institutions which fail, the value of their assets, the speed at which assets can be sold, and thus, the ultimate loss.

FIRREA requires that we estimate the remaining exposure of the U.S. government from institutions which will come under the control of the RTC. We have attempted to do so in this statement, but note that such estimates are highly uncertain because they require market predictions, which are themselves highly uncertain. For that reason, no one should assume that the estimates presented today will not change. They will.

A LOOK BACK

The problems we are wrestling with today have roots which reach back over many years. They extend back to events of more than a decade, as the thrift industry struggled to cope with economic adversity and fundamental changes in financial markets; to broadened powers, coupled with insufficient policing by government regulators; to capital requirements which resulted in too little of thrift owners' money being at risk; to problems in real estate and the junk bond markets; and, in many instances, to mismanagement and misdeeds. Many of these problems flow together and feed on one another.

The savings and loan problem was there to greet President Bush when he took office in January 1989 and he wasted no time in responding. Less than a month after taking the oath of office, the President came forward with a plan and made it one of his highest priorities to enact it into law.

You in the Congress and we in the Administration worked together last year as architects of a plan to repair the damage

and reform the system. Together we devised a plan to resolve the savings and loan crisis and to help prevent it from happening again. While comparisons with other government rescues are inevitable, this is not a bailout. We are not bailing out shareholders. We are not bailing out management. We are not in this to preserve institutions. In fact, many will be lost. It bears repeating that monies spent are to protect depositors.

It was just over a year ago that Congress took up consideration of FIRREA. Under your leadership, Mr. Chairman, and that of your Committee, the House of Representatives produced a bill in a timely manner. While preserving the essence of the Administration's plan, you added your imprint in areas such as capital requirements; affordable housing; the tightening of the qualified thrift lender test; purchased mortgage servicing rights; curtailing "junk" bond investments; open thrift assistance; the creation of the Federal Housing Finance Board; and the disclosure of Community Reinvestment Act ratings.

With the enactment of FIRREA on August 9, 1989, the machinery was put in place.

A PROGRESS REPORT

Under the provisions of FIRREA, the Oversight Board must report on case resolutions, costs incurred, and asset sales during the period from October 1, 1989 through March 31, 1990, along with providing certain other financial information. While reporting on the six-month period as required, we have not

limited ourselves to that and, where possible, provide in this statement information on more recent RTC activities.

As we review the progress to date, it is important to remember that a key purpose of FIRREA is to provide the money and mechanisms to separate out insolvent and failing thrifts, so that the industry which remains can compete successfully and safely in the financial marketplace.

The evidence is that FIRREA is working. Based on fourth quarter 1989 figures, OTS has analyzed the thrifts which remain after removing the institutions already resolved, those currently at the RTC for resolution, and those likely to be sent to the RTC in the near future. The industry which remains is profitable, has on average more than three percent tangible capital, and is growing by adding deposits.

Case resolutions

When the RTC started its work on August 9, 1989 there were 262 institutions in conservatorship. Since August, the RTC has resolved 148 cases (including 28 between October 1 and March 31), while adding 181 institutions to the caseload. That left the RTC, as of June 8, 1990, in control of 295 conservatorships.

While there has been a great deal of discussion about the RTC's relatively slow start in case resolutions, progress in recent months has been substantial. The RTC has resolved nearly 100 cases in the last eleven weeks -- by any measure, a tremendous accomplishment.

To the extent that it took longer for the process to get under way than some expected or hoped, it was not for lack of resources. Immediately after FIRREA was signed, \$20 billion was provided to the RTC in appropriated funds and industry contributions. The Resolution Funding Corporation has provided \$13 billion. The Oversight Board acted in February to allow the RTC to borrow working capital from the Federal Financing Bank. The availability of those resources has ensured that no disruption has occurred for lack of resources.

One factor that certainly affected the pace of resolutions during the first several months is that it takes time to build an organization, particularly one so large and with so difficult a task as the RTC. I am surprised by those who so readily dismiss the difficulties of creating in just ten months an organization that is roughly the size of Citicorp.

RTC's concern about a pile-up of retained assets of failed thrifts seems to have been another factor affecting the pace of resolutions. Because of the difficulty of managing and disposing of assets, the RTC will attempt to pass as many assets as possible to private sector acquirers. We certainly share that goal, but have tended to support a quicker pace of resolutions, while moving on a separate track to return assets to the private sector.

At the request of the RTC, the Oversight Board in February approved a policy establishing a general limit of twelve months on the amount of time that an acquirer has to decide to put

assets back to the RTC. This policy will give acquirers adequate time to get to review the assets of an institution without a lengthy period of review preceding the acquisition. The hope is that this will not only quicken the pace but also increase the likelihood that acquirers will take on assets.

The major problem faced by the RTC in trying to resolve cases, however, is that there simply have not been many interested buyers for the assets taken over, especially for whole thrifts.

Quarterly operating plans. With policies in place and the lessons of nearly eight months of operations, the RTC in March laid out an ambitious schedule of case resolutions for the third quarter of fiscal year 1990. The plan calls for resolving 141 institutions with assets totalling nearly \$50 billion between April 1 and June 30, 1990.

The Oversight Board endorsed the third quarter plan and approved the funds necessary to carry it out. The plan approved by the Oversight Board provides for up to \$51.6 billion in spending on case resolutions during the quarter, of which \$19.1 billion represents estimated net losses and \$32.5 billion the recovery value of receivership assets.

As of June 8, the RTC had resolved 96 of the 141 institutions with assets of \$21.2 billion. Although a substantial amount of work remains to be done, we are advised by the RTC that they expect to hit the target of 141 resolutions by the end of the month.

Whatever the final number, the RTC deserves enormous credit for its accomplishments during the third quarter. This represents a significant achievement by historical standards.

Of the 141 institutions targeted for resolution during the current quarter, the RTC identified about 50 which would be resolved either through insured deposit transfers or payouts. This part of the plan was labeled "Operation Clean Sweep" (though many people use the term to describe the entire third quarter program). We have encouraged the RTC over the past several months to place greater reliance on liquidations and were therefore pleased to see the emphasis on this method of resolution in the third quarter.

Of the 96 third quarter resolutions through June 8, there have been 38 purchase and assumption transactions involving institutions with assets of \$15.0 billion; 46 insured deposit transfers involving institutions with assets of \$5.2 billion and 12 payouts involving institutions with assets of \$1.0 billion.

The Oversight Board is involved in ongoing discussions with the RTC about projections for case resolutions during the quarterly periods beginning on July 1 and on October 1 of 1990. However, no operating plan has yet been presented or adopted for those quarters. Spending requirements will be driven by the pace of resolutions, which we would describe in terms of asset values rather than the number of institutions. It seems reasonable to expect that the RTC could resolve institutions with assets ranging from \$20 billion to \$40 billion per quarter.

We recognize that both the Congress and the Administration have a need for information about RTC spending plans. We hope to move toward planning for six-month periods and will work with the RTC to achieve that end.

Conservatorship program. As of June 8, 1990, there were 295 thrifts in conservatorship. It is impossible to say how many more will enter the program. The Office of Thrift Supervision (OTS) has identified 299 institutions which, as of April 27, 1990, were likely candidates for resolution and another 315 for which the future is uncertain. The number of failing thrifts which ultimately enter conservatorship also depends on the number that receive some form of expedited resolution, bypassing conservatorship altogether.

The benefit of placing an institution in conservatorship is that it allows the government to stem losses and bring to a halt practices which may have contributed to the insolvency. Once an institution has been taken over, the RTC reduces its risk exposure and prepares it for resolution. This includes reducing the asset side of the balance sheet through the packaging or securitization and sale of financial assets.

The problem with placing an institution in conservatorship -- particularly for an extended period of time -- is that it generally leads to a further erosion in franchise value. For example, the trained staff of a thrift in conservatorship may worry that it will be liquidated and opt to take jobs elsewhere.

We recognize that the General Accounting Office has raised concerns about the training and turnover of managing agents. Given the size and the unprecedented nature of the conservatorship program, it should come as no surprise that there may be operating difficulties in the field. The Oversight Board intends to monitor the situation and provide policy guidance as warranted.

Accelerated resolutions. We are concerned about the effect of the conservatorship program -- in essence, the government warehousing of private sector assets -- on franchise values. The RTC shares these concerns and therefore has developed the idea of the "accelerated resolution program."

Under the accelerated resolution program, an institution will be marketed before it is actually placed in conservatorship by the Office of Thrift Supervision. The RTC, in cooperation with the OTS, is in the process of developing a pilot project to test this form of resolution. The Oversight Board will monitor the development of this program to ensure that it operates in a manner consistent with the requirements of FIRREA and the Strategic Plan.

While the details of the accelerated resolution program remain to be worked out, we support the goal of trying to deal with an institution when resolution costs the least. At the same time, however, we will continue to focus on the need to resolve the existing conservatorship caseload.

Community obligations. Enforcing an acquirer's obligations to its community and encouraging it to meet such obligations are essentially functions of the financial supervisory agency which regulates an acquirer. In enacting FIRREA, Congress recognized that such supervisory functions would not be exercised by the RTC:

"Neither the Oversight Board nor the RTC, whether in its corporate capacity or in its capacity as conservator or receiver, act as a supervisor or regulator of insured financial institutions. The appropriate Federal bank regulatory agency retains such status for all purposes."

Under the Community Reinvestment Act, the community credit record of an institution that applies to acquire an RTC institution will be evaluated by the Federal financial supervisory authority that created such a record as part of its examination of the acquirer. It is the responsibility of the supervisor to review a potential acquirer's community reinvestment record in considering the institution's application to acquire a failing thrift.

Assets acquired and sold

There are two groups of assets under the control of the RTC: those in conservatorship and those in receivership. As of March 31, 1990, there were 350 institutions in conservatorship with gross assets, in book value, of \$159.9 billion (based on December 31, 1989 financial data). The composition of assets held at that time was as follows:

Table 1

CONSERVATORSHIP ASSETS
350 Conservatorships as of March 31, 1990
Book Value of Gross Assets

(\$ billions)

Cash and securities	\$41.6	26%
Mortgages	\$80.4	50%
Other loans	\$13.5	8%
Real estate owned	\$13.8	9%
Other assets	\$10.6	7%
Total	\$159.9	100%

The composition of assets under the control of RTC receiverships as of March 31, 1990 was as follows:

Table 2

RECEIVERSHIP ASSETS
52 Receiverships as of March 31, 1990
Book Value of Gross Assets

(\$ billions)

Cash and securities	\$ 1.7	13%
Mortgages	\$ 7.1	53%
Other loans	\$ 0.9	7%
Real estate owned	\$ 2.9	22%
Other assets	\$ 0.7	5%
Total	\$13.3	100%

The largest part of the RTC's asset disposition efforts has been sales from conservatorships. This follows from the guidance provided by the Oversight Board in the Strategic Plan, which provides "to the extent feasible and cost effective, the asset side of the balance sheet [of thrifts in conservatorship] should be reduced through the packaging or securitization and sale of

financial assets."

While the RTC has compiled a substantial record on sales from conservatorships, there has been less progress in disposing of receivership assets. To some extent, this is understandable, because the receivership assets are the most troubled. The Oversight Board and the RTC, however, are anxious to establish a record of steady and solid progress in the sale of assets.

Table 3 shows the level of sales and other collections on assets held or managed by the RTC through March 31, 1990. It shows that, through March 31, 1990, the RTC has reduced the volume of assets under its control -- including both conservatorships and receiverships -- by \$41.9 billion through March 31, 1990. We recognize that the most marketable assets are sold first, but we are nonetheless pleased to see this level of reduction.

Of the \$173.2 billion in assets under the control of the RTC at the end of March (both in conservatorships and receiverships), \$16.7 billion or ten percent was owned real estate. It is too early in the process to assess the impact of RTC real estate sales on local markets.

It becomes critically important to achieve greater progress in the area of asset sales as the number of resolutions increases. At the end of the second quarter of the fiscal year, the estimated fair market value of receivership assets totalled about \$7 billion. Under the third quarter operating plan, that total could increase as high as \$39.5 billion.

Table 3

Balances of Assets Held or Managed by RTC from Inception through March 31, 1990 **402 Institutions ***

(\$ in billions)

Asset Type	Beginning Conservatorship	Reductions during Conservatorship			Resolution & Receivership Reductions			Balance at March 31, 1990
		Sales Proceeds	Payments & Maturities	Other Changes (Net) **	Passed to Acquirer	Principal Collect-	Other Changes (Net)	
Mortgages	102.8	-2.3	-7.2	-1.8	-3.8	-0.2	0.0	87.5
Other Loans	17.1	-0.4	-2.3	0.7	-0.9	-0.1	0.2	14.4
Cash & Secur.	60.9	-14.8	-6.0	3.2	-1.0	-0.1	1.1	43.3 ***
Owned Assets	16.3	-1.8	-0.1	2.4	-0.0	-0.1	-0.0	16.7
Other Assets	17.7	-0.6	-0.3	-4.9	-0.6	-0.0	-0.0	11.3
TOTALS	214.9	-16.9	-16.0	-0.3	-6.3	-0.5	1.3	173.2

* At March 31: 350 Conservatorships

52 Receiverships

** Changes in Other Assets include charge-offs of certain intangible assets and equity investments

*** Includes approximately \$1.1 billion in receivership cash available for the payment of expenses and dividends.

We must take advantage of the opportunity to dispose quickly of assets which have a ready market, such as single-family mortgages. With the encouragement of the Oversight Board, the RTC recently adopted a policy for providing representations and warranties, as are customary in the marketplace.

We also support the RTC in the procedures recently adopted for determining the market value of assets and establishing prices for sales by auction. We believe that the RTC Board has taken an initial step toward dealing with appraised values which may in some cases overstate market values and so communicated that to the RTC during its deliberations. We find the approach which they have taken to be responsible.

Last month, the members of the Oversight Board met with Chairman Seidman to discuss ways to expedite asset disposition.

Enforcement efforts

We must vigorously pursue those whose criminal and fraudulent activities helped create the current situation. As we observe the failed institutions and contemplate the mounting losses, we continue to be convinced that the government must provide the resources that are needed to make certain that those who have abused insured institutions know the effects of justice.

The RTC has established an Office of Investigations in Washington and has teams of investigators throughout the country. The RTC's investigations staff is planned to reach 300 by year end. These investigators will help to identify negligent and reckless mismanagement, fraud, and criminal conduct that

contributed to thrift insolvencies. The RTC's investigators will be involved throughout civil litigation proceedings and also will assist the FBI and the U.S. Attorneys in criminal prosecutions.

Thrift regulators and institutions have made over 17,000 criminal referrals in the last three years. Over the same period, OTS and its predecessors required 664 institutions to enter into binding agreements terminating unsafe and unsound practices; removed over 150 senior officers and directors from thrifts and forbade them ever again to be employed by an insured thrift institution; and issued 111 cease and desist orders, to stop unsafe and unsound practices and to require restitution. In addition, there are over 1,000 civil law suits seeking to recover billions of dollars from the former directors, officers and professionals -- including accountants and lawyers.

Criminal referrals have already resulted in prosecutions and convictions. The Woody Lemons case in Dallas, Texas provides a dramatic recent example. Lemons, the former Chairman and Chief Executive Officer of Vernon Savings and Loan in Vernon, Texas, was sentenced to spend 30 years in prison, following his conviction for an elaborate bank fraud scheme, misapplication of Vernon's funds, and bank bribery.

As of May 11, 1990, the Dallas Bank Fraud Task Force, in which OTS and RTC personnel are working closely with the Department of Justice, has charged 70 defendants and obtained 49 convictions. That Task Force also has succeeded in having the courts impose criminal restitution orders of over \$16 million.

Despite the extent of our present enforcement activities, the government needs to do more. To accomplish this goal, the Attorney General and I are working to see that financial misconduct is punished. We are establishing priorities for the major criminal referrals and civil cases of all financial regulatory agencies and are working with the Department of Justice to see that the most important criminal cases receive the priority attention they deserve.

Affordable housing

Since we last appeared before the Committee, the RTC has proposed and the Oversight Board has approved an interim rule for the Affordable Housing Disposition Program. This rule implements the provisions of FIRREA requiring the RTC to offer certain residential properties to qualified purchasers for a 90-day marketing period. The interim rule was published in the Federal Register on April 16, 1990, and the 60-day comment period is over tomorrow.

The development of this rule was a collaborative process between the RTC and the Oversight Board, as has been the development of a guideline for the disposition of properties having no reasonable recovery value. The guidelines will provide for the conveyance of such properties to be used as shelter for the homeless, housing for lower-income families and other public uses.

In March, the Oversight Board approved a policy encouraging the RTC to enter into agreements with state and local housing

finance agencies to provide low-interest financing for RTC affordable housing properties. Pursuant to that policy, the RTC has entered into commitment agreements in Arizona and Texas and is negotiating for reservations of funds in other key states. The Oversight Board authorized the RTC to spend up to \$6 million during fiscal year 1990 to pay commitment fees for bond programs, which could reserve funds to finance the sale of more than 6,000 properties.

The first use of this program will be in Texas, where the state housing agency is expected to issue \$140 million in bonds during the next few days to fund approximately 3,500 homes at an expected interest rate of about 8.5 percent. Under the proposed commitment agreement between the RTC and the Texas Housing Agency, the RTC has identified 2,000 homes that are immediately ready for sale and that meet minimum property standards for insurability. The RTC also has committed under that agreement to make ready for marketing a minimum of 4,000 additional homes during the next year.

Approximately 84 percent of the homes currently in the affordable housing inventory are appraised at \$50,000 or less and the average appraised value is less than \$35,000. With low-interest bond financing, a \$50,000 home is affordable to a family with an income of about \$18,500, or about 53 percent of median income in Texas, based on standard loan underwriting criteria. This suggests that the affordable housing program will be able to serve the needs of a broad range of lower-income families, not

just those at or near 115 percent of median income.

A major obstacle to implementation of the affordable housing program has been the sheer difficulty of getting thousands of small properties ready for sale. For each property, someone must order an appraisal, authorize necessary repairs, select and contract with a broker and notify the clearinghouses. Since asset management contractors have not yet been selected in large numbers, the RTC's limited staff has performed these jobs on the initial properties. As institutions are resolved and private sector asset managers are selected and placed under contract, the flow of properties into the program is expected to increase dramatically.

We have included as an attachment to this statement a listing of the 100 single-family properties offered for sale under the first phase of the program, along with information about the property and buyers. In addition, we understand that the RTC will be releasing its second inventory of property this week, which will again include a listing of all properties eligible for the affordable housing disposition program.

The RTC has recently reported to the Oversight Board on its experience with the initial pilot program involving the marketing of 100 single family homes in 11 states. Though the report is based on very limited experience, the RTC has offered a number of observations about the program.

First, the income of purchasers ranged from 30 to 115 percent of median, with an average income at 83 percent of

median. Second, prearranged financing through bond or other programs helps to facilitate sales. Third, repairs are needed in most cases (about \$1,000 per unit) to bring the properties up to standard. Finally, condominium units and duplex and triplex properties -- which represent a sizeable portion of the inventory -- present particular financing and marketing problems.

As you know, the Strategic Plan did not provide for the immediate use of direct subsidies such as price discounts and concessionary financing. Given the composition of the affordable housing inventory, it now appears that a wide range of lower-income families will be able to buy these properties without RTC subsidies. Nevertheless, the Oversight Board has had the issue of subsidies under study for several weeks and is examining various options.

We hope over the near term to see a rapid increase in the number of properties made available under the affordable housing program. We expect to see those homes sold to the intended beneficiaries of the affordable housing program. The Oversight Board will continue to monitor the affordable housing program carefully and will take the steps necessary to assure that the affordable housing objectives of FIRREA are met.

Minority outreach

The minority outreach efforts of the RTC fall into two major categories: outreach to minority and women contractors and preservation of minority- and women-owned institutions.

The RTC is developing its final policies and procedures for

contracting with minority contractors. Thus far, the RTC has concentrated on getting eligible minority contractors registered. Of the 5,378 contractors that registered with the RTC 1,101 or 20 percent are firms that are owned by minorities and/or women. The RTC has continued to conduct workshops and seminars around the country to promote and provide information about the outreach program.

This registration program represents a critical element in RTC's minority outreach efforts, because it forms the basis for the selection of contractors. The RTC will solicit qualified contractors on a generally random basis, but will include at least one minority or women-owned business or joint venture (unless none has indicated the capability for the specific undertaking).

Based on preliminary data from the first quarter of calendar year 1990, approximately 206 or 15 percent of the 1,411 contracts awarded by the RTC receiverships have been to minority- and women-owned businesses. These contracts represent about \$3.9 million of the approximately \$25.3 million in total estimated contracting fees.

The Oversight Board is in the process of developing its own regulation applicable to its contracting activities to ensure that firms owned by minorities and women are given the opportunity to participate fully.

The second major area of outreach is an effort to facilitate the continuation of minority institutions, as directed by FIRREA.

The Oversight Board has authorized the RTC to postpone closing a transaction for up to nine months or provide bridge financing for the same duration in order to assist minorities acquiring minority institutions.

There are presently 14 minority thrifts in conservatorship. As of June 12, the RTC has resolved 6 other minority owned institutions. Two of the black-owned institutions were sold to a black-owned bank and another minority thrift was sold to a minority-owned bank. (Only one minority institution has been liquidated). The RTC has provided a loan to a minority acquirer to facilitate the acquisition of another minority institution.

The Oversight Board will supplement these efforts through a program of information and outreach to minority- and women-owned organizations. On a quarterly basis information will be provided to the appropriate organizations which lists all the institutions in conservatorship and identifies those which are minority-owned.

FUTURE REQUIREMENTS

Since the thrift crisis first emerged, there have been a number of sources providing explanations and estimates of the size of the problem. Each has a projection as to how many thrifts will require government expenditures and how much the entire cleanup will cost.

Some give cost estimates on a present value basis while others give them on a cash basis. Some estimate total costs for

resolving the thrift crisis, while others focus on additional funds required.

Estimates also vary on whether they include REFCORP interest costs, interest on working capital, and even the effect on government borrowing costs. Including interest costs treats the savings and loan program differently from other government programs and has the effect of dramatically increasing cost estimates.

In short, there are a myriad of estimates prepared using a variety of methods. Of course, the highest estimates get the most attention. Let me give you our view of where things stand.

FIRREA established a funding structure which has three parts. First, it provided for the payment of prior commitments of FSLIC from the old FSLIC fund, anticipated insurance premiums from SAIF members, other revenues received by FSLIC, and, as a last resort, Treasury funds. At the time FIRREA was signed into law, it was estimated that the cost of winding down FSLIC, in present value terms, would be about \$40 billion. Given market conditions, it now appears that the cost will be higher than originally estimated.

FIRREA requires the RTC to review all of FSLIC's 1988 assisted thrift acquisitions and report to Congress and the Oversight Board. Under the Strategic Plan, the report is to be completed by August 31, 1990. At that time, we will be better able to evaluate the long-term cost of these cases and to pursue modifications where savings would accrue.

Second, FIRREA provided \$50 billion (\$18.8 billion in appropriations, \$1.2 billion from the Federal Home Loan Banks, and \$30 billion from REFCORP) to resolve the RTC caseload -- that is, insolvent savings and loans which fail during the three years subsequent to the enactment of FIRREA.

At the time FIRREA was enacted, there were approximately 350 insolvent thrifts with assets of about \$170 billion and roughly another 150 institutions with \$100 billion in assets that would almost certainly become insolvent in the near term. The \$50 billion requested was based on the most credible estimates at the time, prepared by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the General Accounting Office.

Finally, FIRREA established the Savings Association Insurance Fund (SAIF) to bear the cost of thrift failures which occur after August 9, 1992. Though we did not have a firm estimate of the funds that would be required by SAIF to meet its obligations, FIRREA authorized the Treasury to provide up to another \$32 billion for this purpose. The present value of these future commitments is \$23 billion.

At the time of the legislation, there was a great deal of uncertainty about the long-term cost of fixing the problem. The Administration stated repeatedly in letters and testimony that we could not say precisely which or how many institutions would fail, the nature and quality of their assets, what it would take to resolve them, how the performance of the economy and the real estate market would affect costs, or where interest rates would

be -- all key variables in estimating the cost. Those same difficulties exist today.

To further illustrate this point, let me quote from a letter which I sent to the Chairman of the Senate Banking Committee, dated June 23, 1989, in response to his question about the adequacy of funds to be provided in FIRREA:

"Let me emphasize ... that this level of resources, no matter how thoroughly researched or widely agreed upon, is still based only on estimates. Uncertainties include the level of interest rates, the strength of the economy, as well as many other factors that could have a significant impact on the size of the problem. As a result, the actual cost of case resolutions could be higher or lower, depending on the actual circumstances."

As of June 8, there have been a total of 443 thrifts with \$222 billion in assets placed in conservatorship. The RTC has resolved 148 cases for which the estimated loss totals about \$18 billion. In other words, the RTC has incurred losses equal to about 36 percent of the \$50 billion provided in FIRREA.

If the RTC were to resolve all 141 institutions planned for the third quarter of fiscal year 1990, estimated losses would accumulate to \$28.3 billion by June 30. At that point, there would be roughly 250 institutions left in conservatorship, plus additional thrifts which come under the RTC's control.

When we appeared before you in January, we stated "when we became convinced that additional resources are necessary to

continue the program, we will request them in a timely manner." It is now clear that the amounts projected and authorized for the RTC in FIRREA will fall short of what is required.

The causes of these increased RTC losses appear to fall in three different categories: the losses in individual thrifts are larger than expected; marginal thrifts are likely to fail sooner than expected (becoming the responsibility of the RTC, not SAIF); and the total number of projected thrift failures has increased.

Why has this happened? We believe the answer lies in a combination of the factors causing uncertainty. The fact is that we now have what we simply could not have had at the time FIRREA was considered and enacted -- actual experience with the cost of marketing insolvent thrifts and their assets. This experience with 148 resolutions has made us more pessimistic about losses embedded in thrifts both inside and outside the RTC's current caseload.

A number of factors have contributed to these higher projections, including ones with which this Committee is very familiar. The first is a general decline in regional real estate markets, particularly commercial real estate. This has been true not only in the southwest, but in the northeast, southeast, and other parts of the country. Unfortunately, thrift assets are heavily concentrated in real estate, whether through direct investments, foreclosed property, or real estate loans. FIRREA sharply curtailed the amount of commercial real estate activities that thrifts can engage in going forward, but obviously, it could

not address the losses already embedded in troubled thrifts.

A related concern involves the institutions that we expected would be the primary purchasers of thrift deposits and thrift assets -- other depository institutions. It's no secret that healthy banks and thrifts have become much more leery about taking real estate assets onto their balance sheets in view of current market conditions. Unfortunately, that is exactly what the RTC is trying to sell to them. The result has been few "whole thrift" transactions, where both good and bad assets pass to an acquirer, and few transactions where the acquirer takes any bad assets. This means more bad assets piling up at the RTC with lower expectations of the ultimate revenues they will produce.

A third factor is interest rates, which are now higher than we had projected. That translates directly into increased operating losses for thrifts in conservatorships and indirectly into softer real estate markets, since interest rates always play a key role in that sector of the economy.

A fourth factor is unexpected losses in below-investment grade bonds, sometimes referred to as "high yield" or "junk" bonds. As you know, FIRREA required thrifts both to divest these bonds and to carry them on their books at market value. The market for these bonds has dropped off substantially in recent months, and virtually all of the major thrift holders of these bonds have been taken over by the RTC. The result is that the RTC is now one of the largest owners of junk bonds, with some \$4 billion in its portfolio, and it could end up with substantially

more. At the same time, we just don't know exactly how much these bonds will be worth when they are finally sold.

A fifth factor is that, at least for some purchasers, thrifts just are not as attractive a franchise relative to banks as they once were. This is true in part because it is no longer possible either to run a thrift with low capital or to invest insured deposits in risky activities like direct real estate investment. That is as it should be, since it was activities like these that helped cause the problem.

But other restrictions imposed by FIRREA that are unrelated to safety and soundness, like the tighter qualified thrift lender test, may have also reduced the value of the thrift charter. However, it is too soon to say by how much.

Again, all of these factors have produced not only higher than expected losses, but also an increase in the population of savings and loans that will require attention. To some extent, this results from the fact that cases which we expected to be handled in the future by SAIF -- and for which FIRREA provided \$32 billion -- will in fact be handled by the RTC. These cases are merely moving forward in time.

When will more funding be needed? Even though the RTC has committed only about a third of the \$50 billion, it could, with an aggressive schedule of case resolutions, run out of funds by the end of this calendar year or early next year. If progress occurs at a slower pace than we would hope, RTC resources will last longer.

Of course it would be possible to slow the pace on the hope that market conditions will improve in the future. We believe that there has been too much speculation already. Our job is to be steady, do the work, and take no further gambles with the taxpayers' money.

How much more will be needed? As we have discussed, there are too many variables to pin a single number on it -- again, number of cases, losses on assets, interest rates, and market conditions, to name a few. The most responsible course, we believe, is to consider a range of possible outcomes.

OTS has indicated that there are some 299 institutions with assets totalling \$193 billion which are likely candidates for transfer to the RTC. It should be noted that the OTS figures are as of April 27, 1990 and include 30 institutions (as of June 8) which have since come under the control of the RTC. We cannot say for sure how many more of this group will have to be resolved by the RTC.

There are another 315 thrifts with \$152 billion in assets for which the future is uncertain but which currently have positive tangible net worth and do not require assistance. We simply do not know which and how many of these institutions will come to the RTC and what condition they will be in when they get there.

In short, at this point in time, the number of institutions which the RTC will have to resolve is simply unknowable. Yet this number drives the cost estimate.

Another source of uncertainty is the level of loss incurred by the RTC on institutions which come under its control. Losses in turn depend on a variety of factors which are difficult to predict. What will be the condition of institutions taken over by the RTC? How many will be resolved on a whole thrift basis and how many clean?

The more liquidations and clean thrift resolutions that the RTC does, the more assets it must sell and the more uncertainty there is about losses. The discount which the market places on assets will vary by category. For example, performing mortgage loans generally can be sold for a higher percentage of their book value than can owned real estate. In the end, the loss rate on assets will depend on unpredictable factors such as market conditions, including the state of the real estate market, and interest rates.

This is clearly a formidable list of factors, each of which can substantially affect the total cost of resolving the RTC's caseload of institutions. For example, a reasonable lower limit on the number of institutions which will have to be resolved, together with small, medium, and high levels of losses on selling the assets of these thrifts, produce cost estimates (in present value terms) of \$89 billion, \$97 billion, and \$114 billion.

For reference, the estimates in this statement should be compared with \$73 billion provided in FIRREA. In other words, they include the \$50 billion provided for the 1989-92 period and the \$23 billion (in present value terms) provided for the

succeeding eight years.

The same loss factors applied to a reasonable upper limit on the number of institutions to be resolved yields cost estimates (in present value terms) of \$99 billion, \$113 billion, and \$132 billion. Again, these figures should be compared with amounts already provided by FIRREA, not added to them.

Of course, one could make even bleaker assumptions and make an estimate based on even higher populations of failed thrifts and even higher loss factors. This would dramatically increase the top range of the cost estimate. While such a scenario is theoretically possible, we believe it to be quite unlikely under any reasonable set of economic conditions.

As has become the convention, all of these estimates are given in present value terms. Presenting estimates in constant dollars allows us to compare better, but admittedly does also produce a lower total than nominal dollar estimates.

Any attempt to convert these present value costs to yearly expenditures must incorporate an additional factor, the pace at which the RTC can resolve institutions. This greatly affects the amount of loss which the RTC must absorb on a yearly basis. A representative range of the resources the RTC may need in fiscal year 1991 would be about \$30 billion to slightly over \$50 billion, excluding working capital. FIRREA already provides some of these resources to fund losses through REFCORP.

The other major source of uncertainty in measuring the yearly effect of RTC spending is of course working capital. We

have provided the RTC access to working capital through the Federal Financing Bank. When the RTC uses these borrowed funds to acquire assets, it counts in the budget as an outlay; when assets are sold, it counts as a receipt. Thus RTC's short-term borrowing requirements will result in enormous budgetary swings and distort the true picture of the deficit.

All of this suggests that there are too many unknowns to provide a single estimate of the ultimate cost. 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. Once again, these figures are in present value terms and include the \$73 billion provided in FIRREA (\$50 billion for 1989-92 and \$23 billion for future SAIF cases).

How should additional funds be raised? The Federal Home Loan Bank system simply does not have the capacity to back substantially more Resolution Funding Corporation (REFCORP) borrowing. Additional resources will have to come from the Treasury funds.

Finally, how should the funds be provided? There appear to be two basic choices: either provide a specified amount to cover some or all remaining losses or provide the RTC such sums as are necessary to complete the job. No matter how the funds are provided, it will not change the cost of resolving the savings and loan crisis. This is not a discretionary activity; the

government's deposit guarantees must be fulfilled.

There is precedent in the federal budget for providing indefinite authority to fund mandatory activities. Congress can choose to provide resources to the RTC in increments, but that means having to face the prospect of returning at relatively short intervals as markets changes and, along with them, the estimates.

The RTC faces another important constraint in the form of FIRREA's obligation limitation. This is the provision which limits obligations -- most notably, working capital borrowings -- to the amount of unused REFCORP authority, cash on hand, and 85 percent of the fair market value of assets held by the Corporation.

The RTC is likely to run up against the obligation limit as soon as or even sooner than it reaches \$50 billion in losses. If the RTC cannot raise additional working capital and the cost of acquiring assets exceeds the amount generated from sales, it cannot proceed with resolutions.

The Oversight Board intends to work with the Congress and the Administration to develop an approach which will provide the RTC the resources necessary to finish the job, while maintaining adequate controls. Given the enormous significance of this issue for the federal budget, we believe that this is a matter which should be considered in the current budget discussions between the Administration and the Congressional leadership.

In closing, we would echo a view expressed recently by Chairman Seidman. This is a long, hard job and it will take an extended period of time to finish it. However, we stand behind the commitment made by President Bush in his first weeks in office: protect depositors; clean up the industry at the least cost to the taxpayers; and punish the criminals.

ATTACHMENT 1

Among the requirements established in FIRREA for this appearance, Oversight Board must:

- "provide an estimate of the short-term and long-term cost to the United States Government of obligations issued or incurred during such period;" and
- "describe the costs incurred by the Corporation in issuing obligations, managing and selling assets acquired by the Corporation."

As of March 31, the RTC had issued about \$2.5 billion in obligations in the form of short-term working capital borrowings from the Federal Financing Bank. No significant costs were incurred in connection with the issuance of these obligations. As required by FIRREA, these borrowings are backed by assets having an estimated fair market value substantially in excess of \$2.5 Billion, in order to comply with the 85 percent test. Based on current projections of market value, we expect that the U.S. Government ultimately will not incur any cost in connection with these short-term obligations.

At the present time, virtually all of the assets under the RTC's control are managed either by institutions in conservatorship or, with respect to receivership assets, by acquirers pursuant to short-term contracts. Thus, for the reporting period, the costs of managing and selling RTC assets has been borne at the conservatorship and receivership level, and about \$30 million was paid to private contractors for this

purpose. It should be noted, however, that the RTC's operating plan for the third quarter of fiscal year 1990 contemplates an expenditure of \$70 million for payment of fees to asset management contractors, reflecting the anticipated widespread use of asset management agreements.

THE UNIVERSITY OF CHICAGO

AFFORDABLE HOUSING SALES FROM 100 Units Demonstration

	PROPERTY TYPE	TIME ON MARKET (Days)	Appraised Value	List Price	Sales Price	Family Size	Buyer's Income	# of Offers	INCOME ELIGIBILITY LIMIT	BUYER'S INCOME As % of ELIGIBILITY	OFFEROR'S INCOME 80%+	FINANCE SOURCE	RTC Repair Cost
1	AL CONDO	51	\$33,000	\$34,500							0		
2	AL CONDO	51	\$34,000	\$37,900							0		
3	AL CONDO	51	\$32,500	\$37,000							0		
4	AL CONDO	51	\$32,000	\$37,000							0		
5	FL SF-2	51	\$32,000	\$36,000							0		
6	FL SF-2	51	\$32,500	\$29,100							0		
7	FL SF-4	51	\$35,000	\$40,200							0		
8	FL CONDO	51	\$44,000	\$44,000							0		
9	SC CONDO	51	\$31,000	\$31,000							0		
10	SC CONDO	51	\$30,000	\$30,000							0		
11	SC CONDO	51	\$29,000	\$31,000							0		
12	SC CONDO	51	\$30,000	\$30,000							0		
13	SC CONDO	51	\$30,000	\$30,000							0		
14	SC CONDO	51	\$31,000	\$31,000							0		
15	PA SF	51	\$35,000	\$36,000							0		
16	LA SF	51	\$15,000	\$16,500							0		
17	LA CONDO	60	\$8,800	\$8,800							0		
18	LA SF	60	\$36,900	\$36,900							0		
19	LA SF	60	\$23,900	\$23,900							0		
20	LA SF	60	\$52,800	\$52,800							0		
21	LA CONDO	60	\$5,500	\$5,500							0		
22	LA SF	60	\$55,900	\$55,900							0		
23	LA CONDO	60	\$8,800	\$8,800	\$30,000	2	\$8,000	1	\$30,700	26.06%	0		
24	LA SF	60	\$29,500	\$37,950							0		
25	LA CONDO	60	\$32,500	\$33,500							0		
26	LA SF	60	\$48,900	\$48,900							0		
27	LA SF	60	\$25,000	\$27,500	\$26,250	3	\$17,727	1	\$34,550	51.31%	1		
28	LA SF	60	\$29,000	\$30,000							0		
29	LA SF	60	\$47,100	\$47,100	\$47,000	2	\$17,367	1	\$30,700	56.57%	1		
30	LA SF	60	\$47,900	\$47,900							0		
31	LA SF	60	\$30,900	\$30,900							0		
32	LA SF-4	60	\$42,000	\$42,000	\$34,000	3	\$11,326	1	\$34,550	32.78%	1		
33	LA SF	60	\$30,500	\$37,950							0		
34	LA SF-4	60	\$51,000	\$51,000							0		
35	LA SF	60	\$47,500	\$47,500							0		
36	LA SF	60	\$49,500	\$49,500							0		
37	LA SF	60	\$57,900	\$57,900							0		
38	LA SF-2	60	\$44,900	\$44,900							0		
39	LA SF	60	\$17,500	\$17,500							0		
40	LA SF-4	60	\$51,900	\$51,900							0		
				\$36,185	\$36,716	3		4	\$32,625	46.89%	4		
				SUBTOTAL AVERAGE									
				TOTAL SALES/ERO - 4									

AFFORDABLE HOUSING SALES FROM 100 Units Demonstration

CENTRAL REGIONAL OFFICE - (KANSAS)														
	PROPERTY TYPE	TIME ON MARKET (Days)	Appraised Value	List Price	Sales Price	Family Size	Buyer's Income	# of Offers	INCOME LIMIT	As % of ELIGIBILITY	OFFEROR'S INCOME	80% 80%+	SOURCE	Repair Cost
1	AR	SF	67	\$15,000	\$15,000						0	0		
2	AR	SF	67	\$26,300	\$26,300						0	0		
3	AR	SF	22	\$52,500	\$59,850	\$52,500	2	\$25,000	1	\$29,800	83.69%	0	FHA	60
4	AR	SF	67	\$22,100	\$22,100						0	0		
5	AR	SF	67	\$23,600	\$23,600						0	0		
6	AR	SF	67	\$32,100	\$32,000						0	0		
7	ME	SF	59	\$21,000	\$21,000						0	0		
8	ME	SF	79	\$11,500	\$11,500						0	0		
9	IA	SF	59	\$10,000	\$10,000						0	0		
10	IA	SF	59	\$9,300	\$9,300									
11	IA	SF	59	\$16,000	\$16,000									
12	IA	SF	59	\$4,800	\$4,800									
13	IA	SF	59	\$14,700	\$14,700									
14	IA	SF	62	\$7,875	\$7,875	\$7,250	1	\$9,000	1	\$24,850	36.22%	1	Cash	
15	IA	SF	62	\$40,950	\$40,950	\$39,000	4	\$28,000	1	\$33,500	78.87%	0		
16	KS	SF	67	\$21,000	\$21,000						0	0		
17	KS	SF	67	\$5,775	\$5,775						0	0		
18	KS	SF	67	\$13,650	\$13,650						0	0		
19	KS	SF	67	\$15,000	\$15,000						0	0		
20	KS	SF	67	\$24,150	\$24,150						0	0		
SUBTOTAL AVERAGE				\$19,345	\$19,728	\$32,917	2		3	\$30,050	66.33%	2		
TOTAL SALES/AVG - 3												1		

WESTERN REGIONAL OFFICE - (DENVER)

1	CO	CONDO	59	\$32,500	\$32,500	\$35,000	2	\$30,000	1	\$30,350	96.85%	0	FHA	
2	CO	SF	14	\$37,000	\$37,000							0		
3	CA	SF	59	\$65,000	\$65,000							0		
4	CA	CONDO	59	\$20,000	\$20,000	\$38,000	1	\$17,000	1	\$35,500	47.69%	1	FHA	
5	CA	CONDO	21	\$38,000	\$38,000	\$51,000	2	\$26,925	1	\$27,000	99.72%	0	FHA	
6	CA	SF	30	\$53,000	\$53,000							0		
7	CA	SF	59	\$59,000	\$59,000							0		
8	CA	CONDO	59	\$51,000	\$51,000							0		
SUBTOTAL AVERAGE				\$44,438	\$44,438	\$41,333	2	\$9,241	3	\$30,950	73.80%	1		2
100 NATIONWIDE \ TOTAL SALES - 37				\$36,126	\$47,667	\$39,517	2	\$10,904	57	\$36,023	70.97%	19		38

AFFORDABLE HOUSING SALES FROM 100 Units Demonstration									
PROPERTY MARKET TYPE		TIME ON MARKET (Days)		Appraised Value		List Price		Sales Price	

STATEMENT OF REP. ELIOT L. ENGEL
BEFORE THE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE
JUNE 14, 1990

MR. CHAIRMAN, I WANT TO THANK YOU FOR HOLDING TODAY'S OVERSIGHT HEARING ON THE RESOLUTION TRUST CORPORATION. IT IS IMPORTANT FOR THE MEMBERS OF THIS COMMITTEE TO BE KEPT INFORMED OF THE ACTIONS AND PROGRESS OF THE RTC.

THE SAVINGS AND LOAN DEBACLE IS ONE OF THE BIGGEST ISSUES FACING OUR NATION TODAY. WHENEVER I AM IN MY DISTRICT, I CONSTANTLY HEAR FROM CONSTITUENTS WHO ARE UPSET ABOUT THIS SCANDAL AND ITS COST TO THE NATION.

THE RECENT FIGURES THAT THE SAVINGS AND LOAN SCANDAL WILL PROBABLY COST A TOTAL OF \$500 BILLION ARE TRULY FRIGHTENING. THE CITIZENS OF OUR NATION HAVE MANY NEEDS WHICH MUST BE ADDRESSED. UNFORTUNATELY, THE ASTRONOMICAL COST OF CLEANING UP THE SAVINGS AND LOAN DEBACLE WILL MAKE THIS TASK VERY DIFFICULT.

THE ONE AREA OF THE SAVINGS AND LOAN CLEANUP THAT REALLY CONCERNS ME IS THE LACK OF PROSECUTION OF INSOLVENT THRIFT OWNERS. WHILE I AM AWARE THAT ONE THRIFT OWNER WAS INDICTED YESTERDAY, WE APPEAR TO BE MOVING VERY SLOWLY IN THIS AREA. I WAS PLEASED TO READ THAT SECRETARY BRADY MENTIONED THAT GUILTY THRIFT OPERATORS WILL BE PROSECUTED. IT IS IMPORTANT

FOR US TO PROSECUTE THE PEOPLE RESPONSIBLE FOR THIS MESS AND SHOW THAT THIS TYPE OF FRAUD WILL NOT BE TOLERATED.

MR. CHAIRMAN, I WANT TO COMMEND YOU AGAIN FOR HOLDING THIS HEARING. AS THE NEWEST MEMBER OF THIS COMMITTEE, I AM INTERESTED IN LEARNING ABOUT THE TRUE CAUSE OF THE SAVINGS AND LOAN CRISIS SO THAT WE CAN PREVENT THIS FROM HAPPENING AGAIN. I LOOK FORWARD TO HEARING THE TESTIMONY OF TODAY'S WITNESSES.

Opening Statement of the
Honorable Carroll Hubbard

Hearing to Receive the Semiannual Report and
Appearance of the Oversight Board of the
Resolution Trust Corporation
June 14, 1990

I would like to welcome the distinguished members of the Oversight Board of the Resolution Trust Corporation and thank them all for coming to testify this morning before our committee. We are here to receive and study the Oversight Board's semiannual report on the progress being made in the liquidation of the assets of those savings and loans which have been taken into conservatorship by the U.S. Government.

As you know, there is a great deal of controversy surrounding the methods adopted by the RTC in its selling of these assets. In particular, home builders and others in the real estate business claim that the RTC's plan for the bulk-selling of the real estate investments seized from failed thrifts will have a damaging effect on certain regional real estate markets such as those in New England, Texas, and the Midwest. This is because the selling of properties in massive packages has the unintended effect of depressing real estate prices in general.

On the other hand, as the projected bailout cost of failed savings and loans continues to rise, bulk-selling is an attractive way for the RTC to raise new capital for the resolution of new thrift failures. The RTC's borrowing authority is presently estimated at \$50.6 billion. Without new funds, the RTC may be tempted to accelerate the sale of assets in order to

fund new resolutions.

Under Title V of FIRREA, the RTC must, "in developing its implementing policies...take action...to avoid adverse economic impact for those real estate markets that are distressed."

One way to limit these adverse effects would be to avoid as much as possible concentrated bulk-selling in any one area or market. For example, placing 6 hotels in one city on the market at once would most likely depress the city's real estate market as a whole, while spreading the same number of sales over a number of areas would have a less damaging impact on any one area's property market.

Others argue that while the selling of these assets may have a damaging effect on certain markets in the short run, it may be the best way to promote long-term recovery. Moreover, the sooner these assets are disposed of, the sooner we will be able to calculate the total taxpayer cost of the thrift bailout.

Clearly, the selling of assets is only one of a number of interrelated problems faced by the RTC. I am certain that other equally important problems will be addressed in the context of our debate today.

Again, thank you, Mr. Chairman, for scheduling this important hearing today.

GAO

United States General Accounting Office

Report to the Chairman, House Committee
on Banking, Finance and Urban Affairs,
House of Representatives

July 1990

OBLIGATIONS LIMITATION

Resolution Trust Corporation's Compliance as of
March 31, 1990

Printed copies of this document will be available shortly.

GAO/AFMD-90-101**GAO Form 171 (12/87)**



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

Accounting and Financial
Management Division

B-240108

JUL 27 1990

The Honorable Henry B. Gonzalez
Chairman, Committee on Banking, Finance
and Urban Affairs
House of Representatives

Dear Mr. Chairman:

In a December 19, 1989, letter, you requested that we report quarterly on the Resolution Trust Corporation's compliance with the maximum obligation limit set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The act provides the formula for calculating the limit and provides \$50 billion in financing to resolve troubled savings and loans placed into conservatorship or receivership from January 1, 1989, through August 9, 1992.

On June 7, 1990, the Corporation issued to you its first quarterly report of the estimated values of its obligations, assets, and contributions received as of March 31, 1990. The Corporation reported that the financing it has received from the Resolution Funding Corporation (REFCORP) and the Treasury, plus its outstanding obligations exceeded its assets by \$15.4 billion, and that its "adjusted obligation level" is therefore \$34.6 billion below the \$50 billion limitation on outstanding obligations.

Although the Corporation included \$18.8 billion received from Treasury in its calculation, it was not required to do so by FIRREA. If this amount were excluded, after the Corporation reaches the \$50 billion limit on outstanding obligations as presently calculated, the Corporation would be able to incur an additional \$18.8 billion in net obligations without violating the section 501(a) limitation. However, FIRREA does not provide funds to pay the additional obligations. In a September 26, 1989, letter, the Chairman and Ranking Minority Member, Senate Committee on Banking, Housing, and Urban Affairs, advised the Secretary of the Treasury of this matter and stated that nothing in FIRREA should be viewed as permanently expanding the Corporation's \$50 billion limitation.

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Consistent with the Chairman's September 26 letter, the Corporation included the \$18.8 billion in its calculation. The Corporation's report and an accompanying schedule we obtained providing details on the maximum limitation calculation are included as appendixes I and II, respectively.

RESULTS IN BRIEF

Based on our review of the Corporation's June 7, 1990, report and schedule and its financial records, we determined that none of the categories for the formula required by FIRREA were omitted from the Corporation's calculation. During our review, we identified potential problems that can or will impact the maximum obligation limitation in the future. We did not attempt to determine the amount of any undisclosed obligations or overvalued assets of the Corporation as of March, 31, 1990, which, if disclosed, would have affected its calculation. However, considering the results of our review and the size of the reported excess balance available as of March 31, 1990, we believe there is little risk that the Corporation exceeded the limitation.

The Secretary of the Treasury, as Chairman of the Resolution Trust Corporation Oversight Board, stated¹ that with an aggressive case resolution schedule, the Corporation could reach the \$50 billion limit as early as the fourth quarter of the current calendar year. The resolution pace has increased and, as of June 30, 1990, the Corporation had resolved 207 institutions. This figure compares with only 52 institutions having been resolved as of March 31, 1990. In testimony given in early April 1990,² we estimated that the Corporation's costs will likely exceed \$100 billion. As a result, we testified that the Corporation will require at least an additional \$50 billion in funds in the future.

¹Statement of Secretary Nicholas F. Brady on Behalf of the Resolution Trust Corporation Before the Senate Committee on Banking, Housing, and Urban Affairs (May 23, 1990).

²Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed (GAO/T-AFMD-90-15, April 6, 1990).

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In his May 23 testimony, the Secretary of Treasury also stated that the amounts authorized for the Corporation in FIRREA will fall short of what is required. He further stated that the Oversight Board intends to work with the Congress and the administration to develop an approach which will provide the Corporation the resources necessary to carry out its responsibilities while maintaining adequate controls.

Although the pace of resolutions is a significant factor in determining when the Corporation will reach the maximum limitation, we identified three other potential problems that will also directly affect the cost of resolutions and the rate at which the obligation limit is reached. These are recent and future events concerning the fair market value of assets; noncompliance with Corporation policy governing pledging of collateral; and proposed policies governing representations, warranties, and contract services.

The Corporation needs to undertake certain actions to resolve the problems we have observed and to establish the basis for measuring associated costs so that future quarterly reports are accurate and informative. We provide recommendations aimed at addressing these problems.

BACKGROUND

In response to the savings and loan industry crisis and the Federal Savings and Loan Insurance Corporation's (FSLIC) mounting losses, FIRREA (Public Law 101-73) was enacted into law on August 9, 1989. The act abolished FSLIC and transferred its insurance function to the Federal Deposit Insurance Corporation. Except for those assumed by the Corporation, FIRREA transferred FSLIC's assets and liabilities to a newly established fund, the FSLIC Resolution Fund. FIRREA also established the Resolution Trust Corporation to resolve the problems of institutions placed into conservatorship or receivership from January 1, 1989, until August 9, 1992.³ The act provided the

³In addition to creating the Resolution Trust Corporation, the act created the Resolution Trust Corporation Oversight Board. The purpose of the Oversight Board is to review and have overall responsibility for the Corporation's activities.

B-240108

Corporation \$50 billion to resolve the problems of those institutions and to pay administrative expenses.⁴

FIRREA provided the Corporation with certain powers with which to accomplish its task, including the power to issue obligations and guarantees during the course of acquiring an institution within its jurisdiction. The full faith and credit of the United States is pledged to the payment of such obligations if the principal amounts and maturity dates are stated in the obligations.

However, section 501(a) of FIRREA limits the outstanding obligations of the Corporation and provides a formula for calculating the limitation on such obligations. As stated in FIRREA, the sum of contributions received from REFCORP plus outstanding obligations may not exceed the Corporation's available cash plus 85 percent of the fair market value of its other assets by more than \$50 billion.

Obligations are defined as including (1) any obligation or other liability assumed by the Corporation from FSLIC, (2) any guarantee issued by the Corporation, (3) the total of outstanding amounts borrowed from the U.S. Treasury as authorized by FIRREA, and (4) any other obligation, direct or contingent, for which the Corporation has a liability to pay.

FIRREA provided for the Corporation to receive \$18.8 billion from Treasury in fiscal year 1989, which the Corporation included in the formula for calculating the limit on outstanding obligations. However, the formula in section 501(a) does not explicitly contain the Treasury funding and there is no basis in the law for concluding that it is encompassed either by the REFCORP contributions or the obligations components in the formula. Therefore, as a matter of law, the Corporation is not required to include the Treasury funding in its calculation of whether

⁴As of March 31, 1990, the Corporation received approximately \$29.5 billion in funds. The Corporation was provided \$18.8 billion from Treasury and \$1.2 billion of contributions from the Federal Home Loan Banks which was transferred to the Corporation through REFCORP. Additionally, the Corporation receives proceeds from the \$30 billion of bonds authorized by FIRREA to be issued by REFCORP. As of March 31, 1990, REFCORP transferred \$9.5 billion in bond proceeds to the Corporation.

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the FIRREA limitation on outstanding obligations has been reached. However, as previously stated, the Corporation has included the \$18.8 billion in calculating the limit on outstanding obligations.

OBJECTIVES, SCOPE, AND METHODOLOGY

As agreed to with your staff, we performed a limited review of the Corporation's report to test its reasonableness. Specifically, our objectives were to determine if (1) all categories for the formula required by FIRREA were included in the Corporation's calculation and (2) the values reported appeared reasonable for select components of the calculation. In addition, we uncovered other factors which could significantly impact the obligation limit and the usefulness of the quarterly report.

In order to determine the reasonableness of the values of selected components included in the Corporation's calculation, we confirmed that the Corporation received contributions from REFCORP, funding from the U.S. Treasury, and Federal Financing Bank loans for working capital purposes in the amounts reported. We also reviewed the framework of the calculations of allowance for losses on claims against receiverships and advances to conservatorships. These calculations are essential to determining the estimated fair market values of the Corporation's non-cash assets.

Our review of the allowance for losses calculation was limited to determining that the framework used to make the calculation considered all appropriate items. For example, the Corporation's allowance for losses on claims against receiverships properly included an estimate of losses from future assets sales, as well as contingent liabilities arising from assets sold under asset put arrangements.⁵ Further, in calculating the allowance for loss on advances,

⁵To encourage private enterprise to purchase assets of failed thrifts, the Corporation has been offering, with the sale of assets, "put back" clauses in the contract of sale. These clauses allow the purchaser to give back (to the Corporation) assets it purchased within a specified time period. The Corporation would then pay the purchaser an agreed value of the assets.

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the Corporation applied the rate of loss it expects to incur on conservatorships.

We performed our work at the Corporation's headquarters and, in some instances, in its Central Region. We also performed selected procedures at three conservatorships in the Central Region and made inquiries of management and other personnel where necessary during the period from February 1990 to June 30, 1990. Our procedures primarily consisted of interviews, confirmation of balances with third parties, and a determination that amounts reported by the Corporation were supported by the agency's official financial records. Except for the procedures performed, we did not test or verify the books and records of the Corporation or the data contained in appendixes I and II. We performed our work in accordance with generally accepted government auditing standards. The scope of our work, however, did not include a review of the internal control environment. Also, our review of compliance with laws and regulations was limited to the Corporation's compliance with the obligation limitation.

We did not obtain written comments on the draft of the report. We did, however, discuss its contents with cognizant Corporation officials and have included their views where appropriate.

In the following sections we discuss various potential problems that can or will affect the measurement of reported components' values used in the limitation calculation. We also provide recommendations to the Corporation aimed at improving the usefulness of the quarterly report.

**FACTORS THAT COULD SIGNIFICANTLY
IMPACT THE OBLIGATION LIMIT AND
REASONABLENESS OF ITS CALCULATION**

The pace of resolution has a significant effect on the rate at which the Corporation incurs obligations and, thus, on when the Corporation reaches the maximum limitation. But, our review identified three other important factors that could affect the cost of resolutions and the point at which the obligation limitation is reached. These factors are recent and future events concerning the fair market value of assets; noncompliance with Corporation policy governing pledging of collateral; and proposed policies

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governing representations, warranties, and contract services.

Fair Market Value of Assets May Be Overstated

Overall, the market value of assets is a key component of the calculation. As of March 31, 1990, the Corporation's financial records showed a book value for receivership assets of approximately \$13.3 billion with an estimated fair market value⁶ of \$7 billion, a loss of 45 percent. The book value of real estate accounted for approximately \$2.3 billion, a significant portion of the \$13.3 billion in receivership assets.

The Secretary of Treasury cited, in his May 23 testimony, the weak real estate market as one of the reasons the Corporation needed additional funds. If real estate values for receivership assets are reduced further as a result of the weak market, then such impaired values will further reduce the amount of additional obligations the Corporation may incur.

Recent statements by the Corporation's management have indicated that asset sales, particularly in real estate, have not progressed as expected. On May 4, 1990, the Corporation's management testified⁷ that it is considering accepting prices as low as 70 percent of appraised, or estimated, fair market values. Such actions would cast doubt on the reasonableness of the reported fair market values and indicate that the Corporation's current valuations of these non-cash assets may be overstated.

A factor which also bears on the reasonableness of the fair market values reported for these non-cash assets is the quality of appraisals. In a soon-to-be-issued report on the Bank Insurance Fund, we found a number of examples

⁶The Corporation deducts, among other things, the costs of disposal to arrive at the reported fair market values.

⁷Testimony of William Seidman, as Chairman of the Corporation's Board of Directors, Before the Subcommittee on Financial Institutions, Supervision, Regulation and Insurance, House Committee on Banking, Finance and Urban Affairs.

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of asset appraisals based on optimistic assumptions that reduced the credibility of the appraisers' asset valuations. Because the Corporation also uses appraisals in valuing its real estate and other assets, it needs to be alert for optimistic assumptions used by appraisers that could result in the estimated fair market value of assets being substantially overstated. The Corporation's management stated that they closely monitor the appraisals on real estate and do not believe there is a problem with appraisals made.

Failure to reasonably estimate the fair market value of assets could result in overstating the amount of obligations the Corporation may incur. This is a concern that becomes significant as the Corporation approaches the limit. Thus, the tracking and reporting of the actual results of asset sales would improve the usefulness of the quarterly report by providing information necessary to evaluate the accuracy of the estimated fair market value of assets. For example, information such as initial estimated fair market values assigned, date available for sale and date sold, sales price, and gain or loss would be useful. The Corporation's management stated that they currently track asset sale information for conservatorships, and are planning in the near future to implement a system to track this information for receiverships.

Noncompliance With Corporation Policy On Advances Could Reduce Cost Recoveries

We found instances of noncompliance with Corporation policy concerning advances made to conservatorships. Such noncompliance could impact the Corporation's return on asset recoveries, thereby increasing its resolution costs. The Corporation's written procedures require that all institutions receiving advances execute a promissory note for each advance, pledge collateral to secure these advances, and perfect the Corporation's security interest in the collateral. However, we found cases where (1) promissory notes had not been executed as late as 8 months after the respective advances were made, (2) collateral had not been pledged against advances in accordance with Corporation policy, (3) the security interest had not been perfected against collateral that had been pledged, and (4) conservatorship managing agents were uncertain about the Corporation's collateral requirements.

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In one of the three institutions we visited, the Corporation could not locate 12 of the 18 promissory notes for advances provided to the institution through October 1989. Subsequent to our inquiries, the Corporation provided signed notes dated June 25, 1990. Furthermore, two of the three institutions we visited had received approximately \$250 million in advances from the Corporation, but no collateral had been pledged towards these advances. Due to the limited number of institutions visited, we do not know the full extent of this lack of compliance with Corporation policy. Since, as of March 31, 1990, the Corporation had \$12.7 billion in advances outstanding to institutions under its conservatorship, there could be substantial sums unsecured.

Officials of the Corporation's headquarters stated that regional management was responsible for insuring that sufficient collateral has been pledged. However, regional management we interviewed stated they were not even aware, until recently, of the total amount of the Corporation's advances to individual conservatorships within their geographic boundaries.

Prior to issuing advances, the Corporation's guidelines require that a blanket security agreement⁸ be executed. This is important in protecting the Corporation's interest. However, failing to perfect a security interest on pledged collateral could also adversely impact the Corporation's interest. Perfection is performing the steps legally required to give the Corporation a claim to an asset and protects that claim in the event that it is challenged. According to internal documents, as of March 31, 1990, the Corporation has not perfected its interest in collateral securing \$12.1 billion in advances. Failure to perfect the Corporation's interest could cause the Corporation to unnecessarily be in a position secondary to, or of lower priority than, other creditors.

We interviewed regional management as well as several managing agents of conservatorships in the Corporation's

⁸Under the blanket security agreement provided in the Corporation's policy circular, an institution pledges as collateral to secure repayment of an advance all property of the institution in the Corporation's possession or control. The agreement grants the Corporation a security interest in the collateral and its proceeds.

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Central Region. Based on these interviews, we found there was uncertainty over how much collateral should be pledged, what recording procedures should be followed, and whether collateral information should be sent to the regions or headquarters. However, headquarters management had issued guidelines to regional management and managing agents concerning the pledging of collateral and perfection. Headquarters management further believes these guidelines are sufficiently clear. For example, in addition to requiring that advances be backed by collateral, the procedures also require that the Corporation's interest in the collateral be perfected.

The Corporation's management has stated that its legal counsel is currently researching whether perfection of the Corporation's security interest in collateral is necessary to protect its interest in the event a claim is challenged. The Corporation's management believes that perfection of the Corporation's interest may not be necessary. They believe that, more importantly, a blanket security agreement protects the Corporation's interest in the collateral. Furthermore, they believe that since they, in effect, control the operations of the institution, the collateral would not be pledged to other parties for the purposes of securing additional funding without their knowledge.

Headquarters management informed us that it is currently taking steps to correct the problems we noted. In future reports we will follow up on the Corporation's implementation of corrective actions, as well as evaluate its position on the need to perfect its security interest.

Proposed Policies Governing Representations,
Warranties, and Contracted Services,
When Adopted, May Impact Obligations

The Corporation is also considering other actions which, if adopted, may affect the additional amount of obligations the Corporation may incur. These are (1) giving representations and warranties to the secondary market and (2) contracting with the private sector for asset management/disposition functions. According to internal Corporation documents, the Corporation is currently considering making certain representations and warranties on asset-backed receivables sold to the secondary market. As of March 31, 1990, the Corporation's conservatorships and receiverships controlled approximately \$87 billion in

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receivables that can be sold in the secondary market. Furthermore, the Corporation is attempting to sell the rights to service approximately \$50 billion in mortgages,⁹ a transaction that generally includes the offering of warranties and representations.

Warranties and representations create contingent liabilities and, if offered, would require the Corporation to estimate related potential losses and reflect the estimates in the obligation limitation calculation. Contingent liabilities of this nature would increase the Corporation's outstanding obligations and decrease the additional amount of obligations the Corporation could incur.

According to Corporation management, sellers of asset-backed receivables to the secondary market are expected to make certain representations and warranties, in the form of factual disclosure, about the assets being sold and are expected to stand behind the accuracy of those statements. It is further asserted that, if the Corporation were not to provide representations and warranties commonly found in the secondary market, the mortgage assets under its control would likely be subject to a substantial discount above and beyond the cost of making such representations and warranties, and certain assets may not be marketable at all.

The Corporation's management has stated that it intends to record these contingent liabilities when appropriate, in addition to establishing a system to track representations and warranties offered and their corresponding expiration dates.

Liabilities incurred as a result of contracting for services also increase the Corporation's outstanding obligations and, therefore, decrease the amount of additional obligations it may incur. Management has stated that it intends to contract out 80 percent of its asset management and disposition functions, as well as other services. Although we do not believe that the amount contracted as of March 31, 1990, is material, the contracting of such services to the extent the Corporation has indicated could significantly affect the additional

⁹Servicing a mortgage includes collecting loan payments and controlling mortgage escrow funds.

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amount of obligations the Corporation may incur. Management is in the process of implementing a contract management system which is intended to monitor the performance of the contractors, as well as track expected costs. Because these costs include estimates that could ultimately have a significant impact on the obligation limitation calculation, we will be following up on the system's implementation during future reviews of the Corporation's quarterly reports.

CONCLUSIONS

Although the pace of resolutions will have a significant impact on the rate at which the Corporation incurs obligations and the amounts which it reports it may incur, other factors could have a significant impact as well. These include overstating the fair market value of assets and implementation of the Corporation's proposals regarding representations and warranties on receivables sold to the secondary markets and contracts for asset management and disposition functions. Tracking and reporting on these factors in future quarterly reports would enhance the usefulness of those reports by providing decisionmakers with more informative disclosure on the Corporation's compliance with the obligations limitation. Furthermore, noncompliance with the Corporation's established policies on advances could also impact on the rate at which the Corporation incurs obligations.

RECOMMENDATIONS

We recommend that the Corporation's Executive Director take the necessary actions to ensure that

- the Corporation's future quarterly reports to the Chairman, House Committee on Banking, Finance and Urban Affairs, disclose actual results on asset sales in comparison with estimates;
- the Corporation's policies and guidelines on advances to conservatorships are clarified and followed; and
- if representations and warranties are given in connection with the sale of asset-backed receivables and mortgage service rights, an appropriate estimate of the resulting contingent liabilities be made and reflected in the Corporation's obligation limitation calculation.

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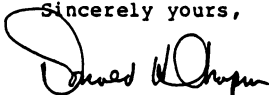
AGENCY COMMENTS

We did not obtain written comments on this report. We did, however, discuss its contents with cognizant Corporation officials who agreed with the report's findings and conclusions. We have incorporated their comments where appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits, who may be reached on 275-9406 if you or your staff have any questions. Major contributors are listed in appendix III.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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ABBREVIATIONS

FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FSLIC	Federal Savings and Loan Insurance Corporation
REFCORP	Resolution Funding Corporation

APPENDIX I

APPENDIX I

RESOLUTION TRUST CORPORATION OBLIGATIONS
AND ASSETS AS MARCH 31, 1990



June 7, 1990

Honorable Henry B. Gonzalez
 Chairman
 Committee on Banking, Finance
 and Urban Affairs
 House of Representatives
 Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of March 9, 1990. We are pleased to furnish the quarterly report which you requested relating to the working capital needs of the Resolution Trust Corporation. The quarterly report provides estimated values of the RTC's obligations and assets as of March 31, 1990, which are used to determine whether the RTC remains within the maximum limitation on obligations as mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

We hope that this information will be of assistance to you. If you have any questions, please let me know.

Sincerely,

David C. Cooke
 Executive Director

Enclosure

RESOLUTION TRUST CORPORATION

Obligations and Assets

(\$ in billions)

		As of March 31, 1990	Notes
1.	Outstanding Obligations		
	Notes issued to Federal Financing Bank	2.6	
	Other Obligations	0.2	A
	Total Outstanding Obligations	2.8	
2.	*Full Faith and Credit* Obligations	2.6	B
3.	Total Fair Market Value of (Non-Cash) Assets Held by RTC	16.2	C
4.	Cash Held by RTC	3.2	
5.	Obligations (Bonds) Issued by REFCORP	9.5	D

Notes:

- A** Includes current liabilities (e.g., accounts payable). Also includes expected costs from contractual commitments (e.g., leases) and other contingent liabilities unless already applied to the net realizable value of RTC claims. Excludes the estimated future costs of resolving RTC conservatorships and other troubled thrifts.
- B** Includes current liabilities and notes issued to FFB.
- C** Includes (1) advances to conservatorships (\$12.7 billion, less a \$4.0 billion allowance for a share of the losses to resolve these institutions), (2) the net realizable value of RTC claims on receiverships (\$7.0 billion), and (3) accrued interest and other assets. Net realizable values of receivership claims account for estimated total losses to RTC for resolved cases, including contractual expenses (e.g., asset management, legal, and appraisal fees) and, where applicable, expected losses resulting from "put" agreements. The obligation limitation counts the total of all non-cash assets at 85 percent of the fair market value estimate stated above.
- D** Sum of October '89 issue (\$4.5 billion) and January '90 issue (\$5.0 billion). The maximum volume of bonds to be issued by REFCORP is \$30 billion. RTC also received \$18.8 billion in Treasury funds and a \$1.2 billion contribution from the Federal Home Loan Banks (through REFCORP).

APPENDIX II

APPENDIX II

RESOLUTION TRUST CORPORATION MAXIMUM
AMOUNT LIMITATION ON OUTSTANDING OBLIGATIONS

(IN MILLIONS)

		AS OF MARCH 31, 1990
		=====
A)	CONTRIBUTIONS RECEIVED: -----	
1)	TREASURY:	18,800
2)	REFCORP:	10,726

	TOTAL CONTRIBUTIONS	29,526

B)	OUTSTANDING OBLIGATIONS -----	
1)	LEGAL EXPOSURE - ESTIMATED COSTS	84
2)	LIABILITIES INCURRED FROM ASSISTANCE AND FAILURES	4
3)	CONTRACTUAL OBLIGATIONS (LEASES, ETC.)	95
4)	ACCOUNTS PAYABLE AND OTHER LIABILITIES	15
5)	NOTES PAYABLE AND OTHER DEBT	2,562

	TOTAL OUTSTANDING OBLIGATIONS	2,760

APPENDIX II

APPENDIX II

LESS:

C) CASH AND CASH EQUIVALENTS

1) CASH AND CASH EQUIVALENTS	3,181
------------------------------	-------

LESS:

D) ESTIMATED FMV OF OTHER ASSETS

1) CLAIMS AGAINST RECEIVERSHIPS	5,974
7,028 @ 85%	

2) RECEIVABLES FROM OPEN INSTITUTIONS	7,751
9,119 @ 85%	

3) MISC. RECEIVABLES AND OTHER ASSETS	3
3 @ 85%	

TOTAL OTHER ASSETS	13,728
--------------------	--------

ADJUSTED OBLIGATION LEVEL (A+B-C-D)	15,377
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MAXIMUM LEVEL	50,000
---------------	--------

EXCESS OF MAXIMUM LEVEL OVER ADJUSTED OBLIGATION LEVEL AT 3/31/90 **	\$34,623
---	----------

** A positive amount indicates compliance with the obligation limitation. It does not represent the limit on additional borrowings. Additional borrowing authority depends on the estimated value of RTC assets and the volume of REFCORP funds raised.

FIRREA Section 501(a) (j)
Maximum Amount Limitation on Outstanding Obligations
Explanatory Notes

A. Contributions Received

Includes the \$18.8 billion of initial Treasury funding, the \$1.2 billion FHLB contribution (through REFCORP), and REFCORP bond proceeds.

B. Outstanding Obligations

1. Legal Exposure: The expected cost of those pending or threatened litigations, claims, or assessments where an estimated loss to RTC (in its Corporate and Receivership capacities) is both probable and reasonably estimable. These are over and above any legal costs already included in the resolution loss estimates.

2. Liabilities Incurred from Assistance and Failures: These include, among other items, the full face value of the liability related to pending claims of depositors (insured deposits owed but not yet paid).

3. Contractual Obligations: The non-cancellable portion of outstanding contractual obligations. As of March 31, 1990, these included primarily multi-year leases for space in Washington and other locations.

4. Accounts Payable and Other Liabilities: Full face value of routine, current liabilities such as accounts payable and accrued liabilities.

5. Notes Payable and Other Debt: Full face value of all Federal Financing Bank borrowings and accrued interest due thereon.

Additional Notes on Outstanding Obligations:

A. Guarantees: Any expected cost to the Corporation of any guarantee issued or assumed from the FSLIC (i.e., FHLB advances guaranteed by FSLIC). No expected cost to RTC since there are no deficiencies in the underlying collateral on any of these guarantees at March 31, 1990. There were no other guarantees as of that date.

B. Asset Puts: Included in the allowance for losses on resolved institutions is an estimate of losses on assets likely to be returned to the RTC under a put agreement. Therefore, the receivables for resolved cases have already been adjusted for the contingent liabilities relating to put agreements. No additional calculation is necessary.

C. Contingent Liabilities Related to the Resolution of Conservatorships and Other Troubled Thrifts: Not included as outstanding obligations.

C. Cash and Cash Equivalents

Includes cash, cash equivalents (as defined in FAS 95).

D. Estimated Fair Market Value of Other Assets Held by the Corporation (85% thereof)

1. Claims Against Receiverships: Included at 85% of the Net Realizable Value of such claims. Loss allowances against these claims are estimates at the time of resolution. RTC currently is implementing policies similar to FDIC policies for valuing claims against receiverships, which consider nondiscounted cash inflows, net of liquidation expenses, in determining the cash available to repay the Corporation.

2. Receivables From Open Institutions: Included at 85% of fair market value. Includes principal on advances, accrued interest and other receivables from conservatorships. The value of the advances is reduced by an allowance representing a share of the losses to resolve these institutions.

3. Miscellaneous Receivables and Other Assets: Includes current assets, claims from depositors pending or unpaid, all at 85 percent.

APPENDIX III

APPENDIX III

MAJOR CONTRIBUTORS TO THIS REPORTACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, WASHINGTON, D.C.

William D. Grindstaff, Assistant Director
Kurt W. Hyde, Audit Manager
Timothy P. Gonzales, Evaluator
Kent L. Eby, Accountant

(917570)

RESOLUTION

WHEREAS, pursuant to Section 21A(a)(6)(B) of the Federal Home Loan Bank Act (the "Act"), as added by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), the Oversight Board has the duty and authority to approve, prior to implementation, periodic financing requests developed by the Resolution Trust Corporation (the "RTC"); and

WHEREAS, on July 6, 1990, the RTC submitted to the Oversight Board a proposed Operating Plan and Projected Funding Requirement for the Fourth Quarter of Fiscal Year 1990, a copy of which is attached hereto as Exhibit II (the "RTC Plan"); and

WHEREAS, the Oversight Board has reviewed the RTC Plan and concurs with the RTC Plan, subject to certain modifications set forth herein, as summarized in Exhibit I attached hereto (the RTC Plan, together with such modifications is referred to hereinafter as the "Recommended Plan");

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD that:

Section 1 - Approval of Operating Plan. The Recommended Plan is hereby approved.

Section 2 - Funding for Asset Put Obligations. (a) The RTC Plan is hereby modified by reducing from \$10.5 billion to \$6 billion the amount of funds authorized to be utilized for funding asset put obligations incurred in connection with case resolutions completed prior to the fourth quarter of FY90.

(b) The President of the Oversight Board, or his designee, is hereby authorized to reallocate any of the funding authorized under the Recommended Plan for use to purchase assets subject to such put arrangements upon receipt of a request from the RTC accompanied by satisfactory supporting documentation.

(c) In order to enable the Oversight Board to properly review and analyze the RTC's cash needs, and to enable the Treasury Department to properly manage its funding commitments to the RTC through the Federal Financing Bank (the "FFB"), the Oversight Board hereby requests the RTC to provide to the Oversight Board, within 15 days, a complete analysis showing the amount, term and characteristics of all of the RTC's outstanding asset put obligations, and to update that analysis in connection with each operating plan submitted in the future and, upon request, at more frequent intervals.

Section 3 - Funding for Accelerated Resolutions. (a) The RTC Plan is hereby modified by providing that, of the \$2 billion of resolution funds authorized to be utilized for the proposed Accelerated Resolutions Program ("ARP"), \$1 billion shall be loss funds and \$1 billion shall be working capital.

(b) The RTC shall not expend any of the funds authorized for the ARP Program until the President of the Oversight Board has notified the RTC in writing that the Oversight Board has completed its review of the ARP program and has found the program to be consistent with the Strategic Plan. The Oversight Board shall monitor the implementation of the ARP program in order to help to determine whether it has the intended effect of reducing costs to the taxpayers.

(c) The President of the Oversight Board, or his designee, is hereby authorized to reallocate any of the funding authorized under the Recommended Plan to be used for resolution funding for the ARP program upon receipt of a request from the RTC accompanied by satisfactory supporting documentation.

Section 4 - Funding for Advances for Liquidity and High Cost Funds Replacement. (a) The RTC Plan is hereby modified by reducing from \$4.5 billion to \$1 billion the amount of funds authorized to be utilized for new advances to conservatorship institutions for liquidity purposes, and by reducing from \$9 billion to \$0 the amount of funds authorized to be utilized for new advances to conservatorship institutions for replacement of high cost funds.

(b) The President of the Oversight Board, or his designee, is hereby authorized to reallocate any of the funding authorized under the Recommended Plan for use for liquidity purposes upon receipt of a request from the RTC accompanied by satisfactory supporting documentation. In particular, to the extent that the RTC's obligations to purchase assets under put arrangements expire during the fourth quarter of FY90, then moneys authorized to be utilized for funding such asset put obligations may be reallocated for liquidity purposes.

(c) The Oversight Board hereby requests the RTC to provide to the Oversight Board, within 30 days, a plan to raise additional funds for liquidity and other needs through the use of additional conservatorship asset sales, responsible brokered deposit arrangements and such other funding mechanisms as the RTC may deem appropriate. The plan should provide for the repayment and recapture of all or a significant portion of the advances previously made to conservatorship institutions for high cost funds replacement and liquidity purposes. The President of the Oversight Board, or his designee, is hereby authorized to authorize and approve the use of any funds so recaptured.

Section 5 - REFCORP Proceeds. (a) The RTC Plan is hereby modified by reducing from \$5.3 billion to \$5 billion the amount of proceeds to be received from the Resolution Funding Corporation ("REFCORP") during the fourth quarter of FY90.

(b) REFCORP proceeds shall be utilized only for the purposes of funding the loss portion of case resolutions and paying administrative expenses of the RTC.

Section 6 - Authorization of FFB Borrowings. (a) The RTC is authorized, subject to the terms and conditions of the Note Purchase Commitment Agreement between the RTC and the FFB dated February 23, 1990 (the "RTC/FFB Agreement"), and other relevant documents, to borrow from the FFB during the fourth quarter of FY90 an amount not exceeding \$60.6 billion (including \$26.6 billion authorized by the Oversight Board by resolution dated June 18, 1990, and drawn by the RTC on July 2, 1990, to pay the principal of and interest on outstanding RTC borrowings from the FFB).

(b) All borrowings made by the RTC pursuant to the authority of this resolution shall mature on October 1, 1990, in accordance with the provisions of the RTC/FFB Agreement.

(c) In connection with each advance of funds requested by the RTC from the FFB pursuant to the authority of this resolution, the RTC shall be required to provide to the President of the Oversight Board, or his designee, a certification containing the following: (i) a statement that the RTC has a current need for the proceeds of the requested advance; (ii) a statement that the anticipated use of the proceeds of the requested advance will be consistent with the terms of the Recommended Plan; (iii) a calculation demonstrating that, after giving effect to the requested advance, the RTC will remain in compliance with the limitation on RTC obligations set forth in Section 21A(j)(1) of the Act, as amended by FIRREA (the "Note Cap").

Section 7 - Compliance With Note Cap. (a) The Oversight Board hereby declares its specific intent that the RTC take all actions necessary during the fourth quarter of FY90, including management of cash and funding requirements, to ensure that the RTC borrowings do not exceed the Note Cap. In particular, as provided in Section 6 hereof, the RTC shall deliver to the Oversight Board, in connection with each request for an advance of funds from the FFB, a detailed calculation that demonstrates compliance with the Note Cap after giving effect to such advance.

(b) The Oversight Board hereby requests the RTC to survey its conservatorship institutions to determine whether any collateral is available that may be pledged to secure conservatorship advances made by the RTC and, if so, to obtain and perfect such pledges at the earliest practicable date. Upon doing so, the RTC should take such collateral into consideration in establishing the fair market

value of such advances for purposes of the Note Cap calculation.

Section 8 - Receivership Asset Sales and Receivership Dividends. (a) The Oversight Board hereby requests the RTC to provide to the Oversight Board, within 15 days, a plan for and projection of receivership asset sales and collections to occur in the fourth quarter of FY90 and beyond.

(b) The Oversight Board hereby requests the RTC to report to the Oversight Board, within 15 days, as to potential methods for expediting the payment of receivership dividends in order to make more effective use of available working capital borrowings.

Section 9 - Authorization to Approve Disbursements. The President of the Oversight Board, or his designee, is hereby authorized and directed to approve the disbursement to the RTC of the funding authorized by the Recommended Plan, in accordance with existing policies and procedures of the Oversight Board; provided, however, that notwithstanding the provisions of Oversight Board Policy Statement No. 2 that require the RTC to provide specified financial information in advance of each disbursement of funds, the RTC shall be permitted to provide such information after, rather than prior to, each such disbursement.

Section 10 - Authorization to Take Necessary Actions. The President of the Oversight Board, or his designee, is hereby authorized and directed to execute any documents or instruments, make any determinations, implement any procedures, and take any other actions on behalf of the Oversight Board as are necessary or appropriate to carry out the purposes of this resolution.

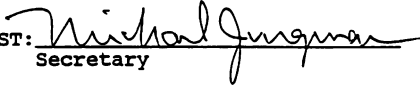
Section 11 - Request for Advance Notice of FFB Borrowing Schedule. The Oversight Board, in order to ensure an orderly procedure for borrowing funds from the FFB in accordance with the Recommended Plan, as modified by this resolution, hereby requests the RTC to provide a six-week schedule of anticipated borrowings from the FFB and to update the schedule on a weekly basis.

Section 12 - Termination of Fourth Quarter Operating Plan. (a) The Recommended Plan shall terminate on September 30, 1990, and the RTC shall have no authority for the expenditure of funds after that date, unless, prior to that date, the Oversight Board has received, reviewed and approved an operating plan for the first six months of fiscal year 1991.

(b) The Oversight Board hereby requests the RTC to prepare its next proposed operating plan for the six-month period beginning on October 1, 1990, and to submit such proposed operating plan to the Oversight Board well in advance of October 1, 1990.

Section 13 - Termination of Interim FFB Borrowing Authority.
Upon the effective date of this resolution, the interim authority provided to the RTC to borrow from the FFB under the resolution adopted by the Oversight Board on June 18, 1990, shall terminate.

ADOPTED by the Oversight Board and effective on July 18, 1990, at Washington, D.C.

ATTEST: 
Secretary

Attachments

RESOLUTION TRUST CORPORATION
SOURCES AND USES OF FUNDS
(\$ in billions)

EXHIBIT I(A)

	Inception thru 7/2/90	4th Quarter FY90	
		RTC Plan	Recommended Plan
BEGINNING CASH BALANCE	0.0	0.6	0.6
SOURCES:			
Treasury Appropriations	18.8	0.0	0.0
FHLB Contribution	1.2	0.0	0.0
REFCORP Borrowings	13.0	5.3	5.0
FFB-Borrowings	26.6	77.3	60.6
Receivership Dividends	0.0	2.0	2.0
TOTAL SOURCES	59.6	84.6	67.6
USES:			
Resolutions 1/	48.0	44.3 2/	39.8 3/
Advances	10.7	13.5 4/	1.0 5/
Administrative Expenses (Net)	0.1	0.2	0.2
SUBTOTAL USES	58.8	58.0	41.0
Roll Over FFB (Principal) 6/	--	26.4	26.4
Roll Over FFB (Interest) 6/	0.2	0.2	0.2
TOTAL USES	59.0	84.6	67.6
EXCESS OF SOURCES OVER USES	0.6	0.0	0.0
ENDING CASH BALANCE	0.6	0.6	0.6

- 1/ Inception through 7/2/90 funds include amounts originally advanced during conservatorship, whereas fourth quarter funds are net of advances made in previous periods.
- 2/ RTC Plan includes \$31.8 billion of net funding for new case resolutions, \$10.5 billion for prior period asset puts and \$2 billion of loss funds for ARP cases.
- 3/ Recommended Plan includes \$31.8 billion of net funding for new case resolutions, \$6 billion for prior period asset puts and \$2 billion for ARP cases (including \$1 billion of loss funds and \$1 billion of working capital).
- 4/ RTC Plan includes \$4.5 billion for new liquidity advances and \$9 billion for advances for high-cost funds replacement.
- 5/ Recommended Plan includes \$1.0 billion for new liquidity advances and none for advances for high-cost funds replacement.
- 6/ Inception through 7/2/90 funds include FFB interest accrued through 6/30/90. Fourth quarter funds include \$26.6 billion rollover of principal and accrued interest for third quarter.

RESOLUTION TRUST CORPORATION
MATCHING OF USES WITH DESIGNATED SOURCES
(\$ in billions)

INCEPTION THROUGH 7/2/90:

<u>Use:</u>		<u>Source:</u>	
Net Losses 1/	24.6	Loss Funds	24.6
Cash on Hand	0.6	FFB	0.6
Receiver Assets	23.4	FFB	15.0
	--	Loss Funds	8.4
Advances 2/	10.7	FFB	10.7
Adm. Exp. (net)			
unallocated	0.1	Loss Funds	0.1
allocated (net)	0.1	FFB	0.1
Interest on FFB	0.2	FFB	0.2
TOTAL USES	59.6	TOTAL SOURCES	59.6
		Loss Funds	33.0 3/
		FFB	26.6

INCEPTION THROUGH 9/30/90:

<u>Use:</u>	<u>RTC Plan</u>	<u>Rec. Plan</u>	<u>Source:</u>	<u>RTC Plan</u>	<u>Rec. Plan</u>
Net Losses 1/	38.2	37.2	Loss Funds	38.2	37.2
Cash on Hand	-- 0.6	0.6	FFB	0.6	0.6
Receiver Assets	57.4	53.9	FFB	55.4	51.2
	--		Rcvr Dividends	2.0	2.0
			Loss Funds	0.0	0.7
Advances 2/	20.9	8.4	FFB	20.9	8.4
Adm. Exp. (net)					
unallocated	0.1	0.1	Loss Funds	0.1	0.1
allocated (net)	0.2	0.2	FFB	0.2	0.2
Interest on FFB	0.2	0.2	FFB	0.2	0.2
TOTAL USES	117.6	100.6	TOTAL SOURCES	117.6	100.6
			Loss Funds	38.3	38.0
			FFB	77.3	60.6
			Dividends	2.0	2.0

Footnotes on next page.

FOOTNOTES TO EXHIBIT I(B)

- 1/ Excludes any loss allowances on advances to conservatorships. Includes ARP cases.
- 2/ Face value of advances outstanding. Excludes advances to institutions subsequently resolved.
- 3/ Figures may not add to totals due to rounding.

RESOLUTION TRUST CORPORATION
 OUTLINE OF FOURTH QUARTER FY90 FFB AUTHORITY
 (\$ in billions)

EXHIBIT I(C)

	<u>RTC Plan</u>	<u>Rec. Plan</u>
Working Capital for Resolutions	23.5	24.5
Less: Prior period advances	-3.3	-3.3
Less: Receivership Dividends	-2.0	-2.0
Refinance working capital for resolutions financed with loss funds as of June 30	8.4	7.7
	<hr/>	<hr/>
SUBTOTAL	26.6	26.9
 Finance asset puts for prior cases	 10.5	 6.0
Finance new conservatorship advances	13.5	1.0
Finance new net allocated administrative expenses	— 0.1	0.1
Rollover FFB borrowing and accrued interest at June 30	26.6	26.6
	<hr/>	<hr/>
TOTAL	77.3	60.6

EXHIBIT I(D)

RESOLUTION TRUST CORPORATION
STATUS WITH RESPECT TO OBLIGATION LIMITATION
- (\$ in billions)

	As of 7/2/90	As of 9/30/90 RTC Plan Rec. Plan	
REFCORP & Treasury Funds Received	33.0	38.3	38.0
Outstanding Obligations			
FFB Borrowings	26.6	77.3	60.6
Other liabilities, guarantees & contingencies 1/	0.2	0.2	0.2
(A) TOTAL REFCORP/TREASURY PROCEEDS & OUTSTANDING OBLIGATIONS	<u>59.8</u>	<u>115.8</u>	<u>98.8</u>
Cash	0.6	0.6	0.6
FMV of Advances x 85%	6.1	11.9	4.8
FMV of Receiver Claims x 85%	19.9	47.1	44.1
FMV of Other Assets x 85% 2/	0.4	0.4	0.4
(B) TOTAL ADJUSTED ASSETS	<u>26.5</u>	<u>60.0</u>	<u>49.9</u>
(C) "NET" OBLIGATIONS (A) - (B)	<u>33.3</u>	<u>55.8</u>	<u>48.9</u>
(D) EXCESS OF \$50B OVER "NET" OBLIGATIONS: \$50B - (C)	* 16.7	* -5.8	* 1.1 **

1/ Includes current liabilities, contractual obligations, estimated costs from legal exposure, estimated costs (if any) of FHLB advances formerly guaranteed by FSLIC and now by RTC (all assumed equal to 3/31/90 estimate recorded by FDIC/DACS). Cost of puts included in resolution cost estimates, which in turn reduce the estimated market value of RTC claims on receivers.

2/ Includes accrued interest on advances, and current assets (all assumed equal to 3/31/90 estimate recorded by FDIC/DACS).

* A positive amount at line (D) indicates compliance with the obligation limitation. It does not represent the amount of additional borrowing capacity that is available. Additional borrowing authority depends on the estimated value of RTC assets and the amount of REFCORP funds received.

** All other factors being held equal, a positive amount of \$1.1 billion at line (D) indicates that the RTC can borrow approximately \$7.3 billion of additional working capital to finance receivership assets.



Resolution Trust Corporation

Date: July 6, 1990

To: Mr. Peter H. Monroe
President
Oversight Board, Resolution Trust Corporation

From: Elisabeth N. Spector *Elisabeth N. Spector*
Director, Finance and Administration Division
Resolution Trust Corporation

Subject: Operating Plan and Projected Funding
Requirement for the 4th Quarter FY 1990
REVISED AS OF JULY 6, 1990

The Resolution Trust Corporation ("RTC") hereby submits its revised Operating Plan and Funding Request for the July 1-September 30, 1990 period ("4th Quarter FY 1990").

Based upon our current cash balance with the Treasury and the dividends that we estimate we will receive from receiverships during the quarter, we project a need for \$82.6 billion for the quarter and therefore request \$5.3 billion in new funds to cover losses and corporate overhead and \$77.3 billion from the Federal Financing Bank, of which \$50.7 billion is for new working capital funding and \$26.6 billion is to refinance FFB borrowings as of July 2 and accrued interest thereon.

Exhibits A(1) and A(2) summarize the Resolution Trust Corporation's funding operations through July 2, 1990, and provide projections through September 30 based on this request. For all activity through July 2, we currently have received a total of \$26.6 billion from the FFB, and have received \$33.0 billion of "loss funds" (REFCORP bond proceeds, Treasury funds, and Federal Home Loan Bank contributions).

Exhibit B outlines the components of our \$77.3 billion FFB request, as described more fully below.

COMPLIANCE WITH OBLIGATION LIMITATION

Exhibit C calculates the effect of this request on the statutory obligation limitation established by FIRREA. You will note that this funding request will cause the RTC to exceed its obligation limitation. "Net" obligations (obligations plus REFCORP and Treasury contributions, less cash, less 85% of the market value

801 17th Street, NW ■ Washington, DC 20006

of other assets) exceed the \$50 billion cap by \$6.3 billion. The calculation assumes a 33% loss reserve on all outstanding advances.

The Resolution Trust Corporation's Operating Plan and Funding Request for the 4th Quarter FY 1990 is as follows:

RESOLUTIONS

The Resolution Trust Corporation requests \$20.2 billion in net new working capital (see Exhibit D) to finance the resolution of 61 small and 16 large institutions. Of the total \$35.1 billion estimated gross outlays (excluding ARP cases), \$3.3 billion has already been provided as conservatorship advances, leaving net new resolution funding of \$31.8 billion for the 77 cases. Of this amount, funds needed to cover losses in these institutions are estimated at \$11.6 billion.

The resolution funding estimate assumes that (1) for the 61 small cases, cash and investment securities, excluding mortgage-backed securities, are passed to the acquiror and (2) for the 16 large cases, cash and most investment securities, including all mortgage-backed securities, and 70% of 1-4 family mortgages and consumer loans are passed. While we expect to pass all 1-4 family mortgages and consumer loans in many, if not most, of the large cases, we request that the cash saved from such transactions be authorized to cover exposure under putbacks. Therefore, the funding request assumes that only 70% of 1-4 family mortgages and consumer loans are passed.

ACCELERATED RESOLUTION PROGRAM

As you know, we expect to submit to our Board in the near future a proposed policy statement on the Accelerated Resolution Program, which is a joint program with the Office of Thrift Supervision that is intended to lower the cost of resolving certain troubled savings institutions by accelerating their marketing and sale and thereby avoid placing them in RTC conservatorships. All assistance provided by the RTC under the ARP is expected to be provided on a closed basis, with the institution put into receivership immediately prior to its sale.

During the 4th quarter FY 1990, we hope to conduct a pilot project according to which we would market and resolve 8-12 institutions that qualify for the ARP program. It is very difficult at this time to project our likelihood of success in meeting this goal or, if met, in determining what percentage of assets will pass to the acquirors. Assuming that the project will be successful, however, and that very few assets will be retained by the RTC, we hereby request funding of \$2.0 billion, all of which is assumed to be loss funds.

LIQUIDITY FUNDS

The Resolution Trust Corporation expects to make new advances of \$4.5 billion to meet the liquidity needs of institutions that have exhausted all borrowing options and sold all assets that could be sold in time. An additional \$5.5 billion will be used to allow institutions scheduled for resolution during the quarter to pay off Federal Home Loan Bank advances and high rate brokered deposits; the amounts for these pre-resolution actions, which will free up pledged collateral and facilitate marketing, are included in the resolution funding estimate. Exhibit E provides a more detailed breakdown of the total \$10 billion liquidity requirements by funding category.

HIGH COST FUNDS REPLACEMENT

The RTC would like to lend up to \$9.0 billion to conservatorships in order to reduce their cost of funds. The data supporting this request were collected from institutions in conservatorship as of June 1, 1990 (excluding those scheduled for resolution before July 1). The RTC funds would be used in place of any borrowing that would require a rate exceeding 8.5% and FHLB advances and brokered deposits requiring a rate above 8.0%. Based on the current RTC lending rate of 8.24%, we anticipate an annual savings of approximately \$39.2 million if high cost funds replacement money is available.

Exhibit F summarizes the requests for both liquidity and high cost funds.

FUNDS TO PAY FOR ASSET PUTS

Sales of institutions by the RTC have often entitled the acquiror of the thrift to sell ("put") back to the RTC certain assets within varying time periods. For institutions resolved through June 30, 1990, we estimate the maximum amount that could be required for putbacks during the quarter at \$10.5 billion. Cash required to repurchase assets under put contracts has been counted fully as working capital. The estimated losses on assets under put contracts were included in the original loss estimate for the case, for which REFCORP funds were already provided. Since many resolutions involving put contracts are quite recent, RTC does not assume that the receiverships will have sufficient cash from collections to cover puts, and therefore requests direct funding through the FFB.

ADMINISTRATIVE EXPENSES

Based on optimal funding availability and resolution rates, the 4th Quarter FY 1990 Administrative Expense Budget (Exhibit G) projects gross expenses of about \$350 million, of which we anticipate that \$270 million will be chargeable to receiverships,

\$20 million recoverable from conservatorships, and the balance of \$60 million absorbed by the Corporation as overhead. The expense projections also include \$140 million for outside contractor costs and about \$33 million for legal fees; these amounts reflect the assumption that 80% of the RTC's workload will be contracted out. As shown in Exhibit H, the RTC's projected staffing totals 6,688 people, of which 843 are sited in conservatorships.

Estimates for the RTC Oversight Board include a projected staff of 40 and expenses of \$1.8 million. The Inspector General estimates include a staff of 60 and expenses of \$2.5 million.

Detailed estimates for this budget were prepared at the field office level and validated using the macro budgeting model used to prepare previous quarters' estimates. Because of this, supporting schedules detailing assumptions and calculations will be provided separately. It is important to realize that this budget represents the best estimates that can currently be made based on the most likely combination of variables affecting RTC operations; actual staffing and expense requirements can vary significantly from these estimates.

Note that we are requesting \$0.1 billion in "loss funds" for corporate (unallocated) overhead and another \$0.1 billion from the FFB to fund the excess of disbursements over reimbursements for administrative expenses allocated to receiverships. Total receivership expenses are already included in the resolution loss estimates, for which REFCORP funds have been provided. The funding of the net shortfall in receivership expenses is therefore properly treated as bridge financing (i.e., working capital).

ROLLOVER OF FFB BORROWINGS

In accordance with the FFB Agreement, we hereby request sufficient authorization to roll over the principal amount and accrued interest as of the end of the third quarter FY 1990 on outstanding RTC borrowings from the FFB.

DIVIDENDS FROM RECEIVERSHIPS

In the 4th Quarter FY 1990 the RTC expects to receive approximately \$2 billion in dividends from receiverships under its control. Approximately \$800 million will be available early in the quarter, with the balance expected to be received throughout the remainder of the quarter.

FUNDING ESTIMATED LOSSES

As shown in Exhibit D, the RTC expects to incur \$13.6 billion of losses for resolutions during the 4th Quarter FY 1990, including \$2.0 billion for ARP cases. As Exhibits A(2) and B indicate,

loss funds received through July 2 have exceeded estimated losses in institutions resolved by \$8.4 billion. Since this excess has been used for working capital purposes, RTC's FFB request includes funds to make the \$8.4 billion available to cover losses in new resolutions. On the assumption that new REFCORP bonds are the only other authorized source of funds to cover losses, we are therefore requesting REFCORP funds of \$5.3 billion: \$5.2 billion to cover remaining resolution costs during the quarter and \$0.1 billion for corporate (unallocated) overhead.

Concur by:



David C. Cooke, Executive Director

Date: 7/6/90

RESOLUTION TRUST CORPORATION

Exhibit A(1)

SOURCES & USES OF FUNDS

(\$ in billions)

	Inception through July 2, 1990	4th Qtr FY 1990 Proposed
OPENING CASH BALANCE	0.0	0.6
SOURCES:		
Treasury Appropriations	18.8	0.0
HLB Contribution	1.2	0.0
REFCORP Borrowings	13.0	5.3
FFB Borrowings	26.6	77.3
Dividends	0.0	2.0
TOTAL SOURCES	59.6	84.6
USES:		
Resolutions 1/	48.0	44.3
Advances 2/	10.7	13.5
d. Exp (net)	0.1	0.2
Unallocated Corporate	0.06	0.06
Allocated: Disburse.	0.19	0.29
Reimburse.	-0.11	-0.15
SUBTOTAL USES	58.8	58.0
Roll over FFB (Princ.) 3/	--	26.4
and FFB Interest 3/	0.2	0.2
TOTAL USES	59.0	84.6
SOURCES MINUS USES	0.6	0.0
CLOSING CASH BALANCE	0.6	0.6

Inception-through-7/2 funds include amounts originally advanced during conservatorship, whereas new 4th quarter funds are net of advances made in previous quarters. Revised fourth quarter funds also include \$10.5 billion to finance potential putbacks from prior resolutions. Fourth quarter request includes \$4.5 billion in new liquidity advances and \$9.0 billion in high-cost funds replacement advances.

Inception-through-7/2 estimates include FFB interest accrued through June (funded on 7/2). Fourth quarter projection includes \$26.6B rollover of principal and accrued interest for 3rd qtr.

RESOLUTION TRUST CORPORATION
MATCHING OF USES WITH DESIGNATED SOURCES

(\$-in billions)

INCEPTION THROUGH 7/2/90

Use:		Source:	
Cover Losses *	24.6	Loss Funds	24.6
Cash on Hand	0.6	FFB	0.6
Receiver Assets	23.4	FFB	15.0
Advances **	10.7	Loss Funds	8.4
Admin Exp (net)		FFB	10.7
unallocated	0.1	Loss Funds	0.1
allocated (net)	0.1	FFB	0.1
Interest on FFB	0.2	FFB	0.2
TOTAL USES	59.6	TOTAL SOURCES	59.6
		Loss Funds ***	33.0
		FFB	26.6

INCEPTION THROUGH 9/30/90

Use:		Source:	
Cover Losses *	38.2	Loss Funds	38.2
Cash on Hand	0.6	FFB	0.6
Receiver Assets	57.4	FFB	55.4
Advances **	20.9	Dividends	2.0
Admin Exp (net)		FFB	20.9
unallocated	0.1	Loss Funds	0.1
allocated (net)	0.2	FFB	0.2
Interest on FFB	0.2	FFB	0.2
TOTAL USES	117.6	TOTAL SOURCES	117.6
		Loss Funds	38.3
		FFB	77.3
		Dividends	2.0

- * Excludes any loss allowances on advances to conservatorships. Includes ARP assistance.
 ** Face value of advances outstanding. Excludes advances to institutions subsequently resolved.
 *** Components do not add to totals due to rounding.

Exhibit B

RESOLUTION TRUST CORPORATION

Outline of 4th Quarter FY 1990 FFB Request

(\$ in billions)

Working capital for resolutions	23.5
Less: Prior period advances	-3.3
Less: Dividends	-2.0
Refinance \$8.4 billion in working capital for resolutions financed with loss funds as of June 30	8.4
Finance puts for prior cases	10.5
Finance new conservatorship advances	13.5
Finance new net allocated administrative expenses	0.1
Rollover FFB borrowing and accrued interest at June 30	26.6
TOTAL	77.3

RESOLUTION TRUST CORPORATION
STATUS WITH RESPECT TO OBLIGATION LIMITATION

(\$ in billions)

	As of 7/2/90	As of 9/30/90
REFCORP & Treasury Funds Received	33.0	38.3
Outstanding Obligations		
FFB Borrowings	26.6	77.3
Other liabilities, guarantees & contingencies 1/	0.2	0.2
2) TOTAL REFCORP/TREASURY PROCEEDS & OUTSTANDING OBLIGATIONS	59.8	115.8
Cash	0.6	0.6
FMV of advances x 85%	6.1	11.9
FMV of receiver claims x 85%	19.9	47.1
FMV of other assets x 85% 2/	0.4	0.4
3) TOTAL ADJUSTED ASSETS	26.5	59.6
4) "NET" OBLIGATIONS: (A) - (B)	33.3	56.3
5) EXCESS OF \$50B OVER "NET" OBLIGATIONS: \$50B - (C)	16.7 **	-6.3 **

Includes current liabilities, contractual obligations, estimated costs from legal exposure, loss exposure (if any) of FHLB advances formerly guaranteed by FSLIC and now by RTC (all assumed equal to 3/31/90 estimate recorded by FDIC/DACS). Cost of puts is included in resolution cost estimates, which in turn reduce the estimated market value of RTC claims on receivers.

Includes accrued interest on advances, and current assets (all assumed equal to 3/31/90 estimate recorded by FDIC/DACS).

** IF NO LOSS ALLOWANCE IS REQUIRED ON ADVANCES, EXCESS OF \$50B OVER NET OBLIGATIONS WILL EQUAL \$19.7B AT 7/2 AND -\$0.4B AT 9/30.

Projected Funding of Resolutions *

4th Quarter FY 1990

(\$ in billions)

Size	Number	Cost	Working Capital	Gross Cash Outlays	Prior Period Advances	Net New Outlays
Less than \$500M Liab	61	2.8	5.5	8.3	0.6	7.7
Greater than \$500M Liab	16	8.8	18.0	26.8	2.7	24.1
CP Cases	8-12	2.0		2.0		2.0
Total	85-89	13.6	23.5	37.1	3.3	33.8

Assumes that (1) for the 61 small cases, cash and investment securities, excluding mortgage-backed securities, are passed to the acquiror, and (2) for the 16 large cases, cash and most investment securities, including all mortgage-backed securities, and 70% of 1-4 family mortgages and consumer loans are passed.

**Projected Liquidity Requirements
RTC Conservatorships - Fourth Quarter, FY 1990**

RTC conservatorship liquidity requirements can be divided into several categories of anticipated demand: liquidity maintenance for conservatorships currently in place, pre-resolution funding to facilitate marketing of institutions scheduled for resolution, funding requirements of institutions placed into conservatorship during the quarter, and a reserve for contingencies not easily quantified.

Existing Conservatorships ¹	\$ 1,500 million
Pre-Resolution Funding	5,500 million
Conservatorships Added in Quarter ¹	1,000 million
Reserve for Contingencies	<u>2,000 million</u>
Total	\$ 10,000 million

¹ Forty-seven conservatorships anticipate a deficit position during at least a portion of the Quarter. The projections were based on the assumption that each institution will maintain a minimum liquidity level of 2% and utilize non-RTC funds whenever possible without regard to offering rate.

² The Pre-Resolution Funding estimate is based on a survey of liabilities and projected sources of funds for the seventy-five projected 4th quarter resolution candidates as of June 15. The estimate consists of payoffs of FHLB advances (\$ 4.6 billion) in order to obtain clear title to the assets pledged as collateral and withdrawal of maturing high rate brokered deposits (\$.9 billion).

³ During the period April 1 to June 15, eight of the forty-one new conservatorships required emergency liquidity funding from the RTC totaling \$437 million. The 4th Quarter projection assumes a significant increase in demand for funding by institutions entering the conservatorship program. The OTS Watch List currently lists 266 institutions with aggregate liabilities of \$175 billion. While many of these institutions are being considered for the Accelerated Resolution Program, it is likely that the institutions placed into conservatorship will have the least franchise value and/or the greatest need for stabilization.

⁴ There are many contingencies that are difficult to quantify, but which may dramatically impact the overall liquidity position of the thrift. Some of these considerations are:

- Decreased depositor confidence.
- Tightening credit policies at the Federal Home Loan Banks.
- Unexpected transfer of loan servicing escrow accounts by Ginnie Mae, Fannie Mae and Freddie Mac.
- Unanticipated calls on securitized Letters of Credit and Collateralized Mortgage Obligations.

RTC FUNDING PROJECTIONS **LIQUIDITY AND HIGH COST FUNDS REPLACEMENT** **4th QUARTER, FY 1990**

This schedule provides a summary of the projected level of RTC lending to conservatorships for liquidity and high cost funds replacement during the fourth quarter, FY 1990.

Amounts in billions				
Funding by Level of Priority for:		Conservatorships as of 6/15/90	Conservatorships added during 4th Quarter	TOTAL
1. Liquidity	- Emergency Liquidity Reserve	\$ 2.0	\$ 1.0	\$ 3.0
	- Projected liquidity shortfall	1.5	0.0	1.5
2. Pre-Resolution Funding	- FHLB Advances	4.6	0.0	4.6
	- Brokered Deposits	.9	0.0	.9
3. High Cost Funds Replacement	- Above 8.5%	5.8	1.2	7.0
	- FHLB & Brokered > 8.0%	1.6	.4	2.0
TOTAL		\$16.4	\$ 2.6	\$19.0

Assumptions:

1. New Conservatorships. The projections used assume that 35 new conservatorships will be added with total liabilities of \$20 billion.
2. High Cost Funds Replacement. These projections have been adjusted to reflect the fact that a portion of maturing FHLB advances and brokered deposits will be paid off within the Pre-Resolution Funding category.

Resolution Trust Corporation
Administrative Expense Budget
Third Quarter 1990

	WASHINGTON	EAST REGION	CENTRAL REGION	SOUTHWEST REGION	WEST REGION	TOTAL
Personnel						
Managing Agents & Staff	0	339	225	199	80	843
Other RTC Staff	528	1,373	734	975	970	4,580
Total RTC Staff	528	1,712	959	1,174	1,050	5,423
FDIC Support Staff:						
Legal Services	25	203	154	255	232	869
Accounting	90	80	59	79	67	375
Personnel Management	15	...	...	...	...	15
Equal Opportunity	6	...	...	...	...	6
Total FDIC Support	136	283	213	334	299	1,265
Expenses						
Salaries and Benefits	\$10,460,458	\$15,794,680	\$10,138,093	\$14,890,113	\$12,788,023	\$64,071,367
Outside Services - Legal	1,150,000	2,600,500	9,385,000	5,650,000	14,130,000	32,915,500
Outside Services - Assets	0	38,750,000	10,200,500	45,052,909	45,643,806	139,647,215
Outside Services - Other	5,993,510	5,348,586	11,132,733	6,248,420	3,859,900	32,583,149
Travel	1,343,772	2,789,380	2,456,571	3,408,972	2,782,630	12,781,325
Buildings	4,404,842	3,172,131	2,120,406	4,594,007	1,445,590	15,736,976
Equipment	2,421,936	8,424,796	4,601,538	5,493,651	2,383,575	23,325,496
Supplies	421,338	720,200	347,667	280,699	265,607	2,035,511
Other Expenses	995,034	2,144,556	979,313	1,411,709	715,350	6,245,962
SUBTOTAL	\$27,190,890	\$79,744,829	\$51,361,821	\$87,030,480	\$84,014,481	\$329,342,501
Oversight Board	\$1,828,000	...	...	...	...	\$1,828,000
Inspector General	2,480,493	...	...	...	...	2,480,493
BUDGET TOTAL	\$31,499,383	\$79,744,829	\$51,361,821	\$87,030,480	\$84,014,481	\$333,650,994
Expenses Incurred by Managing Agents & Staff (Reimbursable)						
	...	\$7,763,136	\$5,896,083	\$4,500,177	\$2,295,152	\$20,454,548

GRAND TOTAL: \$354,105,542

Note: Expenses include amounts for FDIC support in legal services, accounting, personnel, and equal opportunity.

Office of Budget
Rpt: BW91.Wt1
June 26, 1990 (Revised)

Projected Staffing By Function
At September 30, 1990

	WASHINGTON	EAST REGION	CENTRAL REGION	SOUTHWEST REGION	WEST REGION	TOTAL	% TOTAL
Management/Operations	35	77	46	44	60	262	4.84 %
Marketing & Disposition	64	573	268	398	453	1,756	32.38 %
Mobile Housing Program	7	7	4	5	5	28	0.52 %
Factoring	50	138	69	116	85	458	8.45 %
Intutions	65	27	18	18	17	145	2.67 %
Process Operations	22	113	65	86	69	355	6.54 %
Logistics	13	126	63	102	81	385	7.10 %
Servership Operations	31	21	19	14	7	92	1.69 %
social/Accounting Operations	33	24	21	18	7	102	1.89 %
Administrative Services	63	252	151	165	176	807	14.88 %
Property & Other Corporate Support	146	15	10	9	10	190	3.56 %
Servership (Reim.)	0	339	225	199	80	843	15.54 %
TOTAL RTC	528	1,712	959	1,174	1,050	5,423	100.00 %
Support:							
Legal Services	25	203	154	255	232	869	
Accounting	90	80	59	79	67	375	
Personnel Management	15	15	
Equal Opportunity	6	6	
ND TOTAL	664	1,993	1,172	1,508	1,349	6,686	

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OVERSIGHT BOARD
RESOLUTION TRUST CORPORATION
1825 Connecticut Avenue, N.W.
Washington, D.C. 20232
Telephone: (202) 387-7667

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APR 30 1990

April 30, 1990

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance,
and Urban Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Section 21A(k)(5)(A) of the Federal Home Loan Bank Act as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") requires that the Oversight Board and the Resolution Trust Corporation submit a semiannual report on the activities and efforts of the RTC, the Federal Deposit Insurance Corporation, and the Oversight Board. The report is to be submitted no later than April 30 and October 31 of each calendar year. The attached report, submitted jointly, covers the period October 1, 1989, through March 31, 1990.

The report provides the best information presently available on the measures which FIRREA requires that it cover. We will continue to build our information systems with the goal of serving fully the needs of the Congress, the RTC, and the Oversight Board.

Sincerely,

William Taylor
Acting President and
Chief Executive Officer
Oversight Board

Sincerely,

David C. Cooke
Executive Director
Resolution Trust Corporation

Attachment

**SEMIANNUAL REPORT
OF THE
RESOLUTION TRUST CORPORATION
AND THE
OVERSIGHT BOARD**

APRIL 30, 1990

- (i) **A statement of the total book value of all assets held or managed by the Corporation at the beginning and end of the reporting period.**

Receiverships: As of October 1, 1989, there were 24 RTC receiverships with assets of \$1.3 billion at book value. As of March 31, 1990, there were 52 receiverships with assets of \$12.1 billion at book value. These amounts are net of participated assets (with other investors) with book values of \$0.2 billion as of October 1, 1989 and \$1.5 billion as of March 31, 1990.

(These amounts also exclude assets of seven receiverships established by FSLIC between January 1, 1989 and August 9, 1989. These receiverships had assets of \$0.4 billion as of October 1, 1989 and \$0.3 billion as of March 31, 1990.)

Conservatorships: As of October 1, 1989, there were 256 unresolved institutions in the RTC conservatorship program. The book value of the assets of these institutions (based on September 30, 1989 financial reports) was \$102.3 billion. As of March 31, 1990, there were 350 institutions in conservatorship. The book value of assets in these institutions (based on December 31, 1989 financial reports) was \$177.9 billion.

- (ii) **A statement of the total book value of such assets which are under contract to be managed by private persons and entities at the beginning and end of the reporting period.**

Receiverships: As of March 31, 1990, there were 88 private management contracts (including interim servicing agreements with acquiring/agent institutions) covering receivership assets with a book value of \$9.0 billion.

Conservatorships: RTC's efforts to engage the private sector in handling conservatorships have focused largely on reviews of assets in order to prepare these institutions for resolution. The employees of conservatorship institutions continue to perform asset management functions under the supervision of the RTC Managing Agent. These staff are already supplemented by outside contractors hired for services for which the institution would typically contract in the normal course of business. The services typically performed by outside contractors include property management for

commercial real estate owned, leasing for multifamily rental projects, and other asset maintenance and marketing services.

- (iii) **The number of employees of the Corporation, the Federal Deposit Insurance Corporation, and the Oversight Board at the beginning and end of the reporting period.**

The numbers of employees at the RTC and Oversight Board are as follows:

	<u>Oct 1, 1989</u>	<u>Mar 31, 1990</u>
RTC/FDIC *	679 **	2,314 ***
Oversight Board ****	30	37

- * All RTC staff are FDIC employees. Figures represent FDIC staff formally assigned to RTC. Figures do not include other FDIC staff who are not officially assigned to RTC but work in FDIC units that support RTC functions.
- ** The October 1, 1989 RTC/FDIC total does not reflect the final assignment of former FSLIC employees.
- *** Figures include conservatorship managing agents. Approximately 70 percent of RTC staff as of March 31, 1990 are non-career personnel.
- **** As of March 31, 1990, 10 of the 37 Oversight Board staff are on detail from other agencies. (As of October 1, 1989, all Oversight Board employees were detailed from other agencies.)

- (iv) **The total amounts expended on employee wages, salaries, and overhead, during such period which are attributable to --**

- (I) contracting with, supervising, or reviewing the performance of private contractors, or
- (II) managing or disposing of such assets.

Receiverships: For the October 1989 - March 1990 reporting period, \$6.2 million in employee wages, salaries, and other benefits are attributable to contracting with, supervising, or reviewing the performance of private contractors handling receivership assets. Another \$1.4 million in employee

wages, salaries, and other benefits are attributable to the direct management and disposition of receivership assets.

Conservatorships: The employees of conservatorship institutions continue to perform asset management functions under the supervision of the RTC Managing Agent. These staff are already supplemented by outside contractors hired for services for which the institution would typically contract in the normal course of business.

- (v) A statement of the total amount expended on private contractors for the management of such assets.

Receiverships: The total amount paid to private contractors handling receivership assets for the October 1989 - March 1990 period is \$30 million, of which \$14 million represents management fees paid under receivership asset management contracts.

Conservatorships: The employees of conservatorship institutions continue to perform asset management functions under the supervision of the RTC Managing Agent. These staff are already supplemented by outside contractors hired for services for which the institution would typically contract in the normal course of business.

- (vi) A statement of the efforts of the Corporation to maximize the efficient utilization of the resources of the private sector during the reporting period and in future reporting periods and a description of the policies and procedures adopted to ensure adequate competition and fair and consistent treatment of qualified third parties seeking to provide services to the Corporation or the Federal Deposit Insurance Corporation.

The RTC's Contracts Group has completed the transition from planning and developing policies and procedures to a regular program of solicitation, issuance, and contractor engagement. Standardized documents, including asset management agreements, have been developed and are being put into use.

The RTC has received several thousand inquiries from potential contractors. The Contracts Group has committed substantial resources to registering these firms in the RTC National Contractor Database, which

includes information on the firms' capabilities and standards of fitness and integrity. On-line access to the database has been provided to all offices of the RTC. Beginning May 1, RTC will rely exclusively on the firms registered in the database to develop lists of potential bidders. The Contracts Group continues to make progress toward its goals of installing the systems and procedures necessary for the efficient oversight of ongoing contracts and solicitations. Specifically, procedures have been established (RTC Directive 10400.3, "Asset-Related Contractor Selection and Engagement for RTC Corporate and Receivership Assets") that (1) ensure open and fair competition in RTC's contracting and (2) implement the provisions of RTC's Interim Minority and Women Outreach Program for asset management and disposition contracting.

- (vii) **The total book value and total proceeds from such assets disposed of during the reporting period.**

Receiverships/Resolutions: Receivership sales and collection data, including assets sold to acquirers during the resolution process, are as follows:

October 1989 - March 1990
(\$ in billions)

Assets sold to acquirers during resolution process (book value)	\$6.2
Additional principal collections from sales, payments and maturities	\$0.5
Income collections	\$0.1

(These amounts exclude \$0.1 billion in principal collections for seven receiverships established by FSLIC between January 1, 1989 and August 9, 1989.)

Conservatorships: The components of changes in conservatorship assets -- sales, payments and maturities, and other changes -- are not available by quarter for 1989. Data are available, however, for the entire period of time between the establishment of each conservatorship (the earliest established in February 1989) and December 31, 1989. Beginning with 1990, quarterly data are available for conservatorship asset sales and collections. Sales and collection data for these periods are as follows:

(\$ in billions)

	Beginning of Conservatorship through <u>December 1989</u>	January 1990 through <u>March 1990</u>
Sales:		
Book Value	14.5	5.5
Net Proceeds	13.9	5.1
Principal Collections from Payments and Maturities	9.2	5.0

As part of its approval of a working capital facility for the RTC, the Oversight Board has requested that the RTC develop and implement an accounting system to monitor compliance with the obligation limitation established in FIRREA. This would include information about key components of the limitation, including asset values.

- (viii) **Summary data on discounts from book value at which such assets were sold or otherwise disposed of during the reporting period.**

Receiverships: The bulk of principal collections in receiverships during this period has resulted from payments and maturities, and the sale of readily marketable securities. As a result, recorded losses have been nominal (under \$20 million).

Conservatorships: For the period from the entry of institutions into conservatorship to December 31, 1989, total net losses for conservatorship asset sales were \$0.6 billion (approximately 4 percent of book value). For the period January 1 - March 31, 1990, net losses on conservatorship asset sales totalled \$0.4 billion (approximately 7 percent of book value).

- (ix) **A list of all of the areas that carried a distressed area designation during the reporting period (including a justification for removal of areas from or addition of areas to the list of distressed areas).**

Congress designated six states as having distressed real estate markets: Arkansas, Louisiana, Oklahoma, Texas, Colorado, and New Mexico. The RTC has not added any state to the list nor has it removed any state from the list during the reporting period.

- (x) **An evaluation of market conditions in distressed areas and a description of any changes in conditions during the reporting period:** ;

The RTC currently uses the following factors to evaluate market conditions in distressed areas: (a) the percentage of real estate owned (REO) and delinquent real estate loans as a percentage of total real estate assets in commercial banks and thrift institutions; (b) the unemployment rate; (c) the rate of job formation (1987-1989); (d) the percentage change in residential building permits (1987-89); (e) the percentage change in the dollar value of commercial building permits (1987-89). Based on these five measures, the market conditions and recent trends in the six states designated in FIRREA as distressed areas are described below.

TEXAS: The state has the highest volume of REO and delinquent real estate loans as a percentage of total real estate assets for commercial banks and thrift institutions in the nation. Texas had the fourth highest unemployment rate in the nation and was the only distressed area that had a rising unemployment rate during 1989. Texas also had the 6th lowest percentage change in the dollar value of permits issued for commercial construction.

OKLAHOMA: The state had the nation's 3rd highest volume of REO and delinquent real estate loans as a percentage of total real estate assets in commercial banks and thrifts. Additionally, Oklahoma had the 6th lowest rate of job formation and 2nd lowest change in the dollar value of commercial construction permits issued. The unemployment rate in Oklahoma fell a full percentage point over 1989.

LOUISIANA: The state had the nation's 8th highest volume of REO and delinquent real estate loans as a percentage of total real estate assets in commercial banks and thrifts. Additionally, Louisiana had the 2nd highest unemployment rate in the nation, the 9th lowest growth in the number of residential construction permits issued, and the 9th lowest growth in the dollar value of commercial construction permits issued over the period studied. However, Louisiana's unemployment rate did fall three percentage points during 1989 and is no longer the highest in the nation, due to a strong rate of job formation in 1989.

NEW MEXICO: The state had the nation's 6th highest level of REO and delinquent real estate loans as a percentage of total real estate assets in commercial banks and thrifts. Additionally, New Mexico had the 7th highest unemployment rate in the nation (although unemployment did decline during 1989), the 12th lowest rate of job formation, and the 11th lowest growth in the number of residential construction permits issued over the period studied.

COLORADO: The state had the nation's 4th highest level of REO and delinquent real estate loans as a percentage of total real estate assets in commercial banks and thrifts. Additionally, Colorado had the fourth lowest rate of job formation, and 7th lowest growth in the number of residential construction permits issued over the period studied. However, Colorado did experience a declining unemployment rate which fell almost one and a half percentage points over 1989.

ARKANSAS: The state had the nation's 5th highest level of REO and delinquent real estate loans as a percentage of total real estate assets in commercial banks and thrifts. Arkansas had the 9th highest unemployment rate in the nation, although this rate improved slightly in 1989, and the state had a relatively high rate of overall job formation from 1987 through 1989.

DISTRESSED REAL ESTATE MARKET INDICATORS

	<u>TEXAS</u>	<u>OKLAHOMA</u>	<u>LOUISIANA</u>	<u>COLORADO</u>
a) REO and Delinquent Loans as a % of Real Estate Assets				
as of 12/31/89	38.2%	19.8%	13.4%	19.0%
as of 9/30/89	37.7%	19.7%	13.6%	18.2%
as of 6/30/89	35.9%	20.2%	14.4%	17.7%
b) Unemployment Rate				
as of 11/89 *	6.9%	4.6%	7.2%	4.8%
as of 12/88	6.2%	5.6%	10.1%	6.2%
c) Job Formation Rate				
1988-1989	0.74%	-0.26%	3.16%	-0.46%
1987-1988	-0.04%	-1.16%	-2.21%	1.58%
d) % Change in the number of Permits Issued for Residential Construction				
1988-1989	2.5%	2.8%	-16.6%	-13.4%
1987-1988	-19.8%	-19.2%	-14.6%	-28.5%
e) % Change in the Dollar Value of Permits Issued for Commercial Construction				
1988-1989	-0.06%	-15.8%	44.5%	8.6%
1987-1988	-23.3%	-13.2%	-16.1%	-2.9%

* Preliminary figures for 11/89.

DISTRESSED REAL ESTATE MARKET INDICATORS

	<u>NEW MEXICO</u>	<u>ARKANSAS</u>
a) REO and Delinquent Loans as a % of Real Estate Assets		
as of 12/31/89	18.0%	18.4%
as of 9/30/89	18.0%	18.4%
as of 6/30/89	16.3%	18.7%
b) Unemployment Rate		
as of 11/89 *	5.8%	6.1%
as of 12/88	6.4%	6.5%
c) Job Formation Rate		
1988-1989	3.48%	2.53%
1987-1988	-0.19%	4.13%
d) % Change in the number of Permits Issued for Residential Construction		
1988-1989	-6.0%	-0.4%
1987-1988	-30.9%	-3.8%
e) % Change in the Dollar Value of Permits Issued for Commercial Construction		
1988-1989	45.9%	15.1%
1987-1988	-1.1%	-18.4%

* Preliminary figures for 11/89.

- (xi) **Any change adopted by the Oversight Board in a minimum disposition price and the reason for such change.**

There has been no change in the minimum disposition price established by the RTC. The normal threshold of 95 percent of market value for real property located in distressed areas has not been changed. (The Oversight Board does not adopt changes in the minimum disposition price. FIRREA provides that the RTC Board adopt such changes.)

- (xii) **The valuation method or methods adopted by the Oversight Board or the Corporation to value assets and the reasons for selecting such methods.**

Currently, the RTC relies on real estate appraisals to establish the market value of assets. All commercial properties are to be appraised in accordance with the RTC's Uniform Appraisal Instructions to Appraisers, which were adopted in November 1989. These instructions state that the appraiser is to provide an estimate of current market value, which is defined as "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus." The RTC does not want fire sale appraisals, and the estimated marketing period, based on market evidence, must be clearly stated.

The RTC generally requires two appraisals for properties exceeding \$500,000 in value. (The RTC has instituted a policy on waiving this requirement on a case-by-case basis if there is an inability to obtain appraisals on a timely basis. In these instances, waivers should be justified through the use of brokers' opinions, analysis of existing appraisals, etc., which support the one appraisal.) The appraised value indicated in the appraisal will be the RTC's initial estimate of fair market value for the asset, assuming the appraisal is deemed adequate and conforms to RTC standards. If two appraisals were obtained pursuant to RTC policy, then the average of the appraised values will become the RTC's initial estimate of fair market value for the asset. RTC requires appraisals to be updated annually.

RTC believes that in general, appraisals provide a reasonable basis for estimating market value because the appraisal process requires an in-depth market analysis by an independent and objective party.

However, appraisals only provide an estimate of market value at a given point in time. RTC does not believe that appraisals can be relied on as indisputable exact measures for every asset. In fact, it is relatively rare that two independent appraisals of the same asset will yield the same value. Changing economic conditions during the marketing period also will impact the true fair market value. It is not uncommon for RTC to sell assets for more than appraised value; nor is it uncommon for RTC to be unable to sell assets for as much as the appraised value. Thus the RTC is developing guidelines that will allow the asking price to be adjusted downward when, after extensive marketing efforts, it becomes apparent that the real fair market value is lower than that estimated by the appraisal.



OVERSIGHT BOARD
RESOLUTION TRUST CORPORATION
Washington, D.C. 20232

August 2, 1990

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance, and
Urban Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed you will find responses to the questions for the Oversight Board following the June 14 hearing of the Committee on Banking, Finance, and Urban Affairs.

I hope the Committee finds this information responsive to its concerns.

Sincerely,

Carol Hartwell
Vice President
Congressional Affairs

Enclosure

SUPPLEMENTAL QUESTIONS FOR INCLUSION IN THE RECORD OF THE JUNE 14, 1990 HEARING OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

TOPIC: MINORITIES AND WOMEN OUTREACH PROGRAMS

- Q. We understand that the RTC will be awarding large contracts for the management and disposition of its assets. We are concerned about how the awarding of such large contracts will affect the participation of minorities and women in the asset disposition process.
- How will the pooling of assets, bulk sales, and awarding large contracts that require a national presence (for example: Mortgage servicing contracts, and contracts to manage and sell all the RTC property in a particular state) effect the ability of minority and women owned firms, most of which do not have a national presence, to compete for contracts?
 - What policies are in effect or have been proposed to ensure that minority-owned and women-owned businesses are not effectively shut out from contracting with the RTC because their smaller operation would preclude them from bidding on such large contracts?
 - Does the RTC look for partnerships and joint ventures with the large national companies to help solve this problem?
- A. The RTC aims to ensure that firms owned by minorities and women are given the opportunity to participate fully in all contracting activities that the Corporation enters into for those goods and services required to manage and dispose of assets acquired from failed thrift institutions. With regard to large contracts, the RTC will encourage minority- and women-owned firms to enter into ventures and cooperative agreements with majority-owned firms so that they may eventually acquire the expertise and capability to compete for the Corporation's large contracts on their own. In addition, the RTC requires asset managers and other managers of large contracts to follow RTC procedures in selecting subcontractors. In this manner, minorities and women will have additional opportunities to participate in large contracts.

TOPIC: UNINSURED LIABILITIES

- Q. The Congressional Budget Office has stated that uninsured liabilities represent a significant amount of the potential cost of resolving failed thrifts. CBO estimated that of the 84 thrifts resolved as of May 25, 1990, a total of \$7

billion of \$25 billion, or 28% of their liabilities, were actually uninsured liabilities. The committee wants to know how the RTC is treating uninsured liabilities when it resolves an institution. Also, please respond to the following:

- As to institutions already resolved and those still in conservatorship, provide a breakdown of the amount of insured and uninsured liabilities in two categories;
- Provide a description of the types of liabilities in resolved institutions and conservatorships that were or are uninsured with the amount of funds in each category, including the amount of liabilities that represent account balances over \$100,000;
- Of the resolutions accomplished to date, how much of the resolved institutions' liabilities were uninsured? How has the RTC treated these uninsured liabilities when an institution is resolved? In a nonliquidation resolution, has the RTC passed these uninsured liabilities to acquirers, thereby effectively insuring them?
- How much of the uninsured liabilities of conservatorships and resolved institutions were collateralized? (An example would be mortgage backed bonds issued by a thrift). If these liabilities were not transferred as part of the resolution, was the liability defaulted on and underlying collateral transferred to the lender? Wouldn't this be less expensive than paying off the face value of the liability?

A. Although thrift liabilities can be viewed as falling into the two basic categories "insured" and "uninsured", for analytical purposes it can be more useful to break-out liabilities into additional categories as follows:

1. Deposits
 - a. insured amounts
 - b. uninsured amounts ("overages")
 - (i) secured overages
 - (ii) unsecured overages
2. Secured (nondeposit) liabilities
3. Unsecured (nondeposit) liabilities

In viewing thrift liabilities in this way, it becomes clear that most types of uninsured liabilities, while not covered by a federal deposit guarantee, are covered by other security interests. Indeed, it would be surprising if it were not so, since it is well known to the public which

thrifts are troubled, and also well known that any uninsured and unsecured interests in such thrifts would be at greater-than-normal risk.

This expectation is confirmed by aggregated data on conservatorship thrifts. As of July 6, 1990, there were 247 thrifts in conservatorship with year-end liabilities of \$157 billion. These liabilities were composed of:

Deposits	\$116
Borrowings	
Federal Home Loan Banks	19
Repurchase Agreements	6
Mortgage-backed Bonds	6
Other Borrowings	<u>8</u>
	38
Other liabilities	<u>3</u>
Total	\$157 billion

According to OTS data, the bulk of these deposits and liabilities were insured or secured. By definition, funds borrowed from Federal Home Loan Banks are secured, as are funds borrowed under repurchase agreements and mortgage-backed bonds. Included in the "Other Borrowings" category are liquidity advances from the RTC. Finally, with respect to deposits, the RTC reports that at the time of resolution substantially all such funds are either insured or secured.

When the RTC resolves an insolvent thrift, whether by means of a purchase and assumption transaction, an insured deposit transfer, or a liquidation, it protects the savings of insured depositors to the full extent of their insurance coverage. To the extent that uninsured creditors have lawfully secured their interests by obtaining collateral, and the value of the collateral equals or exceeds the amount of their claim, these secured creditors also do not bear losses.

When the RTC does an insured deposit transfer, as the name suggests, only insured deposits are transferred. In a pay off, only insured deposits are paid.

However, if the RTC, when offering a thrift for sale, receives a bid from an acquirer who wishes to assume the RTC's all deposits or liabilities, and that acquirer is willing to pay a sufficient premium to receive them, the RTC may find that it saves costs for the taxpayer to pass such liabilities to the acquirer. It is important to note that any uninsured portion of any such deposit would remain uninsured on the books of the acquirer, and any unsecured liability would remain unsecured (and, of course, uninsured). In neither case would those interests somehow obtain deposit insurance as a result of the transaction. Furthermore, such transactions must meet the fundamental test of being the least costly to taxpayers.

RTC records indicate that the amount of uninsured deposits passed to acquirers in such transactions is equal to only about 0.18% of all deposits of the 207 thrifts resolved through June 30, 1990, and that, by passing these amounts to acquirers, the RTC generated savings to the taxpayer that greatly exceeded the amount of losses that those depositors otherwise would have absorbed.

Submitted by Congressman Carper

RTC Hearing — Questions

Questions for Secretary Brady

Mr. Secretary, important questions remain unresolved regarding the application of our nation's environmental laws to the savings and loan bailout. As one of the President's closest advisors, can I ask you to get his personal views? Does President Bush support the application of environmental protection laws to the actions of the Resolution Trust Corporation (RTC)? Please understand this not a legal question. I am simply looking for the President's personal views.

When can we expect a response?

Question for Mr. Taylor or Mr. Monroe

I understand that the RTC has contracted at least one study regarding the application of environmental laws to the Corporation's actions under FIRREA. Is this true, and if so, who is conducting the studies and what is the precise status of these studies?

Will you provide copies of all such studies, whether done in-house or contracted, to the Committee?

When can we expect to see them?

General questions for RTC representatives

- 1) What is your position with regard to the application of federal environmental protection laws and executive orders, such as the National Environmental Policy Act, the Endangered Species Act, the National Historic Preservation Act, and the Executive Orders on Wetlands and Floodplains, to the RTC's role as conservator, receiver, and in its corporate capacities?

Does the RTC have an environmental policy?

- 2) Has the issue of environmental compliance been discussed at any meetings, formal or informal, of the Oversight Board?

Will you provide the committee with a transcript or summary of such discussions?

- 3) Have conservation easements or other restrictions been used to protect and enhance wetlands or other environmental values, or to restrict development in environmentally sensitive areas like floodplains or coastal barrier islands, prior to the disposal of any properties under the control of the RTC? If so, please provide the Committee with a summary of such cases.

RTC questions

Page two

- 4) I understand that the U.S. Fish and Wildlife Service has offered its field staff to assist in identifying properties with natural, recreational and scientific values, as required by FIRREA, in exchange for conservation measures which would protect and enhance such values. Has the RTC responded to this offer? If not, why?

Questions for Oversight Board
by Congressman Carper

- Q.1 Mr. Secretary, important questions remain unresolved regarding the application of our nation's environmental laws to the savings and loan bailout. As one of the President's closest advisors, can I ask you to get his personal views? Does President Bush support the application of environmental protection laws to the actions of the Resolution Trust Corporation (RTC)? Please understand this not a legal question. I am simply looking for the President's personal views.

When can we expect a response?

- A.1 President Bush certainly supports the protection of the environment. However, FIRREA was never intended to transfer the costs of environmental clean-up to the taxpayers. The RTC should not operate its assets so as to compound any environmental problems found on them. However, the RTC did not create these problems. It has inherited these properties without any active attempts to acquire them and intends to hold them only pending sale. It is important to remember that asking the RTC to bear the costs of environmental liability is tantamount to asking taxpayers to bear those costs. Such costs cannot be immediately predicted with any certainty but could potentially add millions to the S&L resolution costs that ultimately fall on the taxpayers.
- Q.2 I understand that the RTC has contracted at least one study regarding the application of environmental laws to the Corporation's actions under FIRREA. Is this true, and if so, who is conducting the studies and what is the precise status of these studies?

Will you provide copies of all such studies, whether done in-house or contracted, to the Committee?

When can we expect to see them?

- A.2 The RTC has engaged the environmental consulting firm of Dames & Moore to provide advice on the development of a comprehensive policy on environmental matters. We understand the firm is studying the environmental issues confronting the RTC and expects to present recommendations to RTC on procedures, guidelines and staffing for implementation of such a policy. RTC is also obtaining a legal opinion on its exposure under the environmental laws.

Copies of any studies done would be provided directly to the RTC and not the Oversight Board since the RTC contracted for them. Requests for copies should be addressed to James

Davis, Senior Asset Specialist in the RTC's Asset Management Division.

- Q.3 What is your position with regard to the application of federal environmental protection laws and executive orders, such as the National Environmental Policy Act, the Endangered Species Act, the National Historic Preservation Act, and the Executive Orders on Wetlands and Floodplains, to the RTC's role as conservator, receiver, and in its corporate capacities?

Does the RTC have an environmental policy?

- A.3 The RTC is obtaining a legal opinion on the applicability of various environmental laws and Executive Orders to its actions in its corporate capacity as well as in its capacities as receiver and conservator.

The RTC is currently studying the environmental issues facing it for the purpose of developing a comprehensive policy in dealing with such issues.

- Q.4 Has the issue of environmental compliance been discussed at any meetings, formal or informal, of the Oversight Board?

Will you provide the committee with a transcript or summary of such discussions?

- A.4 The Oversight Board staff is monitoring the RTC's progress in the development of a comprehensive environmental policy. Board members are aware of environmental issues facing the RTC, but the subject has not yet been formally addressed at an Oversight Board meeting. The Board will keep apprised of the RTC's progress in the development of a comprehensive policy and will evaluate the RTC's positions as they are formulated.

- Q.5 Have conservation easements or other restrictions been used to protect and enhance wetlands or other environmental values, or to restrict development in environmental sensitive areas like floodplains or coastal barrier islands, prior to the disposal of any properties under the control of the RTC? If so, please provide the Committee with a summary of such cases.

- A.5 The Oversight Board does not participate in decisions affecting particular cases. However, we know that, to date, conservation easements and other restrictions have not been imposed on RTC properties prior to disposal. We are aware that the RTC and the Fish and Wildlife Service have been working closely on a Memorandum of Understanding between them under which the RTC would be aided by the Service in

its conservation objectives. We understand that conservation easements have been discussed as one possible approach.

- Q.6 I understand that the U.S. Fish and Wildlife Service has offered its field staff to assist in identifying properties with natural, recreational and scientific values, as required by FIRREA, in exchange for conservation measure which would protect and enhance such values. Has the RTC responded to this offer? If not, why?
- A.6 As described above, the RTC has been working with the Fish and Wildlife service on a Memorandum of Understanding, which is expected to be signed in a few weeks.

Original from
UNIVERSITY OF CALIFORNIA

SUPPLEMENTAL QUESTIONS FOR INCLUSION IN THE RECORD OF THE JUNE 14, 1990 HEARING OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS.

TOPIC: MINORITIES AND WOMEN OUTREACH PROGRAMS

WE UNDERSTAND THAT THE RTC WILL BE AWARDING LARGE CONTRACTS FOR THE MANAGEMENT AND DISPOSITION OF ITS ASSETS. WE ARE CONCERNED ABOUT HOW THE AWARDING OF SUCH LARGE CONTRACTS WILL AFFECT THE PARTICIPATION OF MINORITIES AND WOMEN IN THE ASSET DISPOSITION PROCESS.

- HOW WILL THE POOLING OF ASSETS, BULK SALES, AND AWARDING LARGE CONTRACTS THAT REQUIRE A NATIONAL PRESENCE (FOR EXAMPLE: MORTGAGE SERVICING CONTRACTS, AND CONTRACTS TO MANAGE AND SELL ALL THE RTC PROPERTY IN A PARTICULAR STATE) EFFECT THE ABILITY OF MINORITY AND WOMEN OWNED FIRMS, MOST OF WHICH DO NOT HAVE A NATIONAL PRESENCE, TO COMPETE FOR CONTRACTS?
- WHAT POLICIES ARE IN EFFECT OR HAVE BEEN PROPOSED TO ENSURE THAT MINORITY-OWNED AND WOMEN-OWNED BUSINESSES ARE NOT EFFECTIVELY SHUT OUT FROM CONTRACTING WITH THE RTC BECAUSE THEIR SMALLER OPERATION WOULD PRECLUDE THEM FROM BIDDING ON SUCH LARGE CONTRACTS?
- DOES THE RTC LOOK FOR PARTNERSHIPS AND JOINT VENTURES WITH LARGE NATIONAL COMPANIES TO HELP SOLVE THIS PROBLEM?

TOPIC: UNINSURED LIABILITIES

THE CONGRESSIONAL BUDGET OFFICE HAS STATED THAT UNINSURED LIABILITIES REPRESENT A SIGNIFICANT AMOUNT OF THE POTENTIAL COST OF RESOLVING FAILED THRIFTS. CBO ESTIMATED THAT OF THE 84 THRIFTS RESOLVED AS OF MAY 25, 1990, A TOTAL OF \$7 BILLION OF \$25 BILLION, OR 28% OF THEIR LIABILITIES, WERE ACTUALLY UNINSURED LIABILITIES. THE COMMITTEE WANTS TO KNOW HOW THE RTC IS TREATING UNINSURED LIABILITIES WHEN IT RESOLVES AN INSTITUTION. ALSO, PLEASE RESPOND TO THE FOLLOWING:

- AS TO INSTITUTIONS ALREADY RESOLVED AND THOSE STILL IN CONSERVATORSHIP, PROVIDE A BREAKDOWN OF THE AMOUNT OF INSURED AND UNINSURED LIABILITIES IN TWO CATEGORIES;
- PROVIDE A DESCRIPTION OF THE TYPES OF LIABILITIES IN RESOLVED INSTITUTIONS AND CONSERVATORSHIPS THAT WERE OR ARE UNINSURED, WITH THE AMOUNT OF FUNDS IN EACH CATEGORY, INCLUDING THE AMOUNT OF LIABILITIES THAT REPRESENT ACCOUNT BALANCES OVER \$100,000;
- OF THE RESOLUTIONS ACCOMPLISHED TO DATE, HOW MUCH OF THE RESOLVED INSTITUTIONS' LIABILITIES WERE UNINSURED? HOW HAS THE RTC TREATED THESE UNINSURED LIABILITIES WHEN AN

INSTITUTION IS RESOLVED? IN A NONLIQUIDATION RESOLUTION, HAS THE RTC PASSED THESE UNINSURED LIABILITIES TO ACQUIRERS, THEREBY EFFECTIVELY INSURING THEM?

- HOW MUCH OF THE UNINSURED LIABILITIES OF CONSERVATORSHIPS AND RESOLVED INSTITUTIONS WERE COLLATERALIZED? (AN EXAMPLE WOULD BE MORTGAGE BACKED BONDS ISSUED BY A THRIFT). IF THESE LIABILITIES WERE NOT TRANSFERRED AS PART OF THE RESOLUTION, WAS THE LIABILITY DEFAULTED ON AND UNDERLYING COLLATERAL TRANSFERRED TO THE LENDER? WOULDN'T THIS BE LESS EXPENSIVE THAN PAYING OFF THE FACE VALUE OF THE LIABILITY?



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