TESTIMONY OF

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WASHINGTON, D.C.

ON

STATUS OF THE RESOLUTION TRUST CORPORATION

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
UNITED STATES SENATE

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Room 538
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Good morning, Mr. Chairman and members of the Committee. I am pleased to appear before you today to discuss the financial status and activities of the Resolution Trust Corporation (RTC), as well as to comment on the Strategic Plan that was adopted by the RTC Oversight Board (Oversight Board).

The RTC has existed less than six months, but already has accomplished much. Our testimony will acquaint you with those achievements. However, the greater part of our work lies ahead, and we will discuss with you how we hope to complete that work. The timely and efficient completion of our mandate depends on many factors. We will examine those factors we believe to be of particular importance, and how they may impact upon the RTC's operations.

You have heard from the RTC Oversight Board concerning the Strategic Plan. The RTC is moving forward quickly to implement the policies and programs mandated by the Oversight Board under the Plan.

I. CURRENT FINANCIAL STATUS

The RTC's funding needs will depend on a variety of factors such as future economic conditions, the future level of interest rates, and future real estate prices, all of which cannot be predicted with any degree of certainty. However, the critical factor is to predict the number, size and financial condition of the savings associations the RTC will eventually be called upon to handle.

In a letter to Chairman Riegle written last June (See Attachment 1), while the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was being debated, we addressed some of the same questions regarding the RTC's funding needs that we are being asked to testify upon today. At that time, we identified 428 savings associations that we felt were most likely to come to the RTC. Based on year-end 1988 financial data, and economic models used by the FDIC, we estimated that the potential loss from these institutions would be about $44 billion and that the $50 billion was a reasonable estimate of loss. We noted, however, that there was not much of a comfort margin.

As of January 16, 1990, the RTC had resolved 40 institutions and had 293 institutions under conservatorship. Collectively, these 333 institutions reported $136 billion in gross assets and $148 billion in liabilities as of September 30, 1989. (Note most of these institutions were the ones identified last June, although many are significantly smaller now after being shrunk while in conservatorship.) Our estimate of the present value cost of resolving these institutions, based on FDIC loss experience, is approximately $42 billion.

If the case load does not grow more than another 100 institutions or another $40 billion in liabilities, the $50 billion funding provided by FIRREA would appear to be adequate.

Beyond those numbers, additional funding to absorb losses will likely be needed. The RTC relies on the Office of Thrift Supervision (OTS) to identify institutions it expects may eventually come to the RTC. OTS has informed us that it is working on its most current list of problem thrifts, which it expects to give to the RTC in the next few weeks. A preliminary estimate given to the RTC by OTS on January 18, indicates that there are 225 to 295 institutions with $160 billion to $200 billion in assets above those already under RTC conservatorship that may be categorized as "likely failures." The preliminary estimate also identifies an additional 295 to 325 seriously undercapitalized institutions with $185 billion to $205 billion in assets that OTS expects to categorize as "distressed." Based on FDIC's recent "backup" examinations of thrifts, we have found no reason to question the reasonableness of the OTS estimates on the number of troubled institutions. We have been told that OTS expects to resolve the distressed institutions without government assistance, but our examination process has not proceeded to the point where we can confirm that independently. In summary, the information as of January 16, 1990 may be charted as follows:

	Number		Assets (Billions)	
	Low	High	Low	High
Likely to Fail	225	295	$160	$200
RTC (actual)	333	333	136	136
TOTALS	558	628	296	336
Distressed	295	325	185	205

NOTE: Asset figures for Likely to Fail category and Distressed category are net assets. Asset figures for RTC (actual) category are gross assets. OTS has not provided the RTC with gross asset estimates.

Obviously the variance in the number of institutions and their assets that may come to the RTC is wide and there is no way at this time to provide a definitive forecast of what it will be. The estimated loss at institutions that recently have entered the conservatorship program is less than the estimated loss of

the early entrants into the program (which was about 36 percent of gross assets), so that the incremental loss of new institutions is expected to be less than the average loss. Losses in institutions recently taken over by the RTC are estimated to be 20 percent of gross assets. We cannot at this time estimate loss for future RTC restructuring activities as this will be determined by the condition of the institutions and market conditions at the time.

Under almost any scenario, the $50 billion provided by FIRREA should, as far as funding loss is concerned, carry the RTC into 1991. The need for additional funding, if any, to absorb losses can be addressed with much greater certainty at that time. What cannot be delayed, however, is the need for working capital.

Working Capital

As stated in the letter to Chairman Riegle, and many times since then, the RTC needs considerably more than $50 billion in the form of short term financing or working capital to most efficiently handle resolutions. First, working capital is necessary for resolutions in order to finance problem assets pending their eventual sale. RTC's cash outlays take place up-front at the time of resolution whereas its cash inflows -- whether from REFCORP or the sale of assets -- will take place over a number of years.

Second, working capital is necessary to replace high-cost funds at the savings associations under RTC conservatorship. Very high-cost funds (i.e., costing at least 125 basis points over market) currently represent roughly 20 percent of the liabilities of these associations. High-cost funds replacement would yield a tangible savings to the thrifts under RTC conservatorship, thereby reducing the ultimate cost of their resolution. Such a program applied on a nationwide scale would reduce the financing costs of all banks and thrifts, reducing the RTC's eventual case load and resulting in improved performance of the entire U.S. financial system.

Working capital for resolutions. Let us focus first on the working capital necessary to finance resolutions. The cash needed for a resolution is highly dependent on its structure. We expect that most of the resolutions will be very cash intensive "clean" thrift transactions, in which substantially all the illiquid and distressed assets are retained by the RTC.

The RTC and the Oversight Board are now considering a modification of the Strategic Plan that would allow more liberal asset put-back structures. Under the modification contemplated, it may be possible to transfer substantially more assets, at least initially, to the acquirer. This would require much less working capital up front and probably result in more assets eventually being transferred to the acquirer.

More flexibility in put-backs also could speed up the resolution process by shortening the due diligence period.

We estimate that for the 333 institutions resolved or under conservatorship as of January 16, 1990, working capital needs simply to fund resolutions should peak around $36 billion above the funds provided by FIRREA to cover losses, with the actual amount depending on the speed of resolutions and the rate of disposition of less liquid assets. The working capital estimate assumes that most resolutions will be "clean" transactions where only liquid, nondistressed assets are purchased by the acquirer. The estimate also assumes that institutions in conservatorships have been significantly downsized prior to resolution. Of course, the total amount of working capital that ultimately will be needed will depend upon the ultimate size of the case load. If the RTC's gross assets were to reach $300 billion, working capital needs just <u>to fund resolutions</u> could reach $70-$90 billion. Again, the actual amount will depend on the timing of when institutions enter conservatorship and the scheduling of resolutions.

<u>Working capital for high-cost funds replacement</u>. The second major need for working capital is for replacement of high-cost funds such as brokered insured deposits where the failed thrift must pay very high interest rates. Replacing high-cost funds affects the timing of the need for cash by the RTC. While working capital to fund resolutions is likely to reach its peak toward the end of the resolutions process, high-cost funds replacement, in order to be effective, must begin to take place as soon as a thrift enters conservatorship. Thus, high-cost funds replacement <u>shifts the demand for such financing to the present</u>.

The potential savings to the taxpayer from high-cost funds replacement is significant. We estimate that at the current conservatorships alone there is $20 billion in funds maturing over the next two quarters that cost at least 125 basis points over prevailing market rates. Replacing these funds and assuming an average savings of 150 basis points, the savings would be about $300 million per year. When one considers all other thrifts likely to come to the RTC, the savings from reducing high-cost funding would be very substantial. Moreover, even replacing just some high-cost funds should lower substantially the interest rates on all brokered deposits not only for existing or likely conservatorships but on all depository institutions.

Replacement of high-cost funding would go a long way toward stemming immediately the growth in losses of current conservatorships as well as RTC-bound thrifts. We have estimated roughly that conservatorships are experiencing combined operating losses approaching $14 million per day. These losses are caused by one or all of three factors: First, by the amount and cost that their liabilities exceed the fair value and yield in their assets (i.e., they are insolvent);

Second, to the extent they must pay significantly higher rates for their funding than healthier competitors; and Third, because they often have operating inefficiencies, to some extent because cost savings generally lag downsizing programs.

RTC analysis indicates that at least two-thirds of the growth in losses is attributable to the first factor, and thus unavoidable. That is, the loss now being funded in the institutions will have to be funded by the government after resolution. However, approximately 20 percent of the avoidable loss is due to the second factor and could be very rapidly eliminated through high-cost funds replacement.

Finding a source or sources of working capital is not a responsibility of the RTC, but comes under the purview of the RTC Oversight Board. We are told by the Oversight Board that they expect to be able to provide the RTC with working capital in the next four to six weeks. These funds must be obtained promptly if the resolution process and replacement of high-cost funds are to proceed without interruption.

Current Sources and Uses of Funds

An outline of the RTC's actual cash inflows and outflows should illustrate the urgency of this problem. As shown in Attachment 2, by December 31, 1989 the RTC had received $24.5 billion in capital contributions. Of this amount, $20 billion was provided by Treasury appropriations or Federal Home Loan Bank contributions, and $4.5 billion was provided from the proceeds of the first quarterly REFCORP financing. The RTC's cash outlays totaled $20.2 billion, including $9.2 billion to resolve 37 thrift institutions, and $9.2 billion in advances for high-cost funds replacement at 156 institutions. Also included in the $20.2 billion total are 261 advances for emergency liquidity which we were forced to make to meet depositor demands at 85 conservatorships. The cash outlays for this purpose totaled $1.8 billion.

As a result of these cash outlays, the RTC at the end of 1989 had only $4.3 billion in cash. All of that amount had been set aside to cover the projected cost of resolving 12 institutions which had to be held over to 1990 due to extended due diligence requirements of the bidders. Through Friday, January 19, 1990 we had received no additional funds, but had spent an additional $1.3 billion. This left the RTC with a current net cash position of only $2.9 billion.

The second quarterly financing of REFCORP is about to provide another nearly $5 billion in funds. We also have the potential availability of an additional $5 billion from the Treasury line of credit granted to the RTC by FIRREA. This line is intended to be used only to satisfy the emergency liquidity needs of our conservatorships.

RTC's own operations are also a potential source of funds, but the cash available in the immediate future from our conservatorships and receiverships is quite limited. Specifically, if we were to force all of the conservatorships that have received advances from the RTC to repay whatever advances they could by divesting all of their cash and marketable securities, we would net less than $1 billion. Similarly, the maximum dividends expected to be payable from the RTC receiverships this quarter -- through the liquidation of their assets -- is estimated not to exceed $1 billion.

Until the working capital issue is resolved, the RTC has ceased virtually all advances to replace the high-cost funds of the conservatorships. As indicated earlier, this program has been successful in reducing the funding cost of conservatorships and, thus, limiting the growth of the loss that must be borne by the RTC.

New Approaches

The magnitude of the problem dictates that we seek new and cost efficient ways to handle the problem. As much of the earlier discussion has indicated, a critical element in the cost structure contemplated by FIRREA is the number of institutions the RTC will be asked to handle. Minimizing the number of institutions that will have to come to the RTC might be a way to contain the problem.

The RTC staff has begun a study of ways of dealing with institutions before they become wards of the Federal government. In accordance with the Oversight Board directive, we will be examining open-thrift solutions based on our previous experience. Much research needs to be done on this. There will be no costless solutions, but we are looking for new ways to limit the cost of this problem.

II. STRATEGIC PLAN

FIRREA requires the Oversight Board, in consultation with the RTC, to develop a Strategic Plan for conducting the RTC's functions and activities. FIRREA also establishes minimum contents for the Plan.

The Plan developed by the Oversight Board's staff over the last five months was done in consultation with the RTC and the staffs of the Treasury Department, the Department of Housing and Urban Development and the Federal Reserve Board. A draft of the Plan was issued for public comment and many of the public's comments were incorporated into the final plan.

The Strategic Plan represents a compromise resulting from trade offs among many competing views. Our recent experience has led us to request some changes in the Plan. Some of these changes

requested of the Oversight Board pertain to the financing of assets and asset put-backs. Overall, we believe it is a good document that balances multiple, sometimes conflicting, concerns and gives direction for managing the task ahead.

The mission of the RTC is to carry out a program to manage and resolve institutions that come under its jurisdiction and to dispose of any residual assets in a manner that:

- maximizes return and minimizes loss;
- minimizes the impact on local real estate and financial markets; and
- maximizes the preservation of the availability and affordability of residential property for low-and moderate-income individuals.

We think the Plan takes a clear position on what appears to be conflicting objectives. Throughout the Plan the Oversight Board makes it clear that it believes minimizing cost is the paramount objective of the RTC.

The Plan provides a substantial amount of guidance to the RTC in six major areas of operations: case resolution; asset disposition; affordable housing; conflicts of interest and ethical standards; external relations; and administration. In each of the six areas, the Plan includes a goal, one or more objectives and various implementation procedures. The Plan primarily relies on the RTC to develop numerous written operating policies and procedures for each area in accordance with established timeframes. We would like now to briefly describe and offer some comments on each of the six main areas covered by the Plan.

Case Resolution

With respect to case resolutions, the goal of the Plan is to: "Manage and resolve institutions under the RTC's jurisdiction in a timely and cost effective manner, while minimizing the negative effects on local financial and real estate markets."

To meet this case resolution goal, the Plan sets six objectives. These are: (1) manage thrifts under the RTC's jurisdiction conservatively; (2) prioritize resolutions based on levels of deterioration; (3) select resolution methods on the basis of cost; (4) develop procedures to keep all interested potential purchasers fully informed of the case resolution process and provide adequate time for the market to determine the best (i.e., the least costly) method of resolution; (5) maintain records sufficient to keep all interested parties informed of the case resolution process; and (6) use the private sector to manage and resolve institutions wherever practicable

and efficient. All of these are worthy objectives given the task the RTC must manage. The RTC, and the FDIC before it, has been performing its task consistent with the Plan's objectives in this section.

Manage thrifts under RTC jurisdiction conservatively. The objectives of the RTC when it places an institution into conservatorship are to establish control and oversight while promoting customer confidence; to evaluate the condition of the institution to determine the most cost effective method of resolution; and to operate the institution in a safe and sound manner pending resolution.

To achieve these goals of conservatorship, we have a Managing Agent and one or more Credit Specialists overseeing each conservatorship. The role of the Managing Agent is to ensure that management of the institution adheres to RTC policies and procedures. The Credit Specialist's function is to assist the Managing Agent with regard to RTC policies and procedures as they relate specifically to asset management and disposition. It is important to note that the asset disposition process begins immediately upon conservatorship -- appraisals are brought up to date, conservative underwriting standards are established for the purpose of marketing and selling real estate owned, and RTC delegations of authority are made a part of the operational structure of the institution.

Each Managing Agent is responsible for assessing the condition and acquiring control of the institution, eliminating any abusive or speculative practices, and investigating any evidence of fraudulent practices. New management is brought in to ensure conservative operation and preclude insider abuse, and a business plan for each conservatorship is developed within 60 days of the date the institution is placed into the program. To the extent possible, funding costs are reduced by replacing high-cost funds using RTC advances. Funding demands and RTC advances are contained by downsizing institutions. Downsizing is accomplished by curtailing new lending activity and selling assets where possible.

To address appropriately the unconscionable risk-taking, fraud and insider abuse that were factors in many thrift insolvencies, the RTC has established an Office of Investigations to identify the individuals who caused thrift insolvencies through their reckless mismanagement, fraud or criminal conduct, and to recover the assets they misappropriated. The corps of RTC investigators, which is expected to reach 300 by year-end, will help determine whether and what sort of litigation should be initiated against insiders and others. The RTC will vigorously assist the Department of Justice in prosecuting individuals who benefited personally at the taxpayers' expense.

Starting with a seasoned core of investigators transferred from FDIC's Division of Liquidation, we are building a highly competent, well-educated investigator force from outside the

agency. We are requiring all of them to attend a rigorous training program to enhance their investigative skills and their understanding of complex financial transactions. We believe using agency personnel and private sector contractors to gather the facts before decisions are made to embark on costly litigation will give us consistency and accountability in any adverse actions we take against individuals.

Our objective is twofold: to return stolen thrift assets to the American taxpayer, and to help send to jail those who operated outside the law and in so doing benefited personally at the taxpayers expense.

RTC Conservatorship Case Load

	August 9	September	October	November	December	January
Beginning of month	262	262	256	257	275	281
New conservatorships	11	7	10	18	10	31
Resolutions	11	13	9	0	4	5
End of month	262	256	257	275	281	307

The conservatorship program began last February under the auspices of the FDIC. By the time FIRREA was signed into law on August 9, and the RTC began its work, there were 262 thrifts under conservatorship. Since then 87 have been added, and 42 resolved, leaving 307 conservatorship thrifts as of today.

From the outset, downsizing institutions in the program has been a high priority, and it continues to be stressed as a basic objective of conservatorship. Efforts at downsizing have been successful, especially in institutions that have been under conservatorship for a number of months. Of the 243 institutions that were placed into the conservatorship program during the first three quarters of 1989 and that were still in the program at the end of the year, aggregate assets declined by 23.2 percent through November 30, 1989.

At the same time, core funding saw a much smaller decline, while more expensive or rate-sensitive funding fell sharply. These less stable and relatively high-cost sources of funding were replaced to a considerable degree with funds advanced by the RTC. High-cost funds replacement is a strategy the RTC follows to contain operating costs of conservatorship institutions, thus reducing the institutions' operating losses and thereby the ultimate cost of resolution. Essentially, the RTC has been able to shrink these thrifts and their interest expenses while preserving franchise values to the extent possible.

Downsizing of Institutions Under RTC Jurisdiction, Distributed by the Calendar Quarter They Entered the Conservatorship Program
(excludes conservatorships resolved during 1989; dollars in millions)

Qtr.	Number of Thrifts	As of quarter-end before entering conservatorship			As of 11/30/89			% change since conservatorship		
		Assets	Core*	Other**	Assets	Core*	Other**	Assets	Core	Other
89:1	148	$ 67,761	$51,805	$21,828	$50,434	$47,038	$11,360	- 25.6	-9.2	-48.0
89:2	47	23,401	16,945	7,088	18,308	17,128	2,141	- 21.8	+1.1	-69.7
89:3	48	11,259	8,384	2,966	9,971	8,027	2,026	- 11.4	-4.3	-31.7
89:4	38	20,150	14,903	4,243	19,279	14,319	4,219	- 4.3	-3.9	- 0.6
1989	281	$122,571	$92,037	$36,125	$97,993	$86,513	$19,747	- 20.1	-6.0	-45.3

* - Core deposits = all deposits with total balances below $100,000

** - Other funds sources = all deposits with total balances over $100,000 + FHLB advances + reverse repurchase agreements; these figures do not include RTC advances.

NOTE: Assets reported net of reserves.

The 281 institutions under RTC conservatorship as of year-end 1989 had gross assets with a book value of $106.7 billion, based on their financial reports of November 30, 1989. Losses already had been taken on some assets as of this date, resulting in a lower book value as of November 30 than when the assets first came under RTC jurisdiction. The estimated fair market value of these assets, also as of November 30, was $89.2 billion. The following table shows the distribution of assets and the estimated declines in value based on a mark to market.

Type of asset	in millions		Loss (%)
	Book value	Fair value	
Residential mortgage loans	$ 36,740.6	$ 33,513.7	8.8
Other real estate loans	20,707.8	16,631.9	19.7
Total non-real-estate loans	6,466.4	5,405.7	16.4
Mortgage pool securities	9,204.5	8,509.2	7.5
Other investment securities	7,308.4	6,832.8	6.5
Repossessed assets and other real estate owned	13,429.5	8,821.2	34.3
All other assets	12,798.9	9,497.1	25.6
TOTAL ASSETS	106,656.0	89,211.8	16.4

The estimated loss on these assets -- the difference between book and market values -- was $17.4 billion as of November 30, 1989. Additionally, the book liabilities of these 281 institutions exceeded book assets by $13.8 billion. Thus, the estimated total loss on these thrifts was $31.2 billion as of November 30.

To date, 42 cases involving conservatorship institutions have been resolved. These institutions, in 17 different states, were handled using a variety of resolution options, including 28 insured deposit transfers, four insured deposit payoffs, and 10 purchase and assumption transactions. For the 37 institutions completed prior to December 31, 1989 the RTC had sold approximately $2.7 billion of the assets of these thrifts to their acquiring institutions, and retained assets with a book value of about $8.1 billion. The estimated recovery on assets retained is $4.9 billion, resulting in an estimated loss of $3.2 billion on assets in receivership. The five transactions just recently completed are still in the process of settlement between the RTC and the various acquirers.

Prioritize resolutions based on levels of deterioration. In accordance with Oversight Board direction, the RTC has to develop a prioritization schedule for case resolutions. The RTC's implementing procedures for evaluating each institution and determining the priority of case resolutions are attached as Attachment 3. These guidelines and prioritization procedures attempt to comply with the Oversight Board's objective to prioritize based on the rate of deterioration both in absolute and in relative terms. The guidelines leave room to schedule prioritizations on other than just quantitative factors. For instance, the RTC plans to resolve 16 minority-owned institutions now under its jurisdiction relatively early on so as to preserve what chance there may be for them to be restructured as viable enterprises, preferably owned by new minority investors. These will be resolved under a program the RTC will adopt in the near future.

The guidelines for making the prioritization determination focus on four factors:

1. Giving priority to institutions with relatively high rates of deterioration;

2. Minimizing the ongoing risk of exposure to the RTC;

3. Maximizing the recovery of franchise values; and

4. Ensuring the most efficient use of RTC resources and staff.

These factors, using eight quantitative measures in all, are combined to yield a single prioritization schedule. A prioritization schedule is developed nationwide as well as for each of the RTC's four regions to facilitate the resolution of institutions with less than $500 million in assets in those regions. A prioritization schedule is also developed for the major transaction resolution process headquartered in Washington, D.C. Each schedule divides the case

load into four levels, or quartiles, of priority -- the most precise level of categorization considered practical.

Each schedule is updated 30 days before the end of each calendar quarter, to reflect additions to the RTC's conservatorship program, changes in investor interest, and new data on institutions already in the conservatorship program.

This approach was used recently to identify those institutions to be marketed by the RTC during the first quarter of 1990. The RTC will continue to publicize the case resolution schedules in order to generate maximum interest in the competitive bidding process.

Select resolution methods on the basis of cost. The RTC's written guidelines for the "Cost Test" calculation required by Section 13(c) of the Federal Deposit Insurance Act and the loss minimization criteria in FIRREA are attached as Attachment 4. Case resolution options are geared towards maximizing competition and minimizing costs. The RTC offers a menu of bid options to open the competitive bidding process, maximizing the private funds brought to the table. This approach is designed to allow the market maximum flexibility and access in the bidding process, and minimize the RTC's costs.

It is especially important that bidders can select the amount of assets they will acquire under current put provisions in that it minimizes the time required for due diligence. This should promote bidder interest and hasten resolutions, thus lowering RTC's cost.

The ability to offer cash to fill the asset short-falls reduces costs, as the market discounts the use of government notes and guarantees. Cash should lead to a better price. It also gives the RTC more flexibility in the resolution process, again helping to minimize cost.

The RTC offers five approaches in its current bidding format:

1. Clean Thrift Option: Bidder acquires only cash and investment-grade and mortgage-backed securities, performing 1-4 family residential mortgage loans, and performing consumer loans, with a put for forged, stolen or fictitious instruments.

2. Modified Clean Thrift Option: Bidder acquires only cash and securities, performing 1-4 family residential mortgage loans, all consumer loans, and other performing loans (construction, multifamily and commercial loans) with an expanded put, including for forged, stolen or fictitious instruments.

3. Modified Whole Thrift Option: Bidder acquires all assets of the institution, except real estate owned and other specific assets, with a put for forged, stolen or fictitious instruments.

4. Whole Thrift Option: Bidder acquires all assets of the institution with a put for forged, stolen or fictitious instruments.

5. Branch-by-Branch Clean Thrift Option: Bidder acquires only fixed assets and limited other assets in certain cases. This approach provides maximum access for smaller parties to the bidding process.

Under all of these options the bidder assumes all deposit liabilities, and is required to pay the contractual interest rate on those deposits for 14 days. Bidders have the option to purchase all fixed assets (required in whole-thrift and branch-by-branch options).

If the RTC fails to receive a bid that meets the "cost test" during the initial round of bidding, then an insured deposit transfer option is offered. This second bidding round might include a simple insured deposit transfer, an insured deposit transfer that also includes the purchase of certain assets, and an insured deposit transfer transaction offered on a branch-by-branch basis.

We believe the broader the marketing, the more open the process, and the more flexible the product, the better the price will be. However, this approach does have some side effects.

The menu of options offered tends to be fairly standardized. Negotiations with individual bidders for more complex or customized transactions are precluded in the interest of open and competitive bidding. While we offer a menu, which certainly will change as the market dictates, customers cannot get customized orders. That may discourage some potential bidders -- particularly in an ever increasing buyer's market.

Another side effect is that some of the options, particularly the whole thrift option, take a lot of time for bidders to evaluate. Depending on the condition of the records of the particular thrift, even the so-called clean thrift option can take a lot of time. Smart buyers shop carefully -- and slowly. The less time they get, the less they are willing to buy. The more buyers, the slower the sale. This is the primary reason that sales of 21 institutions started last quarter rolled over until this quarter. We are happy to report that, of these, nine have been sold, and five more should be resolved this week, with the rest being sold over the next two to four weeks. This would bring our total resolutions to 54, and we have announced the process to start selling another 52 this quarter. Undoubtedly, a number of these will roll over to next quarter. We are in discussions with the Oversight Board on possible approaches to expedite the sales process.

Develop procedures to keep all interested potential purchasers fully informed of the case resolution process and provide adequate time for the market to determine the best (i.e., least costly) method of resolution. It is the RTC's policy to open the bidding process for institutions under its conservatorship to all SAIF or BIF insured

depository institutions and corporations, partnerships or individuals who have the potential for receiving approval from chartering authorities for an assisted acquisition. Solicitations for bidders on conservatorship thrifts are made to the greatest number of potential purchasers possible, without regard to existing or potential organizational structure (i.e., thrift or bank). In an effort to attract the widest possible market, the RTC is committed to keep the marketplace of potential purchasers informed of its plans wherever practical.

The RTC publicizes and communicates its case resolution plans, procedures and results to potential purchasers through the use of various techniques including RTC publications, advertising, conferences, outreach programs, and the RTC reading room.

On November 27, 1989, the RTC published "A Buyer's Guide: How to Purchase a Savings Association from the RTC," which was announced in a press release. The Buyer's Guide is found at Attachment 5. This pamphlet explains the RTC's marketing process for the institutions that have come under RTC conservatorship. It is available free of charge. To date, the RTC marketing department has mailed approximately 3,000 copies. These mailings were in response to written requests, general interest calls to the RTC, and calls received on the RTC "hot line." Included with the "Guide" is the RTC clearance package, which contains a financial statement form for all private investors, a bidder fact sheet for financial institutions, and a list of all institutions currently under RTC conservatorship, which is updated weekly.

The RTC toll-free "hot line" also was established on November 27, 1989, and announced in a press release explaining its usage. To date the RTC has responded to approximately 1,600 calls from individuals expressing interest in purchasing a savings institution.

The RTC announces a case resolution schedule for each quarter, listing each savings institution for which active marketing has begun or is planned, along with names and telephone numbers of RTC officials to contact for more information. For each institution listed in the case resolution schedule, a public information package is available containing general information, financial statements and branch location and deposit information. See Attachment 6 for a sample information package.

The RTC also publishes the case resolution schedules and contact names and numbers in the Federal Register and advertises in appropriate newspapers, such as The Wall Street Journal. Samples of these press releases and advertisements are attached as Attachment 7. In addition to these announcements, the RTC schedules marketing conferences to provide potential bidders more information on upcoming resolutions.

Beginning in March 1990, the RTC plans to hold a series of one-day seminars around the country to inform the public on RTC's operations. Among the topics will be how to purchase a savings

association from the RTC. All potential purchasers who have contacted the RTC about the case resolution process will receive invitations to these seminars.

Independently, and in concert with RTC's Minority and Women's Affairs Officer, the Washington and Regional Office case resolution staffs will speak at various non-RTC programs around the country in an effort to encourage the active participation in the bidding process of all potential purchasers, including minorities and women.

The RTC maintains a data base which includes, to date, over 2,800 potential bidders who have expressed direct interest in purchasing an insolvent savings association and have completed the clearance package. This list consists of bank holding companies, savings associations, commercial banks, and corporate and private investors.

As outlined in our discussion of case resolution prioritization above, the Strategic Plan calls for a quarterly update and announcement of resolutions planned for the upcoming quarter.

Keep records sufficient to keep all interested parties informed of the case resolution process. In the spring of 1990, the RTC will open a reading room located at 801 17th Street, N.W., Washington, D.C. It will house in one central location all documents of interest to potential purchasers, the media, academicians and the general public, and will be staffed by public information specialists. All of the RTC's policies, procedures, guidelines and other sources of public information, including purchase and assumption agreements entered into since August 8, 1989, will be available for public inspection. Copies of all documents will be made available to any interested party for a nominal charge.

Use the private sector to manage and resolve institutions wherever practicable and efficient. The following are areas in which the RTC is now, or shortly will be, pursuing contracts with private sector firms:

1. Management of conservatorship institutions:

   The RTC has retained individuals under personal services contracts to handle Managing Agent responsibilities at a number of large conservatorships. In addition, the RTC is using significant numbers of individuals in Liquidation-Graded positions with short-term employment contracts. The RTC will continue to rely heavily on the private sector in these areas.

   Investment bankers, brokers and other professionals are under contract to the RTC to assist in the identification, evaluation, pricing and sale of conservatorship assets.

   Institutions under RTC jurisdiction continue to use the services of private contractors where practical and appropriate. In some areas, such as appraisal services, the use of outside firms has increased significantly under the RTC conservatorship program.

2. Disposition of conservatorship institutions:

The RTC has used outside accounting firms in the Central region for conducting Total Asset Purchase and Assumption (TAPA) reviews. A Request for Proposal (RFP) is under development for the purpose of expanding this into a national program. The plan is to select a number of eligible firms, and then make specific work order requests of firms in that qualified pool. The goal is to have firms conducting these reviews by March.

3. Review and analysis of the 1988 FSLIC deals:

A RFP soliciting bids from the private sector for work on this project was issued December 8, 1989. It is expected that contracts will be signed and work commenced in early February.

4. Additionally, the following are areas where the use of private sector firms in the management and disposition of institutions by the RTC is being explored:

Property management firms, for the management of properties held by institutions under RTC conservatorship.

Investment banking services, especially in the negotiation of resolution transactions for large conservatorship institutions, asset securitization activities, cash management, and portfolio management.

Status of the review of the 1988 FSLIC transactions. The RTC issued a RFP, dated December 8, 1989, for the review and evaluation of the assistance agreements transacted by the FSLIC between January 1, 1988 and August 8, 1989. A copy of the RFP is attached as Attachment 8. Bids were due by January 23, 1990.

The RTC is hiring staff to coordinate the review process, to develop the written report for the RTC Oversight Board and the Congress, and to advise on and assist in the renegotiation of the terms of these transactions where practicable.

The RTC has decided to use private sector contractors for much of the work on this project. The project is highly specialized, complex, and very labor intensive.

The RTC has limited resources to allocate to this especially important project, without diminishing conservatorship operation and resolution efforts. While the RTC will add staff to monitor this project, its urgency virtually compelled the use of outside contractors. The Strategic Plan calls for the completion of this project with reports to the RTC Oversight Board and to the Congress by August 31, 1990. There are 96 separate deals to review in the course of this project. Covering all of them in the time frame and detail required could not be accomplished in-house.

Even without benefit of the contemplated review process, we believe there are aspects of these transactions that can be modified to produce savings. Yield maintenance and asset loss coverage in many of the 1988 transactions appear to be excessively generous. They are especially generous in the context of pre-FIRREA tax incentives. Moveover, in many cases these agreements produce disincentives to the timely disposition of assets. We would contemplate modifications that would continue to adequately compensate the acquirer for carrying the assets but that also would provide incentives for the timely disposition of assets.

We also believe that long term note agreements can be either modified or paid-off depending on cash availability and the overall impact of all changes on the agreements.

Allowing acquiring institutions to reduce the rates of contract deposits. It is RTC policy to allow acquirers of failed thrifts through purchase and assumption transactions to lower interest rates on time deposits two weeks subsequent to the purchase of the thrift. Acquirers, however, are not allowed to lower the rate paid on passbook accounts below their passbook rates, and depositors are allowed to transfer their funds to another institution with no prepayment penalty. This policy benefits the RTC (thus, the taxpayer), since acquirers would pay less for institutions where they have to cover deposits until they mature.

In the last few years, a number of thrifts grew very rapidly by assuming brokered deposits and offering high interest rates. These institutions used the deposit insurance guarantee to go beyond their local area markets to fund their investments. When these investments failed to pay off, the financial health of these institutions began to deteriorate, and they were forced to raise additional funds to provide liquidity. In the Texas region, this need for funds combined with a depressed economy forced many of the distressed financial institutions to aggressively compete for funds in both local and national markets. As a result, interest rates in that part of the country climbed far above the national average. By the time the RTC took control, some of these institutions had as much as 80 percent of their deposits in brokered CDs. Even institutions without a high percentage of brokered funds were paying high interest rates since they also were forced to compete for funds. Therefore, almost all of the RTC institutions have very high deposit costs.

A significant portion of the assets in the failed thrifts consist of delinquent loans and foreclosed real estate. These are not assets that most acquirers wish to purchase. Therefore, the principal value in the failed thrift is its deposit base. If an acquirer was not allowed to adjust the interest rates for the newly acquired deposits, it would calculate the cost of holding high-cost deposits to maturity and deduct this amount from the premium it was willing to pay the RTC. The RTC receives significantly higher bids when the acquirer is allowed to adjust the interest rates for the newly acquired deposits. While the exact amount of the potential savings to the RTC

for this policy is unknown, the 472 institutions in conservatorship or on the OTS watch list as of January 3, 1990 held approximately $156 billion in time deposits. If one assumes that one-third of these deposits are high-cost funds on which an acquirer could lower rates by 100 basis points, and that the average maturity from the time of acquisition of the high-cost deposits was six months, the savings to the RTC would be $260 million.

The policy is also fair to the insured depositor. Since the RTC has provided the new institution with the necessary cash and other assets to pay all the insured depositors of the old institutions, the depositors have immediate access to their deposits with no prepayment penalties. Depositors are given two weeks notice of the change in rates so that they can pursue other savings options should they so choose. In the one case to date where depositors were not given sufficient notice, the RTC moved quickly to correct the situation.

Projections as to the number and size of institutions that are expected to be placed within the RTC's jurisdiction. The RTC relies on the Office of Thrift Supervision to identify institutions that it expects to place under the RTC's conservatorship program. In late October 1989, OTS provided the RTC with a list of 223 such institutions, which we refer to as the "OTS Watch List." The assets of these thrifts, as reported on their most recent quarterly financial reports, totalled $165 billion. Since receiving that list, the OTS has placed 59 institutions, with total assets of $41 billion, under conservatorship; three institutions were deleted from the list, while two were added. The number of institutions on the Watch List today is down to 163, with assets of $124 billion.

In discussions with the OTS, the RTC has indicated its ability to take roughly six institutions per week into the conservatorship program. Thus, the RTC could be reasonably expected to handle nearly 300 additions to its conservatorship program over the balance of 1990, if needed.

Asset Disposition

The goal of asset disposition is: "To dispose of real estate and other assets in such a way as to maximize the net present value to the RTC while also minimizing the effect of these transactions on local real estate and financial markets."

To meet the asset disposition goal, the Plan sets four objectives. These are: (1) maximize the net present value recovery to RTC by establishing policies, procedures and guidelines on all phases of the asset disposition process; (2) to the extent practicable and efficient, place assets under private control for management and disposition under a program that employs incentive agreements, assures open competition and assures compliance with the ethics and conflicts provisions of FIRREA; (3) minimize the impact on local real estate and financial markets while marketing assets expeditiously to informed market participants; and (4) fully document the asset management and disposition process.

The policies, procedures, and guidelines required to be established by January 15, 1990 have been submitted to the Oversight Board for review and comment. These guidelines are procedural. They deal with requirements to notify bidders on assets in a timely manner, the prohibition against discriminatory practices, outreach efforts for minorities and women, and recordkeeping requirements for the RTC's semi-annual inventory of real property assets.

The major emphasis of the first objective is to require the RTC to establish comprehensive performance standards and written guidelines on overall asset disposition strategies. The standards and guidelines are due March 30 and are well under way. The guidelines will cover such topics as appropriate marketing techniques, advances, allowable sales prices and appraisal requirements.

The RTC is studying the issues presented by the "distressed area" provisions of FIRREA and like many of the other implementing provisions of the Plan, its policies and procedures in this area will be made public by March 30, 1990. By the end of March, the RTC will develop guidelines on disposition prices in distressed and non-distressed areas.

Lastly, while the RTC is complying with the reporting requirements of FIRREA and the Plan, the RTC will move forward with setting standards and implementing a comprehensive management information system.

Disposition of assets. The asset disposition process starts immediately upon placing an institution in conservatorship under RTC jurisdiction. In addition to implementing prudent operating controls over the institution, RTC personnel aggressively downsize the institution through the sale of liquid assets such as securities, mortgage-backed securities, junk bonds and other issues which are readily marketable.

Procedures to implement the orderly sale of real estate owned assets are given priority. To accomplish this, appraisals are ordered on all properties held by the conservatorship. From this information the RTC will establish appropriate listing prices, expose the property to the widest appropriate market, and negotiate the highest sales price for the acquired property. All real estate owned property with marketable title is eligible for sale from the date that the RTC is named conservator.

The RTC believes it is vitally important to have real estate appraisals that are well prepared, reflect realistic market values and lead to sound business decisions. Thus, we have developed uniform instructions to appraisers that must be followed in preparing appraisals for the RTC. Additionally, we are closely monitoring the state certification of real estate appraisers as required by FIRREA and are actively participating with other federal regulatory agencies in the development of uniform appraisal standards. These standards, which appraisers must comply with, will help provide greater consistency and accuracy in the preparation of appraisals used in federally-related transactions. Finally, as part of the RTC's

Contractor Registration Program, references supplied by appraisers will be verified by RTC staff. This is particularly important in identifying appraisers who have caused substantial losses by previously preparing faulty appraisals for savings associations.

The RTC continues to dispose of assets through the resolution process. The sale of a conservatorship frequently includes the sale of part or all of the association's asset portfolio. We will employ private sector asset management contractors to work out problem loans and actively market for sale all real estate and other owned assets not sold to acquiring institutions.

Securitization and the bulk sale of assets will be an important tool used to dispose of assets. Currently, the Southeast Region is conducting a pilot program for securitization or sale on a whole loan basis of $12 billion in performing mortgage loans held by institutions currently in conservatorship. The concepts used in this pilot project will evolve into a nationwide policy regarding the sale of many different types of assets.

The bulk sale of loans and real estate owned assets will similarly be a tool in the sale of assets once the estimated fair market value has been established. The RTC will package and attempt to sell all types of loans, both performing and non-performing.

Due to the relatively high costs associated with servicing small assets, these assets will be aggressively marketed for sale to the private sector.

Assets, particularly those held by receiverships, will be contracted for management by the private sector. Asset contracting firms will provide a wide variety of services, and it is these firms which will specialize in the collection of problem credits and the management and sale of RTC owned properties.

In managing and disposing of assets, our strategy is to employ the private sector in two stages: (1) portfolio analysis; and (2) asset management and disposition. The portfolio analysis stage will include a detailed review of assets across receiverships. The goal of this process is to structure portfolios of assets based upon product type, geography and other considerations and to gather sufficient information to facilitate a competitive bidding of the asset management and disposition contracts for these portfolios. The information will be collected and placed on computer diskettes to aid in the analysis of the information by the asset managers who will be requested to bid on these contracts.

Once the portfolio analysis is complete, the RTC will request private sector firms to submit bids to manage and dispose of asset portfolios. To facilitate a fair and competitive process, we will provide each prospective bidder with the information gathered in the portfolio analysis stage as discussed above. The evaluation of bids and the awarding of contracts will be based on a review of each bidder's technical and managerial capacity and cost proposal. The winning bidder will be the one with the best overall proposal.

Consistent with the RTC's goal of maximizing net present value, we have provided appropriate incentives in the asset management contracts to ensure that asset managers are rewarded for timely dispositions.

Disposition activities will cover a wide variety of activities. Auctions, bulk sales, and conventional property sales will be used to dispose of real estate owned assets. Other miscellaneous assets will be assigned to private sector contractors for collection or sale once an appropriate valuation can be established.

Status and nature of the asset inventory. As mandated under FIRREA, the RTC's inventory of assets was completed by January 1, 1990 and forwarded to Congress. Additionally, national nonprofit organizations and the National Association of Governors have received an affordable housing volume. We have made the four volumes of inventory available to the general public for a small fee. We have been gratified by the response to date, and have sold over 100,000 individual volumes. Copies also were sent free of charge to certain libraries around the country.

The asset inventory consists of all real estate owned by the RTC as of September 30, 1989. This includes approximately 30,100 pieces, with a book value of approximately $15.8 billion. Our property holdings are concentrated in the Southwest, as reflected below:

State	Commercial	Land	Residential	Total
Oklahoma	89	20	1,466	1,575
Texas	1,340	82	14,328	15,750
Arizona	134	142	1,435	1,711
New Mexico	46	73	518	637
Colorado	182	131	1,273	1,586
Louisiana	242	60	2,132	2,434
Subtotal	2,033	508	21,152	23,693
National Totals	2,516	794	26,813	30,123
Percent of National Total	81%	64%	79%	79%
Book Value (Billions)	$7.4	$0.8	$7.6	$15.8

All of these properties are for sale. In many cases, however, an asking price has not been established due to the need for an independent, updated appraisal. We have made the establishment of asking prices a top priority.

One of our primary objectives is to be responsive to offers to purchase assets from the RTC. Accordingly, we have implemented a policy requiring a response to all offers within thirty days. This policy exceeds the requirements of FIRREA in that a response is also

required when no final response to an offer can be given. For example, when an account officer receives an offer to purchase property where a valuation has not been established, the account officer must tell the prospective purchaser, in writing, when a listing price will be established. In short, RTC is a sales organization and high quality service to the public is an absolute requirement.

As we move forward, our plans are to enhance the information in the inventory and make it more timely and accessible by employing several mediums. For example, we will be providing the inventory on computer diskettes or cdROMs. Moreover, we plan to provide a central database which can be accessed through an 800 number by individuals with modem equipped PCs.

Description and fair market value of assets held by the RTC. The estimated fair market value of all assets held in receivership by the RTC as of December 31, 1989 was reported to be $4.7 billion with an approximate book value of $7.9 billion. These assets include securities, loans, fixed assets, real estate owned, and other assets.

Owned assets (real estate and miscellaneous personal property) total $1.9 billion. Illiquid and distressed mortgages total $4.9 billion. Loans, securities and other assets total $1.1 billion. The normal collection process will involve foreclosure on a substantial number of real estate parcels currently pledged as collateral for loans in the mortgage category. The exact number of parcels to be foreclosed is impossible to predict until financial capacity of the individual mortgagors is determined. Obviously, we strongly prefer prudent restructuring of loans over foreclosure.

Affordable Housing

The goal of the affordable housing provisions is: "To dispose of eligible single and multi-family residential properties in a way that maximizes the preservation of the availability and affordability of residential real property for low- and moderate-income individuals."

The objectives of the affordable housing provisions section are two-fold. They are: (1) implement the statutory requirements of FIRREA; and (2) fully document the program and its results.

While the implementation procedures are numerous, they can be summarized as requiring the RTC to: (1) implement a pilot program for eligible properties as rapidly as possible; (2) consult with HUD, other federal agencies and affected state housing agencies; and (3) by March 30, 1990, implement an overall systematic affordable housing program using the private sector and other federal and state agencies wherever practicable.

The RTC has developed interim guidelines to address the eligible residential housing requirements of FIRREA. These guidelines have been forwarded to the Oversight Board for review and approval prior

to beginning a demonstration program. A Program Director, Program Coordinator, and staff in Regional offices are in place to implement the affordable housing program.

The RTC, working with the National Governors Association, has contacted state governors for support in confirming the designation of housing finance agencies as clearinghouses and to identify other housing agencies to support our efforts to ensure that qualified purchasers benefit from the sale of affordable housing properties. Governors and state housing finance agencies each received a copy of the real estate owned inventory, Volume IV, Affordable Housing Properties. The volume listing all residential properties is being mailed to state housing agencies. We are making the full listing available to give clearinghouses advance notice of all properties currently owned that could fall within the scope of the program.

The procedures governing the involvement of state housing agencies and national nonprofits were defined as a part of our interim guidelines after extensive meetings with the organizations identifie in the law and other parties who expressed an interest in serving as clearinghouses. We recognize the support these organizations can provide to the RTC in disseminating property information expeditiously so that qualified purchasers have the benefit of previewing and making an offer on eligible properties.

The RTC has consulted with HUD, other federal agencies, and secondar market entities to begin to identify and arrange for financing of eligible property sales. HUD's office of Intergovernmental Relation is scheduling a series of meetings within the upcoming weeks for RTC personnel to meet HUD staff with specific program responsibility. We have met with the Federal Housing Finance Board, both in Washington and at the regional level, to solicit their cooperation in providing financing from their affordable housing and community investment funds. Contacts also have been established with national nonprofit organizations that also will serve as clearinghouses and technical assistance advisors.

The RTC plans to begin marketing properties under the interim guidelines no later than the end of the month. Our regional staff informs us that as a result of the dissemination of the affordable housing inventory there have been numerous expressions of interest by potentially qualified buyers.

Approximately 700 properties will be offered pursuant to the interim guidelines. The Oversight Board has encouraged the RTC to implement this demonstration program and to analyze the results before offering price discounts and concessionary financing. We expect to use the demonstration effort to test our procedures for disseminating property information through clearinghouses, to determine if subsidies and financing are needed, and to document successful examples of the involvement of nonprofit and state agencies in purchasing properties to provide for assisted housing for low- and moderate-income renters.

By far, however, the vast majority of affordable housing is held by conservatorships. We have identified 10,000 properties (half of which are in Texas) that appear to meet the affordable housing criteria. Surely, as new appraisals come in, the numbers will increase. We have heard concerns that we may try to sell all these properties outside the low income housing program because FIRREA specifically excludes conservatorships. That is not our intent. We have issued instructions to conservatorships to not engage in any aggressive programs to sell these properties, although they are allowed to sell in the normal course of business. We anticipate that the vast majority of these properties will pass to the RTC as thrifts are sold.

Another concern we have heard expressed is that the RTC initially will overvalue residential properties to allow them to escape the low income housing program. Again, that is not our intention, nor would it be very practical. Once we determine a residential property should qualify, we will place it in the program. In short, we will comply fully with the intent of the law as directed by the Oversight Board.

Finally, provision of asset management, brokerage and buyer qualification services by public agencies and private sector firms is being explored.

Ethical and Conflict of Interest Guidelines

The goal of the Conflicts of Interest and Ethical Standards section is: "Adopt conflicts of interest and ethical standards for RTC employees, officers, advisory board members, contractors, and agents."

The Plan includes two objectives under this goal. They are: (1) develop regulations that - (a) govern conflicts of interest, ethical responsibilities, and past employment restrictions for RTC employees, (b) govern conflicts of interest for contractors, and (c) ensure that RTC officers, employees, advisory board members, contractors and agents meet appropriate standards; and (2) develop policies and procedures for avoiding political favoritism and undue influence.

Conflict of interest and ethical standards. Subsequent to the publication for public comment of the Oversight Board's Strategic Plan, the Oversight Board and the RTC issued, for a 45-day comment period, a joint notice of proposed rulemaking entitled Qualification of, Ethical Standards of Conduct for, and Restrictions on the Use of Confidential Information by, Independent Contractors. The proposed rule was drafted after consideration of the comments received on the earlier interim statement of principles, which established minimum standards of ethical conduct for independent contractors retained by the RTC. The proposed rule further reflects specific concerns of the Oversight Board. These concerns include the flexibility to meet the statutory mandate of the RTC to engage the services of independent contractors, as well as the protection and preservation of the integrity of the procedures and processes we will follow in performing our duties.

As with the development of any regulatory procedures, there were comments from proponents and opponents of the standards of conduct in the interim statement of principles and of the Oversight Board's ethical concerns, as expressed in the Strategic Plan. Some comments indicated that certain standards in the interim statement of principles were overly stringent and would have a negative effect on the overall success of the RTC. Others said that we were correct in adopting stringent conflict of interest and ethical standards for outside contractors and that the standards should be rigorously enforced.

We anticipate a three-phased implementation of the independent contractor ethics program. Phase one is the qualifying phase. Contractors wishing to participate in contracting with the RTC must first qualify according to standards for competence, experience, fitness and integrity. They also must not be subject to any mandatory bar to contracting. Phase two is triggered by a solicitation for services. The solicitation will involve certain certifications and representations by the qualified contractor. This will include information and certifications about organizational and personal conflicts of interest. Phase three, the award phase, will include a contractual agreement stating that the contractor will comply with all requirements of the RTC's independent contractor regulations.

We are currently drafting final regulations reflecting the concerns expressed by the public, in a manner consistent with the public trust that has been placed upon the agency (See Attachment 9 for proposed Regulation and Joint Notice of Proposed Rulemaking.)

In addition to the proposed Regulations for Independent Contractors, the RTC Board has issued proposed regulations for RTC employees, prescribing ethical and other standards of conduct for RTC employees no less stringent than those applicable to FDIC employees.

Measures to Avoid Political Favoritism and Undue Influence. FIRREA requires the RTC to establish policies and procedures for avoiding political favoritism and undue influence in the course of its activities. The Strategic Plan requires specific written guidelines and procedures and draws upon current FDIC policies. The Strategic Plan further requires that, prior to implementation of permanent procedures, RTC employees must log all communications between public officials (or their staffs) and RTC employees which are intended to influence a case specific decision currently before the RTC. These records must be made available for public inspection.

To meet these requirements, we have developed a draft policy statement and procedures for RTC employee interaction with public officials. (See Attachment 10 for a copy of the proposal.) These procedures will allow RTC employees to respond to all appropriate inquiries, requests or complaints made by or on behalf of public officials. They will not allow responses that could result in a personal or financial benefit otherwise unavailable through the

normal and efficient course of RTC operations. We believe these policies are fair to all parties. However, because of the nature of these provisions, we would appreciate any feedback that members of the Committee wish to provide. We will gladly consider any comments before finalizing these policies.

To meet the interim log-keeping requirements of the Strategic Plan, we have given all employees notice that telephone logs must be maintained. Such logs are now in use throughout the agency. (See Attachment 11 for a copy of the explanatory memorandum and the log sheet.) This requirement will be made permanent under the above proposed procedures.

External Relations

The goal of the External Relations section is: Establish and maintain open communications with the Congress, other government offices, and the public to increase understanding of RTC policies and actions.

The objectives of this section are to: (1) promote public understanding of the RTC's policies and actions, and (2) consult with other government offices in developing guidelines and procedures.

As discussed earlier and detailed in Attachments 5, 6 and 7, the RTC has developed a number of ways to keep the public informed of its operations. In addition to existing publications, advertisements, toll-free numbers, seminars and a reading room, the RTC soon will be publishing guides on buying assets and contracting for asset management, legal, and other services. Also, the RTC has increased its efforts to insure the timely response to requests under the Freedom of Information Act.

Administration

The goal of the Administration section is to: Assure that the RTC has sufficient and effectively managed human and financial resources to achieve the mission and goals of the agency.

The objectives of this section are: (1) assure that resources are effectively managed; (2) ensure fiscal responsibility; (3) respond in a timely and efficient manner; and (4) cooperate with independent auditors, the Inspector General and the Oversight Board.

In addressing objectives in this section of the Strategic Plan, items related to RTC operations in which the Committee has expressed an interest will be covered in some detail. In addition to discussing the RTC's progress in meeting the objectives stated in the Strategic Plan, the proposed administrative expense budget, staffing plans, and status of the integration of Federal Home Loan Bank Board (FHLBB) and Federal Savings and Loan Insurance Corporation (FSLIC) staff into the RTC and FDIC will be presented.

Operating budgets and plans. Our efforts to meet the objective of effective resource management include the development and submittal of operating and administrative expense budgets for each quarter through calendar year 1990. Details of the most recent administrative expense budget approved by the RTC Board are included as Attachment 12.

Many variables affect the RTC's budgets including the number of S&Ls under RTC control, type and pace of resolutions, availability of qualified contractors, and recovery rate of various assets. Until these variables can be better forecast, it is very difficult to provide meaningful budget estimates for future periods. As a result, the RTC Board has approved only a first quarter 1990 budget. We will review financial performance mid-quarter and then consider budgets for the remaining quarters of 1990.

In the first quarter's budget, about $230 million was requested for operating expenses. Of this amount, 70 percent is attributable to outside legal and asset management fees, and 15 percent to salaries and benefits. Early estimates suggest that the RTC's operating budget for 1990 could approach $1.5 to $2.0 billion assuming an annual resolution rate of about 200 institutions. We anticipate that 85 percent of this budget will be for outside services, which reflects our goal of at least 80 to 90 percent of asset workload being contracted out to the private sector.

Resource allocation and reprogramming. As part of the Strategic Plan requirements and to assure that the RTC's resources are effectively managed, we are in the process of developing and implementing bottom-up budget procedures by which estimates of administrative expenses can be formulated into budgeted amounts that reflect current operating plans of the organization. These estimates, once approved, will form the basis for ongoing monitoring of expenditures, variance reporting, and reallocation of resources to most efficiently and effectively meet corporation goals and objectives, much in the same manner as is being done in the FDIC. The RTC provides significant input to the FDIC Quarterly Corporation Status Report and, when variables affecting the RTC budget stabilize, we will use performance measures and expenditure data from this report to reassess and reallocate resources as needed.

Staffing plans. Like the budget, RTC staffing is heavily dependent upon many variables. A key variable is the ability to successfully contract with the private sector for an unprecedented amount of work. Included in the preparation of materials to justify our budget requests are staffing plans for first quarter 1990, including organizational charts and functional distribution of staff. Attachment 13 provides this detailed information.

Currently, the RTC has almost 1,900 dedicated personnel, of which over 600 are Managing Agents and their staffs in conservatorships. Although between 15 percent and 20 percent of the current staff is located in Washington, based on staffing projections this ratio should decline to about 10 percent by the end of 1990.

Although it is always a difficult process to merge professional staffs from organizations with different missions and backgrounds, the RTC continues to place former FSLIC, FHLBB, and FADA personnel in RTC jobs. In fact, most of RTC current staffing comes from FSLIC and FDIC. Six hundred and fifty people are from FDIC, largely from the Division of Liquidation. Nearly 190 people from various FSLIC operations were allocated to the RTC and RTC support units in the FDIC. In addition, the RTC has hired about 20 persons from the FHLBB and 80 from FADA.

Due to the non-permanent nature of the RTC, we are attempting wherever possible to hire temporary professional and support personnel. Over 60 percent of the field staff are non-career, temporary employees hired under appointments of one to three years in length. This ratio will increase as temporary employees continue to account for most new hires.

Organizational structure. The RTC organizational structure is still evolving, but we plan to be a decentralized corporation. Included in Attachment 13 is the organizational chart for Washington as well as charts for typical regional offices. The RTC will be divided into four regions, and we expect to have a total of 14 consolidated operational field offices (CFOs). Ten of the CFOs are ready to begin operations now and we plan to sign leases by the end of the first quarter 1990. We have initiated the staffing process and we will be able to fully staff all sites after space has been acquired. Regional offices will oversee all resolution and asset and contracting operations. Consolidated field offices will focus on asset and contract oversight, performing the majority of work in this area.

Minority- and Women's-Outreach Program. Included in the implementing procedures of this section is the requirement that RTC develop and present to the RTC Board a Minority- and Women's-Outreach Program in accordance with the policies outlined in the discussion portion of the Plan. An Interim Minority- and Women's-Outreach Program was approved by the RTC Board on December 12, 1989. The Program involves the identification, certification, promotion, and solicitation of minority- and women-owned firms for participation in RTC contracting activities. Staff will be dedicated by the RTC to the implementation and overview of this Program (See Attachment 14 for a copy of the Interim Program). In concert with RTC's Minority and Women's Affairs Officer, RTC case resolution staffs will speak at various non-RTC programs around the country in an effort to encourage the active participation of minorities and women in the bidding process.

The RTC will amend its Interim Outreach Program in the near future to incorporate the technical factor adjustments and price advantages approved by the Oversight Board. These modifications to RTC's Interim Outreach Program were sought by the RTC. Our Report on this program required by FIRREA already has been forwarded to the Senate leadership. The RTC is fully committed to including women and minorities in our contracting program.

Fiscal responsibility, responsive reporting, and cooperation with auditors. The RTC intends to cooperate with the Oversight Board, Congress, other Federal agencies, the General Accounting Office, and the Inspector General. We will do our best to be timely and efficient in all our activities. We will create systems and implementing procedures to ensure fiscal responsibility and effective management of the RTC's resources.

Utilization of the private sector. Draft guidelines have been developed for utilization of the private sector as required by FIRREA. We are committed to using the private sector extensively in carrying out our mission. We have developed a three-phase process for evaluating potential contractors which encompasses (1) ethical standards, (2) technical competence and (3) competitive bidding procedures.

We have sent to about 3,500 interested parties the RTC's contractor application packages. The contractor's application package is found at Attachment 15. These packages will guide the interested individuals and firms through this three-phase process and potentially qualify them for contracting opportunities with the RTC. RTC offices in Washington, the Regions and the Consolidated Sites are hiring employees to specifically ensure implementation of the RTC's contracting guidelines.

III. OVERSIGHT BOARD

There has been considerable criticism of the pace at which the RTC is moving in the sale of institutions and assets during its first six months. In our view, the pace has been satisfactory, although it surely could have been swifter. We have just described many of the accomplishments of the RTC since its creation in early August of last year.

Part of this discussion has centered on the structure of the RTC-Oversight Board and its effect on the pace of dealing with insolvent savings associations. It is our view that the working relations between the RTC and the Oversight Board have been good as a result of outstanding efforts by Executive Director David C. Cooke and Oversight Board President Dan Kearney.

It also is evident that we have an unusual structure. There are two Boards involved each of whose duties are provided by law. This necessarily makes doing business more time consuming than if we were working in a more traditional structure. The structure, however, provides more controls and policy checks than would be available in a more traditional organization. Given the unusual, precedent-setting job involved in cleaning up the thrift industry, such control and such a unique structure may be appropriate.

How effectively it will operate is a question that should be examined over time. It is too early to make a judgement at this point. We raise it now only in answer to the "too slow" comments. The system

in place is slower and more bureaucratic than a more normal structure with one board and one organization.

IV. FDIC ISSUES

Status of Savings Association System and SAIF

The savings association system is entering a transitional period which will determine the fate of the undercapitalized segment of the industry. Events during this transitional period will determine the size of the SAIF assessment base, that is, the deposits of SAIF-insured institutions. The growth of this base has varied dramatically over time. From mid-1978 to the end of 1982, deposits at (presently) SAIF-insured institutions grew at an annual rate of 7.4 percent. This was followed by two years of rapid deposit growth of 19.4 percent per year. From the end of 1984 through the first quarter of 1988, deposits grew at a more normal 6.4 percent annual rate. As of the third quarter of 1989, savings association deposits were as they were in March, 1988. Deposit outflows, however, have occurred in recent months.

The SAIF assessment base was $957 billion as of September 30, 1989, down from $972 billion in December 1988 -- but largely unchanged from $957 billion in March, 1989 and $960 billion in June, 1989. While it is too early to predict the long-term trend of the SAIF assessment base, there are some reasons to expect that the base may decline in the short run. The new capital standards imposed on thrifts by FIRREA have forced many thrifts attempting to conform to the new standards to shrink in order to increase their capital ratio and others to at least stop growing so they can remain in compliance with the new standards.

This spring, the Office of Thrift Supervision will issue rules for the interest rate risk component of the Risk Based Capital standard. These regulations might increase the risk based capital required for some thrifts and could thus cause additional institutions to curtail their growth or force further downsizing if institutions are failing their capital requirements. As thrifts adapt to the new regulatory environment, the assessment base may begin to grow. However, that does not seem likely in the short term.

In light of the uncertainties facing the industry during the next few years, the FDIC has not felt that a "projection" of the SAIF assessment base would be meaningful. The current condition of many S&Ls may vary sharply from what is indicated by their public financial statements and old examination reports. Future events are even more uncertain. These include the behavior of interest rates, the condition of local real estate markets, and the condition of the economy generally. All these factors will influence the ability of the thrift industry to attract capital and hence to grow. We have found this to be the case in some of the savings associations we have examined so far.

FDIC Examination of Savings Associations

Since the enactment of FIRREA in August of last year and through January 15, the FDIC has commenced or completed 363 examinations of savings associations. The following schedule presents a regional breakdown of those examinations:

Region	Total
Atlanta	21
Boston	23
Chicago	94
Dallas	37
Kansas City	58
Memphis	41
New York	36
San Francisco	53
Total	363

In most instances, our examinations have been conducted in conjunction with an OTS examination or other presence at the institution. This reflects our desire to avoid inappropriate duplication with the OTS and to avoid placing an unnecessary burden on the institutions. We anticipate that the pace of examinations will escalate. Currently, our pace is somewhat deliberate due to the types of institutions initially targeted for examination.

The primary criteria for selecting which thrifts should be examined first has been the perceived degree to which they were believed to present exposure to the Savings Association Insurance Fund. In reviewing that risk perception, associations were selected because of low capital, asset problems, poor earnings, or because they otherwise bore a risk to either the RTC or the Savings Association Insurance Fund. Also of importance initially is whether an OTS examination of the institution has been scheduled.

The asset quality of many of the institutions examined to date has been lower than expected. In many cases this has been the result of a marked degree of deterioration in real estate collateral values and paying capacities over that previously noted.

In general, savings associations that engaged in lending or other activities beyond residential real estate loans are more likely to be experiencing asset-quality problems. In these institutions, reserves for loan losses are generally inadequate and earnings are poor due to low net interest margins and high fixed overhead expenses. Capital is inadequate and a number of these savings associations are found to be insolvent.

To the degree that we examined better-rated institutions, we found many thrifts which are exactly as they were portrayed to be -- single-family residential lenders with few asset-quality problems but with unbalanced rate sensitivity positions resulting in marginal earning capacity.

Status of Guidelines and Regulations

FIRREA places certain responsibilities with the FDIC for matters that can have a direct effect on the RTC's ability to resolve problem thrift situations in a cost effective and non-disruptive manner. Of particular importance are the FDIC's responsibilities with respect to setting entrance and exit fees and developing guidelines covering open-thrift assistance.

FIRREA mandates that both exit and entrance fees be levied in all case where the insurance liability for deposits is converted from one deposit insurance fund to the other. The FDIC is charged with the sole responsibility to set the entrance and exit fees for BIF-to-SAIF conversions; interim regulations have been issued to cover these types of transactions.

Because of the relationship of insurance premiums paid by SAIF-members and the funds that become available to service FICO borrowings, FIRREA placed authority to set exit fees for SAIF-to-BIF conversions jointly with Treasury and the FDIC. Understandably, Treasury is more concerned with the servicing of FICO obligations, whereas the FDIC's focus is on protecting the integrity of BIF and SAIF, in part by facilitating resolutions of insolvent thrifts. While these are competing goals, Treasury and the FDIC have reached a compromise, and new regulations in this regard will be issued shortly.

Another area of importance is developing and publishing criteria the FDIC will use in determining whether a request for open thrift assistance should be recommended to the RTC. As indicated earlier, it is important that a reasonable policy be developed and, when appropriate, thrifts be rehabilitated without placing assets into liquidation. The FDIC will be publishing proposed guidelines and, where appropriate, regulations in the next few weeks.

Placement of Employees

By early February 1990 the FDIC anticipates that all of the personnel reassignments involving former FSLIC and FHLBB employees will be completed. To date, 400 of the affected employees (out of a total of 750) have been placed in jobs either at the FDIC or the RTC.

V. LIQUIDATION OF FADA

FIRREA requires liquidation of the Federal Asset Disposition Association (FADA) within 180 days of enactment (February 5, 1990). The FDIC, as manager of the RTC, is responsible for carrying out this liquidation. With the exception of a final distribution of funds, FADA will be liquidated by February 5, 1990. At that point, only the resolution of outstanding litigation claims will remain before final distribution can be made to the FSLIC Resolution Fund as the sole shareholder of FADA. Attachment 16 provides a detailed outline of the steps taken to accomplish the goal of liquidating FADA.