Speeches
FDIC
C. 2

TESTIMONY OF

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CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION

ON

FSLIC RESOLUTION FUND APPROPRIATIONS
FOR FISCAL YEAR 1991

BEFORE THE

SUBCOMMITTEE ON HUD, VA AND INDEPENDENT AGENCIES
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

1:30 PM
MAY 23, 1990
Room 138, Dirksen Senate Office Building

I. Introduction

Madame Chairman and members of the Subcommittee, it is a pleasure to appear before you today to present the FY 1991 budget estimates of the FSLIC Resolution Fund (FRF). As an integral part of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the FRF is the vehicle for liquidating the remaining obligations of the former Federal Savings and Loan Insurance Corporation (FSLIC). This principally involves payments on FSLIC contractual commitments made in prior years to financially assist acquirers of failed thrift institutions.

Following passage of FIRREA, the Administration proposed and the Congress enacted a FY 1990 FRF appropriation that was current, indefinite in nature. We support continuation of this type of appropriation because of the variable components of the assistance agreements funded in part by this appropriation. Estimating budgets for this program is an imprecise science at best.

In FY 1991, the Administration is seeking a current, indefinite appropriation to pay for the shortfall between FRF funding sources and the estimated uses of those funds. Under FIRREA, the Congress in Public Law 101-73 authorized "such sums as may be necessary" whenever FRF funding from other sources is insufficient to meet obligations outlined for the fund in that legislation. For FY 1991, the Federal Deposit Insurance Corporation (FDIC) now estimates the shortfall to be around $4 billion. However, material uncertainties exist principally in the area of quantifying payments for assistance agreement obligations, due primarily to the variables of interest rates and real estate values. For this reason, the current, indefinite appropriation is essential to avoid the possibility of a default on FRF obligations later in the fiscal year.

We will discuss the nature of the FRF, the sources and uses of funding estimated for the current year and the budget year under review. Some of the management issues, techniques, and problems that we and the Congress face until all FRF assets and liabilities are disposed of will also be addressed. We ask your support in obtaining the appropriation requested in a current, indefinite form.

II. Background

The assistance agreements that are obligations of the FRF were entered into by the former Federal Home Loan Bank Board (FHLBB) as the operating head of the FSLIC. Assistance transactions were used to facilitate the acquisition of failed thrifts. Transactions were executed pursuant to Section 406(f) of the National Housing Act, which provided that assistance could be provided to the extent that it was determined to be a less expensive means of resolution than liquidation. In providing assistance, the FHLBB attempted to introduce new capital and competent management, as well as attain objectives such as consolidating the industry and reducing the cost of funds. Another significant consideration was conserving the FSLIC's limited cash.

In sum, an assistance agreement is a contract between the FRF and an acquirer which specifies procedures and actions the acquirer must take prior to incurring major expenses or losses that are to be reimbursed by the FRF. Typically, these agreements would include some, but not all, of the following provisions:

- Payment in cash, or with a note, to cover all or a negotiated amount of the negative net worth of the failed institution(s);

- Capital loss coverage which provides payment for the difference between book value and net sales proceeds on "covered assets." The amount and nature of covered assets is negotiated in each agreement;

- Yield subsidies, which ensure a defined level of return on covered assets;

o Indemnifications to the acquirer for legal expenses in connection with lawsuits against the failed institution or other contingencies;

o Loss-sharing arrangements in which the acquirer bears a percentage of loss upon disposition of covered assets;

o Gain-sharing arrangements, in which a percentage of gain realized on the sale of covered assets above some benchmark, is provided as an incentive to the acquirer to obtain the maximum price for covered assets;

o Tax benefit sharing provisions that arise from the acquirers' use of preacquisition net operating losses (NOLs) as well as other tax features of the agreements.

o Buy out options under which the FDIC may elect to purchase covered assets;

o Warrants which entitle the FRF to share in any increase in value in the assisted thrift. In some instances, this also may include sharing in earnings;

o Mark-to-market coverage which may reimburse the acquirer for the difference between book and fair market value of remaining covered assets when the agreement terminates or for goodwill established for assets that are not covered.

III. Basis of FRF Authority

Section 215 of FIRREA amends section 11 of the Federal Deposit Insurance Act to establish the FRF and provide for its management and separate maintenance by the FDIC. Generally, all assets and liabilities of the former FSLIC were transferred to the FRF. This includes all liabilities arising under the financial assistance agreements and all FSLIC-related litigation.

FRF funds are to be obtained from the following sources in the listed priority: income earned on FRF assets; liquidating dividends and cash flows from receiverships; borrowing by the Financing Corporation (FICO); excess SAIF premiums through December 31, 1991; and direct payments from the Treasury. The FDIC has been informed, however, that no new FICO borrowing should be expected. The FRF is to be dissolved upon satisfaction of all liabilities and sale of all assets.

IV. Description of FRF Tasks and Responsibilities

The FDIC has a very substantial job in managing the liabilities of the FRF. As of December 31, 1989, the FRF represented a liability of $64.9 billion. This includes promissory notes of $19.4 billion; asset loss coverage of $29 billion; estimated future interest payments on promissory notes of $16.1 billion; and $0.4 billion in miscellaneous other liabilities.

There are 202 assistance agreements. Each has unique contractual features which must be taken into account in managing the acquirers' efforts. There is a large volume of complex litigation associated with these cases. In addition, there are many interrelationships, primarily as a result of participation loans, between assets covered by these agreements and other financial institutions. Exhibit 1 shows the location of assisted institutions by state.

V. Management Strategy for Program Execution

An initial strategic plan and specific goals have been established to provide direction in managing this liability at the least cost to U.S. taxpayers. These are included in Exhibit 2. This process will involve setting specific asset disposition targets for each assisted institution. Mechanisms for monitoring progress toward meeting these targets are in place and will be refined as needed. On a portfolio basis, this plan envisions a $15 billion decline in covered assets by December 31, 1992.

A key element in gaining control and quantifying costs is completion of opening "inventory" audits for all assisted transactions. These audits determine the actual negative net worth of the failed institutions and define the inventory of assets covered under the assistance agreements. At the time the FDIC assumed responsibility for the FRF, 191 audits were outstanding with a few not even started.

We are pleased to report that this task is nearing completion. Six remaining audits, which involve massive records reconstruction, will not be completed until the end of the summer. As a result of this effort, we estimate that FRF costs will be further adjusted upward for additional loss by approximately $500 million. Additional cost of $1.9 billion were already reserved for in December 31, 1989, and adjustments were made to FRF reserves.

In addition, the Division of FSLIC Operations (DFO) is working diligently to respond to inquiries and requests from the teams conducting the Resolution Trust Corporation's (RTC) review of 1988 assisted transactions. The findings from this Congressionally mandated review are to be presented to Congress in August. Recommendations could suggest very substantial, near-term funding increases to reduce long-term costs. For example, if cash was available to the FRF, the large note portfolio might be paid off early with tremendous interest savings.

DFO recently has been enhanced with the addition of 70 positions. The Division now has a personnel ceiling of 278. A current organizational chart is attached as Exhibit 3. This additional staffing will provide resources for more in-depth, on-site monitoring of institutions receiving assistance and will result in reduction of costly contractor support that has been utilized in monitoring these transactions. We expect a reduction of one-third in our contracting costs with associated cost savings of approximately $7 million. In addition, more emphasis is being placed on liaison with supervision staff, both within the FDIC and with the Office of Thrift Supervision (OTS).

VI. Funding

There are major uncertainties that could substantially impact on actual funding needs. The estimates of cost and the timing of outlays could vary substantially due to a number of factors, most notably:

o Interest rates -- yield payments on the $35.8 billion covered asset portfolio and on the $19.1 billion note portfolio are variable and tied to regional cost of funds indices. For example, a one percent increase in rates results in a $200 million additional cost on the note portfolio alone;

o Markets for real estate and loan portfolios. As you are well aware, the portfolio of real estate assets covered by assistance agreements tends to concentrate in depressed areas, especially the Southwest;

o The viability of the assisted thrifts is another issue that will affect cost, not only of the FRF, but also of the RTC. Discussions with the OTS indicate that 40 assisted institutions have either been taken into conservatorship or may be candidates for RTC's conservatorship program this year. A wide range of other issues such as the actual extent of negative net worth of the institutions that failed, undisclosed liabilities, the outcome of thousands of lawsuits against the failed institutions, the recommendations of the RTC upon completion of its required review of the 1988 deals, as well as toxic waste and environmental problems with some assets, also will factor into the final cost.

Another source of uncertainty is FICO, which is an alternative source of funding to the FRF. As you know, FICO was chartered as a mixed ownership Government corporation pursuant to the Competitive Equality Banking Act of 1987 (CEBA). FICO is managed by a three-member Directorate, comprised of the Director of the Federal Home Loan Bank Systems' Office of Finance, a permanent member, and two Federal Home Loan Bank Presidents, who are appointed for 1-year terms.

FICO's sole purpose was to function as a financing vehicle to recapitalize the FSLIC. FICO issued 30-year bonds to the investing public and transferred the bond sale proceeds to FSLIC in exchange for FSLIC capital stock. FIRREA contains provisions which eliminate the possibility that the FSLIC capital stock issued to FICO will ever be redeemed. A total of $8.17 billion of FICO bonds was issued between October 1987 and September 1989.

With the authority provided through the appropriation mechanism, the Treasury Department has preferred direct Treasury financing as an alternative to FICO as the yield on past FICO issues has been priced at 55 to 109 basis points above comparable term U.S. Treasury bonds. The more costly financing reduces the net amount of insurance assessments otherwise available to FDIC from thrift institutions.

In FY 1990, the FRF will require an estimated $5.2 billion from Treasury. In FY 1991, the FRF will require an estimated $4 billion. Exhibit 4 includes schedules on sources and uses of funds for 1990 and 1991. Projections through 1996 are presented in Exhibit 5. These longer term projections will be subject to very substantial revision as a result of the factors we have just reviewed for you.

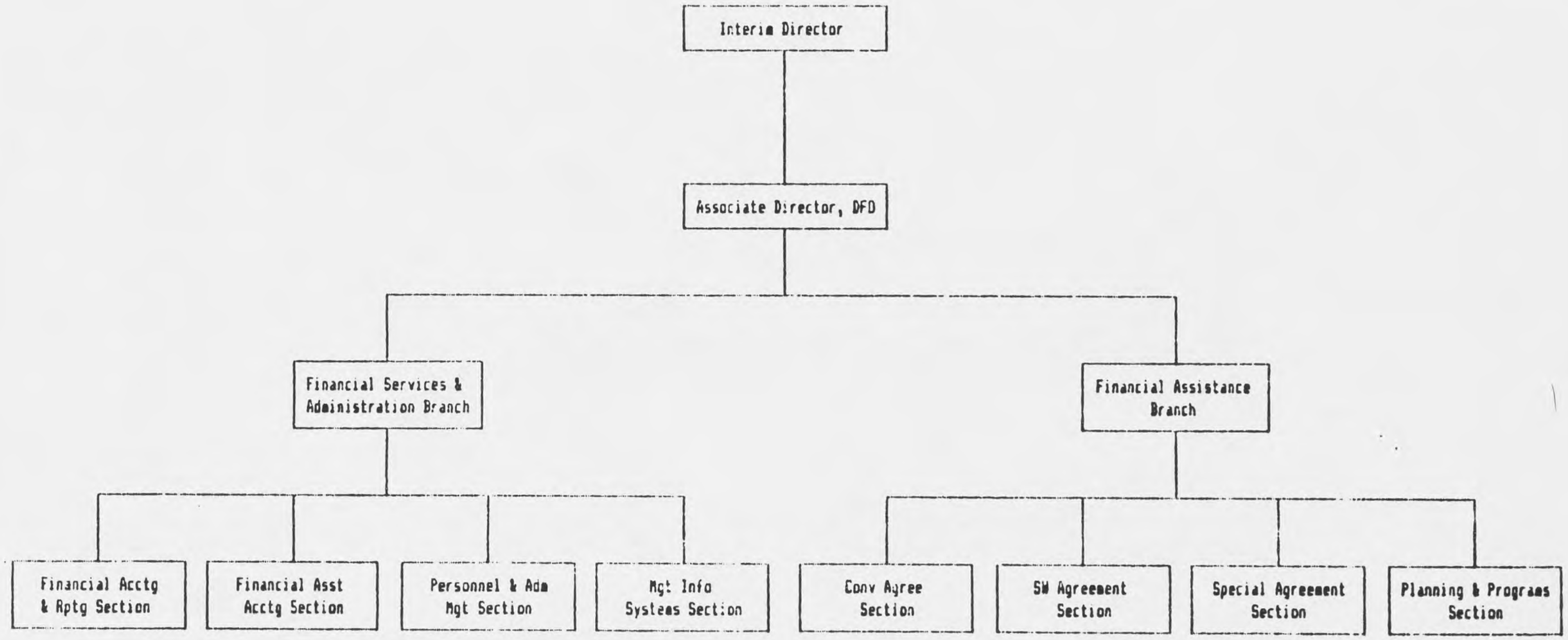
In summary, we are working hard to effectively manage the assistance agreement liabilities that create the need for this appropriation. We very much appreciate your understanding of this program and your continued support for the "current, indefinite" flexible funding that is essential to minimizing overall costs.

This concludes my prepared statement. I would be happy to respond to any questions that you may have.

EXHIBIT 1

DIVISION OF FSLIC OPERATIONS

May 9, 1990



	WASH	DALLAS	HOUSTON	IRVINE
Auth :	163	56	29	31
On Brd:	156	23	9	10

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

MISSION STATEMENT AND POLICY GUIDANCE FOR ADMINISTRATION OF ASSISTANCE AGREEMENTS UNDER THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC) RESOLUTION FUND

MISSION STATEMENT

With respect to assistance agreements under the FSLIC Resolution Fund, the FDIC prudently administers and manages financial assistance agreement cases to minimize the costs associated with the liquidation of the acquired institutions' covered asset portfolios. The FDIC manages its duties and obligations under these agreements as a total portfolio to minimize any adverse effects that asset disposition and inter-institution legal actions may have upon (1) maintaining asset values, (2) ensuring Acquiring Association accountability (3) supporting the regional and local economies, and (4) maintaining public confidence in Federally insured institutions

GOALS AND OPERATING PRINCIPLES

The FDIC has identified the following major goals:

1. Manage the acquirers' disposal of covered assets within the term of the assistance agreements to ensure orderly dispositions at minimum cost to the FRF while maximizing asset value.

2. Identify and implement recommended ways to reduce the cost of assisted transactions and the management thereof.

3. Effect the permanent resolution of the stabilized institutions during 1990, providing new management, capitalization, and a lower estimated cost to the FRF.

4. Establish operational relationships with outside entities which affect the responsibilities of the FDIC as manager of the FRF and the ability of assisted institutions to fulfill their contractual obligations to the FRF under the assisted transactions.

5. Improve the process of monitoring the Associations' asset management performance and compliance with the terms, conditions, and standards of the assistance agreements.

6. Develop and implement an enhanced management information system that will be an effective resource in the management decision making process, especially covered asset disposition tracking.

7. Provide adequate staff resources for the efficient administration of the assistance agreements and improve internal controls necessary to support a larger more decentralized operation in DFO.

In developing FDIC's policies for administering the assistance agreements, there are several principles that will serve as operational guidelines that should be apparent in every aspect of operations. They are designed to demonstrate the FDIC's commitment to carrying out prudently the significant responsibilities entrusted to it. These principles include:

- <u>Accountability</u>: In carrying out its responsibilities, the FDIC is aware of its fiduciary responsibilities to the taxpayers. This concept translates into how the FDIC applies proven management practices, attention to details and employment of sound business judgement with a view toward the impact its activities may have upon the financial and real estate communities. In the achievement of its mission, the FDIC will remain fully accountable to those relying upon its management decisions.

- <u>Cost Minimization</u>: Every FDIC activity should be sensitive to the federal cost-conscious environment. This translates practically into diligence in ensuring it carries out its responsibilities in the manner that provides the least cost and liability to the taxpayer within the constraints of the assistance agreements.

- <u>Internal Controls</u>: The FDIC will be diligent to ensure that proper controls are in place to avoid any improprieties and to prevent any waste, fraud or abuse. Given the visibility of the assisted segment of the savings and loan industry, it is imperative this theme be actively employed throughout every aspect of the FDIC's endeavors. It translates to compliance with the Federal Managers' Financial Integrity Act (FMFIA), as well as any other applicable OMB or GAO circulars, guidelines or requirements;

- <u>Management Integrity and Conflict of Interest</u>: Given the broad scope and complex nature of FDIC's responsibilities, it is important that there be standards of conduct. This concept of standardization and integrity will include the ethics of employees and contractors, the uniformity of decisions regarding the cases and the attention to conflict of interest provisions in asset management and other important areas, FDIC will take steps to ensure that there is no element of a conflict of interest in carrying out its responsibilities; and

- Information Technology: As the FDIC's responsibilities mature, it will need to enhance the role of information technology in all aspects of its operations. Given the vital role that this component of the FDIC's operations will play, it is necessary that it be stated as an overall operational guideline.

POLICY GUIDANCE

1. BACKGROUND

The FDIC is responsible for administering all assistance agreements and related contracts under the FSLIC Resolution Fund arising from assisted mergers and acquisitions of failed thrifts. Typically, the terms of these assistance agreements range from five to ten years and vary considerably in complexity and degree of standardization. As of January 1990, the FDIC is responsible for administering approximately 200 assistance agreements that provide for oversight and disposition of the failed institutions' covered assets. Included in the FDIC's covered asset oversight responsibilities are approximately $36 billion of covered assets, primarily troubled real estate, real estate loans and investments in subsidiaries.

In addition to the oversight responsibilities for assistance agreements, five of the Southwest Plan institutions were not acquired by private investors. Consequently, these institutions (Stabilized Institutions) are managed by individuals and firms approved by the FDIC. For these institutions, the FDIC is responsible for administering the assistance agreements, overseeing the operations and for affecting a permanent resolution of the institution.

In addition to the administration of assistance agreements, the FDIC is responsible for administration of FSLIC's obligations under the Guaranteed Advance Program and for the administration of Capital Instruments purchased or acquired during the acquisition of thrifts (Capital Instruments include preferred stock, capital and net worth certificates, warrants and subordinated debt). The Guaranteed Advance Program provided needed liquidity at reduced risk compared to market alternatives in the form of advances or loans made to insured members who lack sufficient collateral to secure loans.

2. ASSIGNMENT OF RESPONSIBILITY

The FDIC assigns management authority for the assistance agreements to its Division of FSLIC Operations (DFO). The FDIC is a decentralized organization and, as such, must take steps to ensure its procedures and operations reflect sound and ethical management practices that are adapted to decentralized management. From a policy perspective, this assignment includes the following operational responsibilities:

- o Adherence and attention to the Federal Managers' Financial Integrity Act (FMFIA), applicable OMB circulars, as well as GAO and other applicable requirements and regulations;

- o Utilization of an independent case assessment approach, where appropriate, to ensure objective, professional review of practices and a strict adherence to sound and ethical actions in the case management and related areas; and

- o Assurance that there will be sufficient review of the managerial decisions to ensure integrity. Given the visibility and importance of this program, it is essential that strict attention be given to the vital areas of internal controls and management integrity.

3. ASSIGNED FUNCTIONS

The major functions assigned to DFO are:

a. Management of assistance agreements and oversight and disposition of Stabilized Institutions.

b. Oversight of the management, marketing and disposition of covered assets.

c. Review and coordination of litigation matters, including review and approval of all indemnifications and reimbursements requested by the Acquiring Associations.

d. Periodic projections of future assistance payments and cash flows related to the assistance agreements.

e. Interpretation of Assistance Agreements.

f. Administration of capital instruments purchased or acquired by the old FSLIC to facilitate the acquisition or rehabilitation of troubled institutions.

g. Administration of unique assistance plans to financially troubled institutions, to include such programs as Guaranteed Advances and open institution assistance.

h. Development of responses to Congressional and public inquiries.

4. ROLE OF ACQUIRING ASSOCIATIONS

The assistance agreements provide a framework for the management and liquidation of covered assets, settlement of legal matters and the consolidation of business operations. The guidelines of the agreements help ensure that both DFO and the Acquiring Associations meet their respective responsibilities. While DFO is responsible for ensuring compliance with the contractual terms stipulated within each of these agreements, the Acquiring Associations are responsible for the implementation and management of the individual assistance transactions.

The Acquiring Associations have assumed the responsibility to use their appropriate expertise to manage the resulting business and acquired assets and liabilities in order to:

- Operate a thrift in accordance with applicable laws and regulations;
- Consolidate and reduce operating costs, thereby increasing net profitability; and
- Liquidate or convert to earning assets the non-core business and assets of the acquired or consolidated thrift(s).

Each of the Acquiring Associations is responsible for administering and dealing with all covered assets and liabilities assumed pursuant to the terms of the Acquisition Agreements. Each Acquiring Association is required to employ the higher of the standard of prudent business practice in administering the acquired assets and liabilities or the standard employed in the savings and loan industry in administering similar assets and liabilities. Furthermore, the Acquiring Association is expected to use its best efforts to minimize losses and maximize gains and recoveries for the FDIC and the Acquiring Association.

The Acquiring Association is expected to provide at its own expense the executive and managerial resources, along with adequate supporting staff, to manage and implement the terms of the assistance agreement.

5. COVERED ASSET MANAGEMENT

The DFO oversees the management and disposition of assets related to financial assistance agreements. The following policies relate to covered asset management:

- Asset Disposition Strategy: The Acquiring Associations are required to maximize asset value and thus minimize resolution costs for the covered assets. To ensure attainment of this objective, DFO will utilize a comprehensive asset disposition strategy. This strategy will address issues such as the timing of asset disposition, loans to facilitate financing, market absorption, hold versus sell decisions and the disposition of marketable and non-marketable assets. The strategy will be communicated to all Acquiring Associations and used as a management tool to gauge their success;

- Management Oversight: DFO personnel assure that proposed transactions comply with applicable assistance agreement provisions and represent the most likely alternative available to minimize costs and maximize gains and recoveries. Certain decision making authority is delegated to the Acquiring Associations through specific provisions contained in the assistance agreements. Further authority is delegated through approved business plans, asset plans and collection plans. To assist in this process, DFO has developed expanded asset plan and budget formats and standards to ensure that Acquiring Associations submit documentation suitable for DFO decision making. DFO regularly monitors the Associations' compliance with assistance agreement terms, management processes and standards, and periodically tests specific asset and special reserve account transactions;

- Acquiring Associations' Asset Management Processes: Due to the magnitude of the transactions (both dollar value and number of assets), DFO is dependent on the Acquiring Associations' compliance with prudent asset management processes. Therefore, each Acquiring Association is required to develop and submit written asset management policies and procedures. DFO reviews these policies and procedures and tests for compliance on a regular basis;

- Compliance: DFO utilizes a number of programs to monitor the Acquiring Associations' compliance with the terms, management standards and intent of the assistance agreements. Compliance monitoring activities will include:

- Case Compliance Reviews: This activity involves the periodic review of a case by an independent group of DFO personnel from another case management section. The case compliance scope will include reviewing the Association's compliance with asset management processes, as well as DFO Contractor and Case Manager compliance with DFO's internal operating policies and procedures;

- Structured Evaluations of the Association: Periodically the Case Manager and DFO Contractor review individual Association Asset Managers to assess the quality of the Association's asset management, monitor compliance with Association policies and procedures and evaluate the Asset Manager's general and specific management of the assets;

- Examination Liaison: In connection with examinations by the Office of Thrift Supervision and the FDIC's Division of Supervision, DFO will coordinate additions to the development of the examinations' scope to include special concerns regarding compliance with Assistance Agreements;

- Special Investigations: Based on findings and conclusions, complaints, and/or general concerns, special investigations (often performed without the knowledge of the Acquiring Associations) will continue to be performed to ensure that the Acquiring Associations are disposing of assets in compliance with the terms and conditions of the assistance agreement for the highest and best price available;

o Assistance Agreement Interpretation: DFO, with the assistance of the Legal Division, is responsible for interpreting the provisions of the assistance agreements. Due to the unique nature of the agreements, resolution of an interpretation issue may result in the development of specific policies or assistance agreement modifications. DFO is developing an assistance agreement issues resolution process for tracking, disseminating and referencing interpretations. Examples of issues include disposition financing, marketing, appraisals, loan participations and management standards.

6. LITIGATION

DFO will monitor all legal proceedings to ensure the Acquiring Associations are using their best efforts to preserve the interests of the FDIC and to minimize costs and expenses in all litigation matters. The Acquiring Associations will also strive to maximize any potential recoveries through pursuit of related claims. DFO will coordinate the approval of all litigation matters with the FDIC's Legal Division. Since indemnification for major settlements requires the Legal Division's concurrence, DFO's role is to analyze and consider the effect of any proposed actions upon the ultimate costs to the FSLIC Resolution Fund.

To facilitate DFO's ability to monitor the status of legal activity, the Acquiring Associations, as directed by the assistance agreements, must submit litigation schedules, plans and budgets on a regular basis. Any expenditure of Acquiring Associations' funds for legal matters that are reimbursable by the FDIC must ultimately be approved by the FDIC, either by written consent of DFO, through the approval of plans/budgets, or the approval of transactions through the Special Reserve Accounts.

DFO has the authority to intervene in the conduct of any litigation matter to protect the FDIC's best interests. More specifically, DFO has the right to:

- Monitor and direct the defense or prosecution of the matter;
- Defend or prosecute the matter with FDIC attorneys; and
- Require the Acquiring Association to assign its right, title or interest in the matter, any defense related to the matter, or proceeds from the matter to the FDIC.

Additionally, the Acquiring Associations must cooperate with DFO in defense or prosecution of legal matters. The Acquiring Associations may also be required to provide DFO with all applicable books, records or other relevant information in its control.

The Acquiring Associations may take immediate action concerning a litigation matter if that action is required to protect the interests of the FDIC and the Acquiring Associations. The Acquiring Associations may take such emergency steps only if it is unable, due to time or other constraints, to obtain verbal or written approval of DFO.

The Acquiring Associations are expected to pursue all related claims and, when appropriate, file actions with respect to potential recoverable claims. These legal actions should be pursued in an effort to reduce or minimize the indemnity payments the FDIC will be required to pay. If necessary, the

FDIC may direct the Acquiring Association to pursue or prosecute potential claims. DFO will coordinate with the Legal Division with respect to the assignment of and pursuit of claims acquired through the agreements.

Any significant settlement for a litigation matter must be approved by DFO with concurrence from the Legal Division. DFO will coordinate the approval of settlements in an expedient manner to eliminate any potential economic loss that may result from delays in approval processing.

7. TAX, AUDIT, FINANCIAL MANAGEMENT AND REPORTING

FDIC oversees the following financial areas:

- Tax: Where applicable, the tax-related provisions of Assistance Agreements vary widely and many are technically detailed in nature. Within the framework of each agreement, FDIC's intent is to maximize the U.S. Government's share of net tax benefits. Acquiring Associations are responsible for providing FDIC copies of their tax returns filed with the Internal Revenue Service. Each agreement specifies the information that Acquiring Associations shall submit to FDIC in support of tax-related credits and/or payments to the agency.

- Audits: FDIC has a priority goal to expedite completion of remaining opening-inventory audits of assisted associations. These audits help FDIC to determine negative capital and the inventory of covered assets. FDIC will also periodically initiate compliance audits to ensure that an Acquiring Association's claim for reimbursement and related activities are consistent with the terms of the agreement. Acquiring Associations are responsible for cooperating fully with the auditors and providing on a timely basis such background work papers and schedules as the auditors may require.

- Payment of Claims: FDIC will generally pay all valid and properly documented claims in cash upon receipt, in lieu of accruing such obligations at interest. Where agreements allow, the agency may elect to defer such payments with interest. This option will normally be applied only during periods when the FSLIC Resolution Fund's cost of financing (i.e., cost of U.S. Treasury borrowings), is less than the interest cost to defer payments of claims.

- Reporting: FDIC will maintain a financial reporting system to track the Government's actual and projected costs under the Assistance Agreements. Costs will be separated among a number of individual expense categories. The reporting system will include a variance analysis capability to compare estimated with actual costs. The system will also include cash flow forecasting of the timing and amounts paid under Assistance Agreements. This will assist the U.S. Treasury to minimize its cost of financing funds that are transferred to the FSLIC Resolution Fund.

8. RESOURCES

DFO relies on staff members located in Washington, D.C., and field staff in Dallas and Houston, Texas, and Irvine, California to carry out its oversight responsibilities. In addition, DFO leverages itself through the judicious use of independent contractors to provide specialized expertise.

In carrying out its mission with respect to assistance agreements, DFO has adopted policy perspectives with regard to two important organizational/administrative components:

- Contractors: While currently there is a significant reliance upon contractors to assist DFO in carrying out its responsibilities, DFO envisions this reliance will decrease as its own staff members continue to expand in size and increase in capability; and

- Technology: The development of an accurate and reliable information resources management capability is an important goal for DFO. DFO will place increased emphasis upon this component of its operations to gauge programmatic needs and to assess the efficient employment of resources. While this portion of DFO's capability is still in the early developmental stages, DFO intends to place continued emphasis upon it as a vital component of its operation.

9. MANAGEMENT REPORTING

To properly evaluate and monitor the performance of the Acquiring Associations and to determine the overall performance of the consolidated DFO portfolio, a reliable, accurate management information system is critical. The development of a comprehensive covered asset management and compliance monitoring system continues to be a high priority of DFO. A number of information processes have been, or are being, developed to address those needs.

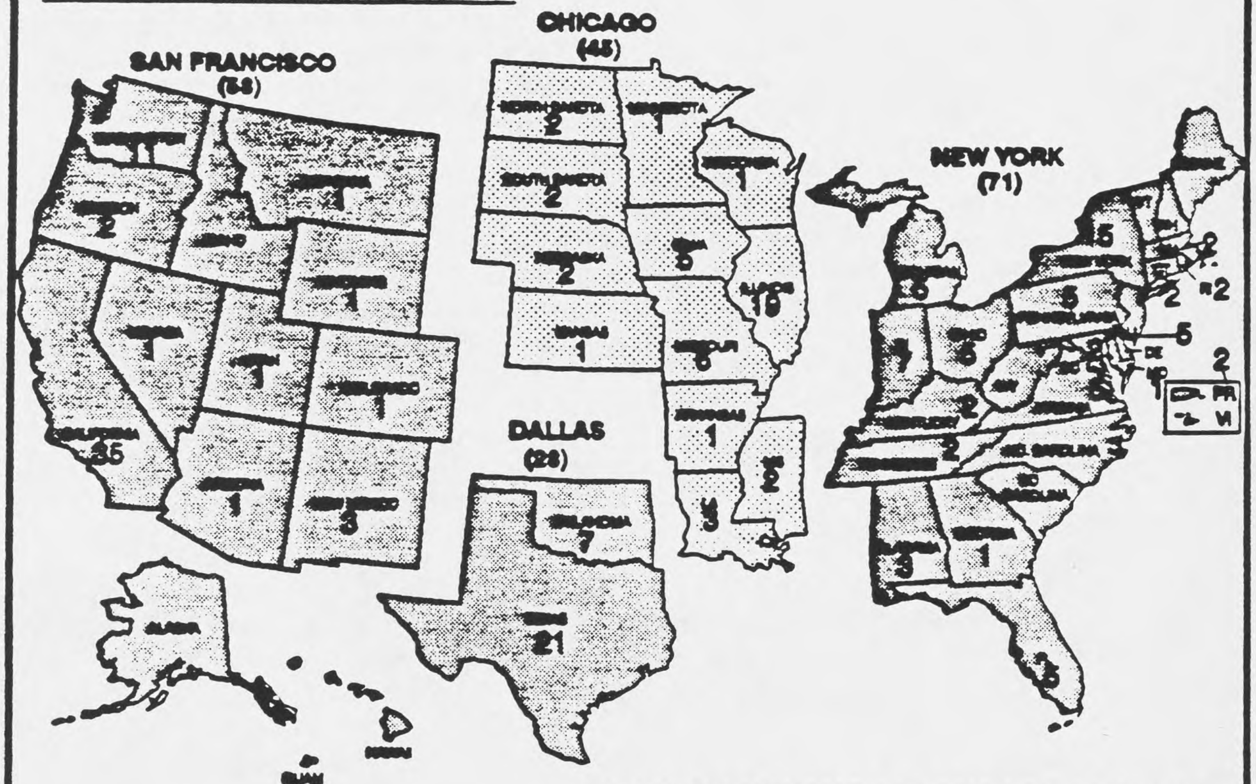
DFO collects monthly and quarterly Acquiring Association activity data, from which a series of management reports will be generated. This information includes data on covered asset status, disposition activity , submission activity, financial performance, staffing, assistance paid, litigation and consolidation activities. The reports generated provide two levels of management information: general information to track overall asset management progress and specific information to identify potential problems at institutions that may require special action and additional monitoring.

DFO will produce periodic reports on the status of DFO's current caseload, the disposition of covered assets, the Acquiring Associations' relative assistance agreement compliance, the Acquiring Associations' financial performance (e.g. watch list), and corrective actions underway. Reports will also be provided on the status of opening inventory and compliance audits, as well as on total assistance expenditures to date and projected cash flows.

To provide the level of management information necessary for effective reporting and control purposes, DFO requires mainframe support from the FDIC. The current developmental efforts represent interim or prototype processes that are designed to provide the high level information required to manage the assistance transactions over the short-term.

FSLIC RESOLUTION FUND
ASSISTANCE TRANSACTIONS BY REGION
FOR CALENDAR YEAR 1989

DISTRIBUTION BY STATE



TOTAL ASSISTANCE TRANSACTIONS - 202

EXHIBIT 4

FSLIC Resolution Fund
Estimated Budgetary Outlays
FY's 1990 & 1991
($'s in millions)

09-May-90

Notes	Sources of Funds		FY 1990		FY 1991
1	Thrift Insurance Premiums		0		1,169
2	Receivership Proceeds		859		1,692
3	Sale of Corporate-held Assets		238		334
4	Interest Income on Investments		42		29
5	Other Income		162		125
	Total Sources of Funds		1,301		3,349
	Uses of Funds				
6	Administrative and Miscellaneous Expenses		335		369
7	Repayment of Pre 1987 Notes		4		56
8	Interest on Notes Payable		1,573		1,890
9	Assistance Agreement Payments		5,346		4,741
	Total Uses of Funds		7,258		7,056
	NET BUDGETARY OUTLAYS		5,957		3,707
	FSLIC RESOLUTION FUND CASH FLOWS:				
	Net budgetary Outlays	5,957		3,707	
10	Add: Repayment of Post 1986 Notes Payable	538		293	
	Net Funds Required for Operations		6,495		4,000
	Beginning Cash Balance	1,809		500	
	Minus: Projected Ending Cash Balance	500		500	
	Net Funds Available for Operations		1,309		0
	Funds Required from Treasury		5,186		4,000

Notes to Projected Budgetary Outlays
FY's 1990 and 1991

SOURCES OF FUNDS

1. Thrift Insurance Premiums - Insurance premium estimates are based upon an assessment rate of 20.8 basis points in FY 1990 and 23.0 basis points in FY 1991. Estimates are stated net of deductions for Secondary Reserve offsets, FICO interest expenses and REFCORP principal defeasance. REFCORP principal defeasance requirements may fluctuate pending interest rates and maturity length.

2. Receivership Proceeds - These proceeds are the direct result of income and sales of receivership assets. The proceeds are returned to the FSLIC Resolution Fund by either liquidating dividends or the repayment of secured advances and administrative loans. Estimates are stated net of projected deductions for REFCORP principal defeasance.

3. Sale of Corporate-Held Assets - These amounts represent the projected income and liquidation proceeds to the FSLIC Resolution Fund from assets held in the corporate portfolio.

4. Interest Income on Investments - These amounts are the projected interest income that the FSLIC Resolution Fund will earn on its investments. These investments are primarily Over-Night Treasury securities.

5. Other Income - These amounts include: principal repayments and interest earned on notes, loans and subordinated debentures; capital certificate income; thrift stock income; etc.

USES OF FUNDS

6. Administrative and Miscellaneous Expenses - These amounts include such administrative expenses as payroll, benefits, travel, legal expenses, audit expenses and the cost of managing certain corporate-held assets that are in the process of being liquidated.

7. Repayment of Pre 1987 Notes - Repayments of notes issued prior to 1987 are recorded as budgetary outlays because they were not recorded as outlays in the year issued.

8. Interest on Notes Payable - At the beginning of FY 1990, the FSLIC Resolution Fund had $19.1 billion in outstanding notes payable. Interest expense in most cases is based on regional indices and is paid semiannually.

9. Assistance Agreement Payments - The FSLIC Resolution Fund presently has 202 agreements for which assistance payments are required. In most cases, these payments are for yield maintenance and capital loss coverage.

10. Repayment of Post 1986 Notes - The principal amount of notes issued in 1987 and beyond were recorded as budgetary outlays in the year issued. Thus, their repayment is only cash outflow and not a budgetary outlay.

EXHIBIT 5

FSLIC Resolution Fund
Estimated Budgetary Outlays
FY's 1992 - 1996
($'s in millions)

09-May-90

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Net Budgetary Outlays	4,508	4,556	3,968	3,769	3,496
Funds Required from Treasury	4,705	5,307	5,778	3,847	3,683