TESTIMONY OF

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ON

THE STATUTORY TRANSITION OF THE REMAINING OPERATIONS
OF THE RESOLUTION TRUST CORPORATION
TO THE FEDERAL DEPOSIT INSURANCE CORPORATION AT YEAR END

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
U. S. SENATE

TUESDAY, JUNE 20, 1995
10:00 A.M.
DIRKSEN SENATE OFFICE BUILDING, ROOM 538

Mr. Chairman, I am pleased to appear before you today as a member of the Thrift Depositor Protection Oversight Board and, in particular, to address the perspective of the Federal Deposit Insurance Corporation (FDIC) on the statutorily-mandated, orderly transfer of the remaining operations of the Resolution Trust Corporation (RTC) to the FDIC at the end of this year. I would like to provide you this morning with a brief overview of how the FDIC has prepared for this transfer and how it relates to some of the major management initiatives now underway at the FDIC.

Overview

The RTC was established in 1989 by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). FIRREA authorized the FDIC to provide staff and support services to the RTC on a reimbursable basis. It also established the FDIC as the exclusive manager of the RTC. Under that authority, the FDIC Board of Directors acted as the RTC Board of Directors from RTC's inception until February 1992. During the RTC's first two years, the FDIC provided to the RTC a wide range of support services, but the RTC gradually assumed direct responsibility for most functional areas during that period. By the time the Board of Directors approved the establishment of separate RTC legal and personnel offices in September 1991, the RTC was largely operating as a separate entity.

The RTC Restructuring, Refinancing, and Improvement Act (RTCRRIA), enacted in December 1991, removed the FDIC as manager of the RTC, effective February 1, 1992. It created a new RTC position of Chief Executive Officer (CEO) and transferred to the new CEO most of the authority previously vested in the FDIC Board of Directors and the RTC Oversight Board, which permitted the RTC to exercise full authority over its own operations. The Act also restructured the RTC Oversight Board as the Thrift Depositor Protection Oversight Board in its present form to address policy issues related to the RTC.

FIRREA established December 31, 1996, as the sunset date for the RTC and provided that all RTC assets and liabilities on that date would be transferred to the FSLIC Resolution Fund (FRF), under FDIC management. Under the terms of FIRREA, as subsequently modified by RTCRRIA, permanent RTC employees were given certain employment rights at the FDIC whether released by the RTC prior to or at sunset.

The Resolution Trust Corporation Completion Act (the Completion Act), enacted in December 1993, changed the RTC's sunset date to December 31, 1995. It also provided for the establishment of a Transition Task Force to plan for the orderly transfer of RTC operations to the FDIC. In accordance with the requirements of that Act, Acting FDIC Chairman Andrew C. Hove, Jr., and Deputy and Acting RTC CEO John E. Ryan appointed an FDIC/RTC Transition Task Force (Task Force) in February 1994. Two senior executives of the FDIC were appointed to the Task Force: Dennis F. Geer, Acting Deputy to the Chairman and Chief Operating Officer, and John F. Bovenzi, Director of the Division of Depositor and Asset Services.

The Completion Act required the Task Force to perform the following duties:

- To identify and resolve operational differences between the RTC and the FDIC with respect to the resolution of failed financial institutions and the disposition of their assets;

- To recommend which RTC systems should be preserved for use by the FDIC;

- To recommend transition procedures which promote coordination between the FDIC and the RTC before the termination of the RTC and an orderly transfer of RTC assets, personnel, and operations to the FDIC; and

- To evaluate certain management enhancement goals and reforms previously applied by statute to the RTC and recommend which of these goals and reforms should apply to the FDIC.

These requirements all related to the FDIC's assumption of the RTC's responsibilities for resolving failed savings and loan institutions and disposing of their assets. They did not relate to the FDIC's other significant statutory functions, which include banking supervision, compliance and consumer affairs, research and statistics, and management of the deposit insurance funds. Those functions are unaffected by issues related to the RTC transition.

In response to the requirements of the Completion Act, the Task Force has initiated a broad range of transition planning activities under the joint direction of senior FDIC and RTC managers. Twenty-eight separate functional areas have been identified, and 15 joint task groups have been established to review workload, organization, and staffing; identify and address operational differences, including management reforms at the RTC; and develop for Task Force review plans and recommendations for the transition of each function. A total of 29 management goals and reforms, 63 automated systems, and 76 "best practices" are under review by the Task Force.

The Task Force also has established a number of joint FDIC/RTC committees to be responsible for important aspects of the transition that cut across functional lines, such as personnel policy, accounting and budget procedures, legal policies, facilities planning, and the maintenance of effective internal controls over transition activities.

Planning for the transition, under the leadership of the Task Force, is on track and has been characterized by cooperation between the FDIC and the RTC. The testimony of the RTC describes many of the transition planning activities that are underway and the planned schedule for the transition. I would like to focus on how the FDIC plans to absorb RTC operations and personnel and the anticipated impact that this will have on the FDIC.

The FDIC is concerned primarily with three major challenges as it carries out this transition:

- The integration of permanent RTC employees into the FDIC workforce, including dealing with any resulting staff imbalances;

- The smooth transfer of functions previously performed by the RTC, with an emphasis on the efficient completion of remaining work; and

- The assurance that adequate financial resources are available to complete this remaining work.

Integration of RTC Employees into the FDIC

Probably the most significant aspect of the transition, from the FDIC perspective, is the statutory requirement to absorb a large number of RTC employees at a time when the FDIC itself is in the midst of a major downsizing effort. At the outset, it is important to understand that the FDIC is required to absorb only about 25% of the RTC's current workforce. Approximately 1,300 permanent RTC employees have long-term employment rights at the FDIC. This is in addition to about 900 permanent RTC employees with re-employment rights at the FDIC who have already been transferred to the FDIC. Another 260 temporary RTC employees have time-limited appointments that extend past the RTC's sunset date. Those employees will also come to the FDIC, but all of their appointments will expire by the end of 1996.

In anticipation of the eventual merger of the two workforces, FDIC and RTC management took steps several years ago to limit the number of RTC employees who had permanent employment rights at the FDIC. They recognized that the workload from the rise in banking and thrift failures in the late 1980's and early

1990's would be temporary and, with authority from the U. S. Office of Personnel Management, elected to rely heavily on temporary employees to perform much of the asset management and disposition work resulting from these failures, rather than substantially increasing their permanent workforces.

In early 1992, former FDIC Chairman William Taylor and RTC CEO Albert Casey jointly implemented further restrictions on the hiring of permanent employees at the FDIC and the RTC. Under the Casey-Taylor agreement, virtually all employees hired in both corporations for the past three years have received temporary, time-limited appointments. About three-fourths of RTC's current workforce and almost one-third of FDIC's current workforce hold temporary, time-limited appointments of various types.

As of the end of April 1995, FDIC and RTC staffing broke down approximately as follows:

	FDIC	RTC	Totals
Permanent	7,400	1,300	8,700
Temporary (Time-Limited)	3,600	3,900	7,500
TOTALS	11,000	5,200	16,200

The high percentage of temporary employees in both workforces makes the difficult task of downsizing somewhat less difficult, because personnel reductions may be accomplished by not renewing temporary appointments as they expire in combination with restrictions on new hiring. Both the FDIC and the RTC have already taken advantage of the temporary nature of their workforces to downsize substantially from their peak staffing levels:

- The FDIC has reduced its total staffing from a peak of about 15,600 in mid-1993 to fewer than 11,000 as of the end of April 1995, and we plan to reduce our staffing to just under 10,000 by the end of this year, a reduction of over 30% since 1993. A 25% reduction has been accomplished during the past six quarters.

- The RTC has reduced its total staffing from a peak of 8,500 in early 1992 to about 5,200 as of the end of April 1995, an almost 40% reduction. Substantial further downsizing will occur within RTC throughout the remainder of 1995.

Reductions in the FDIC and RTC workforces over the past several years are illustrated in Exhibit A.

Limitations on permanent promotions were also implemented by the FDIC and the RTC in early 1992, as an integral part of the Casey-Taylor agreement. As a result, about 1,700 FDIC/RTC employees (800 in the FDIC, 900 in the RTC) hold temporary promotions today. For the rest of this year and during the first few months of 1996, after RTC's remaining operations and permanent staff have been transferred to the FDIC, we will complete a review of all positions occupied by employees with temporary promotions to assess whether there is a continuing need for each such position. This will almost certainly result in the elimination of many of these promotions, particularly among the higher-graded executive and managerial positions that are duplicated in the two corporations, with a corresponding reduction in the FDIC's personnel costs.

<u>Linkage with the FDIC's Strategic Planning Process</u>

In April, the FDIC Board of Directors adopted the first Strategic Plan in the 61-year history of the agency. In conjunction with that action, a 1995 Operating Plan is now in the final stages of development. I have also initiated a comprehensive analysis of FDIC workload and staffing, including the projected post-sunset workload and staffing resulting from the RTC transition. This effort, which is expected to be completed in early summer in conjunction with the FDIC's mid-year budget review, is a direct outgrowth of the Strategic Plan.

The new Strategic Plan and the companion Operating Plan define the key objectives and priorities to be pursued by the FDIC and will guide the activities of the corporation in significant ways over the next several years. They will also provide the basis for decisions about the appropriate medium and long-term allocation and grade structure of FDIC's staff resources, including employees coming from the RTC, as well as employees devoted to the other significant statutory functions of the FDIC.

As the first step in our comprehensive analysis of workload and staffing, FDIC divisions and offices are defining key workload indicators and core workload levels -- the level at which the division's or office's workload can be expected to remain constant over time without regard to economic and other changes affecting the banking and thrift industries. This core workload will then be related to a core staffing level in both the headquarters and field offices of each FDIC division and office. These core staffing levels will provide a baseline for the FDIC's authorized permanent workforce.

Once this analysis has been completed, staffing imbalances within the FDIC, including those that may occur in conjunction with the FDIC/RTC transition, will be identified and addressed.

The qualifications of individual employees in divisions and offices identified as having excess staff will be reviewed, and qualified employees will be matched to staffing needs in the other divisions and offices identified as having insufficient staff. Reassignments, including reassignments to different geographic areas, will then be made as necessary to address identified staffing imbalances. As a part of this process, we will work to ensure that RTC employees are reassigned to positions within the FDIC for which they are qualified and where their skills are most needed.

Another approach currently under consideration for dealing with staffing imbalances identified through our strategic planning process is the use of an employee buyout program. The FDIC in July 1994 instituted a buyout program similar to that used in other Federal agencies. That program was implemented on a limited basis in conjunction with an early retirement program authorized by the U. S. Office of Personnel Management. A total of 25 employees left FDIC in 1994 as a result of the buyout/early out program.

The FDIC's buyout program includes a separate buyout option targeted specifically to permanent employees subject to relocation to other geographic areas. Under that option, employees could elect a buyout rather than accept a reassignment to a new duty station. Such buyouts were offered only in those instances where it was determined that a replacement employee could be recruited in the local job market. That option was highly cost effective, because the savings on projected relocation costs more than offset the cost of the buyout. A total of 47 FDIC employees accepted relocation buyouts in 1994, and a substantial number of permanent RTC employees with FDIC employment rights are being given the opportunity to accept such buyouts this year in lieu of reassignment from closing RTC offices to other geographic areas.

We are currently considering whether to extend the FDIC's buyout/early out program, either in its present form or in some modified form. Although a buyout program can be an integral part of efforts to address staffing imbalances, we must be certain that it can be targeted to those areas within the FDIC that have excess staff, can be justified on a cost-effective basis, and will not impair our need to retain key staff. If the FDIC buyout program is extended, it will be available both to FDIC employees and to RTC employees on the same basis.

Transfer and Completion of Remaining RTC Work

It is important to recognize that a substantial amount of residual RTC work will be transferred to the FDIC at the end of this year at sunset with permanent RTC employees. Significant examples of this workload include the following:

- The RTC currently estimates that it will have approximately $8-10 billion in unsold assets to be transferred to the FDIC at sunset. A large percentage of these will be "hard-to-sell" assets, such as properties with hazardous materials or other environmental problems or other assets that have been difficult to sell for other reasons. This transfer will approximately double FDIC's asset inventory, which is projected to be about $8.5 billion at the end of this year.

- The RTC estimates that there will be 300 open receiverships for failed thrift institutions remaining at sunset. The management and eventual closeout of each of these receiverships by the FDIC will require careful analysis of the potential legal and other liabilities of each of these separate legal entities.

- A large number of unresolved RTC legal matters will remain at sunset and will require substantial support from the FDIC Legal Division. This need will be matched by the returning RTC workforce, because approximately 30% of the permanent employees at the RTC are currently working in RTC's Legal Services Division.

- Following the RTC's sunset, its 1995 accounting records will need to be closed out and its final financial reports produced. Accounting support will also continue to be required for the estimated $8 billion in unsold RTC assets that will be transferred to the FDIC at sunset.

- Contract administration support will be required for about 700 active RTC contracts with a total contract value of approximately $700 million that have been identified for continuation after sunset. In addition, approximately 1,400 completed RTC contracts and 350 open audit reports will remain to be closed out by the FDIC. Closeout of these contracts and open audits will require the resolution of a variety of difficult issues that have prevented their completion by the RTC. An undetermined number of contractor claims and disputes will also have to be adjudicated after sunset.

Some of this work, such as the production of RTC's 1995 financial reports, is obviously short-term in nature and can reasonably be expected to be completed within six to twelve months after sunset. In contrast, some of the work, such as the sale of "difficult-to-sell" assets and the completion of RTC legal matters, clearly has the potential to continue beyond 1996. As a result, we expect RTC employees who have post-sunset employment rights with the FDIC to be primarily occupied following sunset by the residual RTC workload that will be transferred to the FDIC.

Funding Reserves and Contingencies for RTC Activities

There is one transition-related financial issue that I want to bring to your attention: the need to ensure that adequate funds are set aside prior to sunset for transfer to the FRF to permit the FDIC to complete all of the residual RTC work for which it will become responsible. As the Secretary has noted in his testimony, the Oversight Board has requested a joint review of this issue by the FDIC and the RTC, and the FDIC and the RTC have been working cooperatively for some time on this matter.

The purpose of this review is to ensure that the final reserves on the RTC assets that will be transferred to the FDIC at sunset are sufficient to cover the total expenses that will be incurred by the FDIC in disposing of those assets. This is particularly important as it relates to the potential costs that may be associated with difficult-to-sell assets, such as the costs of cleaning up properties with hazardous materials.

The RTC adjusts its reserves for anticipated losses each year in conjunction with the preparation of its annual financial statements. The General Accounting Office (GAO) evaluates the adequacy of those reserves in its audit of those financial statements. In preparing its 1994 year-end financial statements, the RTC consulted with the FDIC in determining appropriate adjustments in its loss reserves as of that time.

The FDIC will continue to work closely with the RTC as it reviews and adjusts its reserves during 1995. This review will include an evaluation of the need to set aside reserves on a contingent basis for potential adverse conditions. Potential adverse conditions could include a deterioration in economic conditions, changes in current or potential litigation, and other factors beyond the RTC's and the FDIC's control. The FDIC and the RTC staffs are currently analyzing these factors and expect to make a report to the Oversight Board not later than September 1995.

I want to assure you that the FDIC and the RTC will keep you fully informed about our activities in this area and that the GAO will be consulted on the appropriateness and adequacy of the loss reserve estimates. As you know, regardless of the level of funding that is set aside, any funds that are not used by the FRF in connection with RTC assets will ultimately be returned to the Treasury. I think that we share a common desire that the Congress should not have to deal annually with a continuing need for appropriations to the FRF in connection with residual RTC-related activities.

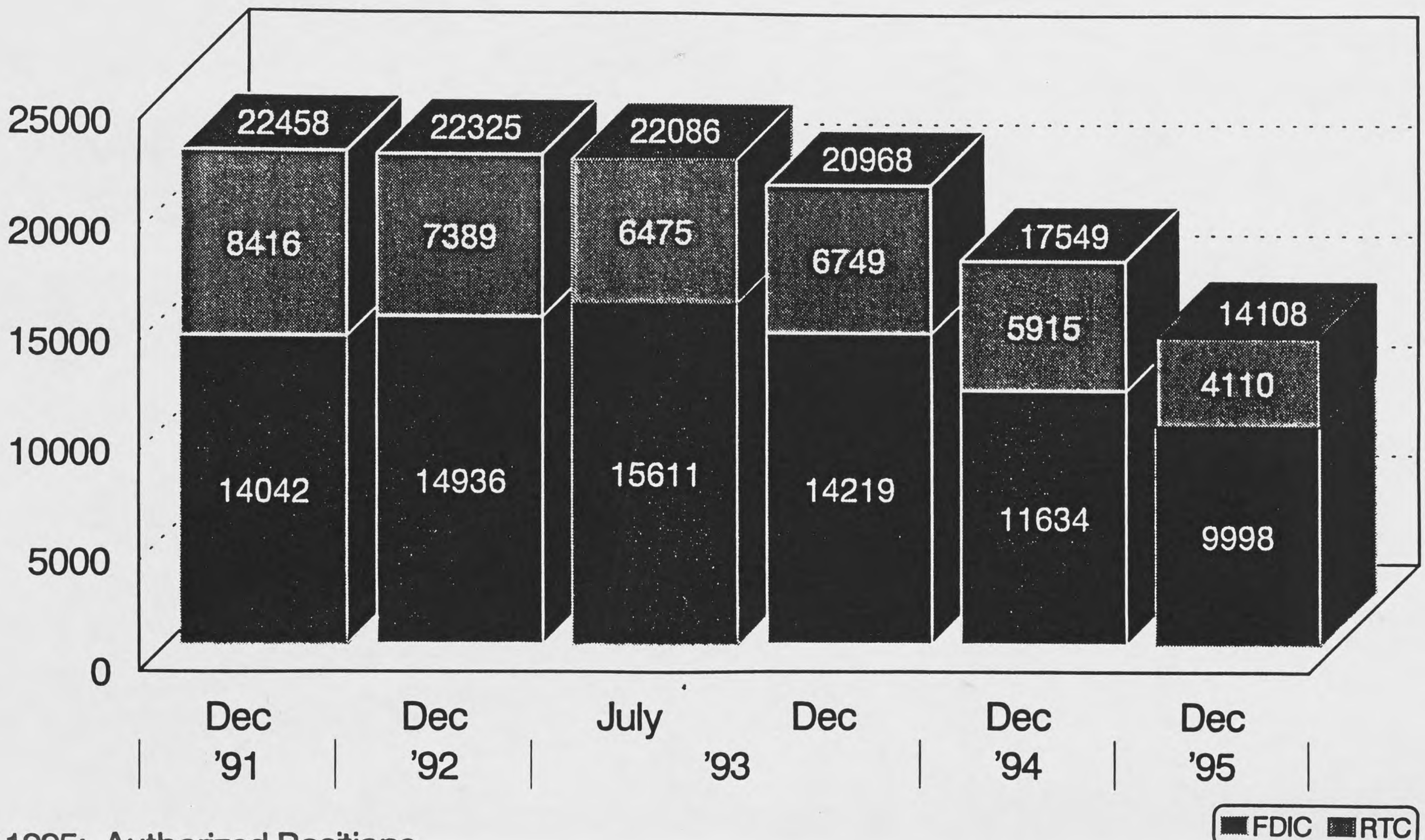
Conclusion

In conclusion, the planning for the FDIC/RTC transition is proceeding in an orderly fashion, and we expect a smooth transition.

Mr. Chairman, thank you again for this opportunity to provide the committee with an overview of the FDIC's perspective on the transition process associated with the sunset of RTC operations at year end.

Reductions in FDIC & RTC Staffing

1991 - 1995



1995: Authorized Positions

Exhibit A