

RTC

O V E R S I G H T B O A R D

Resolution Trust Corporation

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STRATEGIC PLAN

for the

RESOLUTION TRUST CORPORATION

DECEMBER 31, 1989

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STRATEGIC PLAN FOR THE RESOLUTION TRUST CORPORATION

I. INTRODUCTION

A. BACKGROUND AND STATUTORY REQUIREMENTS

The Resolution Trust Corporation (RTC) and the Oversight Board of the Resolution Trust Corporation (Oversight Board) were established as instrumentalities of the United States on August 9, 1989, by the enactment of Section 21A of the Federal Home Loan Bank Act (12 U.S.C. 1441a) as added thereto by Section 501(a) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (Pub. L. No. 101-73, Section 501(a), 103 Stat. 183, 363-393). Throughout this document, all references to Section 21A are to Section 21A of the Federal Home Loan Bank Act as amended by Section 501(a) of FIRREA.

FIRREA requires the Oversight Board, in consultation with the RTC, to develop a strategic plan for the RTC's functions and activities, and to submit the plan to Congress no later than December 31, 1989. FIRREA establishes the minimum contents required for the strategic plan, and further requires the Oversight Board to appear with the RTC, by January 31, 1990, before the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate to describe the strategic plan.

At its public meeting on September 21, 1989, the Oversight Board determined that it would be beneficial at an early stage in the development of the strategic plan to make a draft available for public comment. Accordingly, a preliminary, draft strategic plan was issued for 30 days comment on November 3. The Oversight Board emphasized that it was an early draft that could be revised

in response to comments received and in the course of the Board's own further review and deliberation. In preparing the final strategic plan, the staff of the Oversight Board reviewed 85 comment letters, consulted extensively with the staff of the Oversight Board members' agencies and staff of the RTC, and participated in a Congressional hearing on the strategic plan.

B. RESOLUTION TRUST CORPORATION AND OVERSIGHT BOARD DUTIES

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

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

The duties of the Oversight Board are to oversee and be accountable for the RTC. The Oversight Board is required, in consultation with the RTC, to develop and establish overall strategies, policies, and goals for the RTC's activities, including the RTC's overall financial goals, plans and budgets. The Oversight Board is also required to review the overall performance of the RTC on a periodic basis, including its work, management activities, and internal controls and the performance of the RTC relative to approved budget plans pursuant to the terms of FIRREA.

C. PURPOSE AND CONTENTS OF THE STRATEGIC PLAN

The purpose of the strategic plan is to set forth the RTC's goals, objectives, and implementing procedures in support of its mission. FIRREA establishes the minimum contents that the plan and the implementing guidelines and procedures must contain.

The strategic plan includes both the general policy discussion and the goals, objectives, and implementing procedures that are contained in this document. The strategic plan's goals establish broad, general direction for the RTC in six areas: case resolution, asset disposition, affordable housing, conflicts of interest and ethical standards, external relations, and administration.

The strategic plan's objectives provide more specific statements with respect to the goals set forth. Subject to the review of the Oversight Board, the RTC is responsible for amending the FDIC's policies and procedures and, where necessary, adopting its own set of rules, regulations, standards, policies, procedures, guidelines, and statements necessary to implement the strategic plan established by the Oversight Board.

Consistent with FIRREA, the strategic plan generally relies on the RTC to develop the specific guidelines and procedures for implementing the general guidance provided in the strategic plan. Until such specific procedures are developed by the RTC, the Oversight Board has directed the RTC to operate, consistent with Oversight Board policies, in accordance with existing FDIC procedures.

The challenges facing the RTC, and thus the Oversight Board, both in terms of magnitude and complexity, are unparalleled in recent history. It is anticipated that a significant portion of the

assets of thrift institutions in the Southwest will come under the jurisdiction of the RTC, and thus, will have to be disposed of either through case resolutions or outright asset sales. In the interim, the RTC will become a major holder of real estate in this market. There is no historical model for a task of this magnitude that the Oversight Board can turn to as it develops policies for the RTC that are designed to ensure that the RTC's actions are consistent with FIRREA's statutory objectives.

As the Oversight Board and the RTC develop more experience, issues will arise that will require new policies and directions. As a result, it is expected that the strategic plan will be refined and strengthened on a periodic basis, based on the experience gained by the Oversight Board and RTC. Additionally, as the National and Regional Advisory Boards begin operating, they will provide a new source of input to the policies and procedures developed by the Oversight Board and RTC for the sale and disposition of real property assets.

D. STRATEGIC PLAN DEVELOPMENT

The strategic plan was developed by Oversight Board staff in consultation with staff of the Treasury Department, the Department of Housing and Urban Development, the Federal Reserve Board, and the RTC.

The strategic plan incorporates individual policies that have been adopted by the Oversight Board and, to the extent appropriate, comments received during the public comment period.

E. EXPENDITURE PRINCIPLES

To resolve insolvent thrift institutions, Congress authorized \$50 billion. When considering whether the expenditure of funds for

other programs authorized by the statute are appropriate, the Oversight Board should be provided with a cost estimate of the program and any other information the Board may require. If the program is approved, the RTC should monitor the implementation of the program and should provide regular reports (including its costs) to the Oversight Board.

II. PUBLIC COMMENTS AND CHANGES TO THE DRAFT PLAN

At its September 21, 1989 meeting, the Oversight Board decided to issue the strategic plan in draft form for public comment before submitting it to Congress. The Oversight Board sought comments on all aspects of the strategic plan, and particularly, on the questions that it posed. It was hoped that publication of an early and preliminary draft of the strategic plan would promote participation in the formulation of the RTC's goals, objectives and implementation procedures.

On November 3, 1989, the Oversight Board issued the proposed strategic plan for comment in the Federal Register. Eighty-five individuals and organizations responded to the request including: seven federal agencies, seven municipalities, and eight state and local housing agencies; 19 public interest groups, including 11 national, state, and local housing organizations; 16 individuals, including lawyers and realtors; 13 professional and trade associations; eight asset management firms; six investment bankers and financial management firms; and one thrift.

Respondents generally supported the various provisions in the strategic plan and the associated implementing procedures, although concern was expressed by several respondents that the plan lacked specificity. A variety of additions to the plan were suggested. These comments as well as additional decisions made by the Oversight Board were considered in preparing the final strategic plan.

The following discussion of comments is organized around the six topics identified in the plan. In addition to summarizing the comments, the discussion identifies how the final plan differs from the November 3 draft. Finally, due to changes made to the strategic plan as a result of public comments, the initial

completion dates for most of the implementation procedures that were to have been provided by the RTC to the Oversight Board by the end of 1989 have been shifted to January 15, 1990.

A. CASE RESOLUTION

The case resolution section of the final strategic plan is organized around six general objectives: (1) establishing conservative operating policies for thrifts in conservatorship; (2) establishing a prioritization schedule for case resolutions; (3) establishing procedures for selecting a method of resolution; (4) establishing bidding procedures; (5) establishing record keeping and reporting procedures; and (6) using the private sector for services related to case resolutions.

Conservatorship Policy

The draft strategic plan did not include a specific objective relating to the operating policies of institutions in conservatorship. Commenters, however, suggested a number of policies that the RTC should follow while operating the conservatorships. For example, two commenters endorsed downsizing institutions in conservatorship. Another recommendation was that the RTC should sell or securitize mortgage loans while an institution is in conservatorship.

The Oversight Board agrees that it is important that the RTC manage institutions in conservatorship in a manner that ultimately minimizes the costs and risks to the RTC. As such, the final strategic plan includes a specific objective in the case resolution section that directs the RTC to adopt conservative operating policies for institutions in conservatorship. The implementing procedures to achieve this objective direct the RTC to implement procedures for downsizing institutions with minimal franchise value. Cash flows from

principal and interest payments are to be used to repay high-cost insured deposits and secured borrowings. Institutions with significant franchise value should, in general, be allowed to maintain, but not increase, their asset size. Furthermore, any new lending should only be in low-risk assets comparable to the lending authority outlined in FIRREA for thrift institutions that fail to comply with their minimum capital requirements. The plan also instructs the RTC to establish a national sales program to coordinate the disposition of financial assets held in conservatorship. Finally, the implementing procedures direct the RTC to report to the Oversight Board by March 31, 1990 on the feasibility of hedging the RTC's overall interest rate exposure.

Prioritization Schedule for Case Resolution

The draft strategic plan identified four factors that the RTC should consider in establishing its prioritization schedule for case resolutions: (1) the rate of deterioration, (2) the risk exposure of the RTC, (3) recovery of franchise value, and (4) efficient use of RTC resources and staff. The Oversight Board specifically asked how each of these factors should be measured and weighted.

The GAO responded that the first three factors were interrelated and could not be individually weighted, while the fourth (efficient use of staff) was unimportant and did not belong on the list. Three other respondents, including a trade group, argued that the RTC should not necessarily concentrate on the worst cases first. Instead, it was argued, the RTC should focus on the potential effect of delay on the value of the assets of the institution. It was suggested that the RTC's top priority should be to deal with those institutions that had failed most recently in order to preserve their franchise value.

Consistent with the GAO comment, the Oversight Board agrees that

the deterioration of an institution includes both the ongoing operating losses as well as any loss in franchise value that occurs before resolution takes place. Furthermore, the Oversight Board believes that this broader definition of deterioration is the most important factor for the RTC to consider and, as such, the final strategic plan directs the RTC to first consider the deterioration of institutions in establishing the priority schedule. This approach is also consistent with the comment that the RTC should first resolve institutions that have recently failed, if, as the commenter suggests, these institutions have the greatest franchise value.

The Oversight Board does not agree with the GAO comment that the ongoing risk exposure at institutions is embodied in the concept of deterioration, nor that the efficient use of RTC resources is unimportant for establishing priorities. Institutions in conservatorship have different degrees of ongoing risk. For example, one institution may have more interest rate risk than another. If the deterioration at two institutions is the same, the RTC should first resolve the institution with the greater risk.

Similarly, the RTC should consider its resources (e.g., personnel in various geographic regions) in establishing priorities. While these resource constraints can be changed over time, the RTC should not delay actions until these changes are made.

Methods of Case Resolution

Another objective identified in the draft plan was for the RTC to establish procedures for selecting a method of resolution that is consistent with (1) FIRREA's loss minimization criteria; (2)

requirements in the Federal Deposit Insurance Act regarding the RTC providing assistance for case resolutions; and (3) the need to minimize the ongoing risk of the RTC and disruptions in local real estate and financial markets. The Oversight Board also asked several related questions on how institutions should be resolved, including whether the RTC should sell thrifts as whole institutions or component parts, and whether the costs of administering a piecemeal liquidation outweighed the potential benefits of attracting a wider group of interested bidders.

While nine respondents commented on this issue, none identified additional factors that the RTC should consider in selecting a method of resolution.

A thrift and a public interest group favored whole thrift transactions, while four groups including the American Bankers Association, the U.S. League of Savings Institutions, and the Consumer Federation of America favored the approach suggested in the plan of directing the RTC to accept bids for individual branches, so that more bidders could participate, and ownership concentration would be reduced. GAO emphasized, however, that the RTC should structure sales of institutions in such a way that bids received are comparable. It was further suggested that the RTC, in its report to Congress, should include statistical information regarding the various methods of case resolution and their relative successes.

The Oversight Board believes that the losses to the RTC will ultimately be lower if prospective acquirers are allowed to bid on a variety of resolution structures. The RTC can then select the best offer from among the alternatives. While the Board

recognizes that this approach will require the RTC to evaluate and compare different types of bids, the Board agrees with commenters who suggested that the cost savings likely to result from attracting a broader range of prospective bidders outweigh the added administrative burden of comparing different types of bids. The final strategic plan reflects this decision and directs the RTC to allow potential bidders to bid on a variety of resolution structures (e.g., whole-thrift, clean-thrift, and individual branches).

The final strategic plan further clarifies the criteria for selecting among alternative resolution structures. Specifically, when the RTC provides assistance, the cost of the assistance must reflect the loss of any tax revenue to the federal government.

The Oversight Board also asked for comments on its policy of limiting the maturity of asset puts and other contingent liabilities for the RTC to no greater than six months.

One thrift noted that past FSLIC assistance agreements lengthened the government's involvement with resolved thrifts and recommended that the RTC consider one-time grants that encourage and require the investor to assume greater risks. An investment banking firm countered that "regulatory forbearance should be an on-going aspect of RTC case-resolution techniques, since it can reduce the cost of a given resolution... Although forbearance can shift risk to the insurance fund and might result in various indirect subsidies, these subsidies can be measured and disclosed and, as a result, managed."

GAO observed that the Oversight Board should be as specific as possible regarding the use of various forms of financial assistance. It stated that there are undesirable incentives

associated with all assistance arrangements and, therefore, their use must be justified.

Consistent with the GAO comment, the final plan clarifies the appropriateness of various forms of financial assistance. Furthermore, after reviewing the comments received, the Board has decided to continue its policy of limiting the use of asset guarantees to six months. Drawing from previous Oversight Board policy statements, the final plan directs the RTC to minimize its use of any forms of financial guarantees and open-ended assistance agreements. However, the RTC may use asset guarantees, capital loss coverage or asset puts, but the maturity of these agreements, in general, should be no longer than six months and should only cover the period required by the acquirer to complete due diligence.

The final plan also incorporates the Board's policy statement on ownership interests, directing the RTC to generally avoid taking active equity interests that allow the RTC to exercise control or actively participate in the management of resolved institutions. The RTC is not, however, precluded from taking passive equity interests to share in substantial gains in resolved institutions.

Bidding Procedures for Institutions

An objective in the draft plan for the RTC was to develop and implement bidding procedures that encouraged the active participation by all qualified bidders. The Oversight Board asked for comments on methods for ensuring that all interested bidders are fully informed regarding the bidding procedures for institutions that are being marketed. Thirteen comments were received on this issue.

Respondents suggested that the most important step that the RTC could take was to keep the market informed by notifying the

broadest spectrum of financial institutions of the availability of institutions for sale. Bidding procedures should be formalized and publicly disclosed. Guidelines, procedures, and marketing schedules should be made available as quickly as possible, and even the methodology for determining liquidation costs should be made public.

One investment banking firm emphasized the importance of including small firms in the bidding process. To have small firms participate, the process must be fair and open, and there must be at least six weeks between solicitation and acceptance of bids. However, one thrift suggested that if a conservatorship has an acceptable acquirer, it should be taken out of the bidding process because the bidding process can be lengthy and lead to deterioration of the thrift's franchise value.

Finally, two groups urged the streamlining of federal regulatory policies regarding approval of acquisitions, mergers, and other ownership changes and conversion from thrift to bank status.

The Oversight Board agrees that the RTC needs to broadly disseminate information in order to attract the widest range of prospective bidders. Furthermore, the public needs to be informed on all aspects of the resolution process including bidding procedures, bidder qualifications, and the terms of previous transactions.

In the draft plan, the RTC was directed to disseminate this information. The RTC has already published a buyer's guide identifying the procedures for acquiring a thrift institution and has advertised the sale of institutions in national newspapers. While these are important first steps, the Board agrees with commenters that additional information needs to be disseminated, including the required qualifications for acquiring institutions.

The Board encourages the relevant state and federal regulatory agencies to make such information readily available to potential acquirers.

Also, the final plan clarifies the bidding procedures for minority institutions. Specifically, when resolving a minority institution, the RTC must first solicit bids from other minority depository institutions. Because the Oversight Board wishes to preserve the minority character of minority thrift institutions, and because of the costs associated with a lengthy bidding process, it is the Board's policy that if the RTC determines that a bid received from a minority institution or minority group is less costly than liquidation, the RTC is not required to solicit additional bids.

Furthermore, to promote the continuation of minority institutions, the final plan authorizes the RTC either to postpone by up to nine months the closing of a transaction while the acceptable acquirer finds permanent capital or to provide up to nine months of bridge financing for two-thirds of the required capital for the acquisition of a minority institution. The initial equity investment of the acquirer would be at risk in the event the acquirer were unsuccessful in raising the required capital within the nine-month period. The financing is to be at market rates and secured by the capital placed in the institution by the acquirer.

B. ASSET MANAGEMENT AND DISPOSITION

Commenters responded to all four of the objectives laid out in this section of the draft strategic plan. The first of these objectives is for the RTC to maximize the net present value recovery of assets sold. Respondents expressed views on several aspects of this objective. How the RTC estimates market values

of properties was noted as a key element in RTC operations.

Comments on the use of auctions and bulk sales were mixed. One comment suggested that auctions distorted the value of property and should not be used. Two others suggested that competitive public auctions provided an efficient way to dispose of property and should be encouraged. There was a suggestion by the Certified Auctioneers Institute that the earlier draft plan was biased against auction marketing.

With respect to bulk sales, the comment was made that these sales need to be carefully designed if RTC is to maximize its return on these transactions while also minimizing the impact on local markets and pursuing the affordable housing objective. Bulk sales of financial assets as well as of real estate were recommended by several respondents.

Seller financing provided by the RTC was mentioned by several respondents as a necessary component of the asset marketing process. One respondent felt that guarantees of loans sold by the RTC should extend beyond six months.

Municipal government agencies expressed concern that the RTC's activities might result in properties being removed from local property tax roles.

In response to comments received on these topics, a number of changes have been made in the plan. The wording of passages regarding auction sales methods has been changed, use of appraisals by the RTC has been elaborated upon, and the discussion of the property inventory has additional wording regarding RTC consultation with environmental agencies and organizations regarding significant properties. The Oversight Board also decided to specify the circumstances under which the

RTC may provide seller financing in disposing of its assets, and these conditions are incorporated in the plan.

A second objective set out in the asset disposition section of the draft plan related to the RTC's use of private sector contractors. The Oversight Board staff also specifically asked for comments on the extent to which the RTC should use the private sector as overall asset managers, and to what extent it should contract with providers of component services. These component services include property management, loan servicing and workout, accounting and legal services, capital improvements to completed or partially built structures, marketing of loans and properties, and negotiating the terms of sale of these assets.

Sixteen respondents commented on this question, and virtually all favored the use of the private sector, rather than RTC staff, for the asset management function. The view was that the RTC should not attempt to duplicate the services available in the private sector.

Several respondents argued that asset managers needed authority over the entire recovery process. Another voiced the view that the RTC's role should be that of "a manager of managers."

Contracting methods and compensation of asset managers and other contractors was another focus of comments. One opinion was that contracts should be tailored to the specifics of the asset(s) to be managed. Incentive systems were generally favored, but the need for specificity and careful design was mentioned. Some questioned the workability of incentive structures. One potential problem mentioned was that managers might inadvertently be given an incentive to hold assets rather than dispose of them.

A few respondents noted the potential for conflicts of interest among asset managers. One trade association noted the need for a minority outreach program for asset managers.

Many of the comments received on use of the private sector were consistent with the policies set out in the draft plan. As a result, only a few changes have been made to this part of the plan. These changes deal with the design of incentive contracts in asset management contracts and methods of monitoring the RTC's use of private sector contractors.

The third objective in the asset disposition section of the draft strategic plan is to minimize the impact of RTC transactions on local real estate and financial markets. In response to this section of the plan, some respondents questioned whether the minimum disposition price for RTC properties in distressed areas -- set initially in FIRREA at 95 percent of market value -- was an achievable target. On the other hand, concerns about dumping of properties at below-market prices were voiced by groups such as state housing agencies, as was the need for cautious and well-planned disposition strategies in these areas. The plan incorporates some wording changes in discussing the 95 percent rule and re-orders some of the paragraphs from the previous draft.

A final focus of comments on asset disposition was the importance of full and accurate information from the RTC, which relates to the fourth objective in the draft plan: that the RTC fully document asset management and disposition activities to assure compliance with FIRREA. Commenters made several points: (1) In order to make appropriate bids for contracts and properties from the RTC, contractors and investors need as much pertinent information as the RTC can provide. (2) In addition, notification of rejected bidders should occur rapidly, and

bidding results should be open to full public review. (3) More generally, the financial and real estate markets benefit from information because risk premiums built into offers can be reduced. The Oversight Board felt that these comments were supportive of the policy set out in the draft plan, and no changes in these sections have been made in the plan.

C. AFFORDABLE HOUSING

The strategic plan directs the RTC 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. Eligible properties will first be offered to qualified purchasers for 90 days through clearinghouses administered by state housing finance agencies, the Office of Community Investment or other division of the Federal Housing Finance Board (FHFB), and certain national nonprofit organizations.

The first objective in the affordable housing provisions section has been revised to better reflect the intent of FIRREA. That objective now also includes providing rental housing opportunities and explicitly notes the requirement to address the needs of very low-income families. The discussion section on affordable housing has been revised to include definitions of qualified purchasers for eligible single- and multi-family properties and the lower-income occupancy requirements that multi-family property purchasers must meet.

The strategic plan directs the RTC to prepare detailed guidelines by March 30, 1990, for carrying out FIRREA's objective of preserving the availability and affordability of housing for low- and moderate-income individuals.

Interim Marketing Period

To avoid keeping needed housing off the market and to avoid any further deterioration of eligible properties, the draft strategic plan permitted the RTC to begin selling eligible properties under interim rules before the publication of final rules. Some respondents, including several members of the RTC Task Force of the House Banking Committee, supported beginning eligible property sales under interim rules. However, most respondents opposed such sales before publication of final rules, except for pilot projects to test program concepts.

A new implementation procedure for this objective has been added to the plan. It states that the RTC must establish interim guidelines for review by the Oversight Board before selling any eligible properties. These interim guidelines may authorize pilot projects that test eligible property disposition program concepts, but do not include subsidies.

Clearinghouses

The Oversight Board requested comment on whether clearinghouses should provide functions other than the dissemination of information. A total of 22 comments were received with most respondents suggesting that clearinghouses should also perform marketing and outreach and receive funding based on the range of functions performed.

While respondents generally agreed that state housing finance agencies and national nonprofit organizations should serve as clearinghouses, several recommended additional vehicles and groups for information dissemination, including national computer networks, local public access cable television stations, private sector subcontractors, private brokers, and multiple listing services. However, concern was raised that private brokers might

choose to maximize sales prices rather than to facilitate sales to lower-income households.

Concern was also expressed by some respondents that clearinghouses who do more than provide information might encounter conflicts of interest. The National Council of State Housing Agencies (NCSHA) suggested that the plan explicitly allow clearinghouses to purchase properties.

In response, the strategic plan now contains a revised implementation procedure that will identify which state housing finance agencies, along with the FHFB, will serve as clearinghouses, and will establish guidelines for determining which national non-profit organizations have the capacity to act as clearinghouses.

On the question of which bidders were qualified to purchase eligible properties, several respondents sought assurance that self-help groups, tenant associations, public housing authorities, municipal governments, and Community Mental Health Centers were qualified purchasers. Other comments recommended that state and local public agencies, which have experience under other programs, be used by the RTC to qualify purchasers. The plan now directs the RTC to develop and implement procedures for qualifying purchasers by March 31, 1990 and to investigate the feasibility of contracting with other government agencies, state housing agencies, and nonprofit organizations for the service of determining which households are qualified purchasers.

Respondents dealt at length with the kinds of information that the RTC should provide to clearinghouses. Essentially, they wanted information to be conveyed on a regular schedule in a standard ready-to-use format suitable for immediate dissemination to eligible purchasers. It was also suggested that the RTC

should convey information on properties to clearinghouses even before it had clear title to them, but that the 90-day clock should not begin until the RTC had title to the property. The plan now requires the RTC to develop procedures, in consultation with the clearinghouses, to assure an efficient flow of information from the RTC to clearinghouses and from clearinghouses to potential purchasers.

Low- and Moderate-Income Housing Provisions

The Oversight Board also requested public comment on strategies for implementing the low- and moderate-income housing provisions of FIRREA. Forty-three respondents provided comments on this topic.

Several respondents stated that the RTC should maximize the preservation of affordable housing rather than maximizing return. Several members of the RTC Task Force of the House Banking Committee noted the need for performance standards to measure RTC progress in disposing of eligible properties for low- and moderate-income use. Other commenters agreed with this suggestion and recommended that the RTC establish a performance objective of targeting between 80 and 100 percent of eligible residential properties to low- and moderate-income housing use.

At this time, it is unclear how many properties will ultimately be eligible under the affordable housing program, the availability of clearinghouses in those areas where the property is located, and the success of an aggressive marketing program. The strategic plan provides for a period of experimentation by the RTC in order to learn more about the dynamics of the program.

Respondents recommended that the RTC hire low-income housing specialists on its staff at the national, regional, and field office levels. Some respondents supported the creation of a

separate affordable housing section. The strategic plan calls for the RTC to have the organizational capability to implement the affordable housing program and directs it to consider hiring low-income housing specialists for its field staff.

The strategic plan requires the RTC to develop guidelines for determining the net realizable market value for eligible properties. Several respondents urged that valuation and sales prices of eligible multi-family properties take into account applicable very low- and lower-income occupancy requirements. These recommendations will be considered by the RTC as it implements the policies and goals and objectives discussed in this strategic plan.

Respondents were divided over the desirability of bulk sales of eligible properties. The NCHP argued: "By encouraging bulk purchases in which buyers take properties which range from good to bad, RTC can sell more properties more quickly, saving enormously in holding costs and property value reductions due to deferred maintenance." Several members of the RTC Task Force of the House Banking Committee urged that there be clear guidelines on the use of bulk sales. Other respondents opposed bulk sales on the ground that nonprofits would be disadvantaged. The strategic plan directs the RTC to develop guidelines for determining when eligible properties should be sold individually or in bulk to nonprofit organizations and state and local housing agencies and to consider when savings on disposition costs justify price discounts on bulk sales.

The strategic plan also requires the RTC to establish guidelines for giving preference among substantially similar competing bids for eligible multi-family properties to those offers that propose to house more very low- and lower-income families and for giving preference among substantially similar offers for eligible

single-family properties to bids from families with lower incomes.

Twenty-two respondents urged the RTC to provide financial assistance to qualified purchasers in the form of below-market- and market-rate seller financing, price discounts, other subsidies, and assistance with secondary market transactions. Other respondents recommended that the RTC donate or deeply discount properties intended for occupancy by special needs groups, such as the homeless, the elderly, and mentally retarded, mentally ill, and disabled persons. RTC financing for rehabilitation and direct grants to nonprofits were also suggested. The strategic plan requires the RTC to provide the Oversight Board with issues, alternatives, and cost estimates regarding financial assistance for the purchase of low- and moderate-income housing, including market-rate and below-market-rate seller financing and price discounts. It also requires the RTC, in consultation with HUD, to work with secondary mortgage market entities to provide housing for low- and moderate-income households.

Some respondents questioned whether 90 days was long enough for qualified purchasers to arrange financing. It is expected under the program that a qualified purchaser of a single-family property need only make a bona fide offer to purchase a property within the 90-day right-of-first-refusal period. A qualified purchaser of a multi-family property has 90 days or until the RTC declares the property ready to sell to express an interest in purchasing the property and then has an additional 45 days to make a bona fide offer.

Respondents urged formalized consultation between the RTC and state and local housing agencies, national nonprofit organizations, national and regional advisory committees, and

various federal agencies. The strategic plan calls for extensive consultation between the RTC, other government agencies, state and local housing agencies, and nonprofit organizations.

The strategic plan also directs the RTC to fully document housing activities so that the Oversight Board can monitor the RTC's effectiveness in meeting FIRREA's affordable housing objectives.

D. CONFLICTS OF INTEREST AND ETHICAL STANDARDS

The goal of this section of the plan is to adopt conflicts of interest and ethical standards for RTC employees, officers, advisory board members, contractors, and agents. While the Board did not specifically request comments on these matters, some were offered.

A number of these comments pointed to the importance of ethical standards to the success of the RTC. It was argued that the RTC needs high ethical standards to avoid even the appearance of conflicts of interest. Most of the comments suggested that the ethical standards needed to be clarified. For example, could an agent under contract to the RTC in one region of the country buy RTC property in another? Only one comment suggested that the interim ethics statement was overly stringent and would have deleterious effects on the overall success of the RTC.

In anticipation of these concerns, the Oversight Board and the RTC issued proposed ethical standards of conduct rules on November 28, 1989. Comments on these rules are due by January 12, 1990. The RTC has adopted interim ethics rules to be effective until these proposed rules become final.

E. EXTERNAL RELATIONS

The goal of this section of the plan is to establish and maintain open communications with the Congress, other government offices, and the public to increase understanding of RTC policies and actions. The Board did not specifically request comments on these topics and few were received. In general, those that were received suggested that membership on the RTC's National and Regional Advisory Boards be made as open as possible and represent various viewpoints. No major changes were made in the proposed plan as a result of these comments.

F. 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 the goals of the agency. The Board did not request comments on this topic; however, several very specific concerns were expressed. Several respondents argued that the RTC is a federal agency and, therefore, subject to rules and regulations of the National Environmental Policy Act, the Council on Environmental Quality, the Endangered Species Act, Executive Orders protecting wetlands and floodplains, and other environmental policies. The respondents included the National Wildlife Federation, the Texas Center for Policy Studies, the Department of Interior's Fish and Wildlife Service, and the U.S. Environmental Protection Agency. As a result of these comments, the Oversight Board attorneys are reviewing this question.

In addition, two women-owned firms and the Congressional Black Caucus urged that minority and women's firms be encouraged to participate in service and management contracts entered into by the RTC as much as possible. For example, criteria for

contracting (firm size, resource base, experience) should not exclude qualified minority-owned and female-owned firms and should not promote the dissolution or take over of minority firms by majority firms. They further suggested that all new contracts contain a specific requirement for contractors to utilize minorities and women. They also recommended that the RTC should adopt an explicit equal employment and equal contracting policy statement establishing affirmative action commitment.

In response to these concerns, the strategic plan requires the RTC to establish a minority and women outreach program. The program will actively promote RTC contracting with minority and women contractors. The Oversight Board will monitor RTC's performance in this area.

G. OTHER

Two other topics raised by commenters were open thrift assistance and the RTC review of the 1988/1989 FSLIC transactions. Two commenters expressed concern that the plan did not explicitly address the issue of open thrift assistance. Under FIRREA, the FDIC through SAIF has the discretion to provide open thrift assistance under certain limited circumstances. At this time, however, SAIF has no funds available for this type of assistance. Under FIRREA, the FDIC may request that the Oversight Board direct the RTC to provide it with the necessary funds. A question has arisen as to whether the Oversight Board should direct the RTC to allocate funds for open thrift assistance to SAIF, although it is not specifically directed to so under FIRREA.

The Oversight Board has strong reservations about diverting financial resources from the RTC to fund such open thrift assistance. Therefore, the Oversight Board will not consider

providing these resources unless SAIF specifically requests it to do so, and then only after staff has first evaluated the past success of the FDIC in the use of this type of assistance, and prepared estimates of the level of RTC resources that might be needed.

GAO raised concern that the draft plan did not address the RTC's review of the 1988 and 1989 FSLIC resolution actions. The Oversight Board agrees that it is imperative that the RTC immediately begin its review so that any cost savings can be promptly realized. The Oversight Board also recognizes, however, that the RTC needed to address a multitude of start-up issues and, therefore, has not had sufficient time to conduct its review of the agreements. Thus, the current plan does not address the analysis but instead addresses the process through which the analysis is to be completed.

Specifically, while it may be necessary for the RTC to contract with outside parties to conduct the analysis, the Oversight Board believes that it is crucial that the RTC carefully monitor the process and ensure that the methodology employed by contractors is consistent with the approach that would have been employed by the RTC itself. The final plan reflects this belief. The RTC recently issued a request for proposals to conduct this analysis. The final plan requires the RTC to report back on its findings no later than August 31, 1990.

III. MISSION STATEMENT

The Resolution Trust Corporation should carry out a program, under the general oversight of the Oversight Board, to manage and resolve institutions that come under the jurisdiction of the RTC and to dispose of any residual assets in a manner that:

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

IV. GENERAL POLICY DISCUSSION

Introduction

The purpose of this strategic plan is to set forth the RTC's goals and objectives in support of its mission. The Oversight Board views the strategic plan, which includes the general policy discussion as well as the goals, objectives, and implementing procedures, as a living document that will be revisited and revised over time as the Oversight Board and the RTC gain greater experience regarding the scope and nature of the challenges facing the RTC.

The strategic plan's goals establish broad, general direction for the RTC in six areas: case resolution, asset disposition, affordable housing, conflicts of interest and ethical standards, external relations, and administration.

The strategic plan establishes the general direction for the RTC by setting forth a series of objectives that provide more specific statements with respect to the stated goals. Subject to the review of the Oversight Board, the RTC is responsible for developing the procedures and guidelines necessary to implement the strategic plan. Many of the implementing guidelines and procedures are explicitly required by FIRREA.

Consistent with FIRREA, the strategic plan generally relies on the RTC to develop the initial set of specific procedures and guidelines for implementing the general guidance provided in the strategic plan. The Oversight Board views these implementing procedures as part of the strategic plan.

The Federal Deposit Insurance Corporation was specifically designated by the Congress under FIRREA as the exclusive manager of the RTC, based in part on its expertise and proven track

record of successfully resolving numerous failed commercial banks. With few exceptions, virtually all of the implementing procedures are scheduled to be delivered to the Oversight Board for review by March 30, 1990. When these guidelines and procedures, written by senior RTC/FDIC staff are combined with this strategic plan, the result will be a comprehensive description for how the RTC will operate over the next several years.

The Oversight Board's reliance on the RTC for the development of the initial implementing procedures does not reduce the Board's ultimate responsibility for the successful operation of the RTC. Instead, it reflects a recognition by the Board that the RTC must be provided the flexibility, within constraints established by the Board, to conduct its operations in a manner consistent with its financial and human resources, its expertise and its first-hand knowledge of the unique challenges that it faces, and the objectives of FIRREA.

Expenditure Principles

To resolve insolvent thrift institutions, Congress authorized \$50 billion. When considering whether the expenditure of funds for other programs authorized by the statute are appropriate, the Oversight Board should be provided with a cost estimate of the program and any other information the Board may require. If the program is approved, the RTC should monitor the implementation of the program and should provide regular reports (including its costs) to the Oversight Board.

A. CASE RESOLUTION

FIRREA gives the Resolution Trust Corporation (RTC) the responsibility for managing and resolving all cases involving depository institutions previously insured by the Federal Savings and Loan Insurance Corporation (FSLIC) for which a conservator or receiver is or has been appointed from January 1, 1989 through August 8, 1992. As of December 22, 1989 there were 281 institutions holding \$104 billion in assets under RTC jurisdiction. Moreover, the Office of Thrift Supervision (OTS) recently indicated that it had identified approximately 200 additional institutions with assets in excess of \$150 billion that it may transfer to the RTC over the next three years. Given the expected costs associated with resolving the institutions under RTC jurisdiction, the large backlog of insolvent institutions and the potential disruption these resolutions could impose on the financial and real estate markets, it is important carefully to consider the process by which these institutions are resolved.

FIRREA also requires the RTC to review case resolutions entered into by FSLIC between January 1, 1988, and August 9, 1989, the date of enactment of FIRREA. FIRREA makes the Oversight Board responsible, in consultation with the RTC, for establishing the overall strategies, policies and goals related to the restructuring of these case resolutions.

Consistent with that mandate, the RTC is to review all means by which it can reduce costs under such agreements. While FIRREA does not set a timetable for such a review, the Oversight Board believes that delaying the review of these FSLIC resolutions may be costly. It, therefore, directs the RTC to complete such a review as expeditiously as possible.

In light of the resource constraints faced by the RTC and the need to move quickly, the RTC intends to use private contractors to assist in this review. This is acceptable to the Oversight Board so long as the RTC carefully monitors the process and ensures that the methodologies employed by the contractors are consistent.

It is critical that the RTC make its final report to the Oversight Board and the Congress as soon as possible and, at a minimum, no later than August 31, 1990. The Oversight Board expects the RTC to provide the Board with frequent interim reports on the progress being made on this important activity.

FIRREA gives the Oversight Board the authority to allocate the cost or income of any modification to the FSLIC agreements between the RTC and the FSLIC Resolution Fund (FRF). Given the purpose for which the FRF was created, which was to segregate the old FSLIC agreements, the Oversight Board will allocate the income or expenses that result from restructuring the agreements to the FRF.

Management of Institutions in Conservatorship

It is likely that the RTC will be responsible over the next several years for the prudent operation of a growing caseload of institutions in conservatorship. Some of these institutions may remain in conservatorship for a year or more before they are sold or liquidated. Thus, this strategic plan directs the RTC to develop procedures for operating these thrifts in conservatorship in a manner that reduces the RTC's risk exposure and prepares the institutions for eventual sale or liquidation.

The lending operations of insolvent thrifts in conservatorship generally have little franchise value, in part because many key staff will have left the institution. The liability base of many

thrifts in conservatorship includes high cost deposits, brokered deposits, and secured borrowings that have no franchise value.

It is, therefore, important that while the institution is in conservatorship, the RTC take appropriate actions to reduce its risk exposure at the thrifts, reduce thrift operating losses and pay down high rate liabilities. To the extent feasible and cost effective, the asset side of the balance sheet should be reduced through the packaging or securitization and sale of financial assets.

To achieve these objectives, this plan directs the RTC to develop procedures for reducing the liabilities of thrifts and, to the extent feasible, the costs of those liabilities so that the only remaining deposits are those with significant franchise value (i.e., desirable core deposits that can be sold at a meaningful premium) and the lowest cost form of whatever additional liabilities may be required.

Those institutions that the RTC identifies as having a deposit base with significant franchise value should be permitted to maintain their asset levels. Any new lending or investments, however, should be limited to low-risk assets as defined in FIRREA for institutions failing to meet their minimum capital requirements. For those institutions with insignificant deposit franchise value, the RTC should adopt procedures immediately to begin shrinking such institutions' balance sheets in a coordinated and orderly manner.

As a general policy, the plan directs the RTC to adopt procedures such that loan originations cease, and the cash flow from payments of principal and interest is used to repay high-cost insured deposits and other secured borrowings. There are only two exceptions to this policy. The first exception is for

instances where additional lending would reduce losses on existing assets or occurs as part of a planned resolution. Second, consistent with minimizing the cost of resolution, specific provisions should be made to assure that minority-owned institutions in conservatorship will not be abolished through aggressive downsizing.

The plan also requires the RTC to establish a national sales program to coordinate the disposition of any financial assets held in conservatorships. The RTC is encouraged to make maximum use of the secondary mortgage market agencies, such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, given these agencies' expertise and sales channels.

Finally, to reduce its overall risk exposure to interest rate changes and shifts in the yield curve, the plan directs the RTC to explore the feasibility of hedging its overall interest rate exposure and to report back to the Oversight Board by March 31, 1990.

Resolution Prioritization Schedule

Given that institutional, financial, and human resource constraints preclude simultaneous resolution of all insolvent institutions presently under RTC jurisdiction, it is important to establish a prioritization schedule for case resolutions. FIRREA stipulates that the strategic plan for the RTC will include the "factors the RTC shall consider in deciding the order in which failed institutions or categories of failed institutions will be resolved."

There are numerous factors to consider in deciding which institutions to resolve first. The Board believes that the most important factor is the rate of deterioration in net worth of an

institution. This provides a measure of the cost savings the RTC could achieve by resolving an institution immediately.

Deterioration includes both ongoing operating losses and loss of franchise value due to eroding customer bases and the loss of key personnel. As such, institutions with the highest operating losses (both in absolute terms and relative to the expected cost of resolution) and the greatest erosion in franchise value should be given first priority in order to save the RTC these additional losses.

Likewise, the ongoing risk exposure to the RTC arising from such factors as institutions with large interest rate or credit risk exposure should be considered. Also, the order of resolutions should reflect the most efficient use of RTC resources and staff.

The Board recognizes that many of the factors that need to be considered in establishing a priority schedule are not easily quantified. It would not be cost effective, however, to devote inordinate time and resources to developing a precise priority schedule if such an effort delays the resolution process. Therefore, in evaluating the various factors, the RTC should establish its priorities, at a minimum by quartiles, rather than attempting to establish the order of resolution for each institution.

Method of Resolution

In addition to establishing resolution priorities, the RTC must select a method of resolution for each institution. Resolutions generally take the form of either liquidations or assisted acquisitions.

In an assisted acquisition, the acquiring entity assumes some portion of the assets and liabilities of the failed institution. The RTC provides sufficient cash to the acquiring institution to

offset the difference between the amount of liabilities assumed and the market value of assets acquired from the failed institution -- net of any premium paid by the acquiring institution for the franchise value. To the extent the acquiring institution acquires substantially all of the assets of the failed institution, the transaction is termed a "whole thrift" purchase and assumption. If the acquiring institution acquires only the "good" assets (e.g., cash, securities, and performing loans), the transaction is termed a "clean thrift" purchase and assumption. There is no precise line of demarcation between a whole-thrift transaction and a clean-thrift transaction.

In selecting a method of resolution, FIRREA, by cross referencing the Federal Deposit Insurance Act, prohibits the RTC from providing assistance in an amount (including reasonably ascertainable foregone federal tax revenues) in excess of that required to liquidate an institution, unless the RTC determines that the continued operation of the institution is essential to provide adequate banking services in its community. FIRREA also stipulates that the RTC conduct its operations in a manner which "maximizes the net present value return from the sale or other disposition of institutions," and "minimizes the amount of any loss realized in the resolution of cases." Finally, FIRREA stipulates that this strategic plan and its implementing guidelines and procedures must include "standards the Corporation shall use to select the appropriate resolution action for a failed institution," and "factors the Corporation shall consider in deciding whether non-performing assets of the failed institution will be transferred to the acquiring institution rather than retained by the Corporation for management and disposal." This latter requirement regarding the treatment of non-performing assets draws attention to the whole-thrift versus clean-thrift decision.

As a result, this plan requires the RTC to consider each of the statutorily imposed criteria in selecting the method of resolution. The Oversight Board believes that this is best accomplished by allowing potential acquirers to bid on a variety of resolution structures (e.g., whole thrift, clean thrift, branch sales) and having the RTC select the least cost solution.

Financial Assistance

Prior to the passage of FIRREA, various forms of assistance for thrift resolutions were used to facilitate an assisted acquisition including, but not limited to, cash, notes, yield-maintenance agreements, capital-loss coverage, asset puts, and regulatory forbearances.

Each of these forms of assistance entails different costs and levels of ongoing risk exposure for the RTC. It is the Oversight Board's policy that the period of assistance involving a financial contingency (asset-puts, asset guarantees, or capital loss coverage) for the RTC should, in general, be no longer than 6 months and should cover only the period required by the acquirer to complete its due diligence on the acquired assets.

Ownership interests in resolved institutions allow the RTC to protect its interests when, at the time of resolution, there is continued uncertainty regarding the value of the resolved institution and, therefore, the appropriate amount of assistance. This uncertainty creates the potential for large upside gains for the acquirer. Equity participations, such as common stock, give the RTC a direct ownership position in a thrift and allow the RTC to share in upside gains.

Equity participations, however, may create a conflict if the RTC assumes a controlling position and, thereby, becomes a competitor with other financial institutions. Warrants are passive equity

instruments that allow the RTC to share in the profits of a resolved institution, but if structured properly, can avoid the control issue. It is the Oversight Board's policy that the RTC should avoid taking equity interests that permit the RTC to exercise control or actively participate in the management of resolved institutions. The RTC may take passive equity positions, through the use of warrants or other devices, so as to permit the RTC to share in any substantial gains by resolved institutions. The RTC should develop written guidelines for the use of permitted forms of financial assistance and passive equity interests.

Bidding Procedures

A significant way to reduce the cost of resolutions is to encourage active participation in the resolution process by all qualified bidders. The RTC should encourage the active participation of women and minorities.

These goals can best be achieved by having an open and widely publicized bidding procedure and a broad dissemination of information regarding institutions being marketed and the terms of previous transactions. In addition, providing sufficient time to disseminate the pertinent information to a wide range of bidders and allowing adequate time for carefully constructing competitive bids, should assure that the RTC receives the best offer. Finally, the fair and consistent evaluation of all bids and the timely notification of rejected bids should encourage continued participation in future marketing efforts by prospective purchasers. The RTC should develop implementation procedures for each of these areas.

The Federal Deposit Insurance Act, as amended by FIRREA, requires that if the RTC is overriding state law in the resolution of a minority-owned institution, the RTC must first solicit offers

from another minority depository institution. Because the Oversight Board wishes to preserve the minority character of minority thrift institutions, and because of the costs associated with a lengthy bidding process, it is the Board's policy that if the RTC determines that a bid received from a minority institution or minority group is less costly than liquidation, the RTC is not required to solicit additional bids.

Furthermore, to facilitate the continuation of minority institutions, the final plan authorizes the RTC either to postpone for up to nine months the closing of a transaction until the qualified minority acquirer finds permanent capital or to provide up to nine months of bridge financing to qualified minority acquirers on up to two-thirds of the required capital for the acquired minority institution. The financing is to be at market rates and secured by the capital placed in the institution by the acquirer. The maximum amount of such RTC financing that can be provided under this program may not exceed \$32 million. The amount of such financing will be reported by the RTC in its quarterly reports to the Oversight Board. The initial equity investment of the acquirer would be at risk in the event the acquirer was unsuccessful in raising the required capital within the nine-month time period. The RTC should adopt procedures immediately to implement this policy.

Use of Private Sector

FIRREA requires the RTC to use the services of private persons if such services are available and the RTC determines that the utilization of such services is practicable and efficient. While the statute appears to presume that this will occur primarily in the asset disposition process, the RTC might use the services of private sector entities in activities related to the resolution of institutions. These services could include managing institutions or performing due diligence for the RTC. The

Oversight Board has already directed the RTC to begin using private sector services immediately, and this plan directs the RTC to identify any areas where private sector services could be used in resolving institutions.

B. ASSET DISPOSITION

Assets not sold as a part of a thrift institution resolution will have to be disposed of separately by the RTC. The volume of assets the RTC will dispose of is uncertain and will depend in part on the method used by the RTC to resolve thrift institutions.

Whatever the eventual volume, most of the assets under RTC jurisdiction will fall into one of three categories: (1) cash and readily marketable loans, servicing rights, and securities; (2) high risk or otherwise undesirable, but performing, loans; or (3) real estate owned and non-performing loans, including loans in foreclosure.

The task facing the RTC for asset disposition is unprecedented in magnitude and complexity. The RTC will need to try alternative approaches, learning from experience what works and what does not work. Nothing in this plan is intended to preclude that flexibility.

It is important that the RTC proceed and continue actively to dispose of assets immediately in a manner consistent with FIRREA. As described later in this section, it is the Oversight Board's policy that the RTC should avoid deferring the marketing of properties, other than as required to comply with the affordable housing provisions in FIRREA. Holding properties off the market for an extended period of time may increase the ultimate costs of asset disposition because of the expenses associated with managing and financing the property while it is under the RTC and the risks of deterioration and vandalism. It is, therefore, important to begin returning assets to the private sector as soon as feasible. Moreover, holding property off the market may also be contrary to the interests of the local community because of

the uncertainty arising from not knowing when the property may be placed in the market for sale.

Use of the Private Sector in Asset Disposition

The sheer number of assets to be worked out will require that the RTC rely heavily on private sector contractors for the management and disposition of these assets, subject to general oversight and audit by the RTC. The private sector's expertise and the opportunity for the RTC to utilize incentive-based contracts provide an additional reason for the RTC to use private contractors whenever practicable and efficient, as called for in FIRREA.

The RTC should establish annual targets for utilization of the private sector. As part of its quarterly planning and budgeting process, the RTC should determine, based on the type and volume of assets acquired, the extent to which the private sector will be utilized. The RTC's reliance on the private sector should be measured by a variety of measures. The RTC should proceed in such a way that the set of performance measures will indicate whether the RTC is utilizing the private sector whenever practicable and efficient.

Incentive Structures in Contracts

The RTC should develop and employ incentive structures tailored to maximizing the net present value of the assets to the RTC. While the RTC staff will be monitoring its contractors, it will be the contractors who, in most instances, manage the assets and negotiate their disposition, subject to RTC approval. The RTC should, therefore, rely on an appropriate incentive structure for contractors as a means of assuring that the government receives the maximum net present value return on its assets.

One potential design would have contractors receive compensation

as a percentage of proceeds net of expenses, with the percentage increasing as proceeds increase relative to the estimated market value of assets. Any such compensation arrangement for asset managers should avoid providing contractors with incentives to postpone or accelerate asset sales relative to the timing that maximizes the net present value to the RTC. Furthermore, the design of any incentive arrangements should take into account that market values of assets, especially many of those in the RTC inventory, cannot be estimated with precision. Regardless of design, however, no incentive structure can eliminate the need for managerial oversight by RTC staff.

Neither the eventual proceeds from asset disposition nor the interim operating returns will be known to the RTC or the contractor at the time the assets are placed under private control. Therefore, when practical, the RTC should enter into contracts that have the RTC and the contractor sharing in better-than-expected returns, as well as sharing the risk that net proceeds will fall short of expectations (i.e., yielding the contractor less than a market rate of return). Net proceeds from sales will reflect both the performance of contractors and market conditions during the asset management period. Incentive contracting structures should hold contractors responsible for their performance.

Competitive Procurement

Depending on the structure of the contract, a variety of procurement designs may be appropriate for promoting competition consistent with the objective of maximizing net present value. In all instances, the RTC must make available in writing and to all requesting parties its procurement guidelines and procedures.

Bulk Contracting

The RTC should use bulk contracts for asset management and

disposition if the RTC deems that they will maximize the net present value of the proceeds. (Contracting for management and disposition of large blocks of assets does not mean that all of these assets will necessarily be sold in bulk.) Furthermore, the administrative constraints on the number of separate transactions that can be directly executed by the RTC suggests that large, wholesale transactions may be an efficient method for disposing of assets. The RTC should experiment with alternative methods of structuring bulk transactions.

The RTC can delegate many of the decisions regarding choice of disposition methods to private contractors, subject to guidelines established by the RTC. However, there may be instances in which the RTC should override the recommendation of its contractors. For example, using large-volume, single-day sales of individual properties, especially single-family homes or raw land in distressed areas, may maximize near-term returns to the RTC but could have adverse market effects that could be avoided through an alternative sales method.

Continuing RTC Involvement with Assets

As with resolutions of insolvent thrifts, the RTC should generally avoid retaining long-term equity interests in assets under its jurisdiction. These assets should be sold expeditiously following orderly and thorough marketing. The RTC should explore ways, however, in which it can participate through passive equity interests in any extraordinary gains that might be realized by the acquirer of the asset.

The RTC should develop criteria that must be met before the RTC undertakes major capital improvements (i.e., buildouts of incomplete properties and major rehabilitation of completed structures) prior to marketing. There may be some special cases in which the net present value of properties to the RTC will be

enhanced by capital improvements prior to sale, but in most instances, properties should be sold in "as is" condition (exclusive of minor cosmetic repairs).

Financing of Asset Sales

The RTC should provide financing of asset sales sparingly, and only when necessary to complete real estate transactions that maximize the present value return to the RTC, net of the value of any concessions provided in the financing. If private sector lenders are unwilling to finance a proposed purchase on terms as favorable to the buyer as those offered by the RTC, then the RTC is providing a subsidy that should always be recouped through a higher purchase price.

Any financing provided by the RTC in asset sales (with the exception of assets eligible for the affordable housing program, which will be addressed separately) will be subject to the following restrictions: only real estate should be eligible for RTC financing; the buyer of the asset should make a significant equity contribution (i.e., at least 25 percent, subject to periodic review by the Oversight Board) and pledge the asset as collateral; RTC-provided financing should be senior to those of other creditors; concessionary terms on the financing should be minimized and always recouped through a higher sales price; all loans made by the RTC (other than short-term bridge loans) should be sold to the maximum extent feasible; and performance guarantees on loans sold by the RTC should not exceed six months in duration. The Oversight Board anticipates that most of the need for seller financing of assets will occur in distressed areas. To ensure adequate oversight, the RTC should report on a quarterly basis the amounts, terms, and conditions of any asset financings to the Oversight Board. The Board may decide to limit the amount of such financings provided by the RTC.

Database Development

To assure the RTC's capability to respond to future data requests, the database system developed to inventory RTC assets should be flexible and contain as many descriptors of assets as is practicable. In addition to specifying the general characteristics of properties, the database should also identify those properties with natural, cultural, recreational, or scientific values of special significance. While compliance with the requirement for identification of these significant properties will be difficult, the RTC should develop procedures and guidelines for determining these designations as quickly as practicable. The RTC should consult with the appropriate government agencies and private organizations to facilitate this review.

Asset Disposition in Distressed Areas

RTC will be a significant holder of real estate in some local real estate markets already beset by economic problems and experiencing declining real estate values. Special asset disposition procedures are required to protect against the dumping of assets while not restricting the flexibility RTC needs to make sound business decisions. The RTC should consult with other Federal agencies that are selling assets in the same markets to minimize the adverse effect of its transactions in distressed areas and to preserve the availability and affordability of housing for low-income and moderate-income households.

FIRREA specifies that in distressed areas the RTC should not sell at less than a specified minimum disposition price. The legislation sets this price at 95 percent of market value and gives the RTC Board of Directors the authority to change this percentage if a change is deemed consistent with the overall objectives of the RTC.

The RTC has no present intention to change this percentage, other than to allow for situations in which sales at prices below 95 percent would save interest expense and holding period and transactions costs sufficient to offset any shortfall below the 95 percent figure. These cost savings must be verifiable and determined on an asset-by-asset basis. The 95 percent figure will be reviewed periodically as the RTC gains experience with asset marketing and as market conditions change.

Outside of distressed areas, the RTC should also strive to sell only at prices at or near market value, unless otherwise authorized by the Oversight Board. The term "market value" is defined in FIRREA as "the most probable price which a property should bring in a competitive and open market if: (1) all conditions requisite to a fair sale are present, (2) the buyer and seller are acting prudently and are knowledgeable, and (3) the price is not affected by any undue stimulus."

Thorough marketing of properties will be particularly important in distressed areas for the RTC to secure offers near market value. But even with careful and comprehensive marketing, market value and, therefore, the disposition price of RTC properties in distressed areas will often be a small fraction of book value.

Appraisals are an appropriate tool for estimating market value for many RTC assets. However, the RTC should not permit the lack of qualified appraisers to become a bottleneck that stalls the process of asset disposition. FIRREA authorizes alternative methods for estimating market value of assets, and the RTC should utilize these alternatives when appropriate.

It is the Oversight Board's policy that the RTC should avoid deferring the marketing of properties, subject to the right-of-

first-refusal marketing provisions in FIRREA. Holding properties off the market for an extended period of time will generally not serve the interests of either the local community or the taxpayer. The uncertainty caused by an overhang of properties held off the market may depress local property values more than would their sale. Furthermore, holding rental housing off the market increases rents and, therefore, may place renters at a disadvantage. Properties held off the market -- especially vacant properties -- can deteriorate and lose value, raising the cost to the RTC and ultimately to the taxpayer. Even properties that do not deteriorate impose carrying costs on the RTC. The RTC should not attempt to "outguess the market" by speculating on future developments not reflected in the current market values of properties.

The ongoing resolution of insolvent thrift institutions during the next several years, together with delays in securing title to properties that come under the RTC's control, will result in the disposition of RTC's assets over a multi-year period, even if individual properties are marketed expeditiously. If the RTC were to delay disposition of currently marketable properties, it would only concentrate the peak-load problem, and place pressure on local markets in years to come.

While the RTC should dispose of properties expeditiously following thorough marketing, in some instances, certain marketing methods may have adverse consequences for local property values that could be avoided. For example, in areas where the RTC is a large holder of similar properties, including raw land, disposition according to a pre-advertised multi-month marketing schedule may be preferable to disposing of a large number of properties on a single day.

Keep the Market Informed

The RTC should keep market participants and other interested parties fully informed, to the extent practical, on RTC's plans for asset sales. The "overhang" of RTC properties in local real estate markets increases uncertainty and depresses real estate values for two reasons: (1) market participants do not know the RTC's plans for these properties, and (2) even if RTC's plans were known, the resulting market effects are uncertain. RTC can eliminate at least part of this uncertainty by providing as much information as practical about its inventory and general guidelines and strategies for asset disposition to all interested parties in the local market areas where RTC has properties.

C. AFFORDABLE HOUSING PROVISIONS

FIRREA mandates maximizing the preservation of the availability and affordability of residential real property for low- and moderate-income individuals. FIRREA requires that eligible properties first be offered to qualified purchasers for 90 days through clearinghouses administered by state housing finance agencies, the Office of Community Investment or other division of the Federal Housing Finance Board (FHFB), and certain national nonprofit organizations. The 90-day period is commonly referred to as the right-of-first-refusal period. This right-of-first-refusal period entails holding costs which are to be borne by the RTC.

Eligible single-family properties are to be offered to qualifying households and to public agencies or nonprofit organizations that make the properties available for purchase or occupancy by lower-income families. Eligible multi-family properties are to be offered to qualifying multi-family purchasers--including public agencies, nonprofit organizations and for-profit entities which promise to meet lower-income occupancy requirements. They must reserve a minimum of 20 percent of all dwelling units purchased for very low-income families and at least 15 percent more units for lower-income families during the remaining useful life of the property. "Qualifying households" are potential owner-occupants who have adjusted incomes at or below 115 percent of area median income. "Lower-income families" have adjusted incomes at or below 80 percent, and "very low-income families," at or below 50 percent, of area median income.

The RTC's implementing procedures for housing disposition should be designed to maximize the effectiveness of this right-of-first-refusal period. To assure that its disposition strategies for low- and moderate-income housing are effectively implemented, the

RTC should consult on an ongoing basis with state and local housing agencies, other governmental agencies, and national and local nonprofit organizations with specialized knowledge of low-income housing.

No later than March 30, 1990, the RTC should develop comprehensive guidelines and procedures to implement the low- and moderate-income housing provisions of FIRREA. (The specific coverage of these guidelines and procedures is detailed in a subsequent section of this strategic plan.)

Interim Marketing Period

To avoid keeping needed housing off the market and to avoid any further deterioration of the eligible properties involved while comprehensive guidelines are developed by the RTC and reviewed by the Oversight Board, the RTC may sell eligible properties in accordance with FIRREA prior to the development and submission to the Oversight Board of these comprehensive guidelines. Prior to beginning such sales, however, the RTC must prepare interim guidelines for disposition that are in accordance with the low- and moderate-income housing provisions of FIRREA. These guidelines may authorize pilot projects that test various program concepts, but do not include subsidies. The RTC shall provide its interim guidelines to the Oversight Board prior to selling eligible property and shall keep the Oversight Board apprised of its disposition procedures.

Clearinghouses

FIRREA requires the RTC to identify clearinghouses and to provide them with information on eligible properties so that they can assist in making such information available to qualifying households, public agencies, non-profit organizations, and for-profit multi-family purchasers. State housing finance agencies and the Federal Housing Finance Board are authorized to act as

clearinghouses. The RTC can also authorize national non-profit organizations as clearinghouses. The RTC shall develop guidelines for entering into contracts with clearinghouses to carry out their responsibilities and compensating them for the services that they actually provide.

The legislation specifies which households are qualified to bid on single-family properties during the right-of-first-refusal period. As it initiates its affordable housing program, the RTC should investigate the feasibility of contracting for the service of determining which households and organizations are qualified purchasers, since many state housing agencies, other government agencies, and non-profit organizations are already experienced in qualifying purchasers.

To assure a maximum level of operating efficiency by all clearinghouses, RTC personnel should consult with the FHFB, state housing finance agencies, and nonprofit organizations to develop general strategies for ensuring the efficient dissemination of adequate information to clearinghouses and for ensuring that clearinghouses will be able to provide this information and access to properties to qualified buyers on a timely basis. The information provided should be in a form suitable for immediate dissemination by the clearinghouses to qualified purchasers and include as much information as necessary to assure the most informed possible basis for judgment by the qualified purchasers.

The RTC should also investigate the extent to which information about eligible properties may be provided to clearinghouses before the RTC has title to the properties. The right-of-first-refusal period should not begin until the RTC has title.

Marketing

Marketing eligible residential properties may require special

techniques that differ from the RTC's normal marketing methods. The RTC should develop marketing strategies in consultation with state housing finance agencies, other government agencies, and non-profit organizations for implementation, either directly or through contractors (including government agencies and non-profit organizations).

The RTC should have the organizational capability to implement the affordable housing program--e.g., the RTC should consider assigning low-income housing specialists to its field offices.

Disposition of Eligible Properties

FIRREA directs the RTC to determine a market value for each eligible residential property and sell eligible properties at the net realizable market value. The net realizable market value is the price below the market value that takes into account any reduction in certain holding and transactions costs resulting from expedited and direct sale of a property. Consequently, the price reduction represents an economic discount, not a price subsidy.

Costs that can be avoided through expedited or direct sales include real estate taxes, insurance, maintenance expenses, security costs, potential diminution in value from the property being held in inventory, and, if applicable, fees paid to real estate brokers, auctioneers, or other individuals usually involved in the sale of property.

The RTC should consider selling eligible properties in bulk to capable non-profit organizations and state and local housing agencies. The reduction in transaction costs to the RTC resulting from a bulk sale may permit the RTC to sell properties at a below-market price and still maximize net present value.

Competing Bids

When selling single-family properties, the RTC may have to choose between substantially similar competing offers from low- and moderate-income households. In the case of multi-family housing, FIRREA directs the RTC to give preference to offers that propose to house more very low-income and lower-income families. The RTC shall establish guidelines to implement this directive. Because of the need under FIRREA to maximize the preservation of the availability and affordability of low- and moderate-income housing, the RTC shall establish guidelines that give preference among substantially similar offers for single-family properties to bids from families with lower incomes.

Price Discounts and Concessionary Financing

In addition to the holding costs stemming from the 90-day right-of-first-refusal period that is required by FIRREA, the Act also permits the RTC to provide subsidies such as concessionary financing and price discounts in the furtherance of FIRREA's low- and moderate-income housing objectives. Consistent with FIRREA, it is the Oversight Board's goal that the RTC sell eligible properties to qualified purchasers.

While the strategic plan does not at this time permit the use of direct subsidies by the RTC for the marketing of eligible properties, the Oversight Board will carefully monitor the RTC's marketing efforts to determine the degree to which FIRREA's affordable housing objectives are being achieved. If the Board determines that the mandatory right-of-first-refusal period is not meeting the housing objectives of FIRREA, then the Board will determine if direct subsidies are necessary to meet such objectives; the appropriate form of the subsidies, if required; and the total amount of subsidy, if required.

Consultation with Other Agencies

FIRREA directs the Secretary of Housing and Urban Development and the Secretary of Agriculture to expedite the processing of applications for assistance under a number of specified programs, including FHA mortgage insurance. To the extent practical, the RTC should consult with those agencies, the Department of Veterans Affairs, and other organizations that can financially assist qualified households and organizations in purchasing owner-occupied and rental housing. These organizations include the federally sponsored secondary mortgage market agencies and state and local housing finance agencies.

The legislation requires the Federal Housing Finance Board (FHFB) to establish an Affordable Housing Program to subsidize interest rates on advances to member savings institutions for lending for low- and moderate-income owner-occupied and rental housing. The RTC should work with the FHFB as the FHFB designs its Affordable Housing Program to maximize the mutual effectiveness of the RTC's and FHFB's respective programs.

Use of Secondary Market Agencies

As required in FIRREA, the RTC shall, in consultation with the Secretary of HUD, explore opportunities to work with secondary market entities to provide housing for low- and moderate-income households. FIRREA also authorizes the Secretary of HUD to work with the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and other secondary market entities to develop risk-sharing structures, mortgage insurance, and other credit enhancements to assist in the provision of property ownership, rental, and cooperative housing opportunities for low- and moderate-income families.

Enforcement of Low-Income Residency Requirements

FIRREA requires qualified purchasers of eligible multi-family property to make available a certain number of units for very low- and lower-income residents during the remaining useful life of the property. (The requirements may be reduced for a temporary period if HUD or the applicable state housing finance agency determines that compliance is no longer financially feasible.) The residency requirements must be recorded in a deed or other legal instrument. FIRREA provides that the occupancy requirements shall be judicially enforceable against the purchasers of property by affected very low- and lower-income families.

Record-keeping

In order to facilitate the Oversight Board's review of the low- and moderate-income housing program, the RTC shall keep and regularly provide to the Oversight Board appropriate records on eligible properties and their disposition. These records shall include a description of the eligible property, its type (multi-family or single-family), location, price, bids received, whether or not it was purchased for low- or moderate-income use, whether, in the case of multi-family property, it was purchased for condominium, coop, or rental use, and any other pertinent data that the Oversight Board needs to determine the RTC's effectiveness in meeting FIRREA's housing goals.

In particular, the RTC should provide the Oversight Board with any pertinent data that the Oversight Board needs to determine the effectiveness of the right-of-first-refusal period in meeting the FIRREA's housing goals.

D. CONFLICTS OF INTEREST AND ETHICAL STANDARDS

Conflicts of Interest

Not later than 180 days from the date of enactment of FIRREA, the Oversight Board and the RTC must promulgate rules and regulations (1) that are applicable to independent contractors governing conflicts of interest, ethical responsibilities, and the use of confidential information; and (2) applicable to members, officers, and employees of the Oversight Board and the RTC governing conflict of interest, ethical responsibilities, and post-employment restrictions. The RTC has adopted an interim statement of ethical conduct for independent contractors, pending promulgation of the regulations required by FIRREA. The Oversight Board and the RTC have jointly published and invited comment on a proposed rule concerning ethical standards applicable to independent contractors; and the RTC has published for comment a proposed rule applicable to RTC employees concerning conflicts of interest and ethical standards. These rules bear upon the avoidance of conflicts of interest in the RTC's contracting and decision making processes.

The RTC is facing a monumental task and will have to rely heavily on third-party contractors to accomplish that task successfully. Accordingly, it is important that any conflict of interest standards not preclude participation by a significant proportion of the private sector, recognizing, however, that the appearance of conflicts of interest as well as actual abuses must be avoided. In publishing the proposed rule on ethical standards for independent contractors, the Oversight Board and the RTC urged the private sector to participate in the rule making process. Comments on the independent contractor proposed rule are to be submitted no later than January 12, 1990.

Political Favoritism

FIRREA also requires that measures be taken to avoid political favoritism and undue influence in contracts and decisions made by the Oversight Board and the RTC. Until specific guidelines and procedures are developed, the RTC will draw upon current FDIC policies.

However, the RTC will be operating in a more diverse and complex environment than the FDIC. Due to the greater number of special interest groups involved and the greater range of activities the RTC will be undertaking, the RTC may be subject to more political pressure. The RTC is directed to develop specific written guidelines and procedures concerning the avoidance of political favoritism and undue influence upon contracting and decision making, drawing upon current FDIC policies, but with specific focus upon the situation of the RTC.

In the interim, all communications initiated by senior public officials (or their staff) with employees conducting the work of the RTC that are intended to influence a case specific decision currently before the RTC, shall be logged and the records of such communications should be made available for public inspection.

E. EXTERNAL RELATIONS

As a new instrumentality of the U.S., it is critical for the RTC to establish and maintain good relationships and open communications with other entities. The RTC must be responsive to Congressional inquiries and cooperate with other government offices. The nature of the mission of the RTC also makes imperative a positive relationship with the public.

Communications with the Public and Advisory Boards

The National and Regional Advisory Boards, which will be established by the Oversight Board, will play an important role in maintaining open communications with the public regarding the RTC's guidelines and procedures for the sale or disposition of real property assets. The National and Regional Advisory Boards will bring local expertise and concerns to the attention of the RTC and the Oversight Board and will provide a means for the RTC and Oversight Board to improve public understanding regarding the RTC's activities.

Questions or concerns may be raised by the public. The RTC should develop mechanisms to monitor and respond to general complaints and complaints of discrimination on the basis of race, sex or ethnic group in the solicitation and consideration of offers. The complaint mechanism established by the RTC will provide a means for the public to provide input to the RTC in this area.

Congressional Reports

FIRREA imposes two reporting periods on the RTC: 1) semiannual reports covering the October 1 - March 31 and April 1 - September 30 periods; and 2) an annual report covering the January 1 - December 31 period. In addition, FIRREA requires semiannual appearances by the Oversight Board before the House and Senate

Banking Committees to report on RTC progress in certain areas. These reporting requirements as well as other reporting and disclosure obligations concerning the RTC's operations, which are required by Title V of FIRREA, are listed in the Appendix to this strategic plan.

F. ADMINISTRATION

The Oversight Board oversees and is accountable for the RTC. In its oversight capacity, the Board must periodically review the overall performance of the RTC including its work, management activities, internal controls, and performance relative to its approved budget plans. This section of the strategic plan sets forth objectives and strategies to assure that the RTC has sufficient and effectively managed resources to achieve its mission.

Planning and Budgeting

The RTC should present an annual operating plan and budget to the Oversight Board for approval for each upcoming calendar year. The RTC will also provide the Board with a staffing plan, including planned employee levels for the upcoming year and a current organizational chart.

The RTC should submit to the Oversight Board, on at least a quarterly basis, financing requests that describe its projected use of funds over succeeding weeks and request a general authorization to spend the projected amount. After Board staff review, its recommendation and the RTC's request are submitted to the Oversight Board for a general authorization to spend all or part of the requested funds.

When the RTC submits a written request for funds needed for specific transactions that are consistent with the general authorization, the funds will be released by the Board. The request will be reviewed to determine if it includes all the required information, is signed by the Certifying Officer, and conforms with the uses of funds permitted by FIRREA and Oversight Board policies. If the Oversight Board has authorized sufficient funds to meet the request, a staff memorandum including

recommended action is prepared and sent to the Oversight Board CEO. Only upon the approval of the CEO are funds actually transferred to the RTC account.

Working Capital

FIRREA provides \$50 billion to cover the losses of insolvent thrifts. In addition, the RTC will require substantial amounts of temporary financing or working capital. This temporary financing is necessary in order to carry out the least-cost resolutions for insolvent thrifts that have substantial amounts of assets that are not readily marketable. For these thrifts, the least-cost resolution methods are either "clean bank" deals or liquidations. Both methods allow the RTC to strip out bad assets and sell them separately from the thrift deposits. Thus, rather than have a limited pool of bidders that is interested in acquiring both a thrift franchise and a group of bad assets, the RTC can expand the pool substantially by separately marketing the assets and the thrift franchise to broader ranges of potential purchasers. This will save the taxpayer money.

These resolutions require substantial cash up-front -- or working capital -- to carry the stripped-out assets until they are sold. Providing working capital does not represent a cost to the taxpayer so long as it is backed by the fair market value of the acquired assets. When the assets are later sold, the proceeds will be used to repay working capital obligations.

In short, adequate working capital is crucial to the RTC's ability to choose the least-cost method over the least-cash method of resolving institutions, thereby saving taxpayers money. Without working capital financing, the RTC may have to slow case resolutions or dump acquired assets to unlock cash for resolutions. Neither result is desirable.

The staffs of the Oversight Board and the RTC have been reviewing cash-flow projections resulting from the resolution and asset disposition policies identified in this strategic plan. In addition, they are analyzing mechanisms for funding these requirements; the Board expects to apprise the Congress regarding its program for the working capital during the first quarter of 1990.

Minority Contracting

FIRREA requires the Oversight Board and the RTC to:

prescribe regulations to establish and oversee a minority outreach program within each such agency to ensure inclusion to the maximum extent possible, of minorities and women, and entities owned by minorities and women, including financial institutions, investment banking firms, underwriters, accountants, and providers of legal services, in all contracts entered into by the agency with such persons or entities, public and private, in order to manage the institutions and their assets for which the agency is responsible or to perform such other functions authorized under any law applicable to such agency.

It is the policy of the Oversight Board that the minority outreach program established by the RTC should, at a minimum, include: a definition of what constitutes an eligible individual or firm; a process for identifying and certifying eligible minority and women contractors (including firms owned by minorities or women); the active promotion of the outreach program to eligible individuals and firms; and the development of an ongoing monitoring mechanism to allow evaluation of the RTC's performance under the outreach program.

To facilitate the success of the outreach program, the RTC's evaluation criteria for selecting among qualified potential contractors should include a technical factor that reflects whether the potential contractor is an eligible entity (or a firm

contracting with an eligible entity).

Furthermore, as called for in the expenditure principles section of this plan, the RTC has evaluated the potential costs associated with a policy of accepting bids submitted by eligible entities that are slightly higher than non-eligible bidders. According to that analysis, the RTC has estimated that allowing minority and women contractors a price advantage of up to three percent on work done for the RTC will cost approximately \$2 million per annum. Accordingly, the Oversight Board authorizes an expenditure by the RTC of up to \$2 million per annum and \$6 million in total for this program. The RTC should include expenditures made under this program in its periodic reports to the Oversight Board.

Reporting Requirements

FIRREA authorizes the Oversight Board to require from the RTC any reports, documents, and records it deems necessary to carry out its oversight responsibilities. Furthermore, FIRREA imposes reporting requirements on the RTC, including reports to Congress. The RTC, in consultation with the Oversight Board and Congress, will streamline the process for responding to the various reporting requirements imposed on the RTC by Congress, the Oversight Board, and others, to the extent possible.

The strategic plan requires the RTC to appraise its operations, including cooperating fully in audits such as those performed by the Inspector General, Comptroller General, and Oversight Board to assist its Board of Directors and management in ensuring an efficient, economical, and effective application of its resources.

Internal Controls

The RTC must maintain strong internal controls and an accounting

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

V. GOALS, OBJECTIVES, AND IMPLEMENTATION PROCEDURES

A. CASE RESOLUTION

GOAL: Manage and resolve institutions under RTC jurisdiction in a timely and cost effective manner, while minimizing the negative effects on local financial and real estate markets.

OBJECTIVE 1. Reduce resolution costs and the ongoing risks to the RTC by establishing conservative operating procedures for thrifts in conservatorship.

IMPLEMENTATION

PROCEDURES:

- A. Implement procedures for reducing the liabilities of thrifts in conservatorship to the level of core deposits and the lowest cost form of whatever additional liabilities may be required.
- B. Limit any new lending or investments by conservatorships to low-risk assets. For institutions with no significant franchise value, shrink such institutions' balance sheets in a coordinated and orderly manner, consistent with continuing the ownership characteristics of institutions owned by minorities. Curtail new lending activities and use the cash flow from payments of principal and interest to repay high-cost insured deposits and secured borrowings.

- C. By March 30, 1990, establish a national sales program to coordinate the disposition of any financial assets held in conservatorships.
- D. By August 31, 1990, report to the Oversight Board and the Congress its review of case resolutions entered by FSLIC between January 1, 1988 and August 9, 1989 and all means by which costs can be reduced.
- E. By March 30, 1990, report to the Oversight Board on the feasibility of hedging the RTC's overall interest rate exposure.

OBJECTIVE 2. Reduce resolution costs by establishing a resolution schedule for conservatorships that gives priority to institutions with relatively high rates of deterioration (including both operating losses and loss of franchise value), taking into account the ongoing risks to the RTC and the need to make the most efficient use of RTC resources and staff.

IMPLEMENTATION

PROCEDURES:

- A. By January 15, 1990, develop written guidelines and procedures for evaluating each institution under RTC jurisdiction.

- B. By January 15, 1990, develop a prioritization schedule for institutions to be marketed and resolved after January 15, 1990, (by prioritizing institutions at least by quartiles) and updates thereafter at least 30 days before the end of each calendar quarter.

OBJECTIVE 3. Establish procedures for selecting a method of resolution that is consistent with:

- o the requirements in FIRREA that the RTC conduct its operations in a manner that maximizes the net present value of return from the sale or other disposition of institutions and minimizes the amount of any loss realized in the resolution of cases;
- o Section 13 (c) (4) of the Federal Deposit Insurance Act that prohibits providing assistance in an amount in excess of that required to liquidate an institution unless the RTC determines that the continued operation of the institution is essential to provide adequate banking services in its community. In calculating the cost of assistance, the RTC shall include Federal tax revenues foregone by the Government to the extent reasonably ascertainable;

- o minimizing the ongoing risk exposure to the RTC;
- o minimizing the effects on local real estate and financial markets; and,
- o the policies described in this plan regarding resolution of minority-owned institutions.

IMPLEMENTATION

PROCEDURES:

- A. By January 15, 1990, develop written guidelines for the "cost test" calculation required by Section 13 (c) (4) of the FDI Act, including methods of ascertaining the federal tax revenues foregone by the Government, to the extent reasonably ascertainable, as a result of assistance provided pursuant to section 13(c) of the FDI Act, as incorporated by section 21A(b) (4) .
- B. By January 15, 1990, develop written guidelines for the loss minimization criteria in FIRREA, including directions to minimize any cost that might arise from Federal tax revenues foregone by the Government, to the extent reasonably ascertainable, as a result of assistance provided pursuant to section 13(c) of the FDI Act, as incorporated by section 21A(b) (4) .

- C. Implement procedures, reflecting the least cost method of resolution, for identifying the factors the RTC will consider in deciding whether non-performing assets of a failed institution will be transferred to the acquiring institution rather than retained by the RTC.
- D. Develop written guidelines and procedures regarding the resolution of minority-owned institutions, consistent with the policies set forth in the discussion section of this plan.
- E. By January 31, 1990, establish written guidelines on the use of permitted forms of financial assistance available from the RTC including passive equity interests in resolved institutions consistent with the policies set forth in the discussion section of this plan.

OBJECTIVE 4. Develop and implement bidding procedures for selling institutions under RTC jurisdiction that:

- o encourage active participation by all qualified bidders, including minorities and women;
- o provide sufficient time (of at least 4 weeks) for bidders to file necessary applications and for the chartering, regulatory and insurance agencies to

process and evaluate the applications;

- o provide for fair, non-discriminatory treatment and competition among prospective bidders;
- o allow potential acquirers to bid on a variety of resolution structures (e.g., whole-thrift, clean-thrift, branch sales); and
- o enable the RTC to notify bidders of a rejected bid within 30 days.

IMPLEMENTATION

PROCEDURES:

- A. Publicize the procedures that bidders must follow to bid on institutions.
- B. By January 15, 1990, develop written plans for soliciting bids from all interested qualified buyers without preference to type of organization, including procedures for encouraging the active participation in the bidding process by women and minorities.
- C. By January 15, 1990, develop written procedures for:
 - o making available to all potential bidders, to the extent practical, full information including financial statements, deposits levels, branches, and organization

structures, on each institution under RTC jurisdiction;

- o making available to all potential bidders the terms of previous transactions;
- o the timely and nondiscriminatory evaluation and selection of offers; and,
- o notifying rejected bidders within 30 days.

D. By March 30, 1990, establish written procedures for accepting and investigating complaints of discrimination or unfair treatment in the consideration of offers.

OBJECTIVE 5. Establish computer systems and record-keeping and reporting procedures necessary to keep the Oversight Board, the President, Congress and the general public informed of the case resolution process.

IMPLEMENTATION

PROCEDURES:

A. By March 30, 1990, in consultation with the Oversight Board and the Congress, determine the extent of information required to be reported under the provisions of FIRREA and for full and complete disclosure of the case resolution process.

- B. As soon as possible, develop and implement, quarterly and other periodic reports that present all required information in clear and consistent formats.

OBJECTIVE 6. To the extent practicable and efficient, use private sector entities for the management and disposition of institutions under RTC jurisdiction.

IMPLEMENTATION

PROCEDURES: By January 15, 1990, identify areas where private sector entities could be used to facilitate the management and disposition of institutions.

B. ASSET DISPOSITION

GOAL: 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.

OBJECTIVE 1. Maximize the net present value recovery to RTC by establishing appropriate policies, procedures and/or guidelines concerning:

- o appropriate methods of disposition;
- o asset marketing of pools of assets;
- o preserving and enhancing values during the asset management process;
- o distressed area designations;
- o establishing and defining market values;
- o provision of seller financing in accordance with the policies described in the discussion section;
- o keeping market participants and other interested parties fully informed, to the extent practical, on RTC's inventory and plans for asset sales;
- o the active solicitation of offers from minorities and women; and

- o the prohibition of discrimination on the basis of race, sex, or ethnic group in the solicitation and consideration of offers.

IMPLEMENTATION

PROCEDURES:

- A. By March 30, 1990, establish comprehensive performance standards and written guidelines on overall asset disposition strategies.
- B. Consult with the Oversight Board and the National and Regional Advisory Boards and revise written guidelines on an ongoing basis as necessary.
- C. By January 15, 1990, develop record keeping requirements to comply with the required semi-annual reporting of RTC's national inventory of real property assets.
- D. By January 15, 1990, develop guidelines and procedures for notifying rejected bidders within 30 days.
- E. By January 15, 1990, develop guidelines and procedures for actively soliciting offers for assets from minorities and women.
- F. By January 15, 1990, develop guidelines and procedures prohibiting discrimination on the basis of race, sex

or ethnic group in the solicitation and consideration of offers.

- G. By March 30, 1990, establish written procedures for accepting and investigating complaints of discrimination or unfair treatment in the consideration of offers of services to the RTC.

OBJECTIVE 2. To the extent practicable and efficient, place assets under private control for management and disposition under a program that:

- o employs incentive arrangements tailored to maximizing the net present value of the assets to the RTC;
- o assures compliance by contractors with the ethics and conflicts of interest provisions of FIRREA; and
- o assures open and fair competition for asset management and disposition contracts.

IMPLEMENTATION

PROCEDURES:

- A. By January 15, 1990, establish guidelines concerning contracting with public and private entities for performance of asset management and disposition functions and develop a set of indicators by which utilization of

private sector contractors will be measured.

- B. By January 15, 1990, establish guidelines concerning incentive arrangements in asset management and disposition contracts consistent with the policy set out in the discussion section.
- C. By January 15, 1990, establish procedures to assure compliance by contractors with the ethics and conflicts of interest provisions of FIRREA.
- D. By January 15, 1990, establish guidelines to assure open and fair competition for asset management and disposition contracts.
- E. By March 30, 1990, establish performance standards for asset management and disposition contracts.

OBJECTIVE 3. Minimize the impact of RTC transactions on local real estate and financial markets, through procedures consistent with the policy of:

- o marketing properties expeditiously upon gaining title and disposing of them at a price near market value; and

- o keeping market participants and other interested parties informed, to the extent practical, on RTC's plans for asset sales.

IMPLEMENTATION

PROCEDURES:

- A. By March 30, 1989, establish written guidelines for determining market values of assets based upon market analysis valuation techniques and sound asset appraisal practices.
- B. By March 30, 1990, establish written general guidelines for acceptable disposition prices in non-distressed areas.
- C. By March 30, 1990, develop guidelines for designating distressed areas and modifying the "95%-of-market value" rule for minimum disposition prices in distressed areas.
- D. Establish an informal working group to consult with other federal agencies that are selling assets in the same geographical markets.

OBJECTIVE 4. Fully document asset management and disposition activities to ensure compliance with all relevant statutory requirements.

IMPLEMENTATION

PROCEDURES:

- A. By March 30, 1990, in consultation with the Oversight Board and the Congress, determine the extent of information required to be recorded and to be reported under the provisions of FIRREA and for full and complete disclosure of the asset disposition process.
- B. Report to the Oversight Board on a regular basis (and no less frequently than quarterly) the dollar value, and to the extent practicable, the number of assets under RTC control, the assets sold, and the volume and terms of any seller financing provided.
- C. Develop and implement, to the extent possible, semiannual and other periodic reports that present information in clear and consistent formats.

C. AFFORDABLE HOUSING PROVISIONS

GOAL: 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.

OBJECTIVE 1. Implement the housing and public use provisions of FIRREA in order to provide home ownership and rental housing opportunities for very low-income, lower-income, and moderate-income families.

IMPLEMENTATION

PROCEDURES:

- A. Before March 30, 1990, establish interim guidelines for review by the Oversight Board before selling eligible properties; these guidelines may authorize pilot projects that test eligible property disposition program concepts, but do not provide direct subsidies.
- B. By March 30, 1990, identify the state housing finance agencies that, with the FHFB, will be serving as clearinghouses; establish guidelines for determining which national non-profit organizations have the capacity to act as clearinghouses; develop guidelines for contracting with clearinghouses.
- C. By March 30, 1990, investigate the feasibility of contracting with other

government agencies, state housing agencies, and nonprofit organizations for the service of qualifying purchasers; develop and implement procedures for qualifying households and organizations as potential purchasers of eligible properties.

- D. By March 30, 1990, in consultation with the FHFB, state housing finance agencies, and nonprofit organizations, develop strategies to ensure the effective and efficient dissemination of adequate information to clearinghouses for use during the right-of-first-refusal period; and develop written guidelines to assure that clearinghouses are able to provide this information and access to properties to qualified buyers on a timely basis. (The RTC should also investigate the extent to which information about eligible properties may be provided to clearinghouses before the RTC has title to them.)
- E. By March 30, 1990, in consultation with other government agencies, state housing finance agencies, and nonprofit organizations, develop a strategy for actively marketing eligible properties for sale to qualifying individuals and organizations; develop organizational capability to implement the affordable housing program--e.g., consider

assigning low-income housing specialists to field offices.

- F. By March 30, 1990, develop guidelines for determining the net realizable market value of eligible properties.
- G. By March 30, 1990, establish guidelines for determining when eligible properties should be sold individually or in bulk to nonprofit organizations and state and local housing agencies, including an evaluation of savings on disposition costs that may justify price discounts on bulk sales.
- H. By March 30, 1990, develop and implement guidelines for giving preference among substantially similar competing bids for multi-family properties to those offers that propose to house more very low- and lower-income families.
- I. By March 30, 1990, develop and implement guidelines for giving preference among substantially similar offers for single-family properties to bids from families with lower incomes.
- J. By May 30, 1990, provide the Oversight Board with issues, alternatives, and cost estimates regarding financial assistance for the purchase of low- and moderate-income housing through the

provision of market-rate and below-market-rate seller financing and price discounts.

- K. By March 30, 1990, develop procedures for coordinating RTC disposition of eligible residential properties with programs at HUD (including FHA mortgage insurance), the Farmers Home Administration, the Department of Veterans Affairs, state and local housing finance agencies, and other government agencies.

- L. By March 30, 1990, in consultation with HUD, develop written guidelines for conveyance of assets to state and local government agencies and other agencies and organizations participating in HUD's urban homesteading programs.

- M. In consultation with HUD, explore opportunities to work with the secondary mortgage market entities to provide housing for low- and moderate-income households.

- N. Consult with the Federal Housing Finance Board about methods for coordinating the RTC's low- and moderate-income housing program, to the extent practical, with the FHFB's Affordable Housing Program and Community Investment Program.

- O. Consult with the national and regional advisory boards about strategies for meeting the low- and moderate-income housing goal.

- P. By March 30, 1990, establish written guidelines for determining if the value of an asset is so low that no reasonable recovery is anticipated. In such cases, the RTC may consider potential public uses, such as housing for lower-income families (including the homeless), urban open space, day care centers for the children of low- and moderate-income families, and other public purposes designated by the Secretary of Housing and Urban Development.

OBJECTIVE 2. Fully document affordable housing activities to ensure compliance with all relevant statutory requirements.

IMPLEMENTATION

PROCEDURES:

- A. By March 30, 1990, in consultation with the Oversight Board and the Congress, determine the extent of information required to be reported under the provisions of FIRREA and for full and complete disclosure of affordable housing activities.

- B. By May 30, 1990, report to the Oversight Board on the results of pilot projects to test eligible property disposition

program concepts.

- C. Develop and implement, to the extent possible, semiannual and other periodic reports that present information in clear and consistent formats.

D. CONFLICTS OF INTEREST AND ETHICAL STANDARDS

GOAL: Adopt conflicts of interest and ethical standards for RTC employees, officers, advisory board members, contractors, and agents.

OBJECTIVE 1. Develop regulations and procedures that:

- o govern conflicts of interest, ethical responsibilities, and post-employment restrictions and apply to RTC officers and employees, such regulations and procedures to be no less stringent than those applicable to the FDIC;
- o govern conflicts of interest, ethical responsibilities, and the use of confidential information and apply to independent contractors; and
- o ensure that RTC officers, employees, advisory board members, independent contractors, and agents meet appropriate standards of competence, experience, integrity, and fitness.

IMPLEMENTATION

PROCEDURE: Proposed rules have been published for comment and final regulations shall be promulgated within 180 days of the enactment of FIRREA.

OBJECTIVE 2. Develop policies and procedures for avoiding political favoritism and undue influence in

RTC contracts, activities, and decisions.

IMPLEMENTATION

PROCEDURE:

By March 30, 1990, the RTC shall develop written guidelines and procedures, specifically appropriate for the RTC, that draw upon current FDIC policies and that delineate internal operating procedures and methods for responding to inquiries from those who are or have been in political office. In the interim, all communications initiated by senior public officials (or their staff) with employees conducting the work of the RTC that are intended to influence a case specific decision currently before the RTC, shall be logged and the records of such communications should be made available for public inspection.

E. EXTERNAL RELATIONS

GOAL: Establish and maintain open communications with the Congress, other government offices, and the public to increase understanding of RTC policies and actions.

OBJECTIVE 1: Promote public understanding of the RTC's policies and actions.

IMPLEMENTATION

PROCEDURES: A. As soon as possible, but no later than March 30, 1990, develop written guidelines and procedures concerning:

- o providing timely responses to public inquiries;
- o the RTC's working relationship with the National and Regional Advisory Boards;
- o mechanisms for accepting general complaints and mechanisms for accepting complaints of discrimination on the basis of race, sex or ethnic group in the solicitation and consideration of offers, as required by FIRREA.

B. Report to Congress on the operations of the RTC as required. The Congressionally-mandated reporting requirements included in Title V of FIRREA are listed in the Appendix to this plan.

- C. Prepare other reports requested by the Congress on a timely basis.

OBJECTIVE 2: As appropriate, consult with other government offices in developing guidelines and procedures.

IMPLEMENTATION

PROCEDURES: As needed, create or participate on interagency working groups to resolve interagency issues.

F. ADMINISTRATION

GOAL: Assure that the RTC has sufficient and effectively managed human and financial resources to achieve the mission and the goals of the agency.

OBJECTIVE 1: Assure that the RTC's resources are effectively managed to respond properly and promptly to the agency's needs and priorities.

IMPLEMENTATION

PROCEDURES: A. Annually, develop and present to the Oversight Board, for its approval, an operating plan and budget. Provide an annual staffing plan and an organizational chart for the upcoming calendar year.

The operating plan and budget for 1990 must be submitted to the Oversight Board 60 calendar days from the issuance date of this strategic plan. Subsequent annual budgets should be presented to the Oversight Board by November 30.

B. Quarterly, the RTC will reassess the allocation of resources and make adjustments.

C. By January 31, 1990, develop and present to the Board for approval a minority and women outreach program according to the policies previously outlined in the plan. The program should allow up to a 3% price advantage for minority and women contractors. The cost to the RTC of providing this price advantage

should not exceed \$2 million per annum and \$6 million in aggregate.

OBJECTIVE 2: Ensure fiscal responsibility for operations.

IMPLEMENTATION

- PROCEDURES:**
- A. As required by FIRREA, provide the Oversight Board with periodic financing requests for prior approval that detail: a) anticipated funding requirements for operations including, case resolutions, high cost funds replacement, liquidity advances, administrative expenses and asset disposition; b) anticipated payments on previously issued notes, guarantees, other obligations, and related activities; and c) any proposed use of notes, guarantees or other obligations. Such financing requests shall be submitted on a quarterly basis or such other period as the Oversight Board determines necessary.
 - B. Establish internal control procedures and accounting systems covering all aspects of RTC's activities.
 - C. Manage assets under RTC jurisdiction and working capital in order to allow case resolutions to proceed at a rate that minimizes the net present value cost to the RTC and the American taxpayer.
 - D. As soon as practicable, after approval by the Oversight Board, establish the systems and

procedures to implement the working capital program.

OBJECTIVE 3: Respond to required reports in a timely and efficient manner.

IMPLEMENTATION

- PROCEDURES:**
- A. In consultation with the Oversight Board and Congress, streamline the process for responding to the various reporting requirements imposed on the RTC by Congress, the Oversight Board, and others, to the extent possible.
 - B. As required by FIRREA, respond to requests from the Oversight Board for any reports, documents, and records that it deems necessary to carry out its oversight responsibilities.

Objective 4: Appraise operations within the RTC, including cooperating fully in independent audits, to assist the Board of Directors and management in ensuring an efficient, economical, and effective application of resources.

IMPLEMENTATION

- PROCEDURES:**
- A. By March 30, 1990, the RTC Board of Directors and senior management should develop management processes designed to ensure compliance with policies, laws, rules and regulations. At a minimum, these processes should address planning, policy making, personnel, administration, and management

information systems.

- B. Cooperate fully in the audits performed by the Inspector General.
- C. Cooperate fully in the annual audit performed by the Comptroller General, or other independent certified public accountant selected by the Oversight Board, as required by FIRREA.
- D. Cooperate fully in periodic reviews and audits of RTC activities performed by the Oversight Board in fulfilling its responsibility for reviewing the overall performance of the RTC, including its work, management activities, and internal controls, and the performance of the RTC relative to approved budget plans as required by FIRREA.
- E. Within 60 days of receiving any audit or review, develop follow-up procedures to ensure that deficiencies and recommendations cited in audits and reviews by the Inspector General, Comptroller General, Oversight Board, public accounting firms or others, receive appropriate corrective action.

Approved by the Oversight Board
December 31, 1989

APPENDIX to the Strategic Plan
FIRREA, Title V
Reporting and Disclosure Obligations
for the Resolution Trust Corporation

The following reporting requirements are from Title V of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Pub. L. No. 101-73, Section 501, 103 Stat. 183, 363-94) ("FIRREA"). All references to Section 21A, are to Section 21A of the Federal Home Loan Bank Act (12 U.S.C. 1441a), as added by Section 501(a) of FIRREA.

1. The RTC shall make available to the public:
 - o any agreement by the RTC relating to a transaction that provides assistance pursuant to section 13(c) of the Federal Deposit Insurance Act ("section 13(c)"), not later than 30 days after the first meeting of the Oversight Board after such agreement is entered into; and
 - o all agreements relating to the RTC's review of prior cases pursuant to subsection (b)(11)(B) of 21A.

"Agreement" includes: a) all documents that effectuate the terms and conditions of the assisted transaction; b) a comparison by the RTC of the estimated cost of the transaction with the estimated cost of liquidating the insured institution; and c) a description of any economic or statistical assumptions on which such estimates are based.

The Oversight Board may withhold public disclosure if it determines by a unanimous vote that disclosure would be contrary to the public interest. A written report

containing a full explanation of the reasons for such a determination must be published in the Federal Register and transmitted to the House and Senate Banking Committees.

Section 21A (k) (2) (A), (B), and (C)

2. The RTC shall make available to the House and Senate Banking Committees any agreement by the RTC relating to a transaction for which the RTC provides section 13(c) assistance not later than 25 days after the first meeting of the Oversight Board after such agreement is entered into. This requirement is in addition to the RTC's obligation to make such agreements publicly available.

Section 21A (k) (3) (A)

3. The RTC shall submit a report to the Oversight Board and the Congress containing the results and conclusions of the review of 1988 and 1989 FSLIC transactions (pursuant to subsection (b) (11) (B) of 21A) and recommendations for legislative action that the RTC may determine to be appropriate.

Section 21A (k) (3) (B)

4. The RTC's Real Estate Asset Division shall publish before January 1, 1990 an inventory of real property assets of institutions subject to the jurisdiction of the RTC. The inventory must be updated semiannually and must identify properties with natural, cultural, recreational, or scientific values of special significance.

Section 21A (b) (12) (F)

5. Annually, the Comptroller General shall audit the financial statements of the RTC unless the Comptroller General notifies the Oversight Board not later than 180 days before the close of a fiscal year that it will not perform an audit for that fiscal year. In that event, the Oversight Board must contract with an independent certified public accountant to perform the annual audit. All books, records, accounts, reports, files, and property belonging to or used by the RTC, or the Oversight Board, or by an independent certified public accountant retained to audit the RTC's financial statement, shall be made available to the Comptroller General.

Sections 21A (k) (1) (A) and (B)

6. The Inspector General of the RTC shall comply with the reporting requirements imposed on the Inspector General pursuant to the Inspector General Act of 1978, as amended.

Section 501 (b) of FIRREA

7. The RTC shall: a) document decisions made in the solicitation and selection process and the reasons for the decisions; and b) maintain such documentation in the offices of the RTC, as well as any other documentation relating to the solicitation and selection process.

Section 21A (b) (12) (C)

8. The Oversight Board and the RTC shall annually submit a full report of their respective operations, activities, budgets, receipts, and expenditures for the preceding 12-month period. The RTC shall submit the annual report to Congress and the President as soon as practicable after the end of

the calendar year for which the report is made, but not later than June 30 of the year following that calendar year.

The report shall include:

- o audited statements and such information as is necessary to make known the financial condition and operations of the RTC in accordance with generally accepted accounting principles;
- o the RTC's financial operating plans and forecasts (including budgets, estimates of actual and future spending and cash obligations) taking into account the Corporation's financial commitments, guarantees, and other contingent liabilities;
- o the number of minority and women investors participating in the bidding process for assisted acquisitions and the disposition of assets and the number of successful bids by such investors; and
- o a list of the properties sold to state housing finance authorities (as such term is defined in section 1301 of FIRREA), the individual purchase prices of such properties, and an estimate of the premium paid by such authorities for such properties.

Sections 21A (k) (4) (A), (B), and (C)

9. The Oversight Board and the RTC shall submit to Congress not later than April 30 and October 31 of each calendar year, a semiannual report on the activities and efforts of the RTC, the FDIC, and the Oversight Board for the 6-month period ending on the last day of the month prior to the month in

which such report is required to be submitted. The report shall include the following information with respect to the RTC's assets and liabilities and to the assets and liabilities of institutions for which the RTC is or has been the conservator or receiver:

- o the total book value of all assets held or managed by the RTC at the beginning and end of the reporting period;
- o the total book value of assets that are under contract to be managed by private persons and entities at the beginning and end of the reporting period;
- o the number of employees of the Corporation, the Federal Deposit Insurance Corporation, and the Oversight Board at the beginning and end of the reporting period;
- o the total amounts expended on employee wages, salaries, and overhead, during such period that are attributable to: a) contracting with, supervising, or reviewing the performance of private contractors, or b) managing or disposing of such assets;
- o the total amount expended on private contractors for the management of such assets;
- o the efforts of the RTC to maximize the efficient utilization of the resources of the private sector during the reporting period and in future reporting periods and a description of the

guidelines and procedures adopted to ensure adequate competition and fair and consistent treatment of qualified third parties seeking to provide services to the RTC or the Federal Deposit Insurance Corporation;

- o the total book value and total proceeds from such assets disposed of during the reporting period;
- o summary data on discounts from book value at which such assets were sold or otherwise disposed of during the reporting period.
- o a list of all of the areas that carried a distressed area designation during the reporting period (including a justification for removal of areas from or addition of areas to the list of distressed areas);
- o an evaluation of market conditions in distressed areas and a description of any changes in conditions during the reporting period;
- o any change adopted by the Oversight Board in the minimum disposition price and the reasons for such change; and,
- o the valuation method or methods adopted by the Oversight Board or the RTC to value assets and the reasons for selecting such methods.

Sections 21A (k) (5) (A) and (B)

10. Before January 31, 1990, the Oversight Board and the RTC

shall appear before the House and Senate Banking Committees to:

- o describe the strategic plan established for the operations of the RTC;
- o describe the guidelines and procedures established or proposed to be established for the RTC, including specific measures taken to avoid political favoritism or undue influence with respect to the activities of the RTC;
- o provide any regulation proposed to be prescribed by the RTC; and
- o provide the proposed case resolution schedule.

Sections 21A (k) (7) (A) and (B)