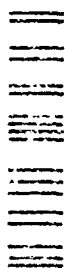


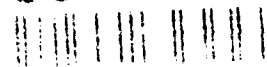
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**Accounting and Financial
Management Division**

B-240108

December 21, 1990

The Honorable Henry B. Gonzalez
Chairman, Committee on Banking, Finance
and Urban Affairs
House of Representatives

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Dear Mr. Chairman:

In your December 19, 1989, letter, you requested that we report quarterly on the Resolution Trust Corporation's compliance with the maximum obligation limit set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The act provides the formula for calculating the limit and provides \$50 billion in financing to resolve troubled savings and loan institutions placed into conservatorship or receivership from January 1, 1989, through August 9, 1992. In July 1990, we issued our report on the Corporation's first quarter compliance.¹

On September 28, 1990, the Corporation issued to you its second quarterly report of the estimated values of its obligations, assets, and contributions received as of June 30, 1990. The Corporation reported that the financing it has received from the Resolution Funding Corporation (REFCORP) and the Department of the Treasury, plus its outstanding obligations, exceeded its assets by \$29.5 billion and that its "adjusted obligation level" was therefore \$20.5 billion below the \$50 billion limitation on outstanding obligations.

The Corporation included \$18.8 billion received from Treasury in both its first and second quarter calculations, even though it was not required to do so by FIRREA. As we stated in our first quarter report, if this amount were excluded, the Corporation would be able to incur an additional \$18.8 billion in net obligations without violating the section 501(a) limitation. However, FIRREA does not provide funds to pay any additional obligations incurred. The Corporation's first and second quarter treatment of the Treasury payment is consistent with the views of the Chairman and Ranking Minority Member, Senate Committee on Banking, Housing and Urban Affairs, as expressed in a September 26, 1989, letter to the Secretary of the Treasury. The letter stated that

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¹Obligations Limitation: Resolution Trust Corporation's Compliance as of March 31, 1990 (GAO/AFMD-90-101, July 27, 1990).

nothing in FIRREA should be viewed as permanently expanding the Corporation's \$50 billion limitation. The Corporation's report and an accompanying table providing details on the computation are included as appendixes I and II, respectively.

During our review period, the Corporation issued its operating plan for the 6 months beginning October 1, 1990. This plan indicated that the Corporation would soon reach the obligation limit and would then be unable to continue resolving failed institutions. To provide you with information that may impact future compliance with the obligation limit, we have included a discussion of the Corporation's funding status in this report.

Results in Brief

Based on our review of the Corporation's September 28, 1990, report and schedule and its financial records, we determined that none of the categories for the formula required by FIRREA were omitted from the Corporation's calculation. While our work did identify several errors and misclassifications in the Corporation's financial accounts, none of them would have a material effect on the calculation of the limitation. We reported our findings to Corporation management and are currently working with them to correct the problems. We did not attempt to determine the amount of any undisclosed obligation or overvalued assets of the Corporation which, if disclosed, would have affected its calculation. However, considering the results of our review and the size of the reported excess balance available as of June 30, 1990, we believe there is little risk that the Corporation exceeded the limitation.

The Corporation's operating plan for October 1990 through March 1991 indicates that it will face a funding crisis. Without sufficient funds to absorb the losses and to purchase the assets of failed institutions, the Corporation will have to slow down its resolution activity. There may be disagreement concerning the ultimate cost of such a slowdown, but all agree that allowing failed institutions to continue to incur operating losses will increase resolution costs.

Although the administration has not recently appeared before your Committee to discuss funding options, the Secretary of the Treasury's October 10, 1990, letter to the Congress stated that without additional funding, the Corporation's resolution activity would cease before the

end of the calendar year. The Oversight Board² has taken some short-term steps to address the Corporation's funding needs through early next year. However, only quick action to identify a long-term solution will ensure the Corporation's continued ability to respond to the nation's thrift crisis.

As part of our review work, we also followed up on the implementation status of recommendations we made to the Corporation's Executive Director in our first quarter report. These recommendations addressed factors that could affect the cost of resolutions and the point at which the obligations limitation is reached. We found that Corporation management is, in all instances, making progress on the recommendations but that none have been fully implemented.

Background

In response to the savings and loan crisis and the Federal Savings and Loan Insurance Corporation's (FSLIC) mounting losses, FIRREA (Public Law 101-73) was enacted into law on August 9, 1989. The act abolished FSLIC and transferred its insurance function to the Federal Deposit Insurance Corporation. FIRREA established the Resolution Trust Corporation to resolve the problems of institutions placed into conservatorship or receivership from January 1, 1989, until August 9, 1992. The act provided the Corporation \$50 billion to resolve the problems of those institutions and to pay administrative expenses.³ FIRREA also transferred FSLIC's assets and liabilities, except for those assumed by the Corporation, to a newly established fund, the FSLIC Resolution Fund.

FIRREA gave the Corporation certain powers with which to accomplish its task, including the power to issue obligations and guarantees when acquiring an institution within its jurisdiction. The full faith and credit of the United States is pledged to the payment of such obligations if the principal amounts and maturity dates are stated in the obligations.

²The Resolution Trust Corporation Oversight Board was created by FIRREA to review and have overall responsibility for the Corporation's activities. The Secretary of the Treasury serves as the Board's Chairman.

³As of June 30, 1990, the Corporation had received approximately \$33 billion in funds. The Corporation was provided \$18.8 billion by Treasury and \$1.2 billion of contributions from the Federal Home Loan Banks. The Federal Home Loan Bank contributions were transferred to the Corporation through REFCORP. Additionally, the Corporation receives proceeds from the \$30 billion of bonds that FIRREA authorized REFCORP to issue. As of June 30, 1990, REFCORP had transferred \$13 billion in bond proceeds to the Corporation.

However, section 501(a) of FIRREA limits the outstanding obligations of the Corporation and provides a formula for calculating the limitation on such obligations. FIRREA states that the sum of contributions received from REFCORP plus outstanding obligations may not exceed the Corporation's available cash plus 85 percent of the fair market value of its other assets by more than \$50 billion.

Obligations are defined as including (1) any obligation or other liability assumed by the Corporation from FSLIC, (2) any guarantee issued by the Corporation, (3) the total of outstanding amounts borrowed from the Treasury as authorized by FIRREA, and (4) any other obligation, direct or contingent, for which the Corporation is liable.

FIRREA provided for the Corporation to receive \$18.8 billion from Treasury in fiscal year 1989, which the Corporation included in the formula for calculating the limit on outstanding obligations for its first and second quarter reports. However, the formula in section 501(a) does not explicitly contain the Treasury funding and there is no basis in the law for concluding that it is encompassed either by the REFCORP contributions or the obligations components in the formula. Therefore, as a matter of law, the Corporation is not required to include the Treasury funding in its calculation of whether the FIRREA limitation on outstanding obligations has been reached.

The Corporation included an allowance for loss on advances made to conservatorships equal to approximately 33 percent of the receivable in its first quarter report because the collectibility of these advances was questionable. However, recent decisions of the Corporation's Legal Division have indicated that the advances are priority claims and, if secured, should be fully collectible. To ensure sufficient resources exist to repay the advances, the Corporation calculated the liquidation value of conservatorship assets and subtracted from that amount the total conservatorship advances and other secured liabilities. If the liquidation value of the assets equaled or exceeded the priority claims, no loss was recognized. In only one conservatorship did the value of advances and other secured liabilities exceed the asset liquidation value and the excess was less than \$1 million. As a result, the Corporation eliminated its allowance for loss on advances to conservatorships in its second quarter report.

Objectives, Scope, and Methodology

As agreed with your staff, we performed a limited review of the Corporation's second quarter report to test its reasonableness. Specifically, our objectives were to determine if (1) all categories for the formula required by FIRREA were included in the Corporation's calculation and (2) the values reported appeared reasonable for select components of the calculation.

In order to determine the reasonableness of the values of selected components included in the Corporation's calculation, we confirmed that the Corporation received contributions from REFCORP, funding from Treasury, and Federal Financing Bank loans for working capital in the amounts reported. For significant outstanding obligations other than notes payable, we requested listings of Corporation legal liabilities and contractual obligations. We reviewed the lists for reasonableness, recomputed the recommended reserve for probable litigation losses, and tested lease obligations calculations which comprised most of the Corporation's contractual commitments. To ensure the reasonableness of reported receivables from receiverships and conservatorships, we judgmentally sampled from 45 percent to 100 percent of material receivable account balances. We then traced selected transactions to supporting documentation, reconciled general ledger accounts with subsidiary ledgers, and/or recalculated interest accruals.

We also evaluated the reasonableness of the allowances for loss on receivership claims as included in the Corporation's second quarter report. Our first quarter review of the allowance for loss on receivership claims indicated that the Corporation was using a reasonable methodology to calculate the allowance. For this review, we selected a sample equal to 75 percent of the total allowance and recalculated the estimated loss for the individual receiverships to ensure that the methodology was being applied consistently and accurately. However, we were unable to test the accuracy of the mark-to-market adjustment for the receiverships' assets because of the large volume and wide geographic dispersion of the assets as well as the Corporation's lack of historical experience in asset sales.

As discussed earlier, the Corporation eliminated its allowance for loss on conservatorship advances based on (1) legal decisions indicating these advances are priority claims and (2) calculations indicating that sufficient assets exist to repay the advances. As part of our review procedures, we evaluated the Corporation's assumptions regarding the collectibility of advances and tested a sample of its calculations.

During our review of the Corporation's second quarter compliance, we performed our work at the Corporation's headquarters and, in some instances, in its Central and Western Regions. In three Western Region conservatorships, we made inquiries of management and other personnel related to high cost funds and liquidity advances and performed selected procedures where necessary. Our procedures for conservatorships primarily consisted of interviews with their personnel, examinations of supporting documentation regarding the receipt and recording of advances, and tests of compliance with Corporation policies and procedures for securing and collateralizing advances. We also interviewed Corporation officials at headquarters to determine the status of the recommendations we made in our first quarterly report.

We performed our work in accordance with generally accepted government auditing standards. The scope of our work, however, did not include a review of the internal control environment. Also, we did not test or verify the books and records of the Corporation or the data contained in appendixes I and II, except for the procedures detailed in this section. Our review of compliance with laws and regulations was limited to the Corporation's compliance with the obligations limitation.

While we did not obtain written comments on this report, we discussed its contents with cognizant Corporation officials, who agreed with the report's findings and conclusions. We have incorporated their comments where appropriate.

In the following sections, we discuss the current status of Corporation funding and the implementation status of the recommendations we made to the Corporation in our first quarter report.

Current Funding Status

In our April 1990 testimony before the Senate Committee on Banking, Housing and Urban Affairs,⁴ we estimated that the Corporation would need at least \$100 billion, \$50 billion more than FIRREA already provides, to cover resolution costs. To address this shortfall, we recommended that the Corporation's Oversight Board develop funding proposals for congressional consideration. Since that time the administration has proposed various general funding mechanisms, any of which would have resolved the Corporation's immediate cash flow needs. However, the Congress has not yet acted on any of the proposals.

⁴Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed (GAO/T-AFMD-90-15, April 6, 1990).

In our September 1990 testimony before the House Committee on Ways and Means,⁵ we reiterated the Corporation's need for at least another \$50 billion to complete its task of closing failed institutions in an orderly and expeditious manner. We warned that the Corporation must be given the funds to continue resolutions since prolonging the operations of insolvent thrifts could add significantly to their ultimate cost.

On October 10, 1990, the Chairman of the Corporation's Oversight Board reported to the Congress that without additional funding, the Corporation's resolution activity would cease before the end of the calendar year due to either insufficient loss funds or limits on working capital borrowings. Loss funds refer to monies that are not expected to be recovered because they are paid to an acquirer of a failed institution to cover that institution's estimated negative net worth after its assets are written down to fair market value. In contrast, working capital refers to borrowed funds that are not intended to contribute to losses because the borrowings (and interest) will be repaid. The working capital borrowings provide temporary funding for the Corporation to purchase the assets of failed institutions at their fair market value. When the assets are sold, the Corporation will use the proceeds to repay the working capital it borrowed.

FIRREA provided the Corporation with \$50 billion to cover losses. However, the section 501(a) formula for calculating the Corporation's limitation on outstanding obligations accounts for only 85 percent of the fair market value of noncash assets held by the Corporation. Because 15 percent of the Corporation's assets are not included in the formula, the Corporation will reach the obligation limit before it utilizes the \$50 billion in loss funds.

In its operating plan for October 1990 through March 1991, the Corporation projected that it would reach the obligation limit and therefore be prevented from borrowing the working capital funds required to purchase the assets of failed thrifts as part of the resolution process. This would occur as a result of following the obligation limit formula as required, even though over \$10 billion of the \$50 billion in loss funds provided by FIRREA would remain unused. The difference between the value of the assets held by the Corporation and the 85 percent included

⁵Resolving Failed Savings and Loan Institutions: Estimated Costs and Additional Funding Needs (GAO/T-AFMD-90-32, September 19, 1990).

in the formula is to help ensure that the Corporation could pay its obligations if the fair market value of the assets which support those payments is not overstated by more than 15 percent. The 15 percent differential is an important safeguard because the Corporation does not have historical sales price data to support estimated fair market value calculations for receivership assets.

According to the Chairman of the Oversight Board, even if the 15 percent differential could be eliminated or circumvented so that working capital could be borrowed, the Corporation would use virtually all of the \$50 billion in loss funds before December 31, 1990. At that time, the Corporation would not be able to incur additional obligations and continue resolving troubled thrifts. To avoid this situation, the Oversight Board requested that the Congress provide the Corporation with an additional \$40 billion in loss funds and \$17 billion to serve as the required reserve for obligations. This reserve would not be spent but would allow the Corporation access to all loss funds. The Congress, however, did not provide the additional funding before it recessed on October 28, 1990.

In the absence of additional funding, the Oversight Board directed the Corporation on November 2, 1990, to exclude the \$18.8 billion of Treasury funding from the contribution component of the formula when computing future compliance with the obligations limitation. The Corporation is using the Treasury funding to represent the required 15 percent differential. This will protect against government losses while allowing the Corporation to utilize unspent loss funds and additional working capital borrowings without exceeding the limitation on outstanding obligations. This short-term solution will allow resolutions through early 1991.

Implementation Status of First Quarter Review Recommendations

Our first quarter report identified three important factors that could affect the cost of resolutions and the point at which the obligations limitation is reached. These factors included the overestimation of the fair market value of assets; noncompliance with Corporation policy governing pledging collateral for advances to conservatorships; and failure to estimate and disclose the resulting contingent liability for representations and warranties given in connection with the sale of assets. To address these factors, we made specific recommendations to the Corporation's Executive Director. As part of our second quarter review work,

we followed up with Corporation management to determine the implementation status of those recommendations and found that the Corporation is making progress in all three areas.

Receivership Tracking System Is Being Developed

Because the market value of assets is a key component in the obligation limit calculation, overestimation of these values could result in the Corporation incurring liabilities it will be unable to repay from sales proceeds. This concern becomes significant as the Corporation approaches the obligation limit. Therefore, we recommended that the Corporation track and report the actual results of asset sales to provide the information necessary for evaluating the accuracy of estimated fair market values. In particular, we noted that collecting data on initial estimated fair market value assigned, date available for sale and date sold, sales price, and gain or loss would provide historical information against which to compare future estimates.

In response to our recommendation, the Corporation stated that it is developing a Receivership Asset Inventory System to report in detail the sales status of individual assets. The system will report and analyze such data as date available for sale, date sold, sales price, gain, loss on disposal, and appraised values. The asset inventory system has an estimated completion date of February 28, 1991.

Advances Are Being Secured but Not Perfected

Noncompliance with Corporation policies concerning the collateralization of advances made to conservatorships could lessen the Corporation's return on asset recoveries, thereby increasing its resolution costs. In our first quarter review, we found that conservatorship managing agents were not following written Corporation procedures that required all institutions to execute a promissory note for each advance, pledge collateral to secure those advances, and perfect the Corporation's security interest in the collateral. Therefore, we recommended that the Corporation clarify and enforce its policies and guidelines regarding conservatorship advances.

In response to our recommendation, the Corporation stated that an internal review of conservatorship advances had been conducted and all instances of procedural noncompliance had been corrected. In particular, signed promissory notes for all advances were obtained from the conservatorships. Additionally, certain procedural and reporting changes have been implemented to enhance internal controls in this area. A new directive issued on September 14, 1990, made the Deputy

Regional Directors for Resolutions and Operations responsible for the collection and custody of all executed documents associated with the secured advances. Promissory notes are to be executed by managing agents and approved by the Deputy Regional Directors prior to receiving Corporation funds. The original notes are then to be sent to headquarters as verification of the conservatorship's receipt of advance funds. The Deputy Regional Directors for Resolutions are to submit weekly reports to headquarters to track compliance with the documentation requirements. For any institution reported as not complying with the requirements, the report must indicate action taken to remedy the noncompliance.

The Corporation's response also stated that it is currently conducting a cost-benefit analysis of its perfection requirement. The Legal Division has been asked to provide a legal analysis of the risks associated with not perfecting the Corporation's security interest, a legal definition of perfection, and guidance on the minimum legal requirements to perfect and the means of effective perfection. While this study is being performed, Regional Directors have been advised to suspend efforts to perfect the Corporation's interest in collateral pledged to secure advances.

Losses Inherent in Representations and Warranties Will Be Recognized

Sellers of asset-backed receivables to the secondary market are generally expected to make certain representations and warranties, in the form of factual disclosures, about the assets being sold and are expected to certify the accuracy of those statements. Without these representations and warranties, the mortgage assets under the Corporation's control would likely be subject to a substantial discount above and beyond the cost of making such representations and warranties, and certain assets might not be marketable at all. Warranties and representations, however, create contingent liabilities and, if offered, would increase the Corporation's outstanding obligations and decrease the additional amount of obligations the Corporation could incur. Given the apparent need for representations and warranties, we recommended that when given, an appropriate estimate of the resulting contingent liabilities be made and reflected in the Corporation's obligations limitation calculation.

The Corporation responded that its experience with representations and warranties has been quite limited. However, Corporation receiverships will establish reserves for those representations and warranties that are made to facilitate asset sales. These reserves will reduce the fair market

value of receivership assets and thereby affect the asset component of the limitation on outstanding obligations calculation.

Conclusions

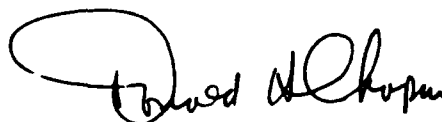
As evidenced by the cost of resolutions through October 1, 1990, and by projections of costs to be incurred over the following 6-month period, the Corporation requires additional funding to continue its operations in an orderly and expeditious manner. The Oversight Board's decision to exclude the \$18.8 billion of Treasury funding from the Corporation's obligation limit calculation offers only a limited reprieve. A funding decision must be made soon or the Corporation will face higher resolution costs due to continued operating losses in failed but unresolved institutions.

The Corporation has made some progress in implementing the recommendations we made in our first quarter report. However, in all instances, implementation needs to be completed, additional actions taken, or subsequent events evaluated. As a result, we will continue to monitor the status of the Corporation's actions as part of our third quarter report review.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits, who may be reached on (202) 275-9406 if you or your staff have any questions. Major contributors are listed in appendix III.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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Abbreviations

FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FSLIC	Federal Savings and Loan Insurance Corporation
REFCORP	Resolution Funding Corporation

Resolution Trust Corporation Obligations and Assets as of June 30, 1990



September 28, 1990

Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We are pleased to submit the second quarterly report which you requested in your letter of March 9, 1990, relating to the working capital needs of the Resolution Trust Corporation. This quarterly report provides estimated values of the RTC's obligations and assets as of June 30, 1990, which are used to determine whether the RTC remains within the limitation on obligations as mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. We have also included a table presenting the computation of the obligation limitation as of June 30.

Oversight Board staff are currently reviewing our June 30 estimates; we have not yet received their comments. As you know, the Oversight Board considers the effects on the obligation limitation when evaluating RTC funding requests.

We hope that this information will be of assistance to you. If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "David C. Cooke", is written over a light-colored background.

David C. Cooke
Executive Director

Appendix I
Resolution Trust Corporation Obligations and
Assets as of June 30, 1990

1. Outstanding Obligations \$ 30.2 billion
Includes \$26.5 billion in notes issued to the Federal Financing Bank (FFB), plus accrued interest; a \$3.4 billion payable for June resolution transactions for which funds were disbursed in July; and \$0.2 billion in current liabilities, contractual commitments (leases), and contingent liabilities (legal exposure). Contingent liabilities already applied to the value of RTC's claims on failed thrift assets are not included. The estimated future costs of resolving RTC conservatorships and other troubled thrifts are also excluded.
2. "Full Faith and Credit" Obligations \$ 30.0 billion
Includes accounts payable, other current liabilities, and notes issued to the FFB, including accrued interest.
3. Total Fair Market Value of [Non-Cash] Assets Held by RTC \$ 34.8 billion
Includes \$11.3 billion in principal value of advances, accrued interest, and reimbursable expenses due from conservatorships. RTC advances have a claims priority ahead of general creditors and are estimated to be fully collectible. Also includes \$23.5 billion for the net realizable value of RTC claims on receiverships. The net realizable value accounts for estimated total losses to RTC for resolved cases, including expenses incurred to manage and dispose of assets, as well as estimated losses on assets covered under "put" agreements. The obligation limitation counts the total of all non-cash assets at 85 percent of the fair market value shown above.
4. Cash Held by RTC \$ 4.0 billion
5. Obligations [Bonds] Issued by REFCORP \$ 13.0 billion
Includes \$4.5 billion issued in October 1989, \$5.0 billion issued in January 1990, and \$3.5 billion issued in April 1990. RTC also received \$18.8 billion in Treasury funds and a \$1.2 billion contribution from the Federal Home Loan Banks (through REFCORP).

Resolution Trust Corporation Maximum Amount Limitation on Outstanding Obligations

(\$ in millions)

AS OF JUNE 30, 1990

A) CONTRIBUTIONS RECEIVED

1) TREASURY:	18,800	
2) REFCORP:	14,221	

TOTAL CONTRIBUTIONS		33,021

B) OUTSTANDING OBLIGATIONS

1) LEGAL EXPOSURE - ESTIMATED COSTS	95	
2) CONTRACTUAL OBLIGATIONS (LEASES, ETC.)	95	
3) ACCOUNTS PAYABLE AND OTHER LIABILITIES *	3,429	
4) NOTES PAYABLE AND OTHER DEBT	26,543	

TOTAL OUTSTANDING OBLIGATIONS		30,162

Appendix II
Resolution Trust Corporation Maximum
Amount Limitation on
Outstanding Obligations

LESS:

C) CASH AND CASH EQUIVALENTS

1) CASH AND EQUIVALENTS	4,043

LESS:

D) ESTIMATED FMV OF OTHER ASSETS

1) CLAIMS AGAINST RECEIVERSHIPS	20,016	
23,548 @ 85%		
2) RECEIVABLES FROM OPEN INSTITUTIONS	9,574	
11,263 @ 85%		
3) MISC. RECEIVABLES AND OTHER ASSETS	3	
4 @ 85%		

TOTAL OTHER ASSETS	29,593

ADJUSTED OBLIGATION LEVEL (A+B-C-D)	29,547
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MAXIMUM LEVEL	50,000

EXCESS OF MAXIMUM LEVEL OVER ADJUSTED OBLIGATION LEVEL AT 6/30/90 **	20,453
	=====

* Includes \$3,402 million payable for June resolution transactions for which funds were not disbursed until July.

** A positive amount indicates compliance with the obligation limitation. It does not represent the limit on additional borrowings. Additional borrowing authority depends on the estimated value of RTC assets and the volume of REFCORP funds raised.

Appendix II
Resolution Trust Corporation Maximum
Amount Limitation on
Outstanding Obligations

FIRREA Section 501(a) (j)
Maximum Amount Limitation on Outstanding Obligations
Explanatory Notes

A. Contributions Received

Includes the \$18.8 billion of initial Treasury funding, the \$1.2 billion FHLB contribution (through REFCORP), and REFCORP bond proceeds.

B. Outstanding Obligations

1. Legal Exposure: The expected cost of those pending or threatened litigations, claims, or assessments where an estimated loss to RTC (in its Corporate and Receivership capacities) is both probable and reasonably estimable. These are over and above any legal costs already included in the resolution loss estimates.

2. Contractual Obligations: The non-cancellable portion of outstanding contractual obligations. As of June 30, 1990, these included primarily multi-year leases for space in Washington and other locations.

3. Accounts Payable and Other Liabilities: Full face value of routine, current liabilities such as accounts payable and accrued liabilities. As of June 30, includes payable for those June resolutions where cash disbursements were not made until July. Also, includes the face value of the liability related to pending claims of depositors (insured deposits owed but not yet paid).

4. Notes Payable and Other Debt: Full face value of all Federal Financing Bank borrowings and accrued interest due thereon.

Additional Notes on Outstanding Obligations:

a. Guarantees: Any expected cost to the Corporation of any guarantee issued or assumed from FSLIC (i.e., FHLB advances guaranteed by FSLIC). No expected cost to RTC since there are no deficiencies in the underlying collateral on any of these guarantees at June 30, 1990. There were no other guarantees as of that date.

b. Asset Puts: Included in the allowance for losses on resolved institutions is an estimate of losses on assets likely to be returned to the RTC under a put agreement. Therefore, the receivables for resolved cases have already been adjusted for the contingent liabilities relating to put agreements. No additional calculation is necessary.

Appendix II
Resolution Trust Corporation Maximum
Amount Limitation on
Outstanding Obligations

c. Contingent Liabilities Related to the Resolution of Conservatorships and Other Troubled Thrifts: Not included as outstanding obligations.

C. Cash and Cash Equivalents

Includes cash, cash equivalents (as defined in FAS #95).

D. Estimated Fair Market Value of Other Assets Held by the Corporation (85% thereof)

1. Claims Against Receiverships: Included at 85% of the Net Realizable Value of such claims. Loss allowances against these claims are estimates made at the time of resolution. RTC currently is implementing policies similar to FDIC policies for valuing claims against receiverships, which consider nondiscounted cash inflows, net of liquidation expenses, in determining the cash available to repay the Corporation.

2. Receivables from Open Institutions: Included at 85% of fair market value. These receivables have a claims priority ahead of general creditors and are estimated to be fully collectible. Includes principal on advances, accrued interest and other receivables from conservatorships.

3. Miscellaneous Receivables and Other Assets: Includes current assets, all at 85%. Also includes claims from depositors pending or unpaid at 85%.

Major Contributors to This Report

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