

GAO

Report to the Chairman, House
Committee on Banking, Finance and
Urban Affairs, House of
Representatives

July 1990

OBLIGATIONS LIMITATION

Resolution Trust Corporation's Compliance as of March 31, 1990



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United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-240108

July 27, 1990

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

Dear Mr. Chairman:

In a 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 loans placed into conservatorship or receivership from January 1, 1989, through August 9, 1992.

On June 7, 1990, the Corporation issued to you its first quarterly report of the estimated values of its obligations, assets, and contributions received as of March 31, 1990. The Corporation reported that the financing it has received from the Resolution Funding Corporation (REFCORP) and the Treasury, plus its outstanding obligations exceeded its assets by \$15.4 billion, and that its "adjusted obligation level" is therefore \$34.6 billion below the \$50 billion limitation on outstanding obligations.

Although the Corporation included \$18.8 billion received from Treasury in its calculation, it was not required to do so by FIRREA. If this amount were excluded, after the Corporation reaches the \$50 billion limit on outstanding obligations as presently calculated, 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 the additional obligations. In a September 26, 1989, letter, the Chairman and Ranking Minority Member, Senate Committee on Banking, Housing, and Urban Affairs, advised the Secretary of the Treasury of this matter and stated that nothing in FIRREA should be viewed as permanently expanding the Corporation's \$50 billion limitation. Consistent with the Chairman's September 26 letter, the Corporation included the \$18.8 billion in its calculation. The Corporation's report and an accompanying schedule we obtained providing details on the maximum limitation calculation are included as appendixes I and II, respectively.

Results in Brief

Based on our review of the Corporation's June 7, 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. During our review, we identified potential problems that can or will impact the maximum obligation limitation in the future. We did not attempt to determine the amount of any undisclosed obligations or overvalued assets of the Corporation as of March 31, 1990, 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 March 31, 1990, we believe there is little risk that the Corporation exceeded the limitation.

The Secretary of the Treasury, as Chairman of the Resolution Trust Corporation Oversight Board, stated¹ that with an aggressive case resolution schedule, the Corporation could reach the \$50 billion limit as early as the fourth quarter of the current calendar year. The resolution pace has increased and, as of June 30, 1990, the Corporation had resolved 207 institutions. This figure compares with only 52 institutions having been resolved as of March 31, 1990. In testimony given in early April 1990,² we estimated that the Corporation's costs will likely exceed \$100 billion. As a result, we testified that the Corporation will require at least an additional \$50 billion in funds in the future.

In his May 23 testimony, the Secretary of Treasury also stated that the amounts authorized for the Corporation in FIRREA will fall short of what is required. He further stated that the Oversight Board intends to work with the Congress and the administration to develop an approach which will provide the Corporation the resources necessary to carry out its responsibilities while maintaining adequate controls.

Although the pace of resolutions is a significant factor in determining when the Corporation will reach the maximum limitation, we identified three other potential problems that will also directly affect the cost of resolutions and the rate at which the obligation limit is reached. These are recent and future events concerning the fair market value of assets; noncompliance with Corporation policy governing pledging of collateral; and proposed policies governing representations, warranties, and contract services.

¹Statement of Secretary Nicholas F. Brady on Behalf of the Resolution Trust Corporation Before the Senate Committee on Banking, Housing, and Urban Affairs (May 23, 1990).

²Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed (GAO T-AFMD-90-15, April 6, 1990).

The Corporation needs to undertake certain actions to resolve the problems we have observed and to establish the basis for measuring associated costs so that future quarterly reports are accurate and informative. We provide recommendations aimed at addressing these problems.

Background

In response to the savings and loan industry 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. Except for those assumed by the Corporation, FIRREA transferred FSLIC's assets and liabilities to a newly established fund, the FSLIC Resolution Fund. FIRREA also established the Resolution Trust Corporation to resolve the problems of institutions placed into conservatorship or receivership from January 1, 1989, until August 9, 1992.³ The act provided the Corporation \$50 billion to resolve the problems of those institutions and to pay administrative expenses.⁴

FIRREA provided the Corporation with certain powers with which to accomplish its task, including the power to issue obligations and guarantees during the course of 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.

However, section 501(a) of FIRREA limits the outstanding obligations of the Corporation and provides a formula for calculating the limitation on such obligations. As stated in FIRREA, 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.

³In addition to creating the Resolution Trust Corporation, the act created the Resolution Trust Corporation Oversight Board. The purpose of the Oversight Board is to review and have overall responsibility for the Corporation's activities.

⁴As of March 31, 1990, the Corporation received approximately \$29.5 billion in funds. The Corporation was provided \$18.8 billion from Treasury and \$1.2 billion of contributions from the Federal Home Loan Banks which was transferred to the Corporation through REFCORP. Additionally, the Corporation receives proceeds from the \$30 billion of bonds authorized by FIRREA to be issued by REFCORP. As of March 31, 1990, REFCORP transferred \$9.5 billion in bond proceeds to the Corporation.

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 U.S. Treasury as authorized by FIRREA, and (4) any other obligation, direct or contingent, for which the Corporation has a liability to pay.

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. 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. However, as previously stated, the Corporation has included the \$18.8 billion in calculating the limit on outstanding obligations.

Objectives, Scope, and Methodology

As agreed to with your staff, we performed a limited review of the Corporation's 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 addition, we uncovered other factors which could significantly impact the obligation limit and the usefulness of the quarterly report.

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 the U.S. Treasury, and Federal Financing Bank loans for working capital purposes in the amounts reported. We also reviewed the framework of the calculations of allowance for losses on claims against receiverships and advances to conservatorships. These calculations are essential to determining the estimated fair market values of the Corporation's non-cash assets.

Our review of the allowance for losses calculation was limited to determining that the framework used to make the calculation considered all appropriate items. For example, the Corporation's allowance for losses on claims against receiverships properly included an estimate of losses from future assets sales, as well as contingent liabilities arising from

assets sold under asset put arrangements.⁷ Further, in calculating the allowance for loss on advances, the Corporation applied the rate of loss it expects to incur on conservatorships.

We performed our work at the Corporation's headquarters and, in some instances, in its Central Region. We also performed selected procedures at three conservatorships in the Central Region and made inquiries of management and other personnel where necessary during the period from February 1990 to June 30, 1990. Our procedures primarily consisted of interviews, confirmation of balances with third parties, and a determination that amounts reported by the Corporation were supported by the agency's official financial records. Except for the procedures performed, we did not test or verify the books and records of the Corporation or the data contained in appendixes I and II. 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, our review of compliance with laws and regulations was limited to the Corporation's compliance with the obligation limitation.

We did not obtain written comments on the draft of the report. We did, however, discuss its contents with cognizant Corporation officials and have included their views where appropriate.

In the following sections we discuss various potential problems that can or will affect the measurement of reported components' values used in the limitation calculation. We also provide recommendations to the Corporation aimed at improving the usefulness of the quarterly report.

Factors That Could Significantly Impact the Obligation Limit and Reasonableness of Its Calculation

The pace of resolution has a significant effect on the rate at which the Corporation incurs obligations and, thus, on when the Corporation reaches the maximum limitation. But, our review identified three other important factors that could affect the cost of resolutions and the point at which the obligation limitation is reached. These factors are recent and future events concerning the fair market value of assets; noncompliance with Corporation policy governing pledging of collateral; and proposed policies governing representations, warranties, and contract services.

⁷To encourage private enterprise to purchase assets of failed thrifts, the Corporation has been offering, with the sale of assets, "put back" clauses in the contract of sale. These clauses allow the purchaser to give back (to the Corporation) assets it purchased within a specified time period. The Corporation would then pay the purchaser an agreed value of the assets.

Fair Market Value of Assets May Be Overstated

Overall, the market value of assets is a key component of the calculation. As of March 31, 1990, the Corporation's financial records showed a book value for receivership assets of approximately \$13.3 billion with an estimated fair market value⁶ of \$7 billion, a loss of 45 percent. The book value of real estate accounted for approximately \$2.3 billion, a significant portion of the \$13.3 billion in receivership assets.

The Secretary of Treasury cited, in his May 23 testimony, the weak real estate market as one of the reasons the Corporation needed additional funds. If real estate values for receivership assets are reduced further as a result of the weak market, then such impaired values will further reduce the amount of additional obligations the Corporation may incur.

Recent statements by the Corporation's management have indicated that asset sales, particularly in real estate, have not progressed as expected. On May 4, 1990, the Corporation's management testified⁷ that it is considering accepting prices as low as 70 percent of appraised, or estimated, fair market values. Such actions would cast doubt on the reasonableness of the reported fair market values and indicate that the Corporation's current valuations of these non-cash assets may be overstated.

A factor which also bears on the reasonableness of the fair market values reported for these non-cash assets is the quality of appraisals. In a soon-to-be-issued report on the Bank Insurance Fund, we found a number of examples of asset appraisals based on optimistic assumptions that reduced the credibility of the appraisers' asset valuations. Because the Corporation also uses appraisals in valuing its real estate and other assets, it needs to be alert for optimistic assumptions used by appraisers that could result in the estimated fair market value of assets being substantially overstated. The Corporation's management stated that they closely monitor the appraisals on real estate and do not believe there is a problem with appraisals made.

Failure to reasonably estimate the fair market value of assets could result in overstating the amount of obligations the Corporation may incur. This is a concern that becomes significant as the Corporation

⁶The Corporation deducts, among other things, the costs of disposal to arrive at the reported fair market values.

⁷Testimony of William Seidman, as Chairman of the Corporation's Board of Directors, Before the Subcommittee on Financial Institutions, Supervision, Regulation and Insurance, House Committee on Banking, Finance and Urban Affairs.

approaches the limit. Thus, the tracking and reporting of the actual results of asset sales would improve the usefulness of the quarterly report by providing information necessary to evaluate the accuracy of the estimated fair market value of assets. For example, information such as initial estimated fair market values assigned, date available for sale and date sold, sales price, and gain or loss would be useful. The Corporation's management stated that they currently track asset sale information for conservatorships, and are planning in the near future to implement a system to track this information for receiverships.

Noncompliance With Corporation Policy on Advances Could Reduce Cost Recoveries

We found instances of noncompliance with Corporation policy concerning advances made to conservatorships. Such noncompliance could impact the Corporation's return on asset recoveries, thereby increasing its resolution costs. The Corporation's written procedures require that all institutions receiving advances execute a promissory note for each advance, pledge collateral to secure these advances, and perfect the Corporation's security interest in the collateral. However, we found cases where (1) promissory notes had not been executed as late as 8 months after the respective advances were made, (2) collateral had not been pledged against advances in accordance with Corporation policy, (3) the security interest had not been perfected against collateral that had been pledged, and (4) conservatorship managing agents were uncertain about the Corporation's collateral requirements.

In one of the three institutions we visited, the Corporation could not locate 12 of the 18 promissory notes for advances provided to the institution through October 1989. Subsequent to our inquiries, the Corporation provided signed notes dated June 25, 1990. Furthermore, two of the three institutions we visited had received approximately \$250 million in advances from the Corporation, but no collateral had been pledged towards these advances. Due to the limited number of institutions visited, we do not know the full extent of this lack of compliance with Corporation policy. Since, as of March 31, 1990, the Corporation had \$12.7 billion in advances outstanding to institutions under its conservatorship, there could be substantial sums unsecured.

Officials of the Corporation's headquarters stated that regional management was responsible for insuring that sufficient collateral has been pledged. However, regional management we interviewed stated they were not even aware, until recently, of the total amount of the Corporation's advances to individual conservatorships within their geographic boundaries.

Prior to issuing advances, the Corporation's guidelines require that a blanket security agreement⁸ be executed. This is important in protecting the Corporation's interest. However, failing to perfect a security interest on pledged collateral could also adversely impact the Corporation's interest. Perfection is performing the steps legally required to give the Corporation a claim to an asset and protects that claim in the event that it is challenged. According to internal documents, as of March 31, 1990, the Corporation has not perfected its interest in collateral securing \$12.1 billion in advances. Failure to perfect the Corporation's interest could cause the Corporation to unnecessarily be in a position secondary to, or of lower priority than, other creditors.

We interviewed regional management as well as several managing agents of conservatorships in the Corporation's Central Region. Based on these interviews, we found there was uncertainty over how much collateral should be pledged, what recording procedures should be followed, and whether collateral information should be sent to the regions or headquarters. However, headquarters management had issued guidelines to regional management and managing agents concerning the pledging of collateral and perfection. Headquarters management further believes these guidelines are sufficiently clear. For example, in addition to requiring that advances be backed by collateral, the procedures also require that the Corporation's interest in the collateral be perfected.

The Corporation's management has stated that its legal counsel is currently researching whether perfection of the Corporation's security interest in collateral is necessary to protect its interest in the event a claim is challenged. The Corporation's management believes that perfection of the Corporation's interest may not be necessary. They believe that, more importantly, a blanket security agreement protects the Corporation's interest in the collateral. Furthermore, they believe that since they, in effect, control the operations of the institution, the collateral would not be pledged to other parties for the purposes of securing additional funding without their knowledge.

Headquarters management informed us that it is currently taking steps to correct the problems we noted. In future reports we will follow up on the Corporation's implementation of corrective actions, as well as evaluate its position on the need to perfect its security interest.

⁸Under the blanket security agreement provided in the Corporation's policy circular, an institution pledges as collateral to secure repayment of an advance all property of the institution in the Corporation's possession or control. The agreement grants the Corporation a security interest in the collateral and its proceeds.

**Proposed Policies
Governing
Representations,
Warranties, and
Contracted Services, When
Adopted, May Impact
Obligations**

The Corporation is also considering other actions which, if adopted, may affect the additional amount of obligations the Corporation may incur. These are (1) giving representations and warranties to the secondary market and (2) contracting with the private sector for asset management/disposition functions. According to internal Corporation documents, the Corporation is currently considering making certain representations and warranties on asset-backed receivables sold to the secondary market. As of March 31, 1990, the Corporation's conservatorships and receiverships controlled approximately \$87 billion in receivables that can be sold in the secondary market. Furthermore, the Corporation is attempting to sell the rights to service approximately \$50 billion in mortgages,⁹ a transaction that generally includes the offering of warranties and representations.

Warranties and representations create contingent liabilities and, if offered, would require the Corporation to estimate related potential losses and reflect the estimates in the obligation limitation calculation. Contingent liabilities of this nature would increase the Corporation's outstanding obligations and decrease the additional amount of obligations the Corporation could incur.

According to Corporation management, sellers of asset-backed receivables to the secondary market are expected to make certain representations and warranties, in the form of factual disclosure, about the assets being sold and are expected to stand behind the accuracy of those statements. It is further asserted that, if the Corporation were not to provide representations and warranties commonly found in the secondary market, the mortgage assets under its control would likely be subject to a substantial discount above and beyond the cost of making such representations and warranties, and certain assets may not be marketable at all.

The Corporation's management has stated that it intends to record these contingent liabilities when appropriate, in addition to establishing a system to track representations and warranties offered and their corresponding expiration dates.

Liabilities incurred as a result of contracting for services also increase the Corporation's outstanding obligations and, therefore, decrease the amount of additional obligations it may incur. Management has stated that it intends to contract out 80 percent of its asset management and

⁹ Servicing a mortgage includes collecting loan payments and controlling mortgage escrow funds

disposition functions, as well as other services. Although we do not believe that the amount contracted as of March 31, 1990, is material, the contracting of such services to the extent the Corporation has indicated could significantly affect the additional amount of obligations the Corporation may incur. Management is in the process of implementing a contract management system which is intended to monitor the performance of the contractors, as well as track expected costs. Because these costs include estimates that could ultimately have a significant impact on the obligation limitation calculation, we will be following up on the system's implementation during future reviews of the Corporation's quarterly reports.

Conclusions

Although the pace of resolutions will have a significant impact on the rate at which the Corporation incurs obligations and the amounts which it reports it may incur, other factors could have a significant impact as well. These include overstating the fair market value of assets and implementation of the Corporation's proposals regarding representations and warranties on receivables sold to the secondary markets and contracts for asset management and disposition functions. Tracking and reporting on these factors in future quarterly reports would enhance the usefulness of those reports by providing decisionmakers with more informative disclosure on the Corporation's compliance with the obligations limitation. Furthermore, noncompliance with the Corporation's established policies on advances could also impact on the rate at which the Corporation incurs obligations.

Recommendations

We recommend that the Corporation's Executive Director take the necessary actions to ensure that

- the Corporation's future quarterly reports to the Chairman, House Committee on Banking, Finance and Urban Affairs, disclose actual results on asset sales in comparison with estimates;
- the Corporation's policies and guidelines on advances to conservatorships are clarified and followed; and
- if representations and warranties are given in connection with the sale of asset-backed receivables and mortgage service rights, an appropriate estimate of the resulting contingent liabilities be made and reflected in the Corporation's obligation limitation calculation.

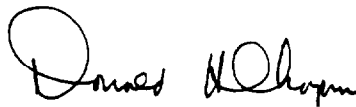
Agency Comments

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

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 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 of 1989
FSLIC	Federal Savings and Loan Insurance Corporation
REFCORP	Resolution Funding Corporation

Resolution Trust Corporation Obligations and Assets as of March 31, 1990



June 7, 1990

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

Dear Mr. Chairman:

Thank you for your letter of March 9, 1990. We are pleased to furnish the quarterly report which you requested relating to the working capital needs of the Resolution Trust Corporation. The quarterly report provides estimated values of the RTC's obligations and assets as of March 31, 1990, which are used to determine whether the RTC remains within the maximum limitation on obligations as mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

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 cursive script, appearing to read "David C. Cooke".

David C. Cooke
Executive Director

Enclosure

Appendix I
 Resolution Trust Corporation Obligations and
 Assets as of March 31, 1990

RESOLUTION TRUST CORPORATION

Obligations and Assets

(\$ in billions)

		As of March 31, 1990	Notes
1.	Outstanding Obligations		
	Notes issued to Federal Financing Bank	2.6	
	Other Obligations	0.2	A
	Total Outstanding Obligations	2.8	
2.	* Full Faith and Credit* Obligations	2.6	B
3.	Total Fair Market Value of [Non-Cash] Assets Held by RTC	16.2	C
4.	Cash Held by RTC	3.2	
5.	Obligations [Bonds] Issued by REFCORP	9.5	D

Notes:

- A** Includes current liabilities (e.g., accounts payable). Also includes expected costs from contractual commitments (e.g., leases) and other contingent liabilities unless already applied to the net realizable value of RTC claims. Excludes the estimated future costs of resolving RTC conservatorships and other troubled thrifts.
- B** Includes current liabilities and notes issued to FFB.
- C** Includes (1) advances to conservatorships (\$12.7 billion, less a \$4.0 billion allowance for a share of the losses to resolve these institutions), (2) the net realizable value of RTC claims on receiverships (\$7.0 billion), and (3) accrued interest and other assets. Net realizable values of receivership claims account for estimated total losses to RTC for resolved cases, including contractual expenses (e.g., asset management, legal, and appraisal fees) and, where applicable, expected losses resulting from "put" agreements. The obligation limitation counts the total of all non-cash assets at 85 percent of the fair market value estimate stated above.
- D** Sum of October '89 issue (\$4.5 billion) and January '90 issue (\$5.0 billion). The maximum volume of bonds to be issued by REFCORP is \$30 billion. 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

RESOLUTION TRUST CORPORATION
MAXIMUM AMOUNT LIMITATION ON OUTSTANDING OBLIGATIONS

(IN MILLIONS)

	AS OF MARCH 31, 1990
	=====
A) CONTRIBUTIONS RECEIVED:	

1) TREASURY:	18,800
2) REFCORP:	10,726

TOTAL CONTRIBUTIONS	29,526

B) OUTSTANDING OBLIGATIONS	

1) LEGAL EXPOSURE - ESTIMATED COSTS	84
2) LIABILITIES INCURRED FROM ASSISTANCE AND FAILURES	4
3) CONTRACTUAL OBLIGATIONS (LEASES, ETC.)	95
4) ACCOUNTS PAYABLE AND OTHER LIABILITIES	15
5) NOTES PAYABLE AND OTHER DEBT	2,562

TOTAL OUTSTANDING OBLIGATIONS	2,760

Appendix II
 Resolution Trust Corporation Maximum
 Amount Limitation on
 Outstanding Obligations

LESS:

C) CASH AND CASH EQUIVALENTS

1) CASH AND EQUIVALENTS	3,181

LESS:

D) ESTIMATED FMV OF OTHER ASSETS

1) CLAIMS AGAINST RECEIVERSHIPS	5,974
7,028 @ 85%	
2) RECEIVABLES FROM OPEN INSTITUTIONS	7,751
9,119 @ 85%	
3) MISC. RECEIVABLES AND OTHER ASSETS	3
3 @ 85%	

TOTAL OTHER ASSETS	13,728

ADJUSTED OBLIGATION LEVEL (A+B-C-D)	15,377
-------------------------------------	--------

MAXIMUM LEVEL	50,000

EXCESS OF MAXIMUM LEVEL OVER ADJUSTED OBLIGATION LEVEL AT 3/31/90 **	\$34,623
	=====

** 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. Liabilities Incurred from Assistance and Failures: These include, among other items, the full face value of the liability related to pending claims of depositors (insured deposits owed but not yet paid).

3. Contractual Obligations: The non-cancellable portion of outstanding contractual obligations. As of March 31, 1990, these included primarily multi-year leases for space in Washington and other locations.

4. Accounts Payable and Other Liabilities: Full face value of routine, current liabilities such as accounts payable and accrued liabilities.

5. 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 the 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 March 31, 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 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. Includes principal on advances, accrued interest and other receivables from conservatorships. The value of the advances is reduced by an allowance representing a share of the losses to resolve these institutions.

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

Major Contributors to This Report

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