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THRIFT RESOLUTIONS

Estimated Costs of FSLIC's 1988 and 1989 Assistance Agreements Subject to Change

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To the President of the Senate and the
Speaker of the House of Representatives

Section 501 (f) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires us to report to the Congress on the costs of assistance agreements entered into by the Federal Savings and Loan Insurance Corporation (FSLIC) from January 1, 1988, through August 9, 1989.[1] These agreements provided financial assistance to the acquirers or FSLIC-selected new management of insolvent thrifts. Since August 1989, the Federal Deposit Insurance Corporation (FDIC) has been responsible for monitoring and making payments on all FSLIC assistance agreements. This report presents the results of our review of FDIC's March 31, 1990, and FSLIC's initial estimates of total payments to be made under these agreements. As required by the act, we will be issuing follow-up reports on the costs of these agreements in 1991 and 1992.

Results in Brief

As of March 31, 1990, FDIC estimated that the 96 assistance agreements FSLIC entered into during 1988 and 1989 would ultimately require $67 billion in payments to acquirers or new management. Of this amount, $58 billion had yet to be paid as of March 31, 1990. FSLIC had initially estimated these agreements would cost $61.9 billion. We did not develop our own estimate of agreement costs.

Projecting assistance agreement payments requires forecasting conditions which cannot be predicted with certainty over the term of the agreement. For example, estimating losses to be paid when real estate related assets covered by the agreements are disposed of requires projecting local real estate market conditions and their effect on the assets' values. Estimating payments to be made prior to asset disposition requires projecting future interest rate levels and the assets' financial performance prior to disposition. Estimating either type of payment requires predicting the effects FDIC's asset disposition strategies will have on asset values. Actual payments after March 31, 1990, will be more than $58 billion if real estate markets are worse than FDIC projected, interest rates are higher than the levels forecast by FDIC, and

[1] FIRREA also requires us to examine and monitor all insolvent thrifts resolved during this time period. We have separately reported the results of these efforts in Failed Thrifts: FDIC Oversight of 1988 Deals Needs Improvement (GAO/GGD-90-93, July 19, 1990).

asset disposition strategies are not as successful in maximizing values as FDIC anticipates.

Finally, costs other than assistance payments are being incurred as a result of these agreements—most significantly, decreased federal tax revenues. FSLIC estimated in early 1989 that the tax implications of the agreements will provide $8.5 billion in tax benefits. FSLIC estimated, however, that under tax-sharing provisions contained in many agreements, about $4.3 billion of the $8.5 billion would be used to reduce assistance payments. Agency legal expenses and various monitoring and oversight costs are also being incurred.

Background

Until August 1989, when it was abolished by FIRREA, FSLIC insured the deposits of its member savings associations. FSLIC, as insurer, was responsible for resolving insolvent institutions when its operating head, the Federal Home Loan Bank Board, or another chartering authority declared them insolvent. During 1988, when faced with a backlog of institutions with deficit capital positions, FSLIC and the Bank Board increased their reliance on providing long-term financial assistance to acquirers of insolvent thrifts. In 1988 and 1989, FSLIC resolved 199 insolvent institutions[2] with 96 assistance agreements. Due to the costs of these and other resolution actions, and its liability for insolvent but still operating savings associations, FSLIC ended operations with an $87 billion deficit.

FSLIC's losses and the continuing problems in the savings and loan industry contributed to FIRREA's enactment on August 9, 1989. The act abolished FSLIC and the Bank Board and established the FSLIC Resolution Fund, which FDIC administers, and the Resolution Trust Corporation (RTC). All of FSLIC's assets and liabilities, except those assumed by RTC, transferred to the Fund. If the Fund is unable to pay its obligations, including those under the agreements, from the sources provided by the legislation, the act authorizes the Secretary of Treasury to fund the shortfall through appropriations. RTC is responsible for resolving all thrifts placed into conservatorship or receivership from January 1, 1989, through August 9, 1992. FIRREA also requires RTC to review all means by which it can reduce the costs of the assistance agreements. RTC

[2]Of these 199 insolvent institutions, 18 did not have an acquirer. Rather, FSLIC combined them into 5 new thrifts, brought in new management, and agreed to provide financial assistance to stabilize their operations until permanent acquirers could be found. The costs of these interim actions are included in this report because they are part of total resolution costs for these 18 institutions.

expects to send the results of its review to the RTC Oversight Board by mid-September.

The assistance agreements generally committed FSLIC (now FDIC) to fund the acquired institutions' reported negative net worth, provide capital loss coverage on certain assets (referred to as "covered assets"), and ensure that the acquirer receives a guaranteed yield on those assets until they are disposed. According to FSLIC's initial estimates, these three types of assistance account for more than 90 percent of the agreements' total costs. The larger agreements typically had terms of either 5 or 10 years.

Appendixes I, II, and III provide background information on the assistance agreements. Appendix I describes each major assistance component in additional detail and discusses other significant assistance agreement provisions. Appendix II lists the 96 assistance agreements, FSLIC's initial total cost estimate for each agreement, the insolvent institutions resolved by each agreement, and the total assets, in aggregate, of the insolvent institutions covered by each agreement. Appendix III presents FSLIC's initial cost estimates for the major provisions of the 20 assistance agreements that were selected for detailed review.

Objectives, Scope, and Methodology

To meet the legislative requirement to report on the costs of FSLIC's 1988 and 1989 assistance agreements, we (1) determined how FSLIC and FDIC estimated the costs of the agreements, (2) identified factors that could cause the estimates to significantly change, and (3) determined whether costs other than assistance payments were being incurred.

To gain an understanding of how FDIC and FSLIC estimated the costs of the agreements, we interviewed FDIC officials and obtained summaries of FSLIC's initial and FDIC's most recent cost estimates. Cost estimates prepared by both FSLIC and FDIC only considered assistance payments under agreement provisions. To identify factors impacting projected payments, we reviewed the projections and determined, primarily based on additional interviews with FDIC officials, what would cause actual payments to significantly change. Finally, we identified and quantified, based on discussions with FDIC and our understanding of the agreements, any other costs related to the agreements that were being incurred. Our analysis of costs other than assistance payments was generally limited to actual amounts incurred through December 31, 1989, and amounts projected for 1990.

We judgmentally selected 20 of the highest cost assistance agreements, based on initial estimates, for detailed review. These 20 agreements represent approximately 87 percent of FSLIC's initial cost estimates for all 96 agreements. For this sample, we reviewed assistance agreement documentation and detailed assistance payment projections in order to gain an understanding of significant agreement provisions and associated costs.

We did not attempt to independently estimate the costs of the assistance agreements. Instead, we reviewed the type of assistance provided acquirers and the processes and information FSLIC and FDIC used to estimate total assistance payments. We also did not review any payments made through March 31, 1990, to determine if such payments complied with the terms of the agreements.

We conducted our review at FDIC locations in Washington, D.C., from October 1989 to August 1990 in accordance with generally accepted government auditing standards. We discussed a draft of this report with FDIC officials and have incorporated their views where appropriate.

FSLIC's Initial Cost Estimates Were Lower Than FDIC's

FSLIC initially estimated that the 96 assistance agreements would cost $61.9 billion—$5.1 billion less than FDIC's March 31, 1990, estimate of total cash payments to be made. However, FSLIC's initial cost estimate for one large agreement, the New West/American Savings Bank agreement, was not a projection of total payments over the term of the agreement. Rather, FSLIC's initial $1.7 billion estimate for this agreement equaled the estimated cost to liquidate the insolvent institution less acquirer concessions. FDIC believes that if total cash payments had been initially estimated by FSLIC for this agreement, that estimate would have been $4 billion. Accordingly, $2.3 billion of the total overall difference results from the different methods FSLIC and FDIC used to determine the cost of the New West/American agreement.

FSLIC's initial estimates were developed when it and the Bank Board were considering whether to approve individual assistance agreement proposals. The final amount of the initial estimate was usually prepared shortly after the individual agreement was approved. Lacking extensive knowledge on the condition and quality of assets covered by the agreements, FSLIC's cost estimates assumed covered asset disposition dates and prices based on FSLIC's projections of regional real estate market conditions. FSLIC also projected future interest rate levels as part of its cost estimation processes. Changes to these factors have also caused FDIC's estimates to differ from FSLIC's.

FDIC's Latest Estimate Subject to Further Modifications

FDIC estimated that as of March 31, 1990, total cash payments, including principal and interest payments on negative net worth and other notes issued in connection with the agreements, would be $67 billion. Appendix IV provides actual and projected cash payments as of March 31, 1990, for each of the agreements selected for detailed review and provides the same information, in aggregate, for the other 76 agreements. As indicated in the appendix, $9 billion in payments had been made through March 31, 1990, leaving an estimated $58 billion of payments yet to be made. FDIC estimates that payments to be made after March 31, 1990, when computed on a present value basis, represent a current cost of $39.1 billion.

However, three related uncertainties will significantly affect the actual payments to be made after March 31, 1990. First, regional real estate markets will determine the value of most covered assets, directly impacting actual capital losses. Second, future interest rate levels will determine the amount of interest payments and guaranteed yield levels. Finally, the success of FDIC's covered asset management and disposition strategies in maximizing values, and thereby minimizing costs, will also significantly affect actual payments.

Real Estate and Interest Level Changes Could Significantly Affect Future Payments

FDIC estimates that the guaranteed value of all covered assets was approximately $35.2 billion at March 31, 1990. Insolvent institutions in the southwest and certain areas of California held the majority of these assets. FDIC projected it would pay $10.8 billion in capital losses on these assets after March 31, 1990. The value of real estate related covered assets[3] will primarily be determined by regional real estate market conditions. FDIC officials estimate that over 80 percent of all covered assets at March 31, 1990, are real estate related. The value of these covered assets directly impacts actual capital losses to be paid. Future real estate values are difficult to accurately predict. Should actual covered asset disposition values change by even 1 percent from FDIC's March 31, 1990, projections, capital loss payments would increase or decrease by about $240 million.

[3]Real estate related covered assets includes (1) loans and investments secured by primarily commercial properties, (2) foreclosed commercial or residential properties, and (3) subsidiaries which hold these types of assets, when the acquired institutions' investment in the subsidiary became a covered asset. This definition considers undeveloped land to be commercial property.

Estimating guaranteed yield and note interest costs requires projecting future levels of the indexes on which these payments are based. Common indexes include regional cost of funds rates for savings institutions and Treasury borrowing rates. These indexes generally parallel changes to prevailing interest rate levels. FDIC projected that $13.1 billion in yield maintenance payments and $14.1 billion in note interest payments would be made after March 31, 1990. Such projections involve subjectivity and uncertainty, particularly when projecting payments beyond 1 year. Accordingly, such costs will continue to be revised over the term of the agreements. If, for instance, the actual cost of funds to thrifts for any year changes by 100 basis points (1 percent), note interest payments for that year would increase or decrease by $164 million.

Covered Asset Disposition Strategies Will Also Affect Total Payments

The manner in which FDIC allows the assisted institutions to manage and dispose of covered assets will also significantly affect payments related to covered assets. Asset management plans detailing management's intended disposition strategies are required for all covered assets with relatively high guaranteed values or large projected losses. These plans document how the asset will be managed until disposition and provide estimated disposition dates and values. The assistance agreements require acquirers or new management to prepare such plans for FDIC review and approval. FDIC intends to ensure the assets are being prudently managed in a manner which minimizes overall agreement costs during the review and approval process. Most plans were in the process of being approved when FDIC made its March 31, 1990, estimate. The asset management plans will generally be updated annually. Changing market conditions could cause changes to covered asset disposition strategies.

Management's primary disposition options for real estate related covered assets are (1) pursuing collections from the borrowers under current or modified loan terms, (2) foreclosing on covered loans and selling the collateral, and (3) selling covered loans and investments. FDIC can also require management to write down assets under most agreement terms or can purchase covered assets at guaranteed values under agreement call options.[4] FDIC's assessment of current regional real estate market conditions and future trends will determine its approval decisions on real estate related covered assets. For example, if FDIC does not expect the value of an asset to improve significantly, a write-down,

[4]Call provisions are described in more detail in appendix I.

which triggers an immediate capital loss payment, could minimize total costs by reducing yield maintenance payments. Should values be expected to increase, the most cost-effective disposition strategy could be to pursue collection from current borrowers or foreclose on covered loans and sell the collateral. If FDIC purchases covered assets, which would terminate yield maintenance payments, the cost implications associated with government management of the assets would have to be considered. The outcome of the options FDIC ultimately decides on for individual assets will significantly impact total payments.

Other Factors Will Affect Future Payments

Six other factors or uncertainties could also impact total payments: (1) the actual yield on covered assets, (2) negative net worth amounts which have not yet been finalized, (3) whether notes are paid prior to maturity, (4) unforeseen lawsuits which could arise from indemnifications contained in the agreements, (5) tax benefits actually realized by acquirers or new management, and (6) the effects of certain FIRREA provisions.

To project future yield maintenance payments, FDIC must estimate the actual future yield of covered assets. Actual yields will be affected by asset disposition strategies and real estate market conditions, among other things. Differences between actual and projected yield amounts would directly impact yield maintenance payments.

Negative net worth notes had not been finalized on many agreements as of March 31, 1990. In most cases, the note amount is subject to FDIC review and approval of limited scope inventory audits of the insolvent institutions. These audits determine the amounts by which the insolvent institutions' liabilities exceeded the recorded values of their tangible assets as of the agreement dates. Based on either preliminary or final results of audits relating to 23 agreements, FDIC's March 31, 1990, cost estimate included $1.9 billion for additional negative net worth note principal above FSLIC's initial estimates. Additional adjustments to the negative net worth notes will likely occur as more audits are completed. FDIC expects to have final note amounts determined on all but 6 agreements by the end of August.

FDIC is currently considering paying off negative net worth and other notes issued in connection with the agreements prior to maturity. FDIC's March 31, 1990, estimate assumed all notes would be paid at maturity.

Prepaying these notes would significantly reduce total assistance payments because additional interest payments would not be made. However, such action would require Treasury funding. Therefore, Treasury's borrowing costs would have to be considered when determining the actual amount of savings to be realized.

Indemnifications contained in the agreements expose FDIC to potential litigation costs not included in its March 31, 1990, estimate. The amount included in FDIC's estimate is, for the most part, based on information supplied by the institutions receiving assistance. However, currently unforeseen lawsuits related to the indemnifications could arise. For instance, seven assistance agreements covering 18 insolvent institutions contain provisions which indemnify acquirers against any expenses attributable to toxic waste or hazardous conditions on real estate assets. FDIC could incur significant legal fees and liabilities in defending against unforeseen litigation arising from these indemnification provisions.

Payments after March 31, 1990, will also be affected by the amount of tax benefits actually realized by acquirers or new management. FDIC did not estimate tax-sharing benefits on all agreements containing such provisions. Accordingly, FDIC could receive more benefits than anticipated in its March 31, 1990, estimate.

Total payments under these agreements could also be affected by FIRREA's strengthened capital requirements. The Office of Thrift Supervision (OTS) determined that 27 assisted thrifts did not meet the new capital standards as of December 31, 1989. FIRREA requires any institution not meeting the new capital standards to submit to the OTS a plan outlining how it intends to comply with those standards. Twenty-one of the assisted institutions submitted such plans to OTS in January 1990. FIRREA grants OTS broad enforcement powers over such institutions, including the authority to impose a receivership or conservatorship if it finds the institution to have "substantially insufficient capital." Receivership or conservatorship actions on assisted institutions could increase[5] because OTS has taken the position that FIRREA eliminated the capital forbearances[6] provided most assisted institutions in connection with the assistance agreements. Under these capital forbearances, the Bank Board agreed not to take regulatory or supervisory enforcement actions

[5]Four assisted institutions have been placed into conservatorship through July 31, 1990.

[6]Capital forbearances are described in more detail in appendix I.

if, under certain conditions, assisted institutions did not meet capital requirements.

FDIC is considering, but has not adopted, a formal policy on whether assistance payments terminate when OTS appoints RTC as conservator or receiver for any assisted institution. Agency officials indicate that payments have continued to the four assisted thrifts placed into conservatorship through July 31, 1990. Terminating assistance payments to assisted institutions in conservatorship or receivership would reduce total payments under these agreements. However, losses that would have been funded with the assistance payments remain and would be part of the cost of resolving the failed institutions.

FIRREA also requires RTC to review these agreements and exercise all legal rights to modify, renegotiate, or restructure them where savings would be realized by such actions. RTC began awarding contracts primarily to public accounting and law firms in April 1990 to review FSLIC's 1988 and 1989 assistance agreements. Modification or renegotiation of any agreement by RTC should reduce its ultimate cost.

Additional Costs Are Being Incurred

In addition to assistance payments, other costs have been incurred under these agreements. Reduced federal tax revenues are the most significant of these costs. Fees for contracts to monitor the assistance agreements, inventory and compliance audits performed by accounting firms, and agency legal services are also being incurred.

Total federal tax revenues will be reduced as a result of the tax benefits associated with the agreements. The level of tax benefits retained by acquirers was an integral component of agreement negotiations. These tax benefits primarily arise from three factors. First, assistance payments made under these agreements are excluded from taxable income. Second, the full value of assets to the acquired institution carries over to the new thrift. Because these values are generally higher than actual market values, tax losses will be created when the assets are sold. These tax losses will offset any other taxable income of the thrift or, in certain situations, the taxable income of the thrift's holding company. Finally, the net operating losses accumulated by the insolvent institutions can generally be used to offset future taxable income of the assisted institutions. A FSLIC study completed in February 1989 estimated that total tax revenue reductions over the term of the agreements would be $8.5 billion. Tax-sharing provisions in the agreements require some tax savings to be passed on to FDIC in the form of reduced payments. FSLIC estimated that $4.3 billion in assistance payment reductions would be realized over the term of the agreements.

FSLIC (now FDIC) has contracted out certain oversight and monitoring tasks. More than $20 million in costs for the services of asset management and auditing firms were incurred through December 31, 1989. FSLIC contracted with asset management firms primarily to review asset management plans and quarterly assistance payment requests. The audit fees are for the audits used to determine negative net worth note amounts. Once all audits on any individual agreement are completed, FDIC anticipates hiring public accounting firms to audit assistance payments.

These oversight and monitoring costs continue to be incurred, although FDIC expects some reduction in the later years of the agreements. FDIC estimates that about $21 million in similar costs will be incurred during 1990.

Oversight and monitoring costs, whether contracted out or performed by FDIC staff, would have been incurred with any other resolution action. We did not attempt to determine if using assistance agreements resulted in more oversight and monitoring costs than other resolution actions.

As with other resolution actions, a significant level of agency legal services are being performed in support of these agreements. FDIC estimates that approximately $143 million in agency legal services and expenses has been incurred from the time negotiations on individual agreements began through December 31, 1989. These costs are in addition to indemnification costs included in FDIC's March 31, 1990, estimate. FDIC estimates that $100 million in agency legal expenses will be incurred during 1990. Agency legal costs will continue to be incurred, although FDIC anticipates they will diminish after 1990—barring any large, currently unforeseen lawsuits. FDIC believes agency legal costs for these agreements are not significantly different from the agency legal costs that would have been incurred in any other resolution action.

We are sending copies of this report to the Chairmen of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs; the Secretary of the Treasury; the Chairman of the Federal Deposit Insurance Corporation; the Executive Director of the Resolution Trust Corporation; and the President of the Resolution Trust Corporation Oversight Board.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits, who can be reached on (202) 275-9406. Other major contributors are listed in appendix V.

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Abbreviations

FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FSLIC	Federal Savings and Loan Insurance Corporation
GAO	General Accounting Office
RTC	Resolution Trust Corporation
OTS	Office of Thrift Supervision

Structure and Terms of Assistance Agreements

Appendix II provides information on the 96 assistance agreements FSLIC entered into during 1988 and 1989.[1] While each assistance agreement was structured to address the characteristics of the specific insolvent institution(s) being resolved, most contained similar terms. In general, acquirers agreed to take over the insolvent institutions, invested new capital, and in return received assistance and guarantees.

Acquirers' capital contributions were generally made in cash but occasionally in real estate or other assets. Acquirers typically received common stock for their contributions, but occasionally received preferred stock or subordinated debt. Preferred stock and subordinated debt are included in regulatory capital but are generally excluded from capital as determined by generally accepted accounting principles. Preferred stock and subordinated debt holders have less risk than common stock holders.

Acquirers generally received some combination of the following kinds of assistance and guarantees.

Negative Net Worth Assistance

FSLIC usually compensated acquirers for the negative tangible net worth reported by the insolvent institutions[2] being acquired. This was commonly called negative net worth assistance and was generally equal to the amount by which the insolvent institution's liabilities exceeded the recorded value of its tangible assets. Subject to the negotiated terms of each agreement, FSLIC issued an interest-bearing note for the amount of the institution's negative tangible net worth. Occasionally, FSLIC paid negative net worth assistance in cash. FSLIC considered all initial cash payments it made to acquirers as negative net worth assistance.

For most agreements, the negative net worth note amount was subject to an inventory audit contracted and paid for by FSLIC (now FDIC). The inventory audit determines negative tangible net worth by assuming that all problem assets will recover historical cost. In some cases, the note was based on the historical cost of the assets less any loss allowances recorded prior to the agreement's date. In other cases, the

[1]FSLIC actually approved more than 96 assistance agreements during this time period. However, several of the agreements were superseded by later agreements that FSLIC approved. The original agreements are not included in the count of 96 but their costs are considered as part of the agreements that superseded them.

[2]The capital deficit reported by the insolvent institution typically was less than its actual deficit because many losses on poor quality assets generally had not been recognized. These unrecognized losses were addressed by capital loss coverage.

note was based on gross asset values. The note amount was higher when based on net asset values and lower when based on gross asset values. However, estimated costs for yield maintenance and capital loss coverage, described below, are higher when the negative net worth note was based on gross asset values and lower when based on net asset values.

The negative net worth note carries a variable interest rate typically based on the average cost of funds for all savings and loans in the same region. The actual note rate is determined by adding a specific margin, measured in basis points, to the average cost of funds. Agreements for thrifts located in the southwest typically had margins ranging from 40 to 60 basis points, while margins on other agreements had a much wider spread, ranging anywhere from 25 to 200 basis points. The notes generally mature at the end of the assistance agreement term, typically 3, 5, or 10 years. However, many notes can be paid prior to stated maturity at FDIC's option.

Table III.1 of appendix III provides the note terms, note interest rate factors, and FSLIC's initial estimates of the note principal and interest payments for 19 of the 20 agreements selected for detailed review. One agreement selected for detailed review did not include a negative net worth note.

Yield Maintenance and Capital Loss Coverage

The poor quality assets of the insolvent institutions being acquired, generally real estate, nonperforming loans, performing loans considered to have a high risk of default, and some interest rate sensitive assets, primarily mortgage backed securities that cost more than their current value, were put into covered asset pools. Assets in covered asset pools are subject to yield maintenance and capital loss provisions.

Yield maintenance guarantees acquirers that the covered asset pool will collectively yield a specified variable rate for the term of the agreement. The yield maintenance rate is typically determined by adding a set number of basis points, as negotiated and documented in the assistance agreements, to the average cost of funds for all savings institutions in the same general geographical area. The amount of the spread over the average cost of funds typically declines over the term of the assistance agreements. Under capital loss coverage, acquirers are compensated when the guaranteed value of any covered asset, generally its historical cost, exceeds its disposition price.

Table III.2 of appendix III lists the indexes used to determine guaranteed yield levels and provides FSLIC's initial estimates of the guaranteed value of the covered asset pools, yield maintenance payments, and capital loss payments for 19 of the 20 agreements selected for detailed review. One of the agreements only included negative net worth assistance.

Put and Call Provisions

Many of the larger assistance agreements gave the acquirer up to 1 year to "put" loans that become delinquent or other assets that exhibit poor quality characteristics into the covered asset pool. The size of the covered asset pool and generally the amount of estimated yield maintenance and capital loss payments increased when acquirers exercised these rights.

Many of the 20 agreements selected for detailed review allow FDIC to "call," or purchase, covered assets at their guaranteed value during the assistance agreement term. Generally, exercising call provisions requires FDIC to immediately fund, with a note or cash, the difference between the asset's current and guaranteed values. If the purchase is funded with cash, FDIC will not have to make additional yield maintenance payments for that asset—reducing total assistance payments.[3] On the other hand, if FDIC uses a note to fund the call, it will pay interest costs that could be as much as the yield maintenance payments it would otherwise have paid.

Gain-Sharing

As an incentive for assisted institutions to maximize the value of covered assets, FSLIC included gain-sharing provisions in many assistance agreements. These provisions allow the acquirer to share sale proceeds exceeding a predetermined percentage of historical cost.

Indemnifications

The assistance agreements also indemnified acquirers from certain other costs. The most common was indemnification from legal costs and liabilities due to the actions of prior management or resulting from any challenges by prior management, creditors, stockholders and others to FSLIC's receivership actions. In addition, new management is not liable under the agreements for any regulatory violations committed by preceding management. Some agreements also explicitly indemnify

[3]FDIC would need Treasury to provide the cash. Therefore, Treasury's borrowing costs would have to be considered when determining the actual amount of savings to be realized.

acquirers against expenses for toxic waste or other hazardous conditions found on acquired properties.

Provisions Reducing Cost of Agreements

Some agreements also included provisions that could reduce FDIC's costs. Equity rights and tax-sharing are two such provisions.

Equity Rights

Under some agreements, FDIC has received rights to purchase equity instruments (typically common or preferred stock) in the assisted institutions, or its parent/holding company, at a future date. If the value of the equity instruments exceeds the price at which they can be bought, FDIC's total costs will be reduced. Table III.3 in appendix III identifies all 1988 and 1989 agreements which provide FDIC with equity rights, the period during which FDIC has the option to purchase the equity instruments, and the percentage ownership FDIC would hold if all rights are exercised.

Tax-Sharing

In many agreements, new management must return to FDIC some or all of the tax benefits realized from the agreements. FDIC's portion of the tax benefits generally reduces its payments under other assistance agreement provisions. The tax-sharing provisions vary by agreement. The actual percentage of tax benefits to be provided to FDIC was negotiated and is as high as 100 percent of all benefits realized. Under some agreements, FDIC is guaranteed to receive a specific amount of tax-sharing benefits.

Forbearances

Typically negotiated in connection with the agreements were provisions that the Bank Board would not take certain regulatory or supervisory enforcement actions under certain conditions. Unlike the standard agreement provisions described in this appendix, these provisions, commonly called forbearances, do not involve financial costs or savings to FDIC. Rather, they provide acquirers with protection from specific regulatory or supervisory enforcement actions to which other institutions are subject. The forbearances were documented in separate letters rather than in the actual assistance agreements.

The Office of Thrift Supervision (OTS) has been studying the impact of FIRREA on these forbearances. Eight of the more common forbearances are described below. As indicated in the following section, OTS announced a position on capital and accounting forbearances in January 1990. OTS advised us that all other forbearances remain in effect until their study is completed. However, OTS also advised us that capital plans, required for any institution not meeting FIRREA's more stringent capital standards, will not be accepted if the plans are dependent on the continuation of forbearances granted in connection with the agreements.

Table III.4 of appendix III indicates which of the eight forbearances described below were granted in connection with 18 of the 20 agreements selected for detailed review. Office of Thrift Supervision staff were unable to provide copies of executed forbearance letters for two of the agreements.

Capital Forbearance

Under this forbearance, the Bank Board agreed not to take regulatory or supervisory enforcement action if, under certain conditions, the assisted institution did not meet minimum regulatory capital requirements. This forbearance only applied when (1) the regulatory capital deficiency was due to the assets, liabilities, or negative net worth acquired from the insolvent institution, and (2) the acquirer had maintained the specific capital levels required by the forbearance letter.

In January 1990, OTS took the position that FIRREA eliminated capital forbearances granted to assisted institutions. Since announcing its position, OTS has been, and continues to be, involved in a series of court challenges to the new capital standards and its position on the capital forbearances. For example, in one case,[4] a federal district court ruled that a forbearance letter granting a capital forbearance was not a contract because it contained an escape clause which allowed the Bank Board to rescind the forbearance under certain conditions. In another case,[5] a federal district court ruled that OTS, as successor to the Bank Board, was bound by the contractual terms of an agreement containing a capital forbearance and that FIRREA did not abrogate the agreement.

Liquidity Forbearance

Federal liquidity regulations establish the minimum amount of liquid assets, generally cash and securities that can be quickly converted to

[4]Flagship Federal Savings Bank v. Director, Office of Thrift Supervision, No. 90-0079 GT (S.D. Cal. Feb. 14, 1990).

[5]Far West Federal Bank v. Director, Office of Thrift Supervision, No. 90-103-PA (D.C.Ore. May 14, 1990).

cash, a savings institution must have and empowers OTS to levy monetary penalties if those levels are not maintained. The liquidity forbearances reduced required liquidity levels, typically for 1 to 3 years depending on the agreement, by the sum of the acquired institution's liquidity deficiency plus net withdrawals from branch offices of the acquired institution(s).

Equity Risk Forbearance

This forbearance provided certain exemptions from regulatory limits on the level of equity risk investments that savings institutions can have. Equity risk regulations limit the amount of certain equity securities an institution can hold. Assisted institutions were generally given a specific period of time to dispose of any excess equity risk investments resulting from the acquisition.

Service Corporation Forbearance

This forbearance provided a specific period of time to allow acquirers to dispose of service corporations, or subsidiaries, which cause the institution to exceed regulatory limits on the amount that can be invested in subsidiaries or whose operations are not permitted by the institutions' charters.

Qualified Thrift Lender Forbearance

Under the qualified thrift lender forbearance, typically granted in agreements covering insolvent institutions in the southwest, the Bank Board considers the assisted institution to be a qualified thrift lender, as defined in the National Housing Act of 1934, if the institution no longer complied with the definition because of acquired assets. To be a qualified thrift lender, an institution must maintain investments in housing related assets exceeding a specific percentage of its total tangible assets. Qualified thrift lenders can receive, within certain restrictions, Federal Home Loan Bank advances with appropriate collateral. Savings institutions failing to comply with the qualified thrift lender definition have more limited access to Federal Home Loan Bank advances.

Loans to One Borrower Forbearance

Various regulations limit the amount institutions can lend to one borrower. The Bank Board agreed that it would not take regulatory action on loans to one borrower violations provided the loans causing the violation were from the acquired institution. However, no additional loans to the borrower could be made.

Accounting Forbearance

Numerous accounting forbearances were granted in connection with the agreements. These forbearances allowed the assisted institution to include, for regulatory capital purposes, certain items that would not be considered capital under generally accepted accounting principles. Some of these provisions also allow acquirers to consider assistance agreement payments and guarantees to be fully collectible when determining regulatory capital, even if accounting standard-setting bodies in the private sector decide that such amounts should not be considered fully collectible.

Asset Classification Forbearance

This forbearance addresses the poor quality, or classified, assets acquired from the insolvent institution(s). Acquirers were granted a specific period of time to work out or dispose of such assets. During that period, they would not be denied the ability to engage in certain otherwise allowable activities even though the level of classified assets would normally preclude such activities.

Assistance Agreements FSLIC Entered Into January 1, 1988, Through August 9, 1989

Dollars in millions

Acquirer/institution receiving assistance[a]	Acquired institution(s)[b]	Effective date of agreement	Initial estimate of total cash payments	Assets of merged/acquired institutions[c]
Agreements With Acquirers				
Home FSLA (Rockford)	First FSLA (Freeport)	01/27/88	$14.7	$30.4
Atlantic Financial Federal[d]/ Atlantic Financial Federal-WVA, FSB	Traders FSLA Magnet Bank, FSB Mountain State FSLA	02/10/88	72.2	706.8
Private Investor/Great West SB, FSB[e]	First FSLA	03/10/88	3.1	30.1
The Statesman Group/ Statesman Bank for Savings, FSB[e]	First FSB Perpetual SLA Peoples FSLA First Federated SB	03/11/88	167.8	560.6
Sterling SA	Tri-Cities SLA	04/11/88	17.3	53.8
Lemont SA	Citizens SLA	04/11/88	6.5	38.6
Home FSLA of Upper East Tennessee	Valley FSLA	04/12/88	7.1	88.1
Coastal Banc SA	Colorado County FSLA Security SLA Cameron County SLA Alliance SLA	05/13/88	237.2	456.3
Southwest SA[e]	Lamar SA Briercroft SA City SLA Stockton SA	05/18/88	3,727.3	4,094.0
Raritan Valley SLA/ Hansen SB, SLA	First FSLA (Hammonton)	05/25/88	71.5	244.8
First Savings of Brenham/ First FSB of Hempstead	Bluebonnet SA	05/26/88	9.9	24.3
America First Financial Corporation/Eureka FSLA	Eureka FSLA	05/27/88	269.6	1,762.5
Local Investor Group/ Ameribank, FSB	Muskegon FSLA	06/02/88	4.0	211.8
Bailey Mortgage Co./ Savetrust FSB	Frontier FSB	06/06/88	9.6	46.4
Merabank FSB[d]/ Merabank Texas, FSB[f]	First Financial SA (El Paso) Brownfield FSLA	06/22/88	162.5	354.9
America First/Eureka FSLA	Stanford SA	06/24/88	8.1	76.0
Golden West Financial Group/ World SLA of America FSLA	Lynwood SLA	06/24/88	5.4	24.0
Private Investors/River Valley SB, a FSB	Galva FSLA Home FSLA (Peoria) Mutual SLA	07/28/88	34.5	170.3
River Valley SB, a FSB	Republic Savings FSLA	07/28/88	17.8	36.5
Private Investors/First FSB Northwest	First FSLA (Longview)	08/02/88	9.4	80.3

(continued)

Acquirer/institution receiving assistance[a]	Acquired institution(s)[b]	Effective date of agreement	Initial estimate of total cash payments	Assets of merged/acquired institutions[c]
United Savings of America	First FSLA (Taylorville)	08/10/88	2.7	36.1
Standard FSLA (Chicago)	Capitol Federal Savings of America	08/11/88	12.7	255.6
First FSLA of Lincoln-Iowa	First FB, FSB Western FSLA	08/11/88	12.2	47.0
Gibson Group, Inc./ American FB, FSB	Gladewater FSLA Commerce FSLA Irving SA Majestic SA Richardson SLA Mercury SA Longview SLA Ben Milam SLA Paris SLA American Banc SA Southland SA Skyline SA	08/18/88	2,399.2	2,168.6
Merabank FSB[d]/ Merabank Texas, FSB[f]	State FSLA (Lubbock)	08/26/88	1,466.4	454.3
Metropolitan FSB/ Metropolitan FB	Washington FSB Pioneer FSLA First FSLA (Brainerd) First FSLA (Hibbing) First FSLA (Grand Rapids) Peoples SLA	08/26/88	626.4	1,085.8
Washington FSLA	Northwest FSLA	08/26/88	2.4	26.5
Old Stone Bank of California, a FSB	Homestate SLA	08/26/88	40.1	182.2
Security Trust FSLA	Commerce FSB	08/26/88	17.2	40.2
First FSB & Trust	Citizens FSLA	09/01/88	(0.5)	59.3
Secor SB	Coosa FSLA	09/06/88	13.0	76.6
KW Bankshares Inc./First FSB of Rogers	First FSB	09/07/88	25.4	122.4
United Savings of America	Fidelity FSLA	09/08/88	3.6	40.1
Pulte Diversified Co., Inc./ Heights of Texas, FSB	Bay City FSLA Gulf Coast SLA Heights SA Allen Park FSLA	09/09/88	1,029.7	642.5
Washington FSLA	Freedom FSLA	09/16/88	60.9	307.0
Home FSLA of Rockford	Loves Park FSB	09/21/88	5.0	41.5
Western FSLA	Bell FSLA	09/23/88	695.8	931.9
Pulte Diversified Co., Inc./First Heights, FSA	Champion SA	09/23/88	978.3	661.7
Union Holding Company/ Union FSB of Indianapolis	Arsenal SA	09/23/88	36.3[g]	161.6
Union Holding Company/ Union FSB of Frankton	Frankton FSLA	09/23/88	[g]	30.7
Downey SLA/Butterfield SLA	Butterfield SLA	09/29/88	386.3	517.2

(continued)

Acquirer/institution receiving assistance[a]	Acquired institution(s)[b]	Effective date of agreement	Initial estimate of total cash payments	Assets of merged/acquired institutions[c]
Americana SB, FSB	Citizens FSLA (New Castle)	09/30/88	5.4	52.4
Club Corp. International/ Franklin Federal Bancorp, a FSB	Great West SB Creditbanc SA Franklin SA	09/30/88	1,872.2	1,210.8
First FB, a FSB	United SA of Central Indiana FA	09/30/88	9.3	60.4
Tracy SLA, FA	Adobe SB	09/30/88	3.0	46.4
Temple-Inland/ Guaranty FSB	First FSLA (Austin) Delta Savings of Texas Guaranty FSLA	09/30/88	3,325.0	3,051.4
Maco Bancorp/First FSB of Indiana	1st FSB of Indiana Capital FSLA	10/02/88	28.8	340.3
Republic SB, FSB	First FSLA (Mayfield)	10/12/88	25.2	51.5
Adam Corp. Group/ AmWest SA	Olney SA Security FSLA First FSLA (Amarillo) San Angelo SA Odessa SA Southwest SLA Banc Home SA Southern SLA Heart O'Texas SA Shamrock FSB Petroplex SA	10/14/88	2,625.2	3,677.3
First Bancorporation/ Peoples FSB	Peoples FSB	10/25/88	34.9	368.6
Crossland Savings, FSB	Reliance SLA	11/02/88	11.8	62.0
First Nationwide Bank	Lincoln FSLA	11/04/88	186.6	1,242.6
Private Investors/Flagship FSB	Flagship FSLA	11/18/88	23.6	97.8
Americity FSB	Tesoro SLA	11/19/88	281.7	251.1
Liberty Capital, Inc./ Southside SB, FSB	The South Side SLA	11/30/88	10.4	57.3
Private Investor Group/ MidAmerica SB, FSB	MidAmerica SB	12/12/88	14.0	256.5
First Western SA	Eastern Washington SLA	12/14/88	2.0	50.2
Pacific First FSLA/ Pacific First FSB	American Home Savings FSB Community First FSLA	12/15/88	224.6	788.7
First FSLA of Lincoln	Rooks County SLA	12/15/88	19.5	25.5
Rocky Mountain Financial Corp./Rocky Mountain FSB	Rocky Mountain FSLA United SB of Wyoming	12/16/88	211.1	505.7
First Nationwide FSB	First Dearborn, FA Bloomfield SLA, FA	12/16/88	256.3	869.5
Golden West Financial Corp/ World SLA of Ohio	Ohio Valley SLA First Border SB	12/17/88	83.7	312.0

(continued)

Acquirer/institution receiving assistance[a]	Acquired institution(s)[b]	Effective date of agreement	Initial estimate of total cash payments	Assets of merged/acquired institutions[c]
CFSB Corp., Inc./ Bluebonnet SB, FSB	Mineral Wells SLA Home SLA Mesquite SLA First Western SLA Commodore SA First FSLA Sentry SA Vista SA Lamesa FSLA Interwest SA Southern Federal Banc, SLA Reliance SA NorthPark SA Metroplex FSA Hi-Plains SLA, FSA	12/22/88	3,377.7	1,803.8
Citicorp Mortgage, Inc./ Citicorp Savings of Illinois, a FSLA	Glen Ellyn FSLA	12/22/88	21.7	69.1
MNC Financial Inc./ Virginia FSB	Virginia FSLA	12/23/88	13.5	685.2
Barnett Banks Inc./Barnett Bank of SW Georgia	First FSLA (Columbus)	12/27/88	4.9	254.6
McAndrews and Forbes/ First Gibraltar Bank, FSB	Gibraltar SA First Texas SA Killeen SLA Home SA Montfort SA	12/27/88	8,890.7	11,404.8
Coast to Coast Financial Corp./ Superior Bank, FSB	Lyons Savings FSLA	12/28/88	538.1	1,485.0
Metropolitan FB	First FSB	12/28/88	124.4	262.4
NVRyan LP/NVR SB, FSB	McLean SLA FSLA	12/28/88	77.2	287.1
Robert M. Bass Group/New West FSLA & American SB, FA	American Savings, a FSLA	12/28/88	1,699.0[h]	30,142.1
Citizens FB, a FSB	American SB	12/29/88	203.3	891.8
Pacific USA Holdings/ Pacific Southwest Bank, FSB	First FSLA Yoakum FSLA Seguin SA Charter SLA Union SA Independence SLA Keystone SLA Bayview FSLA	12/29/88	1,282.4	832.8
Centex Corporation/ Texas Trust SB, FSB	Peoples SLA Burnet SLA Lee SA Ranchers SA	12/29/88	657.3	318.0
Local FSLA/ Local American Bank of Tulsa FSB	First Oklahoma SB Mid America FSLA	12/29/88	126.0	541.9
Jackson County, FSLA	Jackson County FSLA	12/30/88	77.4	275.5
Northwest FSB	Northwest FSLA (Spencer) Home FSLA (Spencer)	12/30/88	109.9	170.1

(continued)

Acquirer/institution receiving assistance[a]	Acquired institution(s)[b]	Effective date of agreement	Initial estimate of total cash payments	Assets of merged/acquired institutions[c]
First Nationwide FSB[i]	Cardinal FSB Columbia a FSLA Pathway Financial FA Mile High FSLA[j]	12/30/88	2,802.7	7,943.5
Western FSB of Montana	Great Falls FSLA	12/30/88	11.5	129.0
Home FSLA	Columbus SLA FSLA Cal America SLA FSLA First Security FSLA	12/30/88	356.4	557.7
Southeast Banking Corp./ Southeast Bank for Savings, a FSB	South Florida FSLA	12/30/88	29.0	1,342.3
Golden West Financial/ Beach FSLA, SB, FSB	Beach FSLA	12/30/88	1,906.0	1,156.7
Hyperion Partners/United SA of Texas, FSB	United SA of Texas	12/30/88	2,201.9	4,412.8
Northwest FSLA	Capital FSB Mutual FSLA (Oklahoma City)	12/30/88	141.9	315.4
First Network SB[e]	Tahoe SLA FSLA	12/31/88	57.3	46.8
River Valley SB FSB	Peoria SLA	12/31/88	31.2	176.4
California FSLA/California FB, a FSB	Broward FSLA	12/31/88	252.4	549.7
Michigan National Corp./ Beverly Hills FSB	Beverly Hills SLA, FSLA	12/31/88	1,769.6	1,190.1
Home FSLA of Sioux Falls	United Federal SLA	12/31/88	8.0	93.4
Private Investor/First Cook Bank for Savings, a FSA	Cook County FSLA First American SLA	02/03/89	147.9	227.3
First Tropical SB FSB/ First Florida SB, FSB	Tropical FSLA	04/13/89	12.1	55.0
Total for 1988 and 1989 agreements with acquirers			**$48,854.3**	**$97,977.6**
Stabilizations[k]				
Sunbelt Savings, FSB	Federated SLA Multibanc SA Sunbelt SA Summit SA Texana SLA First City SA Western FSLA Independent American SA	08/19/88	11,421.0	9,387.2
Cimarron FSLA	Home SLA Phoenix FSLA Cimarron FSLA	08/31/88	709.5	967.5
Red River FSLA	First FSLA (Elk City) Peoples FSLA (Ardmore) Home SB, FA Heritage SLA (Elk City)	08/31/88	258.9	514.4

(continued)

Acquirer/institution receiving assistance[a]	Acquired institution(s)[b]	Effective date of agreement	Initial estimate of total cash payments	Assets of merged/acquired institutions[c]
Chisholm FSLA	Kingfisher FSLA Sunbelt Savings FSLA	08/31/88	105.2	195.0
Heartland FSLA	Frontier FSLA	08/31/88	503.9	1,147.5
Total for 1988 and 1989 stabilization agreements			**$12,998.5**	**$12,211.6**
Total for All 1988 and 1989 Agreements			**$61,852.8**	**$110,188.2**

Legend
FA = Federal Association
FB = Federal Bank
FSA = Federal Savings Association
FSB = Federal Savings Bank
FSLA = Federal Savings and Loan Association
SA = Savings Association
SB = Savings Bank
SLA = Savings and Loan Association

[a]Where two entities are shown, the first is the acquirer and the second is the institution owned by the acquiring entity that is receiving assistance payments. If only one entity is shown, it is both the acquirer and the assisted institution.

[b]City names have been added in parentheses to distinguish between some similarly named institutions.

[c]Represents total assets as reported on the last Thrift Financial Report prior to the effective date of the assistance agreement. The agreements generally provided assistance on some portion of these assets. The amount of assets covered by assistance provisions is shown on table III.2 of appendix III.

[d]These acquirers, which are savings and loans, were in conservatorship as of July 31, 1990.

[e]These institutions receiving assistance were in conservatorship as of July 31, 1990.

[f]Merabank Texas was the assisted institution under two different assistance agreements. In appendixes III and IV, Merabank Texas, FSB includes both assistance agreements.

[g]Union Holding Company acquired Arsenal SA and Frankton FSLA on the same day. Although each acquisition is a separate assistance agreement, FSLIC prepared one initial estimate of total cash payments covering both agreements.

[h]FSLIC did not estimate total cash payments for this agreement; instead, this amount is FSLIC's estimated liquidation costs for American Savings less acquirer concessions.

[i]Institutions currently receiving assistance under this assistance agreement are Columbia, a FSLA; Pathway Financial, a FA; and Cardinal FSB. Mile High FSLA was merged into Columbia, a FSLA. Two of these institutions will subsequently be merged into First Nationwide FSB; the other, Columbia, a FSLA, will remain a separate institution.

[j]Mile High FSLA was created by FSLIC on December 9, 1989, to acquire the insured deposits and a portion of the assets of Silverado Banking, SLA.

[k]These five agreements had no acquirer. Rather, FSLIC brought in new management and agreed to provide financial assistance to stabilize their operations until acquirers could be found.

Source: FDIC records

Major Provisions of FSLIC's 1988 and 1989 Assistance Agreements

The following tables present, for informational purposes only, FSLIC's initial cost estimates and other information related to the major provisions of the 1988 and 1989 assistance agreements. Tables III.1, III.2, and III.4 include details on the provisions of our judgmentally selected sample of 20 assistance agreements. Table III.3 includes all 1988 and 1989 assistance agreements which provided FSLIC (now FDIC) with equity rights.

The following abbreviations are used in the tables for this appendix:

Legend

FA = Federal Association
FB = Federal Bank
FSA = Federal Savings Association
FSB = Federal Savings Bank
FSLA = Federal Savings and Loan Association
SA = Savings Association
SB = Savings Bank
SLA = Savings and Loan Association

Table III.1: FSLIC's Initial Estimates of Negative Net Worth Note Principal and Interest Costs

Dollars in millions

Institution receiving assistance	Term (years)	Interest rate[a]	Estimated principal balance	Estimated interest payments
American Federal Bank, FSB	10	TXCOF+40	$535.7	$472.6
AmWest, SA	10	TXCOF+60	303.4	297.2
Beach FSLA, SB, FSB	5	11DCOF+175	1,002.4	903.6
Beverly Hills FSB	10	11DCOF+200/50	793.9	810.1
Bluebonnet SB FSB	10	TXCOF+45	836.7	807.1
First Gibraltar Bank, FSB	10	TXCOF+50	865.6	804.9
First Nationwide FSB[b]	10	TBill+25	1,199.9	947.9
Franklin Federal Bancorp, a FSB	10	TXCOF+60	264.4	259.0
Guaranty FSB	10	TXCOF+40	710.1	681.5
Heights of Texas, FSB	10	TXCOF+40	311.8	326.9
Merabank Texas, FSB	10	TXCOF	187.6	158.2
New West FSLA	10	7 percent	250.0	175.0
Pacific Southwest Bank, FSB	10	TXCOF+50	161.7	150.4
Southwest SA	10	TXCOF+40	569.7	510.2
Sunbelt Savings, FSB[c]	10	TXCOF+50	2,459.8	2,260.8
Superior Bank FSB	10	7DCOF+140	205.0	106.0
Texas Trust SB, FSB	10	TXCOF+50	221.2	205.7
United SA of Texas, FSB	10	TXCOF+50	261.0	242.7
Western FSLA	5	TBill+175	492.5	136.2
Total selected agreements			**$11,632.4**	**$10,256.0**
Other 1988 and 1989 agreements			2,442.3	1,732.7
Total 1988 and 1989 Agreements			**$14,074.7**	**$11,988.7**

Legend

TXCOF = Texas cost of funds: Average cost of deposits and borrowings for savings institutions in Texas as determined by the Federal Home Loan Bank of Dallas.

DCOF = District cost of funds: Average cost of deposits and borrowings for savings institutions as determined by the Federal Home Loan Bank Districts. The number preceding the DCOF represents the district, with 7 representing Chicago and 11, San Francisco.

TBill = Treasury Bill rate: Published Treasury borrowing rate as specified by the assistance agreement.

[a]Interest rates are generally comprised of a base factor plus a spread, measured in basis points—1 basis point is 1/100th of a percent. When basis point spread is represented in the form x/y, x is the initial spread and y is the ending spread.

[b]Institutions currently receiving assistance under this assistance agreement are Columbia a FSLA; Pathway Financial, a FA; and Cardinal FSB.

[c]Sunbelt Savings, FSB, was in conservatorship at July 31, 1990.

Source: FDIC records

Table III.2: FSLIC's Initial Estimates of Covered Asset Pool Size and Costs

Dollars in millions

Institution receiving assistance	Covered asset pool book value	Guaranteed yield level[a]	Estimated guaranteed yield payments	Estimated capital loss payments
American Federal Bank, FSB	$1,889	TXCOF+275/160	$617.3	$752.2
AmWest SA	2,144	TXCOF+250/120	726.3	996.8
Beverly Hills FSB	765	11DCOF+250/150	96.1	181.4
Bluebonnet SB, FSB	1,648	TXCOF+235/173	762.2	946.4
Eureka FSLA	150	11DCOF+12	17.9	9.5
First Gibraltar Bank, FSB	4,115	TXCOF+225/150	2,007.8	2,819.7
First Nationwide FSB[b]	4,760	11DCOF+250	453.4	482.3
Franklin Federal Bancorp, a FSB	914	TXCOF+250/185	496.0	471.9
Guaranty FSB	1,617	TXCOF+240/170	523.8	578.8
Heights of Texas, FSB	946	TXCOF+250/155	164.6	218.4
Merabank Texas, FSB	344	TXCOF+250/160	163.2	279.0
New West FSLA	c	c	c	c
Pacific Southwest Bank, FSB	564	TXCOF+260/185	254.6	388.7
Southwest SA	2,944	TXCOF+275/200	826.8	1,820.6
Sunbelt Savings, FSB[e]	5,231	TXCOF+220/135	2,423.9	4,067.3
Superior Bank FSB	504	7DCOF+275	168.5	19.3
Texas Trust SB, FSB	329	TXCOF+250/150	110.0	140.6
United SA of Texas, FSB	1,598	TXCOF+220/180	684.3	921.6
Western FSLA	375	TBill+250/150	80.2	35.9
Total selected agreements[d]	**$30,837**		**$10,576.9**	**$15,130.4**
Other 1988 and 1989 agreements	3,629		1,040.1	1,263.0
Total 1988 and 1989 Agreements[d]	**$34,466**		**$11,617.0**	**$16,393.4**

Legend

TXCOF = Texas cost of funds: Average cost of deposits and borrowings for savings institutions in Texas as determined by the Federal Home Loan Bank of Dallas.

DCOF = District cost of funds: Average cost of deposits and borrowings for savings institutions as determined by the Federal Home Loan Bank districts. The number preceding the DCOF represents the district, with 7 representing Chicago and 11, San Francisco.

TBill = Treasury Bill rate: Published Treasury borrowing rate as specified by the assistance agreement.

[a]The guaranteed yield level is usually comprised of a base factor plus a spread, measured in basis points. The basis point spread usually declines in even increments over the term of the assistance agreement. Some agreements provide a guaranteed yield level for each specific category of covered assets. In this table, when basis point spread is represented by x/y, x is the highest initial spread and y is the lowest ending spread. The primary base factors used to determine guaranteed yield are described in table II.1

(continued)

[b]Institutions currently receiving assistance under this assistance agreement are Columbia a FSLA; Pathway Financial, a FA; and Cardinal FSB.

[c]New West's assistance agreement funds all losses on its assets. FSLIC did not initially estimate capital losses or yield maintenance costs. Therefore, New West's $22.1 billion in covered assets is not included in this table. FDIC later estimated these amounts to be $2.0 billion and $1.6 billion respectively.

[d]Not including New West. See c above.

[e]Sunbelt Savings, FSB, was in conservatorship at July 31, 1990.

Source: FDIC records

Table III.3: 1988 and 1989 Assistance Agreements Providing FSLIC (Now FDIC) With Equity Rights

Institution[a]	Exercise period[b]	Ownership (percent)
American SB, FA	12/28/98—[c]	30
Americity FSB	11/18/03–11/18/13	20
AmWest SA	10/14/98–10/14/03	20
Bluebonnet SB, FSB	12/22/94–12/22/04	20
Coastal Banc SA	05/13/93–05/13/03	15
First Gibraltar Bank, FSB	12/28/88–12/28/03	20
Franklin Federal Bancorp, a FSB	09/30/98–09/30/03	20
Guaranty FSB	09/30/98–09/30/03	20
Heights of Texas, FSB	09/09/98–09/09/03	20
Local American Bank of Tulsa, FSB	12/29/93—[d]	10
Merabank Texas, FSB	06/22/98–06/22/03	20
MidAmerica SB, FSB	12/12/88–12/12/94	[e]
Pacific Southwest Bank, FSB	12/29/88–12/29/03	20
Southwest SA	05/31/98–05/31/03	50
Texas Trust SB, FSB	12/29/93–12/29/03	20
United SA of Texas, FSB	12/30/88–12/29/04	15

[a]All agreements which provided FSLIC (now FDIC) with equity rights are included, even if not in our judgmentally selected sample of 20 agreements. FDIC would own equity in the institution listed or a parent/holding company of that institution.

[b]Period during which FDIC can exercise its option to purchase stock or other equity investment at a set price.

[c]Exercise period restricted to 10th anniversary date or December 28, 2003, if extended for 5 years.

[d]Exercise period terminates at time of first exercise or surrender of warrants.

[e]Fifty percent ownership if warrants exercised during first 18 months; 20 percent thereafter.

Source: FDIC records

Table III.4: Forbearances Granted to Selected Acquiring Institutions Receiving Assistance

	Type of forbearance granted[a]							
Institution receiving assistance[b]	Capital	Liquidity	Equity risk	Service corporation	Thrift lender	Loans to one borrower	Accounting	Asset classification
American Federal Bank, FSB	X	X	X	X	X		X	X
AmWest SA	X	X	X		X	X	X	X
Beach FSLA, SB, FSB	X							
Beverly Hills FSB	X	X	X	X		X	X	X
Bluebonnet SB, FSB	X	X	X	X			X	X
Eureka FSLA	X	X					X	
First Gibraltar Bank, FSB	X	X	X	X		X	X	X
Franklin Federal Bancorp, a FSB	X	X		X	X		X	X
Heights of Texas, FSB	X	X	X	X	X	X	X	
Merabank Texas, FSB	X	X	X	X	X	X	X	X
New West FSLA/ American SB, FA	X	X	X	X	X		X	X
Pacific Southwest Bank, FSB	X	X	X	X	X	X	X	X
Southwest SA	X	X	X		X			
Sunbelt Savings, FSB[c]			X	X		X		
Superior Bank FSB	X	X			X		X	X
Texas Trust SB, FSB	X	X	X	X	X	X	X	X
United SA of Texas, FSB	X	X	X	X		X	X	
Western FSLA	X	X		X		X	X	

[a]See appendix I for further explanation of these forbearances. Other forbearances may have been granted to the institutions in connection with the assistance agreements. This summary only indicates if any of these eight forbearances were included.

[b]Authoritative documentation of forbearances for two assistance agreements was not available; therefore, only 18 of the 20 agreements in our judgmental sample are included in this table.

[c]Sunbelt Savings, FSB, was in conservatorship at July 31, 1990.

Source: Office of Thrift Supervision documents

Actual and Projected Cash Payments as of March 31, 1990

Dollars in millions

Institution receiving assistance	FSLIC's initial total cost estimates	Payments made through March 31, 1990	Projected cash payments after March 31, 1990	FDIC's revised total cost estimates[a]
American Federal Bank, FSB	$2,399.2	$489.9	$2,553.0	$3,042.9
AmWest SA	2,625.2	294.3	2,426.7	2,721.0
Beach FSLA, SB, FSB	1,906.0	108.7	1,492.6	1,601.3
Beverly Hills FSB	1,769.6	156.9	1,507.8	1,664.7
Bluebonnet SB, FSB	3,377.7	221.6	3,072.9	3,294.5
Eureka FSLA	269.6	401.6	69.9	471.5
First Gibraltar Bank, FSB	8,890.7	924.7	8,583.3	9,508.0
First Nationwide FSB[b]	2,802.7	160.2	2,082.7	2,242.9
Franklin Federal Bankcorp, a FSB	1,872.2	206.8	1,510.9	1,717.7
Guaranty FSB	3,325.0	364.1	3,006.1	3,370.2
Heights of Texas, FSB	1,029.7	90.4	668.0	758.4
Merabank Texas, FSB	1,628.9	150.6	1,406.8	1,557.4
New West FSLA/American SB, FA	1,699.0	273.7	4,978.8	5,252.5
Pacific Southwest Bank, FSB	1,282.4	127.8	1,303.6	1,431.4
Southwest SA	3,727.3	711.3	5,350.0	6,061.3
Sunbelt Savings, FSB[c]	11,421.0	1,167.1	9,062.8	10,229.9
Superior Bank FSB	538.1	110.7	533.8	644.5
Texas Trust SB, FSB	657.3	94.0	628.2	722.2
United SA of Texas, FSB	2,201.9	417.2	1,866.5	2,283.7
Western FSLA	695.8	192.4	647.5	839.9
Total selected agreements	**$54,119.3**	**$6,664.0**	**$52,751.9**	**$59,415.9**
Other 1988 and 1989 agreements	7,733.4	2,345.8	5,276.8	7,622.5
Total for All 1988 and 1989 Agreements	**$61,852.7**	**$9,009.8**	**$58,028.7**	**$67,038.4**

Legend

FA = Federal Association
FB = Federal Bank
FSA = Federal Savings Association
FSB = Federal Savings Bank
FSLA = Federal Savings and Loan Association
SA = Savings Association
SB = Savings Bank
SLA = Savings and Loan Association

[a]As of March 31, 1990.

[b]Institutions currently receiving assistance under this assistance agreement are Columbia, a FSLA; Pathway Financial, a FA; and Cardinal FSB.

[c]Sunbelt Savings, FSB, was in conservatorship at July 31, 1990.

Source: FDIC records

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