United States General Accounting Office

GAO

Report to the Congress

June 1993

FINANCIAL AUDIT

Resolution Trust Corporation's 1992 and 1991 Financial Statements

GAO/AIMD-93-6

GAO

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

Comptroller General
of the United States

B-240108

June 30, 1993

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

This report presents the results of our audits of the financial statements of the Resolution Trust Corporation for the years ended December 31, 1992 and 1991, its internal controls, and its compliance with laws and regulations. We conducted our audits pursuant to the provisions of section 21A(k)(1) of the Federal Home Loan Bank Act (12 U.S.C. 1441 a(k)(1)) and in accordance with generally accepted government auditing standards.

In our opinion, the Resolution Trust Corporation's financial statements present fairly, in all material respects and in conformity with generally accepted accounting principles, its financial position as of December 31, 1992 and 1991, the results of its operations and accumulated deficit for the year ending December 31, 1992, and its cash flows for the years ending December 31, 1992 and 1991. Because we did not express an opinion on the Corporation's statement of financial position as of December 31, 1990, we cannot express an opinion on the Corporation's statement of revenues, expenses and accumulated deficit for the year ended December 31, 1991.

Also, in our opinion, internal accounting controls in effect on December 31, 1992, provided reasonable assurance that assets are safeguarded against loss and that transactions are executed in accordance with management's authority and with significant provisions of laws and regulations. However, due to a material weakness in the Corporation's loss calculation procedures, controls were not effective in providing reasonable assurance that the Corporation properly recorded, processed, and summarized transactions for its financial statements or other financial reports. Our 1992 tests for compliance with the significant provisions of selected laws and regulations disclosed no material instances of noncompliance, and nothing came to our attention in the course of our work to indicate that material noncompliance with such provisions occurred.

The Corporation's financial statements no longer contain any unallocated reserves to cover unanticipated future losses or estimation errors; instead, reserve and loss accounts have been adjusted to reflect the best current estimates of probable future losses resulting from its resolution activities. The unallocated reserves were generated during 1991 and 1992 because actual recoveries from asset sales exceeded earlier projections. In

April 1993, the Corporation's Oversight Board released $3 billion of these reserves for the resolution of selected institutions in conservatorship. Eliminating the remaining reserves could release another $1.9 billion for future resolution actions and could decrease the Corporation's estimate of its future funding needs from $17 billion to $12 billion. However, because of the uncertainties surrounding loss estimates, the Corporation may choose to restrict the use of some portion of the released reserves.

We are sending copies of this report to the Chairman and members of the Thrift Depositor Protection Oversight Board; the Acting Chief Executive Officer of the Resolution Trust Corporation; the Director of the Office of Management and Budget; the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, the House Committee on Government Operations, Senate Committee on Banking, Housing and Urban Affairs, and the House Committee on Banking, Finance and Urban Affairs; and other interested parties.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

CARATS	Claims Administration Reserves Account Tracking System
FDIC	Federal Deposit Insurance Corporation
WRAPS	Warranties and Representations Accounts Processing System

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To the Thrift Depositor Protection Oversight Board
Resolution Trust Corporation

In our audits of the Resolution Trust Corporation for the years ended December 31, 1992 and 1991, we found

- The Corporation's statements of financial position as of December 31, 1992 and 1991, the statements of cash flows for the years then ended, and the statement of revenues, expenses and accumulated deficit for the year ended December 31, 1992, to be reliable in all material respects. We do not express an opinion on the statement of revenues, expenses and accumulated deficit for the year ended December 31, 1991.
- Internal controls as of December 31, 1992, to be effective in protecting assets and in assuring that transactions are executed in accordance with management's authority and materially comply with significant provisions of selected laws and regulations but not effective in assuring that there were no material misstatements in the financial statements.
- No material noncompliance with laws and regulations we tested.

Discussed in the following section are significant matters considered in performing our audits and forming our opinions. This report also outlines each of our conclusions in more detail and discusses the scope of our audits.

Significant Matters

The following information is provided to highlight uncertainties that could affect the Corporation's loss estimates, to discuss the effect that recent higher-than-expected recoveries from asset sales have had on future funding needs, and to explain other matters.

Uncertainties Affect Estimated Recoveries From Receiverships and Costs of Future Resolutions

Although the Corporation has produced its estimates of the recovery value of receivership assets from the best available information, significant uncertainties still exist regarding general economic conditions, interest rates, and real estate markets that could affect the value of assets in resolved and unresolved institutions. As of March 31, 1993, the Corporation's receiverships and conservatorships held $91 billion in assets of which more than 40 percent were delinquent loans, real estate owned, and investments in the subsidiaries of failed institutions. Because these assets are considered among its hard-to-sell assets, it is difficult for the

Corporation to predict the recovery value and timing of sales. If assets sell later or for less than predicted, the Corporation's costs will be higher than estimated. Conversely, higher or earlier recoveries will lower the Corporation's final costs.

As discussed in footnote 15, the Corporation has established reserve funds for securitization transactions to cover future credit losses on the underlying loans.[1] The Corporation and its receiverships also provide representations and warranties on the unpaid principal balance of certain loans sold for cash, sold as part of securitization transactions, exchanged for mortgage-backed securities, or sold under servicing right contracts.[2] As of December 31, 1992, the Corporation's loss allowances for resolved and unresolved institutions included $1.3 billion for the expected cost of future securitization credit losses and $1.5 billion for claims arising from the representations and warranties. We found these reserve amounts to be reasonable, based on the best available information.

However, we caution that the Corporation's claims experience to date has been very limited and cannot be relied upon to predict the nature or amount of future losses. These future losses will be affected by the behavior of the economy, interest rates, and real estate markets as well as the performance of the collateral underlying the transactions. Changes in these factors, which are beyond the Corporation's control, could result in either higher or lower credit and claims losses than currently estimated.

Higher Asset Sales Recoveries Could Reduce Future Funding Needs

The Corporation provided us with draft financial statements on March 31, 1993, showing that $84.4 billion of loss funds had been used to resolve the 653 institutions closed as of December 31, 1992. Those statements also showed that an additional $17 billion in loss funds would be needed to complete the resolution of 81 institutions in conservatorship, 39 institutions considered probable failures on or before September 30, 1993, and 52 institutions considered possible failures before the Corporation's resolution responsibility ends on September 30, 1993. However, the Corporation's cost estimates were not based on its most recent sales experience. Due to improved economic conditions, the Corporation's receiverships have realized higher rates of recovery on their asset sales

[1] Securitization refers to the practice of grouping assets (usually performing mortgage loans) and selling securities backed by the underlying future cash flows of those assets. Purchasers of the securities demand some protection against credit losses which may occur due to defaults and delinquencies on the underlying loans.

[2] These contracts convey the right to service mortgages, which includes collecting loan payments and controlling mortgage escrow funds.

than previously estimated. The Corporation was accounting for these higher recoveries in an unallocated reserve of $7 billion to cover unanticipated future losses or estimation errors. We agreed with the Corporation that a minimum of $2 billion should remain in unallocated reserves for unforeseen problems or errors until the audit was completed. The Corporation and its Oversight Board decided in April 1993, to release $3 billion of the $7 billion in unallocated reserves and make the funds available to resolve selected institutions in conservatorship.

The Corporation's final financial statements no longer contain any unallocated reserves; instead, reserve and loss accounts have been adjusted to reflect the best current estimates of probable future losses resulting from its resolution activities. The Corporation's audited financial statements report the cost of closed institutions at $79.5 billion, which could allow another $1.9 billion to be used for future resolutions, subject to appropriation restrictions,[3] and could decrease its estimated future funding needs to $12 billion. This decrease of $5 billion in expected future funding needs is the result of improved economic conditions, particularly lower interest rates, over the past 2 years; however, if conditions should worsen, the Corporation may need to increase its loss estimates. If conditions continue to improve, the need for additional loss funds could be less than presently estimated.

Weaknesses in Contractor Oversight Could Result in Reduced Recoveries

The Corporation's statements of cash flows report the cash that the Corporation has actually received and disbursed. However, due to weaknesses in its oversight of certain loan servicers and other contractors, the Corporation cannot be sure that it is recovering all it should from its receiverships. In April 1992, we reported that the Corporation cannot ensure that all of its loan servicers are accurately accounting for and remitting loan payments.[4] In October 1992, we identified weaknesses in the cash management practices of property management subcontractors that could make the Corporation's funds vulnerable to loss from unauthorized use.[5] We also identified a policy that has resulted in forgone interest

[3]The $25 billion in loss funds provided in the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991, in contrast to loss funds provided by prior acts, was available for obligation only until April 1, 1992. Thus, any amount previously obligated against this appropriation that becomes available due to a reduced loss may only be used if the Corporation identifies an increased loss for another resolution properly chargeable against this appropriation.

[4]Resolution Trust Corporation: Oversight of Certain Loan Servicers Needs Improvement (GAO/GGD-92-76, April 24, 1992).

[5]Resolution Trust Corporation: Subcontractor Cash Management Practices Violate Policy and Reduce Income (GAO/GGD-93-7, October 20, 1992).

income of hundreds of thousands of dollars annually. Lost revenues to receiverships mean lower recoveries for the Corporation.

In response to reported weaknesses, the Corporation's Oversight Board has pledged to strengthen contracting systems and contractor oversight as part of its 10 point reform agenda.[6] The Oversight Board's specific objectives are to require adequate planning of contracts, ensure adherence to contracting policies and procedures, increase contractor oversight, and ensure that management's span of control over contractors is adequate to protect the Corporation's interests. In conjunction with these initiatives, the Corporation recently announced that it will increase the size of its contract surveillance unit by an additional 150 accountants, investigators, and other staff.

Disclaimer Given on the 1991 Statement of Revenues, Expenses and Accumulated Deficit

Because we did not express an opinion on the Corporation's statement of financial position as of December 31, 1990, we cannot express an opinion on the Corporation's statement of revenues, expenses and accumulated deficit for the year ended December 31, 1991.

Material Internal Control Weakness

During our 1992 audit, we identified a material weakness[7] in the Corporation's internal control structure related to the Corporation's calculation of its allowance for loss. Through substantive test procedures, we were able to satisfy ourselves that audit adjustments corrected the effect of this weakness on the Corporation's 1992 financial statements.

Lack of Control Procedures Resulted in Undetected Error

In its draft financial statements, the Corporation understated a component of its loss allowance calculation for subrogated claims (paid claims of the depositors of failed institutions) by $1.5 billion. Although the Corporation's management reviewed the overall calculation for the loss allowance estimates, no procedures were in place to review certain computer-generated data used in the calculation and, as a result, an error in the data went undetected. The Corporation made the proposed audit adjustment to its final December 31, 1992, allowance for loss on subrogated claims and has acted to prevent such data errors from

[6]On March 16, 1993, the Chairman of the Thrift Depositor Protection Oversight Board announced a program of 10 administrative initiatives to strengthen the Corporation's management in the areas of planning, financial management and controls, operations, and public policy.

[7]A material weakness is a reportable condition in which the design or operation of the internal controls does not reduce to a relatively low level the risk that losses, noncompliance, or misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of their assigned duties.

occurring in future calculations. Our internal control report, which we expect to issue soon, provides more detail on this weakness and other reportable conditions briefly discussed in a later section.

Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in accordance with generally accepted accounting principles, the Corporation's

- assets, liabilities, and equity as of December 31, 1992 and 1991;
- revenues, expenses and accumulated deficit for the year ending December 31, 1992; and
- cash flows for the years ending December 31, 1992 and 1991.

As discussed in the Significant Matters section, we do not express an opinion on the statement of revenues, expenses and accumulated deficit for the year ending December 31, 1991.

Misstatements may have occurred in other financial information reported by the Corporation as a result of the material internal control weakness described above. In addition, significant uncertainties discussed earlier in this report and in footnotes 5 and 10 to the financial statements, may ultimately result in higher or lower resolution costs than projected in these statements. Also, factors beyond the Corporation's control could result in higher or lower credit and claims losses than currently estimated for certain sales transactions.

Opinion on Internal Controls

The internal controls we evaluated were those designed to

- safeguard assets against loss from unauthorized use or disposition;
- assure the execution of transactions in accordance with management's authority and with laws and regulations; and
- properly record, process, and summarize transactions to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets.

Because of the material weakness in internal controls described previously, internal controls did not provide reasonable assurance that the Corporation properly recorded, processed, and summarized transactions. However, controls in effect on December 31, 1992, provided reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authority and with significant provisions of selected laws and regulations.

Reportable Conditions

We also identified the following reportable conditions which, although not considered to be material, represent significant deficiencies in the design or operation of the Corporation's internal controls and should be corrected.

1. The Corporation used information from the wrong data base system to calculate its loss accrual for claims arising from representations and warranties that are offered with the sale of loans and servicing rights. As a result, the Corporation needed to make an adjustment of nearly $500 million to reflect the correct reserve amount for representations and warranties losses. By using the data base that tracks the funding status of reserves rather than the required amount of reserves, the Corporation ignores the fact that reserves can be, and often are, under- or overfunded.

2. The Corporation's contractor estimated recovery values for receivership assets without adequate supporting file documentation. (The most common missing item was a recent appraisal.) Based on our test results, we found it likely that 13 percent of the Corporation's assets do not have the key file documents necessary to support a particular recovery value. Missing data increase the risk that the Corporation's estimated recovery rates will be materially under- or overstated.

3. The Corporation's contractor did not consider all available file documentation or information in estimating receivership asset recoveries and made errors in recording valuation information. Based on the results of our testing, we found it likely that 20 percent of contractor-valued assets had these problems. As a result, assigned recovery rates could be lower or higher than if all available information is considered or all data transcribed correctly.

4. During 1992, 9 of the Corporation's 13 field offices did not perform the required reconciliation of checks received and processed. In addition, most of these 9 field offices could not provide sufficient documentation to enable us to complete the needed reconciliations. Without adequate controls over check receipts, the Corporation may not detect checks withheld from deposit, lost, stolen, or improperly released to third parties.

5. The Corporation's field offices did not post wire disbursements to the correct general ledger accounts. Based on the results of our tests, we estimate that approximately 11 percent of all wire disbursements to third parties contained at least one account posting error. If such a high error rate continues in its field offices, the Corporation faces the risk that future financial reports could be inaccurate.

6. The Corporation did not identify the material weakness or all of the reportable conditions described above in its 1992 statement on the effectiveness of its internal accounting and administrative controls prepared under the Chief Financial Officers Act of 1990. This occurred because the Corporation's assessment focused more on operating controls than on financial reporting controls. However, without more emphasis on reporting controls, the Corporation may fail to identify serious weaknesses in the future.

7. The Corporation processed its financial information on the Federal Deposit Insurance Corporation's (FDIC) general ledger system during the first 8 months of 1992. FDIC's inadequate controls over access to its electronic data processing center and systems software were reported as a significant deficiency in our report on FDIC's 1992 financial statements (GAO/AIMD-93-5, June 30, 1993). The lack of adequate security controls exposed the data center to unauthorized entry and exposed software and data to use by unauthorized personnel.

We also noted other less significant matters involving the system of internal accounting control and its operation for which we will be submitting a separate report to Corporation management.

Compliance With Laws and Regulations

Our tests for compliance with significant provisions of selected laws and regulations disclosed no material instances of noncompliance. Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred.

Objectives, Scope, and Methodology

The Corporation's management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles,

- establishing and maintaining internal controls and systems to provide reasonable assurance that the internal control objectives previously mentioned are met, and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are reliable (free of material misstatement and presented fairly in conformity with generally accepted accounting principles) and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with significant provisions of selected laws and regulations.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- evaluated and tested relevant internal controls over the following significant cycles, classes of transactions, and account balances:
  - resolved institutions, consisting of policies and procedures related to (1) resolution activities, (2) receipts and disbursements in receiverships, and (3) valuation of the Corporation's net receivables from resolution transactions and assistance;
  - unresolved institutions, consisting of policies and procedures related to identifying and estimating the cost of future resolutions and of providing advances to institutions in conservatorship;
  - Federal Financing Bank borrowings, consisting of policies and procedures related to the borrowing, use, and repayment of working capital;
  - treasury, consisting of policies and procedures related to Corporate cash receipts and disbursement; and
  - financial reporting, consisting of policies and procedures related to the processing of journal entries into the general ledger and the preparation of financial statements; and
- tested compliance with selected provisions of the following laws and regulations:
  - Section 21A of the Federal Home Loan Bank Act (12 U.S.C. 1441a) and
  - Chief Financial Officers Act of 1990 (Public Law 101-576).

We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance or misstatements may nevertheless occur and not be detected. We also caution that projecting to future periods our favorable evaluation of controls related to the safeguarding of assets and the execution of transactions in accordance with management's authority and in compliance with laws and regulations is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We conducted our audits in accordance with generally accepted government auditing standards. We believe that our audits provide a reasonable basis for our opinions.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

June 8, 1993

Financial Statements

Statements of Financial Position

RESOLUTION TRUST CORPORATION
STATEMENTS OF FINANCIAL POSITION
(Dollars in Thousands)

	December 31, 1992	December 31, 1991
ASSETS		
Cash (Note 3)	$3,048,320	$9,034,326
Net advances (Note 4, 6, 15 and 18)	9,331,348	15,927,967
Net subrogated claims (Note 5, 6, 15 and 18)	32,490,003	37,516,144
Net assets purchased by the Corporation (Note 6, 7 and 15)	82,305	0
Other assets	13,319	13,398
TOTAL ASSETS (Note 14)	$44,965,295	$62,491,835
LIABILITIES		
Accounts payable, accrued liabilities, and other (Note 16 and 17)	$224,558	$275,636
Due to receiverships (Note 8)	29,111	1,634,199
Notes payable and accrued interest (Note 9)	37,474,371	57,518,561
Estimated cost of unresolved cases (Note 6, 10 and 15)	16,858,857	25,492,652
Estimated losses from corporate litigation (Note 6 and 11)	375,375	197,599
TOTAL LIABILITIES	54,962,272	85,118,647
EQUITY		
Contributed capital (Note 3)	55,522,019	48,827,551
Capital certificates	31,286,325	31,286,122
Accumulated deficit	(96,805,321)	(102,740,485)
TOTAL EQUITY (Note 12)	(9,996,977)	(22,626,812)
TOTAL LIABILITIES AND EQUITY (Note 14)	$44,965,295	$62,491,835

See accompanying notes

Statements of Revenues, Expenses and Accumulated Deficit

RESOLUTION TRUST CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND ACCUMULATED DEFICIT
(Dollars in Thousands)

	Year Ended December 31, 1992	Year Ended December 31, 1991
REVENUES		
Interest on advances and subrogated claims	*$532,183*	*$1,473,174*
Other interest income	*10,087*	*14,300*
Other revenue (Note 3)	*33,288*	*19,085*
TOTAL REVENUES	*575,558*	*1,506,559*
EXPENSES		
Interest expense on notes issued by the Corporation	*1,928,623*	*3,472,288*
Interest expense on amounts due receiverships	*774,320*	*1,903,837*
Reduction in loss allowances (Note 6)	*(8,116,762)*	*(1,449,191)*
Administrative operating and other expenses (Note 2, 14 and 17)	*54,213*	*29,957*
TOTAL EXPENSES	*(5,359,606)*	*3,956,891*
NET REVENUE (LOSS)	*5,935,164*	*(2,450,332)*
ACCUMULATED DEFICIT, BEGINNING	*(102,740,485)*	*(100,290,153)*
ACCUMULATED DEFICIT, ENDING (Note 12)	*($96,805,321)*	*($102,740,485)*

See accompanying notes

Statements of Cash Flows

RESOLUTION TRUST CORPORATION
STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended December 31, 1992	Year Ended December 31, 1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash inflows from:		
Receipts from subrogated claims	*$29,655,899*	*$17,665,488*
Repayments of advances and reimbursable expenditures	*14,772,701*	*23,064,174*
Receipts of interest on advances	*754,480*	*1,595,363*
Receipts from asset liquidations	*53,089*	*0*
Receipts from other operations	*32,140*	*27,657*
Cash outflows for:		
Disbursements for subrogated claims	*(22,668,747)*	*(56,199,015)*
Disbursements for advances	*(11,735,557)*	*(18,427,996)*
Disbursements for reimbursable expenditures	*(1,554,588)*	*(1,022,149)*
Administrative operating and other expenditures	*(41,555)*	*(31,081)*
Interest paid on notes payable	*(1,605,807)*	*(907,831)*
Net Cash Provided (Used) by Operating Activities (Note 13):	*7,662,055*	*(34,235,390)*
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from:		
Contributed capital	*25,033,510*	*30,030,328*
Notes payable	*7,500,000*	*12,150,000*
Capital certificates	*203*	*7,038,268*
Cash outflows for:		
Contributed capital returned to the Treasury (Note 1)	*(18,314,767)*	*0*
Repayment of notes payable, principal	*(27,867,007)*	*(11,125,674)*
Net Cash Provided (Used) by Financing Activities	*(13,648,061)*	*38,092,922*
Net increase (decrease) in Cash	*(5,986,006)*	*3,857,532*
CASH – BEGINNING	*9,034,326*	*5,176,794*
CASH – ENDING	*$3,048,320*	*$9,034,326*

See accompanying notes

Notes to Financial Statements

RESOLUTION TRUST CORPORATION NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1992 and 1991

1. Impact of Legislation:

The RTC, a Government Corporation, was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage and resolve all troubled savings institutions that were previously insured by the Federal Savings and Loan Insurance Corporation (FSLIC) and for which a conservator or receiver was appointed during the period January 1, 1989 through August 8, 1992. In December 1991, this period was extended to September 30, 1993 by the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.

The activities of the RTC are subject to the general oversight of the Oversight Board, which was redesignated the Thrift Depositor Protection (TDP) Oversight Board and increased in size by the December 1991 legislation. The TDP Oversight Board monitors the operations of the RTC, provides the RTC with general policy direction, and reviews the RTC's performance. The seven members on the TDP Oversight Board include: the Secretary of the Treasury; the Chairperson of the Board of Governors of the Federal Reserve System; the Director of the Office of Thrift Supervision (OTS); the Chairperson of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC); the Chief Executive Officer of the RTC; and two independent members appointed by the President, with the advice and consent of the Senate.

Under current law, the RTC will terminate on or before December 31, 1996. All remaining assets and liabilities will be transferred to the FSLIC Resolution Fund which is managed by the FDIC. Proceeds from the sale of such assets will be transferred to the Resolution Funding Corporation (REFCORP) for interest payments after satisfaction of any outstanding liabilities.

Source of Funds:

The RTC is funded from the following sources: 1) U.S. Treasury appropriations and borrowings; 2) a contribution from the Federal Home Loan Banks through REFCORP; 3) amounts borrowed by REFCORP which is authorized to issue long term debt securities; 4) the issuance of debt obligations and guarantees as permitted by the TDP Oversight Board; and 5) income earned on the assets of the RTC, proceeds from the sale of assets, and collections made on claims received by the RTC from receiverships.

The Secretary of the Treasury has contributed capital of $55.5 billion to the RTC as of December 31, 1992, $18.8 billion of which was authorized by FIRREA, $30 billion of which was authorized by the Resolution Trust Corporation Funding Act of 1991 and $6.7 billion of which related to the December 1991 legislation (See Note 12). The December 1991 legislation authorized the Secretary of the Treasury to provide an additional $25 billion in capital to the RTC for its operations through March 31, 1992. These funds were received in January 1992. In April 1992, the RTC returned

$18.3 billion to the Treasury which represented funds not committed by the March 31, 1992 deadline. No additional capital has been contributed since that date.

The RTC has also issued capital certificates of $31.3 billion to REFCORP as of December 31, 1992, including $203 thousand of certificates during 1992 and $7.0 billion issued in 1991 (see Note 12). FIRREA prohibits the payment of dividends on any of these capital certificates. The RTC is also authorized to borrow directly from the Treasury an amount not to exceed in the aggregate $5.0 billion. There have been no draws against these authorized borrowings through the end of 1992.

2. Summary of Significant Accounting Policies:

General. These statements do not include accountability for assets and liabilities of closed thrifts for which the RTC acts as receiver/liquidating agent or of thrifts in conservatorship for which the RTC acts as managing agent.

Allowance for Losses on Advances. The RTC recognizes an estimated loss on advances. The allowance for losses represents the difference between amounts advanced to conservatorships or receiverships and expected repayments.

Allowance for Losses on Subrogated Claims. The RTC records as assets the amounts disbursed for assisting and closing thrifts, primarily the amounts for insured deposit liabilities. An allowance for losses is established against subrogated claims representing the difference between the amounts disbursed and the expected repayments. The allowance is based on the estimated cash recoveries from the assets of the assisted or failed thrifts, net of estimated asset liquidation and overhead expenses, including interest costs.

Estimated Cost of Unresolved Cases. The RTC has recorded the estimated losses related to thrifts in conservatorship and those identified in the regulatory process as probable to fail on or before the statutory date of September 30, 1993.

Litigation Losses. The RTC recognizes an estimated loss for litigation against it in its Corporate, conservatorship and receivership capacities. The RTC Legal Division recommends these estimated losses on a case-by-case basis.

Due to Receiverships - Assets Sold. The RTC establishes a contra asset account to record the amount payable to receiverships for the purchase price of receivership assets sold to acquiring institutions in resolution transactions. This is done in lieu of the receivership receiving the cash proceeds from the sale of its assets. This contra account offsets the balance due from the receiverships for subrogated claims. The amounts that exceed the expected recovery of subrogated claims due from the receiverships are recorded as a liability entitled "Due to receiverships." The RTC accrues interest on the total of the contra asset and liability accounts.

Allocation of Common Expenses. The RTC shares certain administrative operating expenses with several funds of the FDIC including the Bank Insurance Fund, the FSLIC Resolution Fund, and the Savings Association Insurance Fund. The administrative operating expenses include allocated personnel, administrative, and other overhead expenses.

Allocation of Corporate Expenses. The RTC recovers costs incurred by the Corporation in support of liquidation/receivership activities, including a portion of administrative expenses. These costs are billed to individual receiverships with the offsetting credits reducing the Corporation's "Administrative operating and other expenses."

Depreciation. The cost of furniture, fixtures, equipment and other fixed assets is expensed at the time of acquisition and is reported as "Administrative operating and other expenses." This policy is a departure from generally accepted accounting principles, however, the financial impact is not material to the RTC's financial statements.

Cash Equivalents. The RTC considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. As of December 31, 1992 and 1991, the RTC did not have any cash equivalents.

Fair Value of Financial Instruments. The balances of financial instruments included in the RTC's Statement of Financial Position approximate their estimated fair values. The values of "Net advances" and "Net subrogated claims" are based on the discounted net cash flows expected to be received from those instruments. The frequent repricing of the balances of "Due to receiverships" and the short-term nature of "Notes Payable" result in face amounts of such instruments which approximate their fair values.

Reclassifications. Certain balances in the 1991 financial statements have been reclassified for comparative purposes.

3. Office of Inspector General:

FIRREA established an Inspector General of the Corporation and authorized to be appropriated such sums as may be necessary for the operation of the Office of Inspector General (OIG). All financial transactions related to the OIG are included in the Corporation's financial statements.

The OIG has received $74.6 million of appropriated funds from the U.S. Treasury since it was established of which $33.5 million relate to the Government's Fiscal Year (FY) 1993 and $30.3 million relate to FY 1992. These funds are used to finance the activities of the OIG. Restricted amounts of $6,845,045 for FY 1992 and $32,414 for FY 1991 are included in "Cash." These funds were unobligated at year end.

Reductions to the OIG appropriated funds resulting from obligations are recorded as "Other revenue." Accordingly, the OIG appropriated funds were reduced by $24,274,873 and $12,867,302 during 1992 and 1991, respectively, and recorded as "Other revenue."

Disbursements of the OIG appropriated funds for expenditures are recorded as "Administrative operating and other expenses." These disbursements totalled $20,955,917 during 1992 and $11,622,049 during 1991. As of December 31, 1992 and 1991, the unobligated OIG appropriation balances included in "Contributed capital" were $36.8 million and $27.5 million, respectively.

4. Net Advances (in thousands):

The RTC makes advances to receiverships and conservatorships. Advances are made to conservatorships to provide funds for liquidity needs and to reduce the cost of funds, and to receiverships to provide working capital. The advances generally are either secured by the assets of the conservatorship or receivership at the time the advances were made or have the highest priority of unsecured claims. The Corporation accrues interest on these advances which is included in the Statements of Revenues, Expenses and Accumulated Deficit. The Corporation expects repayment of these advances, including interest, before any subrogated claims are paid by receiverships. The advances carry a floating rate of interest based upon the 13-week Treasury Bill rate. Interest rates charged during 1992 ranged between 2.98% and 4.44%, and between 4.10% and 6.97% in 1991. At December 31, 1992 and 1991, the interest rates on advances were 3.54% and 4.26%, respectively.

	December 31, 1992	December 31, 1991
Advances to conservatorships	$ 6,777,066	$ 4,931,021
Advances to receiverships	6,379,436	13,402,648
Reimbursements due from receiverships and conservatorships	419,611	750,398
Accrued interest	38,921	326,789
Write-offs at termination - advances (Note 6 and 7)	(3,575)	0
Allowance for losses on receivership advances (Note 6)	(3,907,079)	(3,482,889)
Allowance for losses on conservatorship advances (Note 6)	(373,032)	0
	$ 9,331,348	$15,927,967

Reimbursements due from receiverships and conservatorships represent operating expenses paid by the RTC on behalf of the receiverships and conservatorships for which repayment is expected in full. Interest is not accrued on these reimbursements.

5. Net Subrogated Claims (in thousands):

Subrogated claims represent disbursements made by the RTC primarily for deposit liabilities. The Corporation recognizes an estimated loss on these subrogated claims. These estimates are based in part on a statistical sampling of receivership assets subject to a sampling error of plus or minus $1.8 billion with a 95 percent confidence interval.

The value of assets under RTC management could be lower (or higher) than projected because general economic conditions, interest rates and real estate markets could change. Because of these uncertainties, it is reasonably possible that the actual losses may be higher (or lower) than the current "Allowance for losses on subrogated claims."

Receiverships frequently sell a portion of their assets to institutions acquiring their deposit liabilities. In lieu of the receiverships receiving cash for the sale, the purchase price of the assets sold is recorded by the receivership as a receivable and by the RTC in a contra asset account entitled "Due to receiverships - assets sold." This account is offset against subrogated claims expected to be collected from the receivership. The portion of the contra asset account, if any, in excess of expected subrogated claim recoveries is recorded as a liability entitled "Due to receiverships" (see

Note 8). The RTC accrues interest payable to the receiverships on the total of the contra asset and liability accounts. The rates used by the RTC to accrue interest are based upon the Chicago FHLB Daily Investment Deposit Rates. Interest rates paid during 1992 ranged between 2.59% and 4.74%, and between 3.83% and 7.68% in 1991. At December 31, 1992 and 1991, the interest rates paid on these accounts were 2.63% and 4.70%, respectively.

	December 31, 1992	December 31, 1991
Subrogated claims	$200,461,308	$172,625,205
Recovery of subrogated claims	(92,855,555)	(41,568,755)
Claims of depositors pending and unpaid	19,974	50,990
Due to receiverships - assets sold	(7,520,378)	(25,503,185)
Write-offs at termination - subrogated claims (Note 6 and 7)	(352,712)	0
Allowance for losses on subrogated claims(Note 6)	(67,262,634)	(68,088,111)
	$ 32,490,003	$ 37,516,144

6. Changes in Allowance for Losses (in thousands):

	Allowance for losses on subrogated claims	Allowance for losses on advances	Allowance for losses on corp assets	Estimated cost of unresolved cases	Estimated losses from corporate litigation	TOTAL
Balance, Dec 31, 1990	$41,208,071	$ 1,402,742	$ 0	$55,941,445	$158,184	$98,710,442
Provision (reductions)	(6,779,500)	2,080,147	-	3,210,747	39,415	(1,449,191)
Reclassifications	33,659,540	-	-	(33,659,540)	-	-0-
Balance, Dec 31, 1991	68,088,111	3,482,889	0	25,492,652	197,599	97,261,251
Provision (reductions)	(7,663,264)	800,797	11,225	(1,443,296)	177,776	(8,116,762)
Write-offs at termination (Note 7)	(352,712)	(3,575)	-	-	-	(356,287)
Reclassifications	7,190,499	-	-	(7,190,499)	-	-0-
Balance, Dec 31, 1992	$67,262,634	$4,280,111	$11,225	$16,858,857	$375,375	$88,788,202

The "Allowance for losses on subrogated claims" includes future interest costs and overhead expenses. Total "reductions" in loss allowances contain the offset of net interest costs incurred in the current period that were previously included in provisions. "Reclassifications" represent amounts transferred from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" as a result of case resolutions.

7. Net Assets Purchased by the Corporation (in thousands):

During 1992, the RTC initiated a program to purchase the remaining assets of selected receiverships in order to pay a final dividend to the receiverships' creditors and to begin the process of legally terminating the receivership entities.

As of December 31, 1992, the RTC had purchased assets for $142 million from 36 receiverships and is completing the necessary procedures to terminate the receivership entities. Assets purchased include mortgage loans backed by 1-4 family homes, multi-family dwellings or commercial real estate; consumer loans; real estate; and other assets including receivership interests in credit enhancement reserve funds created when receiverships participated in RTC loan securitizations. Upon termination, the RTC may realize a loss on advances and subrogated claims that was previously included in the respective allowances and recognized in the provision for losses in a prior year.

	December 31, 1992	1991
Assets purchased	$141,795	$ 0
Sales, collections and adjustments	(48,265)	0
Allowance for losses on corporate assets (Note 6)	(11,225)	(0)
	$ 82,305	$ 0

8. Due to Receiverships:

Receiverships frequently sell some of their assets to institutions acquiring their deposit liabilities. In lieu of the receiverships receiving cash for the sale, the RTC establishes a contra asset account equal to the purchase price of the assets sold and the receiverships record a receivable. This account is offset against the subrogated claims due from the receivership to the extent that the RTC expects full repayment of such claims. If a receivership's contra account exceeds the expected repayment of its subrogated claims to the RTC, the excess is recorded as "Due to receiverships." The balance of "Due to receiverships" was $29.1 million and $1.6 billion at December 31, 1992 and 1991, respectively.

9. Notes Payable and Accrued Interest:

Working capital has been made available to the RTC under an agreement between the RTC and the Federal Financing Bank. The working capital is available to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding notes mature at the end of each calendar quarter, at which time they are generally refinanced at similar terms. Payments on the note balance may also be made during each calendar quarter. The notes payable carry a floating rate of interest established by the Federal Financing Bank and ranged between 2.82% and 5.09% during 1992 and between 5.09% and 6.76% in 1991. As of December 31, 1992 and 1991, the RTC had $37.5 billion and $57.5 billion, respectively, in borrowings and accrued interest outstanding from the Federal Financing Bank. These borrowings, approved by the Oversight Board, are within the limitations imposed under FIRREA.

10. Estimated Cost of Unresolved Cases:

The RTC has established a liability of $16.9 billion at December 31, 1992 for the anticipated costs of resolving an additional 120 troubled institutions. Of the 120 institutions, 81 were in conservatorship as of that date. The other 39 associations were identified by the OTS as institutions for which it is probable that government assistance may be required by September 30, 1993, the last date by which the RTC may be appointed conservator.

The 1992 "Estimated cost of unresolved cases" has declined from the December 31, 1991 and 1990 estimates of $25.5 billion and $55.9 billion, respectively. The primary reason for this decline was the resolution of 69 cases during 1992 and 232 cases during 1991, leaving fewer unresolved cases at the end of each year.

The OTS has also identified 52 savings associations for which it is reasonably possible that government assistance may be required by September 30, 1993. The estimated cost to resolve these 52 institutions could total an additional $2 billion.

Furthermore, the value of assets anticipated to come to the RTC could be lower (or higher) than projected because general economic conditions, interest rates, and real estate markets could change. Because of these uncertainties, it is reasonably possible that the cost of unresolved cases will be higher (or lower) than what has been estimated.

11. Estimated Losses from Corporate Litigation:

As of December 31, 1992, the RTC has been named in several thousand lawsuits while serving in its Corporate, conservatorship or receivership capacities. Currently, it is not possible to predict the outcome for all of the various actions. An allowance for loss totalling $375.4 million has been established as of December 31, 1992 for the 71 actions that management feels are probable to result in a significant loss ($197.6 million at December 31, 1991 for 77 actions). Additionally, the Corporation could possibly incur further losses from other pending lawsuits and other yet unasserted claims.

12. Changes in Equity (in thousands):

	Contributed Capital	Capital Certificates	Accumulated Deficit	Total Equity
Balance, Dec 31, 1990	$18,810,090	$24,247,854	$(100,290,153)	$(57,232,209)
1991 Net loss	-	-	(2,450,332)	(2,450,332)
Resolution Trust Corporation Funding Act of 1991	30,000,000	-	-	30,000,000
FY 92 OIG appropriation	30,328	-	-	30,328
1991 Obligated OIG funds	(12,867)	-	-	(12,867)
Issuance of capital certificates: 01/23/91	-	7,038,268	-	7,038,268
Balance, Dec 31, 1991	48,827,551	31,286,122	(102,740,485)	(22,626,812)
1992 Net revenue	-	-	5,935,164	5,935,164
Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991	6,685,233	-	-	6,685,233
FY 93 OIG appropriation	33,510	-	-	33,510
1992 Obligated OIG funds	(24,275)	-	-	(24,275)
Issuance of capital certificates: 01/30/92	-	203	-	203
Balance, Dec 31, 1992	**$55,522,019**	**$31,286,325**	**$ (96,805,321)**	**$ (9,996,977)**

13. Supplementary Information Relating to the Statement of Cash Flows (in thousands):

Reconciliation of net revenue (loss) to net cash provided (used) by operating activities:

	For the Years Ended December 31, 1992	1991
Net Revenue (Loss)	$ 5,935,164	$ (2,450,332)
Reduction in loss allowances	(8,116,762)	(1,449,191)
Interest expense financed as additional notes payable	545,215	3,001,672
Decrease in accrued interest on notes payable	(222,398)	(437,215)
Increase in accrued interest on amounts due to receiverships	774,320	1,903,837
Decrease in accrued interest due from advances	238,115	122,351
Receipts from subrogated claims	29,655,899	17,665,488
Repayments of advances and reimbursable expenditures	14,772,701	23,064,174
Receipts from asset liquidations	53,089	0
Increase (decrease) in accounts payable, accrued liabilities and other	(7,400)	127,814
(Increase) decrease in reimbursable portion of liabilities above	39,045	(120,016)
Disbursements for advances	(11,735,557)	(18,427,996)
Disbursements for subrogated claims	(22,668,747)	(56,199,015)
Disbursements for reimbursable expenditures	(1,554,588)	(1,022,149)
OIG income recognized	(24,275)	(12,867)
Other non-cash income and expenses (net)	(22,564)	0
Decrease (increase) in other assets	798	(1,945)
Net cash provided (used) by operating activities	$ 7,662,055	$(34,235,390)

Noncash transactions incurred from thrift assistance and failures (in thousands):

- $7,190,499 and $33,659,540 were reclassified from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" during 1992 and 1991, respectively, due to the resolution of 69 cases during 1992 and 232 cases in 1991.

- "Due to receiverships - assets sold" decreased by $3,661,299 and $0 in 1992 and 1991, respectively, with offsetting decreases of $3,611,547 and $0 to "Advances to receiverships" and of $49,752 and $0 to "Accrued interest" to repay receivership advances and related interest.

- $545,215 and $3,001,672 of interest expense was financed through increases in notes payable in 1992 and 1991, respectively.

- "Recovery of subrogated claims" increased by $21,630,902 and $20,873,976 during 1992 and 1991, respectively, with an offsetting decrease in "Due to receiverships - assets sold", to record liquidating dividends declared by receiverships.

- "Subrogated claims" increased by $5,190,331 and $14,852,406 in 1992 and 1991, respectively, resulting from resolution activity with an offsetting increase in "Due to receiverships - assets sold."

- "Due to receiverships" decreased by $1,605,088 and increased by $443,526 in 1992 and 1991, respectively, with the offset to "Due to receiverships - assets sold" (a component of "Net subrogated claims") for amounts exceeding the expected recovery of subrogated claims due from the receiverships.

- "Reimbursements due from receiverships and conservatorships" decreased by $389,551 and $388,500 during 1992 and 1991, respectively, with an offsetting decrease to "Due to receiverships - assets sold."

- "Due to receiverships - assets sold" increased by $141,795 and $0 in 1992 and 1991, respectively, with an offsetting increase to "Net assets purchased by the Corporation" relating to the purchase of receivership assets by the Corporation.

14. Related Party Transactions:

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 established the RTC to manage and resolve failed savings institutions that were formerly insured by the FSLIC and for which a receiver or conservator was appointed after January 1, 1989. At December 31, 1992, there were 734 institutions with $124.0 billion of assets for which the RTC was appointed conservator or receiver. This compares to 675 institutions with $164.5 billion of assets at December 31, 1991.

In its fiduciary capacity as receiver or conservator, the RTC has substantial control over the operations of the institutions placed in receivership or conservatorship by the OTS. The RTC, as receiver or conservator, has ultimate authority in the day-to-day operations, including the timing and methods of the disposal of the institutions' assets in an effort to maximize returns on such assets.

The RTC does not include the assets and liabilities of the receiverships and conservatorships in its financial statements. However, certain transactions with these institutions, including advances to and receivables from the institutions, as well as interest paid or received on such items, are included in the RTC's financial records. At December 31, 1992, the net balances of advances and subrogated claims were $9.3 billion and $32.5 billion (net of "Due to receiverships - assets sold" of $7.5 billion), respectively. The RTC owed $7.5 billion to receiverships, including the liability account of $29 million, at December 31, 1992 resulting from resolution transactions (see notes 5 and 8). Interest income earned on advances and subrogated claims was $0.5 billion during the year ended December 31, 1992 and interest expense on amounts due receiverships was $0.8 billion.

At December 31, 1991, the net balances of advances and subrogated claims were $15.9 billion and $37.5 billion (net of "Due to receiverships - assets sold" of $25.5 billion), respectively. Total amounts due receiverships were $27.1 billion, including the liability account of $1.6 billion. Interest income on advances and subrogated claims was $1.5 billion during the year ended December 31, 1991 and interest expense on amounts due receiverships was $1.9 billion.

The RTC funds the activities of the TDP Oversight Board based on its fiscal year budgets. The amounts funded in 1992 and 1991 were $5.0 million and $6.1 million, respectively. These amounts are subject to the Corporation's policy of allocating corporate expenses to the receiverships.

"Administrative operating and other expenses" for the Corporation were $54.2 million and $30.0 million for the years ended December 31, 1992 and 1991, respectively (total costs of $970.9 million and $734.3 million less $916.7 million and $704.3 million billed back to receiverships during 1992 and 1991, respectively).

15. Commitments and Guarantees:

Securitization Credit Reserves:

In 1992, the RTC sold through its securitization program $22.6 billion of receivership, conservatorship and Corporate loans ($10.2 billion during 1991). The loans sold were secured by various types of real estate including 1-4 family homes, multi-family dwellings and commercial real estate. Each securitization transaction is accomplished through the creation of a trust, which purchases the loans to be securitized from one or more institutions for which the Corporation acts as a receiver or conservator or purchases loans owned by the Corporation. The loans in each trust are pooled and stratified and the resulting cash flow is directed into a number of different classes of pass-through certificates. The regular pass-through certificates are sold to the public through licensed brokerage houses. RTC and its receiverships and conservatorships retain residual pass-through certificates which are entitled to any remaining cash flows from the trust after obligations to regular pass-through holders have been met.

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular pass-through certificates, and thus the marketability of such certificates, a portion of the proceeds from the sale of the certificates is placed in credit enhancement reserve funds (reserve funds) to cover future credit losses with respect to the loans underlying the certificates. The reserve funds' structure limits the receiverships', conservatorships' or Corporation's exposure from credit losses on loans sold through the RTC securitization program to the balance of the reserve funds. The initial balances of the reserve funds are determined by independent rating agencies and are subsequently reduced for claims paid. Through December 1992, the amount of claims paid is less than 1% of the reserve balances. At December 31, 1992 and 1991, reserve funds related to the RTC securitization program totalled $6.2 billion and $2.0 billion, respectively. Of the total reserve funds, $4.5 billion relate to receivership reserves ($1.5 billion for 1991), $1.6 billion relate to conservatorship reserves ($0.5 billion for 1991), and $20 million relate to Corporate reserves ($0 for 1991). RTC management expects to recover a substantial portion of the reserve funds over time. The RTC estimates Corporate losses related to the receiverships' reserve funds as part of the RTC's allowances for losses. Additionally, the RTC estimates Corporate losses related to conservatorships' reserve funds as part of the RTC's "Estimated cost of unresolved cases." As of December 31, 1992, the RTC included $1.3 billion in these provisions to cover estimated losses on the reserve funds ($0.3 billion as of December 31, 1991).

Representations and Warranties:

The RTC provides certain representations and warranties on loans sold through the securitization program. Funds have been placed in escrow by the receiverships and conservatorships participating in the securitization transactions to honor obligations that may arise from the representations and warranties. The Corporation has also established a liability for the estimate of representation and warranty claims associated with the securitization transactions that involved corporate purchased assets.

The RTC has provided guarantees, representations and warranties on approximately $39 billion in unpaid principal of loans sold for cash or exchanged for mortgaged-backed securities. The RTC also has provided guarantees, representations and warranties on approximately $129 billion of loans under servicing right contracts which have been sold. The representations and warranties made in connection with the sale of servicing rights are limited to the responsibilities of acting as a servicer of loans. Where there are corporate guarantees, institutions have established escrow fund accounts containing a portion of the sales proceeds to honor any obligations that might arise from the guarantees, representations and warranties.

The RTC estimates Corporate losses related to the receiverships' representation and warranty claims as part of the RTC's allowances for losses. Additionally, the RTC estimates Corporate losses related to the conservatorships' representation and warranty claims as part of the RTC's "Estimated cost of unresolved cases." As of December 31, 1992, the RTC included $1.5 billion in these provisions to cover the estimated costs of representation and warranty claims ($0.2 billion as of December 31, 1991).

Letters of Credit:

The RTC has adopted special policies for outstanding RTC conservatorship and receivership collateralized letters of credit. These policies enable the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit are used to guarantee tax exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1992, the RTC has issued a commitment to honor approximately $4.6 billion of these letters of credit. The total amount that will ultimately be paid, the fair value of such letters of credit, and the losses resulting from these letters of credit are not reasonably estimable at December 31, 1992.

Affordable Housing Program:

As part of its Affordable Housing Program, RTC management has committed to expend up to $6 million to pay reasonable and customary commitment fees to various state and local housing authorities who will, in turn, assist in providing financing to low and moderate income families. Under this program, the RTC works with state and local housing finance agencies to secure commitments of Mortgage Revenue Bond and Mortgage Credit Certificate funds which will be lent to qualifying families to enable them to purchase properties from the RTC. At December 31, 1992, $2.1 million remains unexpended. No substantial recoveries are anticipated from the program.

Rental Expense:

The RTC is currently leasing office space at several locations to accommodate its staff. As of December 31, 1992, these offices include: (1) the Washington, D.C. Headquarter offices, (2) the six megasite offices, and (3) the seven satellite offices located throughout the country. Two additional satellite offices have closed as of December 1992 and the RTC remains obligated for the remainder of their lease terms pending negotiations for lease buyouts or subleases. These obligations total $5.2 million. In addition, the Tampa, Baton Rouge, Phoenix, and San Antonio offices have closed during the beginning of 1993 and their collective obligations for leases total $8.5 million. The RTC's rental expense for 1992 and 1991 totalled $44.8 million and $41.1 million, respectively. The RTC's total contractual obligations under lease agreements for office space are approximately $170.5 million. These agreements often contain escalation clauses which can result in adjustments to rental fees for future years. The minimum yearly rental expense for all locations is as follows (in thousands):

1993	1994	1995	1996	1997	1998/Thereafter
$ 44,254	$ 36,771	$ 31,596	$ 18,275	$ 6,616	$ 32,989

Lease obligations for 1997 and beyond are exclusively for the RTC headquarters building in Washington, D.C. This lease was entered into by the now defunct FSLIC in 1987. At the date of RTC's termination, which under current law shall not be later than December 31, 1996, all of the RTC's debts, obligations and assets, including the above lease obligations, shall be transferred to the FSLIC Resolution Fund which is managed by the FDIC.

16. Pension Plan and Accrued Annual Leave:

The FDIC eligible employees assigned to the RTC are covered by the Civil Service Retirement System and the Federal Employees Retirement System. Employer contributions provided by the RTC for all eligible employees for the years ended December 31, 1992 and 1991 were approximately $16.9 million and $12.4 million, respectively.

Although the RTC contributes a portion of pension benefits for eligible employees and makes the necessary payroll withholdings from them, the RTC does not account for the assets of either of these retirement funds and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM also accounts for Federal health and life insurance programs for those RTC retired eligible employees who had selected Federal government sponsored plans.

The RTC's liability to employees for accrued annual leave was approximately $20.0 million at December 31, 1992, and $17.0 million at December 31, 1991.

17. Health, Dental and Life Insurance Plans for Retirees:

The RTC, through its association with the FDIC, provides certain health, dental and life insurance coverage for its eligible retirees, the retirees' beneficiaries and covered dependents. Eligible retirees are those who have elected the FDIC's health and/or life insurance programs and are entitled to an immediate annuity (dental coverage is automatic at retirement). The health insurance coverage is a comprehensive fee-for-service program, with hospital coverage and a major medical wraparound.

Corporate contributions for retirees are the same as those for active employees. Premiums are paid to the FDIC, where they are held until plan fixed costs and expenses are paid. The life insurance program provides for basic coverage at no cost and allows converting optional coverages to direct-pay plans. The cost of providing this benefit is not separable from the cost of providing benefits for active employees, as the charge for retirees is built into rates for active employees.

The RTC adopted Financial Accounting Standard No. 106 (FAS 106), Employer's Accounting for Postretirement Benefits Other than Pensions, as of January 1, 1992. FAS 106 requires the accrual method of accounting for postretirement health and life insurance costs. These costs are generally recognized over the period from the date of hire to the full eligibility date of employees who are expected to qualify for such benefits. This is a significant change from the RTC's previous policy of recognizing these costs in the year in which the benefits are provided.

The RTC elected to immediately recognize the accumulated postretirement benefit liability measured as of January 1, 1992. The accumulated liability, known as the transition obligation, represents that portion of future retiree benefit costs related to service rendered by both active and retired employees prior to the date of adoption. During 1992, the RTC recorded charges of $18.1 million for the transition liability and $11 million for the current periodic cost, which have been reflected in the "Administrative operating and other expense" line of the Statements of Revenues, Expenses and Accumulated Deficit.

The net periodic postretirement benefit cost for 1992 included the following components (in millions):

Service cost, benefits attributed to employee service during the year	$ 6.8
Interest cost on accumulated postretirement benefit obligations	4.2
Net periodic postretirement benefit cost	$ 11.0

The RTC, as a government corporation scheduled under current law to terminate on or before December 31, 1996, decided, in conjunction with the FDIC, that the liability for postretirement benefits for eligible employees assigned to the RTC will be recorded on the books of the FDIC. The RTC will pay the FDIC an amount equal to the RTC's transition obligation plus the RTC's 1992 net periodic postretirement cost. In return, the FDIC agrees to pay the costs associated with postretirement benefits due to eligible employees assigned to the RTC upon their retirement. As of December 31, 1992, the RTC has included as a current liability on its Statement of Financial Position an amount equal to the RTC's transition obligation plus the RTC's net periodic postretirement cost. The RTC expects to pay this liability to the FDIC during 1993.

The discount rate used in the calculation of the postretirement benefit obligation was 7.0%. The assumed medical inflation trend in 1992 was 16.5%, decreasing to an ultimate rate of 9.0% in 1998 and remaining at that level thereafter. The dental cost trend rate in 1992 and thereafter was 8.0%. Both the assumed discount rate and health care cost trend rates have a significant effect on the amount of the obligation and periodic cost reported.

If the health care cost trend rate was increased one percent, the accumulated postretirement benefit obligation as of December 31, 1992 would have increased $6.6 million, or 22.8%. The effect of this change would have increased aggregate 1992 service and interest costs by $2.9 million, or 26.1%.

18. Concentration of Credit Risk:

The RTC has receivables from conservatorships and receiverships located throughout the United States which are experiencing problems with both loans and real estate. Their ability to make repayments to the RTC is largely influenced by the economy of the area in which they are located. The gross balance of these receivables at December 31, 1992 is $121.2 billion (against which $79.4 billion of reserves and contra assets have been recorded). Of this total, $31.1 billion is attributable to institutions located in Texas, $15.3 billion is attributable to institutions located in California, $9.5 billion is attributable to institutions located in Florida and $7.6 billion is attributable to institutions located in Arizona.

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