United States General Accounting Office

GAO

Report to the Congress

June 1994

FINANCIAL AUDIT

Resolution Trust Corporation's 1993 and 1992 Financial Statements

GAO/AIMD-94-148

GAO

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

Comptroller General
of the United States

B-240108

June 27, 1994

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, 1993 and 1992, our opinion on internal controls, and our evaluation of 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. 1441a(k)(1)) and in accordance with generally accepted government auditing standards.

The report also discusses (1) the significant progress made by the Corporation in addressing internal control weaknesses we identified in our audit of the Corporation's 1992 financial statements, (2) new internal control weaknesses we identified and our recommendation to correct these weaknesses, (3) issues affecting estimated recoveries from failed thrifts including uncertainties and operating controls, and (4) the estimated unused loss funds after the Corporation's completion of all resolution activities.

We are sending copies of this report to the Chairman and members of the Thrift Depositor Protection Oversight Board; the Deputy and 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, the Senate Committee on Banking, Housing and Urban Affairs, and the House Committee on Banking, Finance and Urban Affairs; and other interested parties.

This report was prepared under the direction of Robert W. Gramling, Director, Corporate Financial Audits, who may be reached at (202) 512-9406 if you or your staff have any questions. Major contributors to this report are listed in appendix VI.

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

FDIC	Federal Deposit Insurance Corporation
FFB	Federal Financing Bank
FSLIC	Federal Savings and Loan Insurance Corporation
SAIF	Savings Association Insurance Fund

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To the Thrift Depositor Protection
Oversight Board
Resolution Trust Corporation

We have audited the Resolution Trust Corporation's accompanying statements of financial position as of December 31, 1993 and 1992, and the related statements of revenues, expenses, accumulated deficit, and cash flows for the years then ended. We found:

- The Corporation's financial statements referred to above were reliable in all material respects.
- Internal controls as of December 31, 1993, were effective in safeguarding assets against unauthorized acquisition, use, or disposition; assuring the execution of transactions in accordance with management's authority and material laws and regulations; and assuring that there were no material misstatements in the financial statements. While we identified several internal control weaknesses, we do not consider them to be material weaknesses.[1] Our findings were consistent with the results of the Corporation's review of internal controls included in appendix III.
- There was no material noncompliance with laws and regulations we tested.
- The Corporation adequately addressed the material weakness and reportable conditions we identified in our 1992 audit.[2]

Presented in the following section are significant matters considered in performing our audit and forming our opinions. This report also discusses in more detail each of the above audit conclusions, our recommendation for improving the Corporation's internal control structure, and the Corporation's comments on our report. Appendix I discusses the scope of

[1]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. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in the auditor's judgment, could adversely affect an entity's ability to (1) safeguard assets against loss from unauthorized acquisition, use, or disposition, (2) ensure the execution of transactions in accordance with management's authority and in accordance with laws and regulations, or (3) properly record, process, and summarize transactions to permit the preparation of financial statements and to maintain accountability for assets. Reportable conditions which are not considered to be material nevertheless represent significant deficiencies in the design or operation of internal controls and need to be corrected by management.

[2]Financial Audit: Resolution Trust Corporation's 1992 and 1991 Financial Statements (GAO/AIMD-93-6, June 30, 1993) and Financial Audit: Resolution Trust Corporation's Internal Controls at December 31, 1992 (GAO/AIMD-93-50, September 28, 1993).

our audit. Appendix II presents the Corporation's financial statements. Appendix III presents the results of the Corporation's evaluation of its internal controls. Appendix IV presents the internal control weaknesses we identified in 1992 and the Corporation's progress in addressing these weaknesses. The Corporation's written comments on a draft of this report are included in appendix V. Major contributors to this report are included in appendix VI. A list of related GAO products is presented at the end of this report.

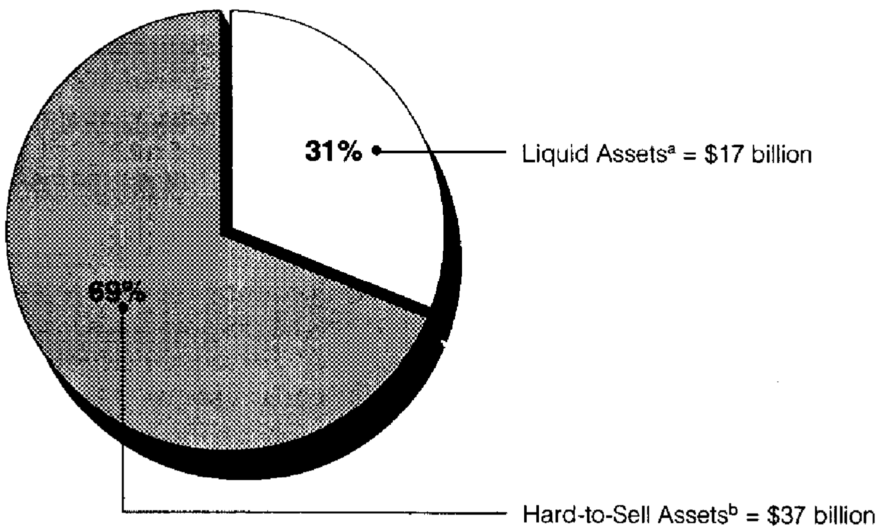
Significant Matters

The following information is presented to highlight (1) uncertainties that could affect the Corporation's loss estimates, (2) the potential impact of controls over contractor performance on recoveries from receiverships, and (3) the current status of the Corporation and its funding.

Uncertainties Affect Estimated Recoveries From Receiverships and Costs of Future Resolutions

Although the Corporation used an appropriate methodology for estimating the recovery value of receivership assets and has used 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 shown in figure 1, the Corporation's receiverships and conservatorships held $54 billion in assets as of March 31, 1994, of which 31 percent were performing 1-4 family mortgages and cash and investment securities. The remaining 69 percent were delinquent loans, real estate owned, other assets, other mortgages and loans, and investments in subsidiaries of failed thrifts and are considered hard-to-sell by the Corporation. It is particularly difficult for the Corporation to predict the recovery value and timing of sales for these hard-to-sell assets. Typically, if assets sell later or for less than predicted, the Corporation's costs will be higher than estimated. Conversely, higher or earlier recoveries would typically lower the Corporation's final costs.

Figure 1: Conservatorship and Receivership Assets as of March 31, 1994 (Total Assets = $54 Billion)



[a]Liquid assets include performing 1-4 family mortgages and cash and investment securities.

[b]Hard-to-sell assets include delinquent loans, real estate owned, other assets, other mortgages and loans, and investments in subsidiaries of failed thrifts.

As discussed in note 15 to the financial statements, the Corporation has set aside a portion of the proceeds from securitization transactions to cover future credit losses with respect to the underlying loans.[3] 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.[4] As of December 31, 1993, the Corporation's loss allowances for resolved and unresolved institutions included $1.5 billion for the expected cost of future securitization credit losses and $1.2 billion for claims arising from the representations and warranties. Although the Corporation used the best available information to estimate securitization credit losses and future

[3]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.

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

losses arising from representations and warranties, significant uncertainties exist.

The Corporation's claims experience to date has been limited, raising the risk that as additional experience is gained, the amount of future losses may significantly increase or decrease. 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 higher or lower credit and claims losses than currently estimated.

Controls Over Contractor Performance Could Affect Recoveries From Receiverships

Weak operating controls could impact the estimated recoveries from receiverships included in the Corporation's financial statements. These operating controls, though not included in the scope of internal controls objectives assessed as part of GAO's financial audit, were considered as part of GAO's other audits and reviews of the Corporation's operations. In response to previously reported weaknesses, the Chairman of the Thrift Depositor Protection Oversight Board announced a management reform agenda in March 1993, which included requirements that the Corporation strengthen its internal controls.[5] The specific reform items dealt with improving internal controls in several operational areas as well as financial accounting and reporting controls.

The Corporation has taken steps to enhance its operating controls during 1993, including oversight of contractors that perform services for receiverships. However, audits of some contractors are continuing to identify contractor performance problems, such as poor asset management and disposition practices and questionable billings, which could result in increased expenses or reduced recoveries on assets.[6] The estimated recoveries from receiverships included in the Corporation's financial statements include the results of cash received and disbursed by receiverships during the year. However, because of contractor performance problems, the Corporation cannot be sure that it is recovering all it should from its receiverships.

[5]In December 1993, similar requirements were legislatively mandated in the Resolution Trust Corporation Completion Act.

[6]Resolution Trust Corporation: Oversight of SAMDA Property Management Contracts Needs Improvement (GAO/GGD-94-5, November 30, 1993).

During 1993, GAO issued a total of 22 reports resulting from its audits and reviews of the Corporation's operations, a number of which address contractor performance problems. A list of related GAO products is presented at the end of this report.

Funding and Current Status of the Corporation

For each institution it resolves, the Corporation calculates the amount it will have to pay to cover depositor claims and then estimates how much of that cost it will recover from the sale of the failed institution's assets. The amount expected to be recovered is borrowed from Treasury's Federal Financing Bank (FFB) and is considered working capital. The portion not recoverable is a loss to the Corporation and must be covered with loss funds.

Table 1: Estimated Loss Funding Needs as of December 31, 1993

Dollars in billions

Receiverships	$ 82
Conservatorships and probable failures	9
Possible failures	1
Total	**$ 92**

The Corporation's December 31, 1993, financial statements, and the related notes, show total loss funding needs of $92 billion to complete the resolution of all receiverships, conservatorships, and institutions for which it is probable or possible that government assistance may be required on or before March 31, 1995.[7] Based on figures presented in the financial statements, $82 billion has been used to resolve the 680 institutions closed as of December 31, 1993, and an estimated $10 billion will be used to resolve the 63 institutions in conservatorship, 4 institutions considered probable failures, and the 18 institutions considered possible failures before the Corporation's authority to take institutions into conservatorship expires.

[7]The Resolution Trust Corporation Completion Act extended the period of the Corporation's authority to take institutions into conservatorship to a date not earlier than January 1, 1995, and not later than July 1, 1995. The act requires the Chairperson of the Thrift Depositor Protection Oversight Board to select the actual date. The Corporation based its estimate on the Office of Thrift Supervision's list of institutions which are probable or possible failures by March 31, 1995, the midpoint of the range of dates specified in the legislation.

Table 2: Total Loss Funding Made Available as of December 31, 1993

Dollars in billions	
Financial Institutions Reform, Recovery, and Enforcement Act of 1989	$ 50.0
Resolution Trust Corporation Funding Act of 1991	30.0
Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991	6.7[a]
Resolution Trust Corporation Completion Act	18.3[a]
Total	**$ 105.0**

[a]The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (Public Law 102-233) provided $25 billion in December 1991, which was only available for obligation until April 1, 1992. As a result of the deadline, the Corporation returned $18.3 billion of unobligated funds to the Treasury in April 1992. In December 1993, the RTC Completion Act removed the April 1, 1992, deadline, thus making the $18.3 billion available to the Corporation for resolution activities.

To date $105 billion has been made available to the Corporation to cover losses associated with resolutions. Based on the estimates presented in the Corporation's 1993 financial statements, which are subject to the uncertainties discussed above and in notes 5 and 10 to the financial statements, the Corporation could have $13 billion of unused loss funds after resolving all institutions for which it is responsible.

Table 3: Estimated Unused Loss Funds After Completion of the Corporation's Resolution Activities

Dollars in billions	
Total loss funding made available	$ 105
Less: estimated loss funding needs	(92)
Estimated unused loss funds	**$ 13**

The estimated $13 billion of unused loss funds is dependent on the Corporation's estimated recoveries from receiverships and its estimated cost of future resolutions. At December 31, 1993, these estimates show that the Corporation will be able to repay its $30.8 billion in working capital borrowings from the FFB. FFB borrowings are repaid using asset recoveries. If actual asset recoveries are less than estimated or future resolution costs are greater than anticipated, the Corporation will need to use additional loss funds. Considering the amount of estimated loss funding needs, the Corporation will only be in a position where it is unable to repay its FFB borrowings if its combined losses on receivership assets and future resolutions are $13 billion more than currently estimated.

Loss funds not used by the Corporation are available for losses incurred by the Savings Association Insurance Fund (SAIF), subject to the conditions set forth in the Resolution Trust Corporation Completion Act.[8] Funds in excess of the amounts needed by both the Corporation and SAIF will be returned to the general fund of the Treasury.

Under the Resolution Trust Corporation Completion Act, the Corporation will terminate on or before December 31, 1995. All remaining assets and liabilities will be transferred to the FSLIC Resolution Fund, which is managed by the FDIC.

Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the Corporation's

- assets, liabilities and equity as of December 31, 1993 and 1992;
- revenues, expenses and accumulated deficit for the years then ended; and
- cash flows for the years then ended.

However, misstatements may nevertheless occur in other financial information reported by the Corporation as a result of the internal control weaknesses described below. Additionally, significant uncertainties discussed earlier in this report and in notes 5 and 10 to the financial statements, may ultimately result in higher or lower resolution costs than estimated in these statements.

Opinion on Internal Controls

In our opinion, the internal controls in effect on December 31, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected. Specifically, the controls we evaluated were designed to

- safeguard assets against unauthorized acquisition, use or disposition;
- execute transactions in accordance with management's authority and with material laws and regulations; and

[8]The Resolution Trust Corporation Completion Act makes available to SAIF, during the 2 year period beginning on the date of the Corporation's termination, any of the $18.3 billion in appropriated funds not used by the Corporation. However, prior to receiving such funds, the Federal Deposit Insurance Corporation (FDIC) must first certify, among other things, that SAIF cannot fund insurance losses through industry premium assessments or Treasury borrowings without adversely affecting the health of its member institutions and causing the government to incur greater losses.

- 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.

However, we identified several internal control weaknesses which we do not consider to be material. These weaknesses are discussed in the following section on reportable conditions. Because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may nevertheless occur and not be detected. We caution that projecting our evaluation of controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with such controls may deteriorate.

The Corporation's management asserted that internal controls in effect on December 31, 1993, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. This assertion, which is included in appendix III, was part of management's evaluation of internal controls under the Chief Financial Officers Act of 1990. Management made this assertion using the internal control and reporting criteria set forth in the implementing guidance for the Federal Managers' Financial Integrity Act of 1982. In making this assertion, management considered the reportable conditions we found. We found that management's assertion is consistent with the results of our evaluation of controls.

Reportable Conditions

The following reportable conditions, 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. General controls over some of the Corporation's computerized information systems did not provide adequate assurance that data files and computer programs were fully protected from unauthorized access and modification. A basic internal control objective for computerized systems is to protect data and programs from unauthorized changes and to prevent unauthorized access to sensitive data. The effectiveness of general controls is a significant factor in ensuring the integrity and reliability of financial data. During 1993, the Corporation had compensating controls in place, such as manual comparisons and reconciliations, which would have detected material data integrity problems resulting from inadequate

general controls. Without the compensating controls, the weaknesses in general controls would raise significant concerns over the integrity of information obtained from the affected systems.

The Corporation has developed an action plan intended to address the above condition and is currently implementing the corrective actions. We believe that the corrective actions, if properly implemented, will correct the problems we found.

2. The Corporation's field offices did not always post wire receipts to the correct general ledger accounts. Based on the results of our testing, we estimated that approximately 11 percent of all wire receipts from third parties in 1993 contained one or more posting errors.[9] More than half of the wires containing posting errors were securitization-related receipts. About half of the securitization wires had errors between income accounts only. The other half also had errors between principal reduction accounts or in the allocation between principal and income accounts. In order for receivership financial information to be reliable and useful, transactions should be consistently and accurately recorded and summarized. The posting errors could cause certain financial information used by management to be inaccurate.

In 1993 and 1994, the Corporation took action to address the problems associated with securitization-related wire receipts. The Corporation initiated a policy whereby the headquarters office responsible for maintaining the support for securitization transactions assigns the general ledger accounts to be used by the field offices for posting each wire receipt. The new policy states that the field office personnel should not use accounts other than those assigned without first checking with the headquarters office. We believe that the new policy, if properly implemented, should reduce the overall rate of posting errors to an acceptable level.

3. The Corporation's field offices did not always use correct amounts from the detailed asset records when reconciling the receiverships' asset balances to those records. In order for the asset reconciliation process to be effective, proper amounts from the detailed asset records must be used. Use of the incorrect amounts contributed to unreconciled differences and unreported differences between the receiverships' asset balances and the balances in the detailed asset records.

[9]Based on the results of our sample, we can conclude with 90 percent confidence that between 7.1 percent and 15.5 percent of all wire receipts from third parties contained at least one posting error, with the most likely error rate at 11.3 percent.

In 1993 and 1994, the Corporation has implemented actions to address the above condition including (1) providing additional training to field personnel regarding use of servicer reports in the asset reconciliation process and (2) monitoring to ensure that field offices are using proper amounts in the reconciliations. We believe that these actions, if effectively implemented, should result in proper amounts being used in future reconciliations.

We also noted other less significant matters involving the internal control structure and its operation which we will communicate separately to the Corporation's management.

Compliance With Laws and Regulations

Our tests for compliance with significant provisions of selected laws and regulations disclosed no material instances of noncompliance.[10] Also, nothing came to our attention in the course of our other work to indicate that material noncompliance with such provisions occurred.

Progress on 1992 Audit Recommendations

In conducting our 1993 audit, we found that the Corporation made significant progress in addressing the internal control weaknesses we identified in our reports on the results of our 1992 audit. The Corporation's actions during 1993 fully resolved the one weakness we considered material and all of the reportable conditions we reported in 1992. Appendix IV summarizes the 1992 internal control weaknesses and the actions taken by the Corporation to address those weaknesses.

Recommendation

We recommend that the Corporation's Chief Financial Officer direct the Corporation staff to monitor implementation and progress of the corrective actions related to the weaknesses we identified in general controls over some of the Corporation's computerized information systems, posting securitization-related wire receipts, and reconciliations of receiverships' asset balances to detailed asset records.

[10]The Federal Deposit Insurance Corporation Improvement Act of 1991 requires the Corporation to resolve institutions in the least costly manner and GAO to report to the Congress annually on the Corporation's compliance with the least-cost provisions. GAO recently completed its 1992 least-cost compliance review of the Corporation. The review identified several compliance issues, none of which were material to the Corporation's financial statements. A detailed discussion of GAO's findings and the Corporation's comments is presented in 1992 Thrift Resolutions: RTC Policies and Practices Did Not Fully Comply With Least-Cost Provisions (GAO/GGD-94-110, June 17, 1994).

Corporation Comments and Our Evaluation

Commenting on a draft of this report, the Corporation's Chief Financial Officer agreed with our findings and recommendation. The Chief Financial Officer's written comments, provided in appendix V, discuss various efforts, many of which are ongoing, intended to address the reportable conditions. We plan to evaluate the adequacy and effectiveness of these efforts as part of our annual audits of the Corporation's financial statements.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

June 15, 1994

Objectives, Scope, and Methodology

The Corporation's management is responsible for

- preparing annual financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining and evaluating the internal control structure to ensure that it provides 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 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 the Corporation's 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 disbursements; 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 significant 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.

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

The Corporation's Chief Financial Officer provided written comments on a draft of this report. These comments are discussed in the "Corporation Comments and Our Evaluation" section of the opinion letter and are reprinted in appendix V. We have incorporated the Corporation's views where appropriate.

Financial Statements

Statements of Financial Position

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

	December 31, 1993	December 31, 1992
ASSETS		
Cash (Note 3)	$6,470,428	$3,048,320
Net advances (Note 4, 6, 15 and 18)	7,337,863	9,331,348
Net subrogated claims (Note 5, 6, 15 and 18)	21,158,047	32,490,003
Net assets purchased by the Corporation (Note 6, 7 and 15)	76,387	82,305
Other assets	10,120	13,319
TOTAL ASSETS (Note 14)	$35,052,845	$44,965,295
LIABILITIES		
Accounts payable, accrued liabilities, and other (Note 16 and 17)	$169,822	$224,558
Due to receiverships/conservatorships (Note 8)	13,790	29,111
Notes payable and accrued interest (Note 9)	30,773,103	37,474,371
Estimated cost of unresolved cases (Note 6, 10 and 15)	8,097,851	16,858,857
Estimated losses from corporate litigation (Note 6 and 11)	171,633	375,375
TOTAL LIABILITIES	39,226,199	54,962,272
EQUITY		
Contributed capital (Note 3)	55,523,993	55,522,019
Capital certificates	31,286,325	31,286,325
Accumulated deficit	(90,983,672)	(96,805,321)
TOTAL EQUITY (Note 12)	(4,173,354)	(9,996,977)
TOTAL LIABILITIES AND EQUITY (Note 14)	$35,052,845	$44,965,295

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, 1993	Year Ended December 31, 1992
REVENUES		
Interest on advances and subrogated claims	$367,751	$532,183
Other interest income	12,061	10,087
Other revenue (Note 3)	48,106	33,288
TOTAL REVENUES	427,918	575,558
EXPENSES		
Interest expense on notes issued by the Corporation	1,010,562	1,928,623
Interest expense on amounts due receiverships	72,977	774,320
Reduction in loss allowances (Note 6)	(6,579,610)	(8,116,762)
Administrative operating and other expenses (Note 2, 14 and 17)	102,340	54,213
TOTAL EXPENSES	(5,393,731)	(5,359,606)
NET REVENUE	5,821,649	5,935,164
ACCUMULATED DEFICIT, BEGINNING	(96,805,321)	(102,740,485)
ACCUMULATED DEFICIT, ENDING (Note 12)	($90,983,672)	($96,805,321)

See accompanying notes

Statements of Cash Flows

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

	Year Ended December 31, 1993	Year Ended December 31, 1992
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash inflows from:		
Receipts from subrogated claims	$14,577,355	$29,655,899
Repayments of advances and reimbursable expenditures	5,836,959	14,772,701
Receipts of interest on advances	322,666	754,480
Receipts from asset liquidations	35,663	53,089
Receipts from other operations	41,433	32,140
Cash outflows for:		
Disbursements for subrogated claims	(4,931,341)	(22,668,747)
Disbursements for advances	(3,241,601)	(11,735,557)
Disbursements for reimbursable expenditures	(1,446,145)	(1,554,588)
Administrative operating and other expenditures	(95,366)	(41,555)
Interest paid on notes payable	(770,709)	(1,605,807)
Net Cash Provided by Operating Activities (Note 13):	10,328,914	7,662,055
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from:		
Contributed capital	34,314	25,033,510
Notes payable	4,100,000	7,500,000
Capital certificates	0	203
Cash outflows for:		
Contributed capital returned to the Treasury (Note 1)	0	(18,314,767)
Repayment of notes payable, principal	(11,041,120)	(27,867,007)
Net Cash Used by Financing Activities	(6,906,806)	(13,648,061)
Net increase (decrease) in Cash	3,422,108	(5,986,006)
CASH – BEGINNING	3,048,320	9,034,326
CASH – ENDING	$6,470,428	$3,048,320

See accompanying notes

Notes to Financial Statements

RESOLUTION TRUST CORPORATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1993 and 1992

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. This period was extended to September 30, 1993 by the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 and in December 1993, the period was extended to a date not earlier than January 1, 1995 nor later than July 1, 1995 by the Resolution Trust Corporation Completion Act of 1993. The final date will be determined by the Chairperson of the TDP Oversight Board.

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, 1995. 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, 1993, $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

Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (See Note 12). This legislation, signed in December 1991, 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.

In December 1993, the Resolution Trust Corporation Completion Act authorized funding of the $18.3 billion previously returned to Treasury. Expenditure of funds in excess of $10 billion requires certification by the Secretary of the Treasury that certain statutory requirements have been met. In January 1994, the TDP Oversight Board received $10 billion in funds, of which $4 billion was forwarded to the RTC.

The RTC has also issued capital certificates of $31.3 billion to REFCORP as of December 31, 1993 (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 1993.

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 records 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 between January 1, 1995 and July 1, 1995.

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.

National Judgements, Deficiencies and Charge-offs Joint Venture Program. The RTC purchases assets from receiverships, conservatorships, and their subsidiaries to facilitate the sale and/or transfer of selected assets to several Joint Ventures in which the RTC retains a financial interest.

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, 1993 and 1992, 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.

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 $108.9 million of appropriated funds from the U.S. Treasury since it was established of which $34.3 million relate to the Government's Fiscal Year (FY) 1994 and $33.5 million relate to FY 1993. These funds are used to finance the activities of the OIG. Restricted amounts of $5,805,385 for FY 1993, $9,571,221 for FY 1992 and $773,671 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 $32,339,972 and $24,274,873 during 1993 and 1992, 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 $34,538,230 during 1993 and $20,955,917 during 1992. As of December 31, 1993 and 1992, the unobligated OIG appropriation balances included in "Contributed capital" were $38.8 million and $36.8 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 1993 ranged between 3.13% and 3.54%, and between 2.98% and 4.44% in 1992. At December 31, 1993 and 1992, the interest rates on advances were 3.37% and 3.54%, respectively.

	December 31, 1993	December 31, 1992
Advances to conservatorships	$ 6,522,853	$ 6,777,066
Advances to receiverships	5,406,256	6,379,436
Reimbursements due from receiverships and conservatorships	307,268	419,611
Accrued interest	73,165	38,921
Write-offs at termination - advances (Note 6 and 7)	(3,815)	(3,575)
Allowance for losses on receivership advances (Note 6)	(3,981,719)	(3,907,079)
Allowance for losses on conservatorship advances (Note 6)	(986,145)	(373,032)
	$ 7,337,863	$ 9,331,348

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 $0.8 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 1993 ranged between 2.50% and 3.64%, and between 2.59% and 4.74% in 1992. At December 31, 1993 and 1992, the interest rates paid on these accounts were 2.79% and 2.63%, respectively.

	December 31, 1993	December 31, 1992
Subrogated claims	$208,331,406	$200,461,308
Recovery of subrogated claims	(115,566,781)	(92,855,555)
Claims of depositors pending and unpaid	17,540	19,974
Due to receiverships - assets sold	(2,316,651)	(7,520,378)
Write-offs at termination - subrogated claims (Note 6 and 7)	(639,585)	(352,712)
Allowance for losses on subrogated claims(Note 6)	(68,667,882)	(67,262,634)
	$ 21,158,047	$ 32,490,003

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, 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)
Cost of resolutions	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
Provision (reductions)	62,377	687,992	5,025	(7,131,262)	(203,742)	(6,579,610)
Write-offs at termination (Note 7)	(286,873)	(239)	-	-	-	(287,112)
Cost of resolutions	1,629,744	-	-	(1,629,744)	-	-0-
Balance, Dec 31, 1993	$68,667,882	$4,967,864	$16,250	$8,097,851	$171,633	$81,921,480

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. "Cost of resolutions" represent amounts transferred from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" as a result of case resolutions in each year.

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

The RTC has purchased the remaining assets of selected receiverships in order to expedite the termination of the receivership entity. As of December 31, 1993, the RTC had purchased assets from 77 receiverships for $173 million, in order to pay a final dividend to the receiverships' creditors and to begin the process of legally terminating the receivership entities (assets from 36 receiverships for $142 million at December 31, 1992). 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.. Additionally, during 1993, the RTC purchased assets from receiverships, conservatorships, and their subsidiaries for $1.5 million to facilitate the sale and/or transfer of selected assets to several Joint Ventures in which the RTC retained a financial interest.

	December 31, 1993	1992
Assets in liquidation purchased	$173,075	$141,795
Sales, collections and adjustments	(80,438)	(48,265)
Allowance for losses on corporate assets (Note 6)	(16,250)	(11,225)
	$ 76,387	$ 82,305

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.

8. Due to Receiverships/ Conservatorships:

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 $13.4 million and $29.1 million at December 31, 1993 and 1992, respectively.

Conservatorships participating in RTC'S National Judgements, Deficiencies and Charge-offs Joint Venture Program (JDC JV) have sold judgements and deficiencies to the RTC. The liability, "Due to conservatorships- assets purchased," with a $0.4 million balance at December 31, 1993, represents the amount due to these conservatorships for the purchase of their JDC's.

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 2.88 and 3.27% during 1993 and between 2.82% and 5.09% in 1992. As of December 31, 1993 and 1992, the RTC had $30.8 billion and $37.5 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 $8.1 billion at December 31, 1993 for the anticipated costs of resolving an additional 67 troubled institutions. Of the 67 institutions, 63 were in conservatorship as of that date. The other 4 associations were identified by the OTS as institutions for which it is probable that government assistance may be required on or before the last date by which the RTC may be appointed conservator.

The 1993 "Estimated cost of unresolved cases" has declined from the December 31, 1992 and 1991 estimates of $16.9 billion and $25.5 billion, respectively. The primary reasons for this decline were OTS changes in estimated caseload, RTC revisions to cost estimates for existing conservatorships, and resolution of cases during 1993 leaving fewer unresolved cases at the end of the year.

The OTS has also identified 18 savings associations for which it is reasonably possible that government assistance may be required. The estimated cost to resolve these 18 institutions could be up to $1 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, 1993, 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 $171.6 million has been established as of December 31, 1993 for the 40 actions that management feels are probable to result in a significant loss ($375.4 million at December 31, 1992 for 71 actions). Additionally, the Corporation could possibly incur further losses of approximately $400 million 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, 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)
1993 Net revenue	-	-	5,821,649	5,821,649
FY 94 OIG appropriation	34,314	-	-	34,314
1993 Obligated OIG funds	(32,340)	-	-	(32,340)
Balance, Dec 31, 1993	$55,523,993	$31,286,325	$(90,983,672)	$(4,173,354)

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

Reconciliation of net revenue to net cash provided by operating activities:

	For the Years Ended December 31,	
	1993	1992
Net Revenue	$5,821,649	$ 5,935,164
Reduction in loss allowances	(6,579,610)	(8,116,762)
Interest expense financed as additional notes payable	278,975	545,215
Decrease in accrued interest on notes payable	(39,122)	(222,398)
Increase in accrued interest on amounts due to receiverships	72,977	774,320
(Increase) decrease in accrued interest due from advances	(35,033)	238,115
Receipts from subrogated claims	14,577,355	29,655,899
Repayments of advances and reimbursable expenditures	5,836,959	14,772,701
Receipts from asset liquidations	35,663	53,089
Decrease in accounts payable, accrued liabilities and other	(56,628)	(7,400)
Decrease in reimbursable portion of liabilities above	55,290	39,045
Disbursements for advances	(3,241,601)	(11,735,557)
Disbursements for subrogated claims	(4,931,341)	(22,668,747)
Disbursements for reimbursable expenditures	(1,446,145)	(1,554,588)
OIG income recognized	(32,340)	(24,275)
Other non-cash (income) and expenses (net)	8,594	(22,564)
Decrease in other assets	3,272	798
Net cash provided by operating activities	10,328,914	$ 7,662,055

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

- $1,629,744 and $ 7,190,499 were reclassified from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" during 1993 and 1992, respectively, due to the resolution of 27 cases during 1993 and 69 cases in 1992.

- "Due to receiverships - assets sold" decreased by $62,157 and $3,661,299 in 1993 and 1992, respectively, with offsetting decreases of $61,364 and $3,611,547 to "Advances to receiverships" and of $793 and $49,752 to "Accrued interest" to repay receivership advances and related interest.

- $278,975 and $545,215 of interest expense was financed through increases in notes payable in 1993 and 1992, respectively.

- "Recovery of subrogated claims" increased by $7,602,027 and $21,630,902 during 1993 and 1992, respectively, with an offsetting decrease in "Due to receiverships - assets sold", to record liquidating dividends declared by receiverships.

- "Subrogated claims" increased by $2,983,857 and $5,190,331 in 1993 and 1992, respectively, resulting from resolution activity with an offsetting increase in "Due to receiverships - assets sold."

- "Due to receiverships" decreased by $15,715 and $1,605,088 in 1993 and 1992, 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 $89,272 and $389,551 during 1993 and 1992, respectively, with an offsetting decrease to "Due to receiverships - assets sold."

- "Due to receiverships - assets sold" increased by $31,280 and $141,795 in 1993 and 1992, 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, 1993, there were 743 institutions with $75.5 billion of assets for which the RTC was appointed conservator or receiver. This compares to 734 institutions with $124.0 billion of assets at December 31, 1992.

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, 1993, the net balances of advances and subrogated claims were $7.3 billion and $21.2 billion (net of "Due to receiverships - assets sold" of $2.3 billion), respectively. The RTC owed $2.3 billion to receiverships, including the liability account of $13 million, at December 31, 1993 resulting from resolution transactions (see notes 5 and 8). Interest income earned on advances and subrogated claims was $368 million during the year ended December 31, 1993 and interest expense on amounts due receiverships was $73 million.

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. Total amounts due receiverships were $7.5 billion, including the liability account of $29 million. Interest income 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.

RTC receiverships and conservatorships are holders of limited partnership equity interests as a result of various RTC sales programs which include the National Land Fund, Multiple Investor Funds, N-Series and S-Series programs. Through 1993, the RTC sold $5.2 billion of loans through these programs.

The RTC funds the activities of the TDP Oversight Board based on its fiscal year budgets. The amounts funded in 1993 and 1992 were $5.1 million and $5.0 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 $102.3 million and $54.2 million for the years ended December 31, 1993 and 1992, respectively (total costs of $933.0 million and $970.9 million less $830.7 million and $916.7 million billed back to receiverships during 1993 and 1992, respectively). The Corporation bears the costs of administrative expenses for terminated receiverships since they are managed by the Corporation.

15. Commitments and Guarantees:

Securitization Credit Reserves:

Through 1993, the RTC sold through its mortgage-backed securities securitization program $36.6 billion of receivership, conservatorship and Corporate loans ($32.8 billion through 1992). 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 1993, the amount of claims paid is 1% of the initial reserve balances. At December 31, 1993 and 1992, reserve funds related to the RTC securitization program totalled $6.6 billion and $6.2 billion, respectively. 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, 1993, the RTC included $1.5 billion, net of realized losses, in these provisions to cover estimated losses on the reserve funds ($1.3 million as of December 31, 1992). As of December 31, 1993, the provisions were offset by $844 million of securitization residual values ($755 million as of December 31, 1992).

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 $52 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 $143 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, 1993, the RTC included $1.2 billion in these provisions to cover the estimated costs of representation and warranty claims ($1.5 billion as of December 31, 1992).

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, 1993, the RTC has issued a commitment to honor approximately $2.4 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, 1993.

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, 1993, $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, 1993, these offices include: (1) the Washington, D.C. Headquarter offices, (2) the six megasite offices, and (3) four satellite offices located throughout the country. Additional satellite offices have been closed, but the RTC remains obligated for the remainder of their lease terms pending negotiations for lease buyouts or subleases. These obligations total $0.9 million. The RTC's rental expense for 1993 and 1992 totalled $59.5 million and $44.8 million, respectively. The RTC's total contractual obligations under lease agreements for office space are approximately $128.9 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):

1994	1995	1996	1997	1998	1999/Thereafter
$ 38,690	$ 32,258	$ 18,329	$ 6,616	$ 7,069	$ 25,920

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, 1995, 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, 1993 and 1992 were approximately $16.9 million and $16.9 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 $20.2 million at December 31, 1993, and $20.0 million at December 31, 1992.

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.

The RTC elected to recognize immediately the accumulated postretirement benefit liability of $18.1 million 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. The RTC recorded charges of $13.8 million and $11.0 million for the current periodic cost, for 1993 and 1992, respectively. All amounts have been reflected in the "Administrative operating and other expenses" line of the Statements of Revenues, Expenses and Accumulated Deficit.

The net periodic postretirement benefit cost for 1993 and 1992 included the following components (in millions):

	1993	1992
Service cost, benefits attributed to employee service during the year	$ 8.5	$ 6.8
Interest cost on accumulated postretirement benefit obligations	4.4	4.2
Net amortization and deferral	.9	-
Net periodic postretirement benefit cost	$ 13.8	$ 11.0

The RTC, as a government corporation scheduled under current law to terminate on or before December 31, 1995, 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 pays the FDIC an amount equal to the RTC's obligation. In return, the FDIC agrees to pay the costs associated with postretirement benefits due to eligible employees assigned to the RTC upon their retirement. During 1993, the RTC paid the FDIC an amount equal to the RTC's transition obligation plus the RTC's 1992 net periodic postretirement cost and the estimated 1993 net periodic postretirement cost. As of December 31, 1993, the RTC has included as a current liability on its Statement of Financial Position an amount equal to $5.2 million for a revised 1993 net periodic postretirement cost which the RTC expects to pay to the FDIC in 1994.

The discount rate used in the calculation of the postretirement benefit obligation was 6.0% in 1993. The assumed medical inflation trend in 1993 was 14.0%, decreasing to an ultimate rate of 8.0% in 1998 and remaining at that level thereafter. The dental cost trend rate in 1993 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 for health care benefits as of December 31, 1993 would have increased $17.8 million, or 27.3%. Additionally, a one percent increase would have increased the aggregate service and interest costs of the 1993 net periodic postretirement health care benefit cost by $3.7 million, or 31.7%.

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, 1993 is $105.1 billion (against which $76.6 billion of reserves and contra assets have been recorded). Of this total, $27.4 billion is attributable to institutions located in Texas, $17.5 billion is attributable to institutions located in California, $7.6 billion is attributable to institutions located in Florida and $6.5 billion is attributable to institutions located in Arizona.

Management's Assessment of Internal Controls

RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

Chief Financial Officer

1993 Management Report on Internal Controls

Corporate Internal Control Objective

The Resolution Trust Corporation (RTC) maintains an internal control system which is designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized acquisition, use or disposition; transactions are executed in accordance with management's authority and with laws and regulations; and transactions are properly recorded, processed, and summarized in accordance with generally accepted accounting principles and to maintain accountability for assets. The internal control system includes a documented organizational structure, division of responsibility, and established policies and procedures. The corporate policy sets a positive tone for the organization and is intended to influence the control consciousness of RTC personnel.

The Thrift Depositor Protection Oversight Board (TDPOB) has issued a policy statement on internal controls dated July 25, 1991. The objectives of the policy statements are to encourage the RTC to establish and adhere to internal control standards, including evaluation and reporting standards, that are no less stringent than those required of certain agencies pursuant to the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and to encourage the RTC to vest in its Chief Financial Officer powers substantially similar to those provided in the Chief Financial Officers Act of 1990.

Internal Control Program Activity

In 1993, the RTC significantly enhanced its internal control system. In March, Treasury Secretary Bentsen, as Chairman of the TDPOB, announced the RTC management reform agenda, which included requirements that RTC strengthen its internal controls and implement a new audit follow-up system. In response, the RTC reinforced its commitment to promote and encourage internal control program activity and took several major steps to measurably improve internal controls throughout the Corporation.

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During the year a new audit follow-up program was established, which required the Corporation to respond promptly and thoroughly to all recommendations contained in reports issued by both internal and external auditors. The follow-up program includes procedures for tracking audit findings and recommendations by the General Accounting Office (GAO), the RTC's Office of Inspector General (OIG), and other audit and review organizations. The Corporation improved the internal control program by enhancing the coordination among the internal review activities at the six asset management and sales field offices, the quality assurance activities at the four field financial service centers, and the headquarters management control activities. Additional resources were allocated to the field Internal Review Units, and their responsibilities were expanded to include a proactive program of evaluating internal controls. Also, the field Quality Assurance Units began reporting directly to the Vice Presidents of the Financial Service Centers during 1993.

The RTC trained more than 1,000 managers and senior personnel in the concepts of RTC's internal control program, a comprehensive internal control review initiative and the new audit follow-up procedures. National conferences were held for both the field Internal Review and Quality Assurance personnel.

During the year, the Corporation continued to aggressively pursue its internal control and review program. The inventory of corporate units for which individual control and compliance assessments can be made was revised to reflect organizational changes; vulnerability assessments were conducted; and scheduled internal control and program compliance reviews were completed.

New automated systems designed to track ongoing audits and follow-up on audit recommendations were made available to headquarters and field management. The Management Reporting System (MRS), which monitors audit findings and recommendations along with corrective actions taken by the RTC, became fully operational in mid-1993. The Audit Management Tracking System (AMTS), which tracks the progress of ongoing audits, was installed at headquarters, the financial service centers and the asset management and sales field offices during the year. Field personnel were trained in the use of both MRS and AMTS.

Internal Control and Operations Reviews

In 1993, RTC program managers completed 65 internal control and program compliance reviews covering all major programs and financial management systems. The reviews monitored compliance with corporate policies and the adequacy of internal control objectives and techniques. Also during 1993, the GAO issued a total of 24 reports resulting from its audits and reviews of RTC operations and financial statements, and the RTC's OIG issued a total of 71 reports on its audits and reviews.

In its Semiannual Report to the Congress, dated September 30, 1993, the OIG commented favorably on the RTC's initiatives to improve audit follow-up and internal control training, and to implement the MRS. The OIG also completed a review of the RTC's internal control program and concluded that the RTC has adhered to the internal control policy statement issued by the TDPOB and that its internal control system meets the requirements of the FMFIA.

The RTC has improved its internal control program by incorporating the results of audits and reviews, thereby allowing the RTC to take advantage of the benefits derived from the audit process.

Management's Assertion

During the year, management evaluated the Corporation's internal control system of safeguarding assets against loss from unauthorized acquisition, use or disposition; assuring the execution of transactions in accordance with management's authority and with laws and regulations; and properly recording, processing, and summarizing transactions in accordance with generally accepted accounting principles and maintaining accountability for assets using the control criteria described in FMFIA and other selective laws, federal directives and applicable policy statements of the TDPOB. Based on that evaluation, management believes that the Corporation's internal control system met those criteria as of December 31, 1993.

There are, however, inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even the most effective internal control system can provide only reasonable assurance with respect to safeguarding of assets against unauthorized acquisition, use or disposition, compliance with laws and regulations, and financial statement preparation. Furthermore, the effectiveness of an internal control system can change with circumstances.

Notwithstanding the Corporation's evaluation of its internal control system, it should be noted that through the reviews undertaken during 1993, certain high risk areas were identified and operating control weaknesses disclosed. However, management does not consider the weaknesses disclosed to be material in relation to the financial statements or the purpose for which the Corporation's overall system was designed. Through December 31, 1993, the weaknesses, along with the status of corrective actions taken or proposed, were disclosed in the Corporation's 1993 Internal Control Report to the TDPOB dated March 31, 1994. Subsequent to December 31, 1993, the following additional weaknesses, which were also considered not to be material, were discovered:

- the general controls over some of the Corporation's computerized information systems did not provide adequate assurance that data files and computer programs were fully protected from unauthorized access and modification,

- the Corporation's field offices did not always post wire receipts to the correct general ledger accounts, and

- the Corporation's field offices did not always use correct amounts from the detailed asset records when reconciling the receiverships' asset balances to those records.

The Corporation is currently implementing corrective actions necessary to address these weaknesses.

Donna H. Cunninghame

Donna H. Cunninghame

Corporation's Progress on Implementing GAO Recommendations Concerning 1992 Internal Control Weaknesses

During 1993, the Corporation implemented procedures to address the 1992 material internal control weakness related to lack of control procedures which resulted in an undetected error in a component of the Corporation's loss allowance calculation for subrogated claims. Specifically, these procedures require that the data used to calculate the system-generated performing/nonperforming asset splits be validated by comparison with similar data from an independent source. Adherence to these procedures should ensure that errors in the performing/nonperforming asset splits will be detected in a timely manner.

The Corporation also took actions during 1993 to address each of the following reportable conditions identified in our 1992 reports.

- At December 31, 1992, 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. During 1993, the Corporation developed formal procedures for estimating its loss accrual in which the Warranties and Representations Accounts Processing System is the starting point. Additionally, the Corporation developed and implemented several major enhancements to the system which, combined with the formal procedures, help ensure the integrity of the data used to estimate the loss accrual. As a result of the actions implemented during 1993, our tests found that the December 31, 1993, estimated loss accrual was reasonable.
- The Corporation's contractor estimated recovery values for receivership assets in 1992 without adequate supporting file documentation. During 1993, the Corporation enhanced the training and oversight of the contractor hired to estimate asset recoveries. As a result of these efforts, we found an improved audit trail and more consistent procedures in place to estimate recoveries for assets. Specifically, we found that the contractor based the estimates on the Corporation's historical sales experience and other information, and we found the estimates to be documented adequately.
- During 1992, the Corporation's contractor did not consider all relevant file documentation or information in estimating receivership asset recoveries or made errors in recording valuation information. During 1993, we found the errors were reduced to an acceptable level such that we no longer consider this to be a reportable condition.
- Nine of the Corporation's 13 field offices did not perform the required reconciliation of checks received and processed during 1992. The Corporation updated the Field Accounting Manual during 1993 and provided a standard format to ensure the uniform preparation of daily

reconciliations of cash received. At the end of 1993, we found that all field offices performed the required reconciliation of checks received and processed.

- In 1992, the Corporation's field offices did not post wire disbursements to the correct general ledger accounts. During 1993, the Corporation completed training initiatives to improve the accuracy of posting wire disbursements in the field offices. The results of our 1993 testing showed an improvement in the error rate of posting wire disbursements such that we no longer consider this to be a reportable condition. However, in 1993 we found a high posting error rate related to wire receipts, which we reported.
- The Corporation did not identify the material weakness or the five reportable conditions described above in its 1992 statement on the effectiveness of its internal accounting and administrative controls. During 1993, we found no material weaknesses and the Corporation took immediate actions to address the reportable conditions we identified. In addition, the Corporation modified its own internal review procedures to include these areas.
- During the first 8 months of 1992, the Corporation processed its financial information on the Federal Deposit Insurance Corporation's (FDIC) general ledger system. FDIC had inadequate controls over access to its electronic data processing center and systems software. In September 1992, the Corporation implemented its own general ledger system at a separate data center and no longer processes its financial information at the FDIC data center.

Comments From the Resolution Trust Corporation

RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

Chief Financial Officer

June 20, 1994

The Honorable Charles A. Bowsher
Comptroller General of the United States
United States General Accounting Office
Washington, D.C. 20548

Re: Financial Audit - Resolution Trust Corporation
1993 and 1992 Financial Statements

Dear Mr. Bowsher:

Thank you for the opportunity to respond to the General Accounting Office (GAO) draft audit report of the Resolution Trust Corporation's (RTC) 1993 and 1992 financial statements. We appreciate the opportunity to review and comment on the report in draft form prior to its issuance.

It has been a continuing objective of the RTC to receive from the GAO an unqualified opinion on its financial statements. We are pleased, therefore, that since 1992 the GAO has concluded that RTC's financial statements are reliable in all material respects. We are also pleased to note the GAO's conclusion that the RTC made significant progress in addressing the internal control weaknesses identified in the 1992 audit. We concur with these findings, and we are appreciative of GAO's continuing assistance in achieving these results.

The following addresses the significant matters and the reportable conditions identified in the GAO draft audit report for 1993.

SIGNIFICANT MATTERS

1. Uncertainties Affect Estimated Recoveries From Receiverships and Costs of Future Resolutions

We concur with the GAO's assessment that changes in various factors such as general economic conditions, interest rates and real estate markets that are beyond RTC's control may have some impact on the ultimate financial results of the RTC. Given the economic factors that existed at year-end 1993, we believe that

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The Honorable Charles A. Bowsher
June 20, 1994
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the estimated recoveries on assets, and the reserve requirements for future credit losses on securitizations and for claims arising from representations and warranties are appropriate.

2. Controls over Contractor Performance Could Affect Recoveries from Receiverships.

We concur that a significant issue is the need for continuing improvement in contractor oversight to ensure accurate recoveries from receiverships. As a result, we have established a number of major management initiatives which we anticipate will improve RTC's contractor oversight program:

A. We have initiated a formal Loan Servicing Oversight Program to continually review the ongoing coordination and supervision of all loan servicer activities;

B. We have committed significant additional staff resources to the Office of Contractor Oversight and Surveillance; and

C. We have added internally the necessary resources to support the expanded efforts of RTC's Office of the Inspector General in formally auditing the activities of various RTC contractors.

3. Funding and Current Status of the Corporation

As correctly noted in your report, there is, and will continue to be, a significant level of uncertainty pertaining to the actual financial outcome of the RTC. The December 31, 1993 financial statements reflect loss funding needs of up to $92 billion which is $13 billion less than the loss funds of $105 billion made available to the Corporation.

However, it must be remembered that the loss funding of $92 billion is only an estimate. Changes in economic conditions, unanticipated additional savings and loan failures, and unforeseen problems impacting the value of remaining assets or RTC liabilities are just a few of the factors that could cause substantial variation from current estimates. Therefore, the total amount of loss funds used by the RTC will not be known with certainty until the last institution is resolved and the last asset is sold.

The Honorable Charles A. Bowsher
June 20, 1994
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REPORTABLE CONDITIONS

1. Computerized Information Systems

In response to the findings of the 1993 GAO Financial Statement Audit, the Department of Information Resources Management (DIRM) has made significant progress in effecting the corrective actions required. The changes have included establishing and improving access control, information security practices and procedures, change control procedures, and business recovery procedures. By September 30, 1994, DIRM expects to complete corrective actions necessary to address the deficiencies which had been identified. In addition, two other efforts involving a limited business recovery test with no warning and a standardized system software platform are planned for completion in accordance with the action plan already submitted to the GAO.

These corrective actions are designed to:

- Improve controls over access to data and programs,
- Strengthen and formalize security programs,
- Strengthen independent review and testing of system software change controls,
- Improve the application change control process, and
- Strengthen the business recovery plan.

2. Posting Wire Receipts

We have taken a number of significant steps to reduce the errors referenced to in your report. A completely separate function called the National Sales Support Office was formed to support financial integrity in connection with national sales initiatives. We revised the Chart of Accounts and enhanced formal procedures associated with our posting and reconciliation requirements.

During 1994, internal control testing will be conducted to ensure that these revised procedures and processes are achieving the intended result of decreasing the referenced posting errors.

The Honorable Charles A. Bowsher
June 20, 1994
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3. Reconciliation of Receivership Assets

The organization in recent months has also taken significant steps to improve its reconciliation processes with its loan servicers to ensure that servicer balances are reported correctly: the RTC's loan servicer oversight program now reviews the major servicer's remittance reporting processes for compliance with existing reporting requirements; a formal training program has been developed and implemented which allows servicers to better understand the full range of RTC's reporting requirements; an automation project is underway to improve servicer reporting for those servicers using specialized software; and the RTC has a monthly reconciliation procedure in place to identify and correct servicer balance variances. In the months ahead, we will continue the servicer balance reporting and reconciliation efforts so that in the future existing shortcomings will be corrected in a timely manner.

We believe that these efforts will be successful in correcting the internal control weaknesses identified in your report. The corporate staff will be directed to monitor the completion and progress of the corrective actions. We look forward to working with GAO representatives in assessing their success.

Sincerely,

Donna H. Cunninghame

Donna H. Cunninghame

Major Contributors to This Report

Accounting and Information Management Division, Washington, D.C.

Shirley L. Abel, Assistant Director
Crawford L. Thompson, Assistant Director for Computer Control Reviews
Jeanette M. Franzel, Audit Manager
Christine A. Robertson, Audit Manager
Diane P. Boch, Auditor
Oscar J. Castro, Auditor
Barbara A. Freggens, Auditor
Mary B. Gaston, Auditor
Phillip W. McIntyre, Auditor
Vera M. Seekins, Auditor
Michael C. Hrapsky, Technical Consultant to Dallas
Lorne M. Dold, Senior Computer Specialist

Atlanta Regional Office

Shawkat Ahmed, Audit Manager
Johnny Barnes, Auditor
Kenneth A. Johnson, Auditor
Thanomsri S. Piyapongroj, Auditor

Dallas Regional Office

Shannon D. Rapert, Audit Manager
Mary K. Muse, Auditor
Carol M. StJohn, Auditor
Pamela Y. Valentine, Auditor
David W. Irvin, Senior Computer Specialist
Shannon Q. Cross, Computer Specialist

Denver Regional Office

Lowell E. Hegg, Audit Manager
Miguel A. Lujan, Auditor
Elena S. Tomorwitz, Auditor

Kansas City Regional Office

Patricia S. Dickerson, Audit Manager
Julie A. Cahalan, Auditor
Richard S. Schupbach, Auditor

Philadelphia Regional Office

Shahied A. Dawan, Audit Manager
Thomas J. Dougherty, Jr., Auditor
Brenda Lindsey-Johnson, Auditor

Related GAO Products

Resolution Trust Corporation: Ineffective Management of HomeFed Bank Environmental Services Contracting (GAO/GGD-94-62, Dec. 28, 1993).

Resolution Trust Corporation: Better Information Could Enhance Controls Over Loan Servicing Costs (GAO/GGD-94-41, Dec. 22, 1993).

Resolution Trust Corporation: Oversight of SAMDA Property Management Contractors Needs Improvement (GAO/GGD-94-5, Nov. 30, 1993).

Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership (GAO/GGD-94-1, Nov. 3, 1993).

Resolution Trust Corporation: Status of Management Efforts to Control Costs (GAO/GGD-94-19, Oct. 28, 1993).

Executive Bonuses: Information on FDIC's and RTC's Executive Bonus Programs (GAO/GGD-94-15, Oct. 1, 1993).

Homelessness: Information on and Barriers to Assistance Programs Providing Foreclosed Property (GAO/RCED-93-182, Sept. 30, 1993).

Resolution Trust Corporation: Data Limitations Impaired Analysis of Sales Methods (GAO/GGD-93-139, Sept. 27, 1993).

Resolution Trust Corporation: Additional Monitoring of Basic Ordering Agreements Needed (GAO/GGD-93-107, Sept. 13, 1993).

Thrift Failures: Federal Enforcement Actions Against Fraud and Wrongdoing in RTC Thrifts (GAO/GGD-93-94, Aug. 10, 1993).

Resolution Trust Corporation: Better Assurance Needed that Contractors Meet Fitness and Integrity Standards (GAO/GGD-93-127, July 26, 1993).

Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process Could Be Improved (GAO/GGD-93-116, July 23, 1993).

Resolution Trust Corporation: 1992 Washington/Baltimore Auctions Planned and Managed Poorly (GAO/GGD-93-115, July 7, 1993).

Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105, June 28, 1993).

Resolution Trust Corporation: Status of Minority and Women Outreach and Contracting Program (GAO/GGD-93-106, May 19, 1993).

Resolution Trust Corporation: Arthur Andersen HomeFed Contract (GAO/GGD-93-40R, May 7, 1993).

Resolution Trust Corporation: Asset Purchase Option for Resolution of City Federal Savings Bank (GAO/GGD-93-77, Apr. 30, 1993).

Resolution Trust Corporation: Timelier Action Needed to Locate Missing Asset Files (GAO/GGD-93-76, Apr. 28, 1993).

Resolution Trust Corporation: Controls Over Asset Valuations Do Not Ensure Reasonable Estimates (GAO/GGD-93-80, Apr. 8, 1993).

Acquiring Public Housing from RTC (GAO/RCED-93-46R, Mar. 17, 1993).

Resolution Trust Corporation: Recoveries on Asset Sales Through September 1992 (GAO/GGD-93-51FS, Jan. 8, 1993).

Resolution Trust Corporation: Number and Types of Legal Matters (GAO/GGD-93-50FS, Jan. 8, 1993).

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