

GAO

Report to the Deputy and Acting Chief  
Executive Officer, Resolution Trust  
Corporation

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May 1995

# RESOLUTION TRUST CORPORATION

## Efforts Under Way to Address Management Weaknesses







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General Government Division

B-259341.3

May 12, 1995

Mr. John E. Ryan  
Deputy and Acting  
Chief Executive Officer  
Resolution Trust Corporation

Dear Mr. Ryan:

In 1992, we issued a report on risks related to the cleanup of the thrift industry that the Resolution Trust Corporation (RTC) could minimize through management improvements.<sup>1</sup> This was part of our special effort to review and report on federal government program areas that we considered "high risk." This report presents the results of our analysis of RTC's efforts to address the weaknesses that we identified in 1992 and during subsequent reviews. RTC efforts reflect a significant commitment to implementing the needed management improvements, and, coupled with intervening legislation, they have addressed many of the identified deficiencies. Therefore, we have removed the high-risk designation.<sup>2</sup> Despite this progress, however, some remaining risks related to the cleanup of the thrift industry need further attention. Chief among these remaining risks are (1) the long-term viability of the thrift insurance fund and (2) the winding down of RTC and the disposition of its remaining operations and workload.

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## Background

In our earlier report, we described risks related to RTC's (1) asset disposition practices, (2) contracting activities, (3) information systems, and (4) financial management and accountability. We also recognized the effect of future uncertainties on RTC's resolution activities, and we pointed to opportunities to reduce the overall cost of the thrift cleanup if RTC were given adequate funding. In addition, we warned that the thrift cleanup would not be completed by the time RTC sunsets, and the total cost of the cleanup would depend, in part, on how effectively the Federal Deposit Insurance Corporation (FDIC) applies RTC's investment in both processes and skilled personnel to manage the remaining responsibilities.

Since then Congress, RTC, and FDIC have taken actions that address many of our concerns. Congress has given RTC the additional funding it needs to accomplish its work, mandated that RTC implement specific management reforms, and required the establishment of an interagency transition task

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<sup>1</sup>High-Risk Series: Resolution Trust Corporation (GAO/HR-93-4, Dec. 1992).

<sup>2</sup>High-Risk Series: An Overview (GAO/HR-95-1, Feb. 1995).

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force with specific responsibilities to help transfer RTC's assets, personnel, and operations to FDIC. RTC has fully carried out most of these reforms, and RTC and FDIC have established a task force that has begun work for a smooth and efficient transition. In addition, RTC has dramatically reduced its inventories of thrifts waiting to be resolved and assets available for sale, further diminishing the remaining risk.

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## Results

In the area of real estate disposition, our earlier report highlighted the risk that RTC might not be maximizing revenues due to its lack of reliable information on the best disposition methods for the various types of properties. RTC has not undertaken the comprehensive sales method comparison study we recommended to remedy this situation, but it has implemented two congressionally mandated management reforms related to RTC's marketing and disposition methods that should help RTC to obtain maximum revenues. In addition, RTC established a process for gathering some information that may be useful for evaluating sales techniques used for multiasset dispositions. Despite this progress, we are concerned that the lack of a valid sales method comparison will hamper transition team efforts to identify which RTC sales methods FDIC should adopt.

Regarding the contracting function at RTC, our earlier report found that RTC's contract issuance process was poor, and its oversight of contractor performance needed improvement. Several of the mandated management reforms address contracting activities, and RTC has improved its processes for issuing contracts. As discussed in appendix I, at this time, RTC is vulnerable to risks associated with not closing out contracts in a timely manner.

RTC also has improved internal accounting controls over its receiverships' transactions, accounting operations, and systems. In particular, RTC has established internal control policies, finalized field accounting procedures, and established controls over receivership receipts and payments. In addition, RTC has implemented several new systems that contribute to improved accountability and reporting. However, audit results continue to identify significant performance problems related to contracts issued before improvements were made in response to the mandated management reforms. As a result, RTC cannot ensure that it recovers all that it should.

Two additional aspects of the thrift cleanup that are sources of continuing concern have implications that extend beyond RTC's operations. One

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involves the long-term viability of the Savings Association Insurance Fund (SAIF), which insures thrift institutions and will have full responsibility for the cost of resolving thrift failures after RTC's responsibility ends. Currently, SAIF is thinly capitalized, and its high premium rates are expected to continue. This may place the thrift industry at a competitive disadvantage when compared with the anticipated lower premium rates of the Bank Insurance Fund. In a recent report<sup>3</sup> we analyzed issues related to possible premium rate disparities that could occur between banks and thrifts, and we presented various policy options to avoid or mitigate problems that a premium rate differential may create.

Another source of continuing concern stems from this being the final year of RTC's existence, after which FDIC will absorb any remaining operations and workload. Winding down a large and complex organization with thousands of personnel and billions of dollars of assets, while minimizing the adverse consequences, is very difficult. For a successful transition, RTC and FDIC will need to ensure that sufficient controls are in place over the assets that will be sold during the final year of RTC's existence, as well as over the assets that will be transferred to FDIC. In addition, as discussed in app. I, RTC will have to continue to improve the quality of data in its information systems. The benefits of better data should help FDIC when it assumes responsibility for those assets that remain to be sold after RTC's termination.

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## Scope and Methodology

In doing our analysis, we met with responsible RTC officials to identify RTC's efforts to address each of the management weaknesses. We reviewed documents provided by the officials, as well as applicable statutes, to determine the status and appropriateness of the corrective actions RTC has taken. (See app. I for a detailed discussion of our analysis of the management weaknesses, including the actions RTC has taken and future actions to be taken.)

On February 21, 1995, we discussed the results of our analysis with you and your Chief Financial Officer. In addition, we provided a draft of this report on March 31, 1995, to your Audit Review Policy Coordinator who acts as liaison for RTC's agency comments on GAO reports. The coordinator shared our draft with other key RTC officials and then met with us on April 6, 1995, to discuss the officials' comments on the draft. The officials

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<sup>3</sup>Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/AIMD-95-84, Mar. 3, 1995).

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suggested technical changes to the report, which we made where appropriate.

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We are sending copies of this report to interested congressional Members and committees, the Chairman of the Thrift Depositor Protection Oversight Board, and the Chairman of FDIC. We will also provide copies to others upon request.

Major contributors to this report are listed in appendix II. If you need any additional information or have any further questions, please contact me on (202) 736-0479.

Sincerely yours,

A handwritten signature in cursive script that reads "Gaston L. Gianni, Jr.".

Gaston L. Gianni, Jr.  
Associate Director, Government  
Business Operations Issues

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## Abbreviations

|        |   |
|--------|---|
| BIF    | Bank Insurance Fund   |
| FDIC   | Federal Deposit Insurance Corporation                                   |
| FIRREA | Financial Institutions Reform, Recovery, and Enforcement<br>Act of 1989 |
| FSLIC  | Federal Savings and Loan Insurance Corporation                          |
| RTC    | Resolution Trust Corporation  |
| SAIF   | Savings Association Insurance Fund                                      |

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# Analysis of RTC's Efforts to Address Past Management Issues

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## Background

In August 1989, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) was enacted, in part, to resolve hundreds of financial institutions (thrifts) that were insolvent or in imminent danger of becoming insolvent and that were insured by the Federal Savings and Loan Insurance Corporation (FSLIC). FIRREA abolished FSLIC, which had run out of money, and established RTC as a temporary agency to carry out the enormous task of resolving insolvent thrifts. FIRREA provided RTC with \$50 billion and about 7-1/2 years to clean up the thrift industry.

Subsequent legislation gave RTC additional funds, increased its responsibilities, but further limited its life span. To date, RTC has been authorized \$105 billion to be used for resolving thrifts that fail between January 1, 1989, and July 1, 1995.<sup>1</sup> RTC is scheduled to cease operations on December 31, 1995. Any remaining RTC workload and operations are to be transferred to FDIC, which also is to inherit resolution responsibility for any thrifts that fail after RTC's responsibility ends.

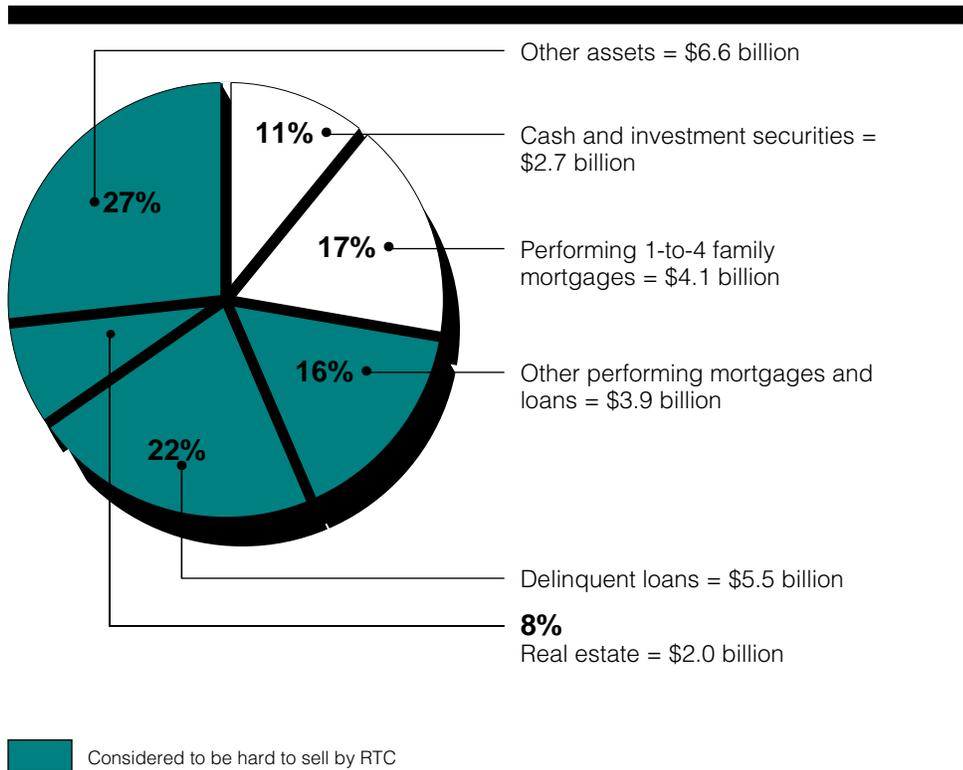
From its inception through December 31, 1994, RTC accepted responsibility for 745 failed thrifts with aggregate assets totaling about \$464 billion. RTC has completed the depositor protection phase of its work for all of the 745 thrifts, and no depositor has suffered any loss on insured deposits. RTC also has disposed of more than 94 percent of the \$464 billion of assets. However, much work remains before the thrift cleanup is complete. As shown in figure 1, RTC had about \$25 billion in assets remaining on December 31, 1994, most of which it considers to be hard to sell.

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<sup>1</sup>The RTC Completion Act specifies that RTC's resolution responsibilities for newly failed thrifts will end on such date as is determined by the Chairperson of the Thrift Depositor Protection Oversight Board, but not earlier than January 1, 1995, and not later than July 1, 1995. The Chairperson has since set July 1, 1995, as the date.

**Appendix I  
Analysis of RTC's Efforts to Address Past  
Management Issues**

**Figure 1: Dollar Value of RTC Assets Remaining on December 31, 1994**



Total assets = \$25 billion.

Note 1: Total assets exceeds sum of dollar values for asset types due to rounding.

Note 2: Sum of percentages exceeds 100% due to rounding.

Source: RTC.

In December 1992, we reported on several aspects of RTC's operations that led us to classify RTC as a high-risk area, including its asset disposition practices, contracting activities, information systems, and financial management and accountability. In March 1993, the Chairman of the Thrift Depositor Protection Oversight Board announced a plan containing management reforms that would be implemented by RTC. Several of the planned reforms addressed the aspects of RTC operations that we had reported as entailing the most risk.

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In December 1993, the RTC Completion Act required RTC to implement 21 separate management reforms, several of which were very similar to those contained in the March 1993 plan. We reported in March 1995 on the status of RTC's implementation of the management reforms mandated by the RTC Completion Act. Our report<sup>2</sup> showed that RTC had fully implemented most of the reforms.

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## Disposition Practices Have Improved, but Recoveries May Not Be Maximized

Since its inception in August 1989 through December 31, 1994, RTC has made substantial asset disposition progress, disposing of about \$439 billion of financial, real estate, and other assets. The significant decrease in RTC's asset inventory lessens the magnitude of remaining risks associated with the savings and loan cleanup. However, a substantial portion of the \$25 billion of remaining assets is likely to consist of the least marketable assets. Further, RTC estimates that about \$8 billion in assets will remain unsold at the end of 1995 and will be transferred to FDIC. Thus, it remains important that RTC use the sales strategies that are most effective for the types of assets left in its inventory. At the same time, RTC must continue its efforts to implement mandated management reforms and must seek to ensure adequate control and oversight when using sales techniques that result in RTC's retaining a residual ownership in the assets for a period of time.

RTC developed a Business Plan in December 1993 that stresses the importance of selecting a disposition strategy for each asset type with the goal of maximizing recoveries. However, RTC has not developed a comprehensive management strategy for the sale of assets because it has not determined which sales methods work best for each of the various asset types. Instead, RTC continues to try a variety of marketing and disposition strategies for liquidating its asset inventory. The costs and expected return to RTC of disposing of various types of assets are likely to be different for each of these strategies, but RTC has not made a reliable comparison of them.

In December 1992, RTC attempted to analyze its sales strategies, but, in our view, the results were inconclusive because of data limitations. RTC acknowledged that important financial data, such as property management expenses, operating income and expenses, and litigation and foreclosure expenses, were not available on an asset-by-asset basis for assets sold

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<sup>2</sup>Resolution Trust Corporation: Implementation of the Management Reforms in the RTC Completion Act (GAO/GGD-95-67, Mar. 9, 1995).

through portfolio and auction sales. In a February 1994 report,<sup>3</sup> we found this continued to be a problem for RTC.

RTC officials have decided, however, that it would no longer be cost-effective to do a sales method comparison study. They pointed out that such a study would likely be done under a contract, which would probably cost more than \$50,000 and could take up to 130 days to award. Since RTC is scheduled to terminate by December 31, 1995, and RTC's asset inventory continues to decline, RTC officials concluded that a study at this time would not be cost-effective. While RTC's arguments have some validity regarding its continued operations, we note that as part of the planning process for the transition to FDIC, RTC is to identify its best practices that then should be considered for adoption by FDIC. However, without complete historic information to perform a valid sales method comparison, RTC will have to develop alternative criteria for identifying which practices are best for maximizing recoveries.

RTC has recently taken some action to gather additional information on some sales methods. In August 1994, RTC issued a directive to establish procedures for tracking expenses for all multiasset sales transactions. The directive explains that documentation of estimated and actual sales expenses for each multiasset sales transaction could be useful, in some cases, for determining the effectiveness of different sales methods.

In addition, mandated reforms contained in the RTC Completion Act affect RTC's sales strategies. One reform requires RTC to market any undivided or controlling interest in real property assets<sup>4</sup> on an individual basis for at least 120 days before making these assets available for sale or other disposition on a portfolio basis or otherwise including them in a multiasset sales initiative.

Another reform establishes various requirements for the disposition of real property with a book value of more than \$400,000 and the disposition of nonperforming real estate loan assets with a book value of more than \$1 million.<sup>5</sup> Specifically, before selling such assets, RTC must assign the

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<sup>3</sup>Resolution Trust Corporation: Analysis of Selected Asset Sales and Financial Data (GAO/GGD-94-37, Feb. 1, 1994).

<sup>4</sup>An exclusion from this requirement applies to real property assets transferred in purchase-and-assumption transactions and to real property assets transferred to a new thrift organized by RTC under section 11(d)(2)(F) of the Federal Deposit Insurance Act.

<sup>5</sup>The exclusions in footnote 4 also apply to this requirement. In addition, an asset can be exempted from the reform's requirements if RTC determines in writing that other disposition methods would bring RTC a greater return.

responsibility for the management and disposition of such assets to a qualified person or entity to (1) analyze each asset and consider alternative disposition strategies, (2) develop a written management and disposition plan for the asset, and (3) implement this plan for a reasonable period of time.

Finally, RTC's use of sales techniques by which it retains some interest in the properties being sold can be an important disposition strategy for RTC's least marketable real estate assets. However, RTC's use of these disposition techniques also requires diligent monitoring and administration in order to protect RTC's long-term interests. Further, if this type of asset remains at RTC's termination, FDIC will need to be prepared to undertake these oversight and monitoring responsibilities.

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## Contract Issuance Has Improved, but RTC Is Vulnerable to Risks Associated With Contract Closings

Generally, RTC has used contractors to manage and dispose of assets from failed thrifts. These contracted activities, in addition to the collection of asset sales proceeds, usually include the collection of income, such as rents, and the making of disbursements, such as for the payment of utility bills. RTC's total proceeds from asset sales and collections through December 1994 were about \$385 billion; much of this amount was managed or collected by thousands of private contractors. Given that such a large amount of money can flow through the private sector contractors acting on behalf of RTC, it has been critical that a comprehensive system of contracting controls and contract oversight be in place to reduce the inherent vulnerabilities of operating in this manner.

However, as described in our previous high-risk report, RTC initially viewed contracting as an administrative activity rather than a key function. Downplaying the significance of contracting activities in its early years led RTC to make a series of strategic decisions in developing and implementing its contracting system that have increased RTC's vulnerability to mismanagement and waste. RTC has since made improvements to its contracting system, but the risk associated with private sector contractors' managing large amounts of its assets remains a key vulnerability in RTC's operations.

After internal and external audits of RTC's contracting activities and of specific RTC contracts identified shortcomings associated with contract issuance and oversight, some actions were taken to improve these processes. In March 1993, the Chairman of the Thrift Depositor Protection Oversight Board presented a 10-point program of reforms for RTC to

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**Appendix I**  
**Analysis of RTC's Efforts to Address Past**  
**Management Issues**

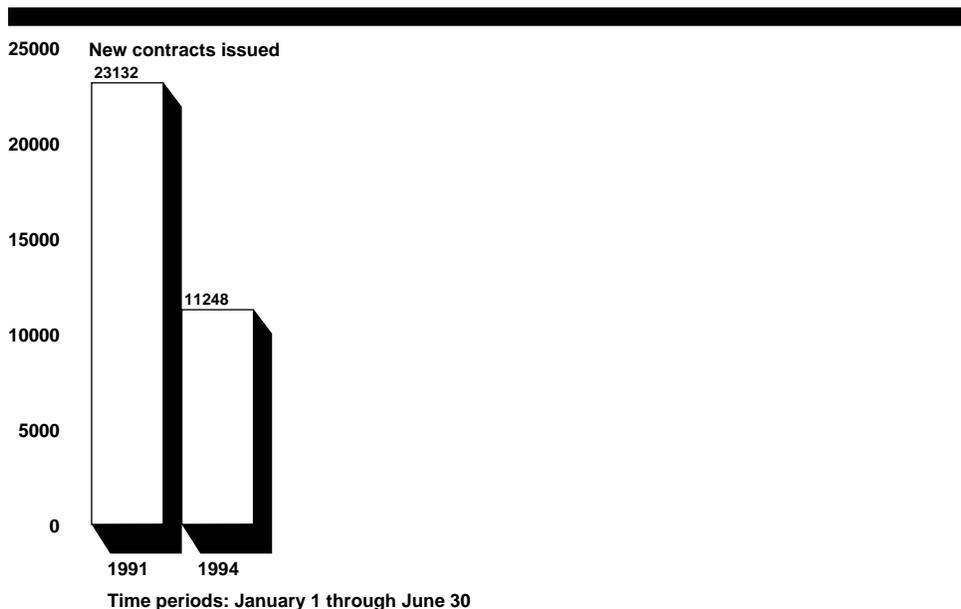
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implement immediately. One of these reforms included 28 initiatives designed to improve contracting and contract oversight. For example, the initiatives included reorganizing RTC's contracting staff to place emphasis on contract administration and authorizing 214 additional positions related to contracts and contract oversight. In addition, the RTC Completion Act included several provisions to further strengthen contracting and contract oversight, such as limiting execution authority for all contracts to warranted contracting officers<sup>6</sup> and requiring documentation of cost estimates for RTC contracts and contract modifications in excess of \$100,000.

As RTC approaches the conclusion of its mission, the issuance of contracts and the management of assets by contractors are diminishing, reducing the levels of funds associated with those activities. As shown in figure 2, RTC issued 11,248 new contracts during the first 6 months of 1994, a 51-percent decrease from the 23,132 new contracts RTC issued during the first 6 months of 1991. This decrease in the rate of new contract issuance was accompanied by a 76-percent decrease in assets managed by contractors that occurred during that same period. (See fig. 3.)

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**Figure 2: New RTC Contracts Issued During 6-Month Periods in 1991 and 1994**



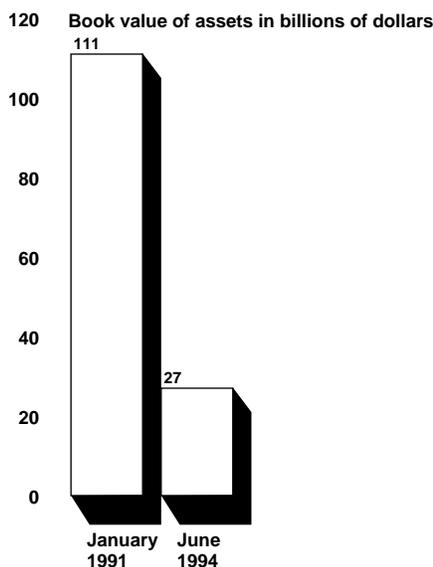
Source: GAO analysis of data provided by RTC.

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<sup>6</sup>The RTC Completion Act allows managing agents of savings associations under the conservatorship of RTC to have the same contracting authority as warranted contracting officers.

**Appendix I  
Analysis of RTC's Efforts to Address Past  
Management Issues**

**Figure 3: Dollar Value of RTC Assets  
Being Managed by Private Sector  
Managers Under Contracts**



Source: GAO analysis of data provided by RTC.

Since 1992, RTC has focused on the process of contract issuance and has initiated actions to improve its oversight of contracts. Also, RTC officials have recently increased emphasis on the process of closing out<sup>7</sup> contracts to ensure that contractors have fulfilled all contractual responsibilities. However, RTC is vulnerable to the risks associated with not closing out contracts in a timely manner. According to RTC estimates at the time of our review, at least 12,000 prime contracts issued before December 31, 1992, with estimated fees of about \$2.8 billion needed to be closed. RTC officials project that this backlog will be eliminated by the end of 1995. However, the earlier contracts now in the backlog may subject RTC to a greater than normal amount of risk because they were issued before the initiation of contracting reforms in the RTC Completion Act and the 10-point program.

From its inception to December 31, 1992, RTC issued 109,862 contracts, or about 73 percent of the total contracts that it issued through August 31,

<sup>7</sup>RTC's contracting manual states that a contract closeout includes, among other things, determination by the contracting officer that (1) all deliverables, including reports, have been received by RTC and accepted; (2) final payment has been made; (3) all collections of funds due to RTC have been completed; (4) all financial documents are in the file; (5) all RTC property has been returned and accounted for; and (6) all RTC files have been returned.

1994. In addition, many of RTC's asset management contracts were issued during that earlier period before contracting reforms were implemented. Accordingly, these contracts may not have adequately protected the government's interests, and those that are not closed out may entail continuing risks.

Recent contract audits by RTC's Inspector General and audits of RTC's contractors by RTC's Office of Contract Oversight and Surveillance continue to identify significant performance problems related to contracts issued before the recent improvements. For example, a September 1994 Inspector General report on the November 1990 sale of a failed thrift's mortgage subsidiary found that employees of the subsidiary and RTC's contractors disregarded their responsibilities and neglected to protect RTC's interests.

Subsequently, the Inspector General estimated that RTC sold the subsidiary for \$18 million less than its fair value and recommended that RTC recover the questioned costs and cancel RTC's contract with its financial advisor because of inadequate performance. This and other recent audit reports demonstrate that although RTC has taken action to correct contracting problems, the effects of RTC's early neglect of contracting operations remain. RTC will have to continue to place emphasis on the contract close-out function.

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## **Information Systems Are Critical for Managing and Selling Assets Effectively and Efficiently**

RTC's information systems remain critical to its efforts to manage and sell failed thrift assets and to FDIC's task of assuming responsibility for any remaining RTC operations after December 31, 1995. In the past, RTC's information system problems included unclear or changing requirements, poor response time, difficulty of use, and inaccurate and incomplete data. Over the last 2 years, RTC has made many improvements. Its system requirements are now better defined, and it has completed all of its system development projects. In addition, it has modified its systems to improve response times and make the systems easier to use.

Accurate and complete information is still critical to RTC's ability to efficiently and effectively dispose of assets. Poor information can increase the uncertainty investors face and, therefore, may reduce the prices that they are willing to pay for RTC's assets. In June 1994, RTC completed initial data quality action plans for its 17 critical information systems. RTC uses these 17 systems to manage unsold assets, support financial transactions, and report on activities in which congressional oversight committees have

had significant interest. A major component of RTC's strategy to improve the quality of data in these systems is the use of computer software to identify such problems as missing or inconsistent data.

While RTC is making progress in improving the quality of data in its systems, as it reduces staffing levels, there may be fewer resources to research potential data errors. In addition, diminishing resources could make it increasingly difficult for RTC to ensure that data errors are corrected. To help ensure that these resources are properly focused on the data most critical to completing its mission, RTC is reassessing its efforts to improve the quality of data in the 17 major systems. Its goal is to target critical data elements that, if not correct, could have a significant negative effect on the management of assets or the accuracy of information reported to oversight committees. This reassessment is expected to be completed during the first half of 1995.

We agree with this approach in RTC's final year of existence. The ultimate value of RTC's efforts, however, depends on its ability to complete the implementation of the data quality action plans in time to affect current operations and on RTC's ability to sustain improvements in data quality. By concentrating on the data elements that are most critical to managing and selling assets, RTC could make the best use of its efforts. In addition, the benefits of better data should also help FDIC when it assumes responsibility for those assets that remain to be sold after RTC's termination.

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## **Financial Management and Accountability Must Continue to Be a Priority**

During our audit of RTC's 1991 financial statements, RTC could not demonstrate that cash receipts and payments in its receiverships were processed in accordance with RTC's policies, objectives, and standards. Although we were able to assure ourselves through testing of detailed transactions that the RTC receivership receipts and payments we tested were valid and correctly entered in the receiverships' general ledgers, RTC did not have adequate internal accounting controls to ensure that future transactions would be properly handled and accurately reported. Poor internal controls over cash receipts and payments in RTC receiverships could increase the cost of resolutions and the cost to taxpayers.

During 1992 and 1993, RTC acted to improve internal accounting controls over receipts and payments by its receiverships and took steps to address other control weaknesses identified during our financial audits. While we continue to identify some internal control weaknesses during our financial statement audits, RTC has been very responsive and has addressed the

problems. In particular, RTC issued its Internal Control Directive, which assigned management responsibility for internal controls and addressed specific operational activities to be performed. RTC also finalized its Field Accounting Manual, which set forth uniform policies, procedures, and controls over receivership cash receipts and disbursements for all RTC field offices. Additionally, RTC implemented several new systems, including the Control Totals Module, which contributed to improved controls over receivership cash receipts and asset accountability; and the Financial Management System, which enhanced RTC's financial reporting capabilities. Further, RTC continues to be proactive in monitoring compliance with corporate policies and the adequacy of internal control objectives and techniques through internal control and program compliance reviews.

Although significant progress has been made in improving internal accounting controls, RTC continues to experience weaknesses in its operating controls over contractors that perform services for receiverships. In our audit report on RTC's 1993 financial statements,<sup>8</sup> we noted that weaknesses in these operating controls could negatively affect the estimated recoveries from RTC's receiverships. As RTC approaches its statutory sunset of December 31, 1995, it must continue to improve operating controls to ensure that it recovers all that it should from its receiverships.

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## **RTC Has Been Fully Funded, but SAIF's Future Remains Uncertain**

By the end of November 1992, RTC had used nearly \$87 billion of taxpayer funds to cover losses associated with its thrift resolution responsibilities. RTC estimated at that time that it needed an additional \$25 billion in loss funds to resolve all institutions for which it would be responsible. This estimate was subject to a number of uncertainties regarding general economic conditions, interest rates, and real estate markets that were beyond RTC's control. Additional uncertainties affect the future of SAIF, which was established to insure thrifts and to be responsible for the cost of resolving thrifts that fail after RTC's responsibility ends.

In December 1993, the RTC Completion Act provided RTC with an additional \$18.3 billion in loss funds, bringing to \$105 billion the total made available to RTC to cover its losses associated with thrift resolutions. On the basis of the estimates presented in RTC's 1993 financial statements, which continue to be subject to uncertainties, RTC may need only \$5.3 billion of the

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<sup>8</sup>Financial Audit: Resolution Trust Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-148, June 27, 1994).

\$18.3 billion provided, leaving up to \$13 billion of unused loss funds after RTC resolves all institutions for which it is responsible. Under the RTC Completion Act, these unused loss funds become available for thrift insurance losses incurred by SAIF for 2 years provided that certain requirements of the act are met.

Under authority provided in the RTC Completion Act, the Chairperson of the Thrift Depositor Protection Oversight Board determined on December 5, 1994, that RTC would continue to be responsible for resolving failed thrift institutions through June 30, 1995. After that date, SAIF will assume full responsibility for the cost of resolving failed thrifts. SAIF was created in 1989 without any initial capitalization, and SAIF premiums, paid by insured thrifts, are not fully available to build the SAIF fund balance because premiums are subject to prior claims that consume a substantial portion of SAIF members' insurance premiums. Beginning in 1993 and continuing through the present, the interest due on 30-year FSLIC recapitalization bonds issued by the Financing Corporation has been a priority claim. This is a substantial claim that consumed nearly half of SAIF's total insurance premiums in 1993. As a result, SAIF is significantly undercapitalized and its members will continue to face high assessment rates.

Congress has taken steps to provide SAIF with additional access to funds by giving FDIC authority to borrow, on behalf of SAIF or the Bank Insurance Fund (BIF), up to \$30 billion from the U.S. Treasury to cover insurance losses. In addition, Congress authorized up to \$8 billion for SAIF insurance losses in fiscal years 1994 through 1998 and provided that any loss funds not used by RTC would become available to SAIF to cover SAIF insurance losses during the 2-year period beginning on the date of RTC's termination. However, the RTC Completion Act and the FDIC Improvement Act of 1991 contain requirements and restrictions on SAIF's access to and use of these funding sources.

FDIC's projections of SAIF's fund balance indicate that it will not reach its designated reserve levels until 2002. Accordingly, SAIF's premium rates are expected to continue to be significantly higher than those projected for BIF. Because of improvements in the banking industry, FDIC predicts that it will be able to substantially reduce BIF premium rates long before it can reduce SAIF premium rates. Should a substantial difference in premium rates exist, SAIF members may face a competitive disadvantage with banks in raising sufficient capital, which may adversely affect the thrift industry and SAIF. As a result, continuing attention is needed to SAIF's long-term viability.

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## RTC and FDIC Must Deal With Significant Challenges to Make a Smooth and Efficient Transition

RTC will cease to exist at the end of 1995, and FDIC will be its successor. Effectively managing the transfer of RTC operations, workload, and staff to FDIC is a challenge for RTC and FDIC that requires diligent planning and close coordination. A smooth and efficient transfer is needed to ensure that (1) before, during, and after the transfer, adverse consequences on RTC's remaining asset management and disposition activities are minimized and (2) FDIC's own continuing asset management and disposition activities benefit from combining the expertise of these two organizations. The difficulty of planning an effective and efficient transition is compounded by the need to substantially decrease staffing levels to match the decreasing workloads faced by both agencies while carefully aligning staff skills and capabilities with remaining organizational needs.

Some actions have been taken to initiate the necessary planning and coordination. The RTC Completion Act requires RTC and FDIC to establish a transition task force to facilitate the transfer of RTC assets, personnel, and operations to FDIC in a coordinated manner. The RTC Completion Act assigned the task force specific duties, including examining the operations of RTC and FDIC, evaluating the differences, and recommending which RTC systems should be preserved for use by FDIC. The act requires the transfer to FDIC of any beneficial RTC management, resolution, and asset disposition systems in a manner that preserves the integrity of the systems. The act also requires the task force to evaluate the management enhancement goals and the management reforms that are applicable to RTC under section 21A of the Federal Home Loan Bank Act and to recommend which of the goals and which of the reforms should apply to FDIC.

On February 22, 1994, RTC and FDIC formally established the task force. The task force subsequently established more than a dozen groups to examine functional and policy issues for transition to FDIC. It charged the groups with identifying key policies and procedures in place at FDIC and RTC, critical policy and procedural differences, and "best practices" from RTC that should be adopted by FDIC. Each group is also to analyze which of the management enhancement goals and management reforms that are applicable to RTC should apply to FDIC. As the task force's work progresses, it plans to make recommendations to the FDIC Board of Directors about RTC practices and the management reforms that should be adopted by FDIC.

The task force has established an information systems review committee to help the task force make recommendations to the Secretary of the Treasury on which RTC information systems should be preserved for use by FDIC. After considering the task force's recommendations, the Secretary is

to determine which systems have benefited RTC, and those systems are to be transferred to FDIC.

The task force has not yet fulfilled the RTC Completion Act requirements to evaluate the operational differences between RTC and FDIC and to recommend which RTC systems should be preserved for use by FDIC. It also has not determined the specific details of how most RTC functions will be transferred to FDIC. On the basis of input from the groups it established, however, the task force has determined when some RTC functions and staff will be transferred to FDIC and where they will fit within FDIC's organizational structure. For example, the task force has decided to transfer the asset management and sales operations of RTC's Kansas City office by June 30, 1995. The task force has also decided on some fundamental personnel policies that affect RTC staff who transfer to FDIC.

While RTC and FDIC have made progress in planning the transition, challenges remain. It is critical that RTC and FDIC identify RTC policies, procedures, and practices that should be adopted by FDIC as the best practices. Thorough analysis of best practices is important because, in the past 5 years, RTC and FDIC have developed differing methods for accomplishing similar activities. For example, FDIC uses its own employees to settle, collect, or otherwise work out nonperforming loans of more than \$250,000. However, RTC generally uses asset disposition contractors to perform these activities. The task force needs to identify such differences and determine, on the basis of careful analysis, which practices should apply to FDIC as it liquidates remaining RTC assets and as it liquidates current and future FDIC assets.

It is essential that key decisions about RTC's best practices, management reforms, and information systems are objective and based on careful analysis. It is also crucial that transition plans thoroughly identify remaining RTC workload and the manner in which it will be transferred to FDIC. Failure to make and effectively implement such plans could result in assets being lost or losing value because of neglect or mismanagement. Similarly, RTC and FDIC will need to continue efforts to identify and implement needed internal controls to reduce risks associated with the transfer of assets and operations from RTC to FDIC.

Transition challenges also are magnified by significant personnel issues facing RTC and FDIC as a result of declining workloads. RTC will have to continue to evaluate its staffing needs as workload decreases and reduce its staffing levels as appropriate between now and December 31, 1995.

However, in making decisions about reducing staffing levels, RTC must consider, in addition to its declining workload, the adequacy of staffing levels for maintaining effective internal controls and contract monitoring and for ensuring that RTC operations continue smoothly. RTC is further constrained in its staffing decisions by a provision of law that guarantees to some RTC employees post-transition employment at FDIC. About 4,300 of RTC's 5,700 employees do not have this guarantee of employment at FDIC, and their employment at RTC can be terminated as RTC's staffing requirements diminish.

About 1,400 RTC employees who have the guarantee of employment at FDIC also complicate FDIC's staffing decisions because FDIC is also reducing its staffing as workload decreases. In particular, FDIC's Division of Depositor and Asset Services (formerly the Division of Liquidation) plans to reduce the number of employees from its present total of about 3,800 to fewer than 3,000 by December 31, 1995. FDIC will need to pay close attention to the mix of staff skills and experiences available, both from its existing staff and from the RTC employees who may join FDIC, and ensure they match with those needed for the remaining and anticipated work. Also, FDIC needs to determine the optimum size, staffing, and organization for its asset disposition function to ensure that sufficient resources will be available if bank and thrift failures increase, while also ensuring that excess resources are not wasted during periods of low failure activity.

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**Appendix II**  
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Deposit Insurance Funds: Analysis of Insurance Premium Disparity Between Banks and Thrifts (GAO/AIMD-95-84, Mar. 3, 1995).

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