United States General Accounting Office

GAO

Report to the Congress

June 1995

FINANCIAL AUDIT

Resolution Trust Corporation's 1994 and 1993 Financial Statements

GAO

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

Comptroller General
of the United States

B-259541

June 22, 1995

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, 1994 and 1993. This report also presents our opinion on management's assertions regarding the effectiveness of its system of internal controls on December 31, 1994, 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) an internal control weakness we identified and our recommendation to correct this weakness, (2) issues affecting estimated recoveries from failed thrifts, including uncertainties and operating controls, (3) the estimated unused loss funds after the Corporation's completion of all resolution activities, and (4) the progress made in reducing risk.

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 Reform and Oversight, the Senate Committee on Banking, Housing and Urban Affairs, and the House Committee on Banking and Financial Services; 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 V.

Charles A. Bowsher

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, 1994 and 1993, 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.
- The Corporation fairly stated that internal controls in place on December 31, 1994, were effective in safeguarding material assets against loss from 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 one internal control weakness, we did not consider it to be material.
- There were no reportable instances of noncompliance with laws and regulations we tested.

The following section presents significant matters considered in performing our audit and forming our opinions. This report also discusses each of the above audit conclusions in more detail and our recommendation for improving the Corporation's internal control structure.

Appendix I discusses the scope of our audit. Appendix II presents the Corporation's financial statements. Appendix III presents management's report on internal controls. The Corporation's written comments on a draft of this report are included in appendix IV. Major contributors to this report are included in appendix V. 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 current status of the Corporation and its funding, (3) the potential continuing impact of past weaknesses in contract issuance and contractor oversight, and (4) the progress made in reducing the risk associated with weak internal controls and uncertain funding.

Uncertainties Could Affect Estimated Recoveries From Receivership Assets

Although the Corporation continued to use an appropriate methodology for estimating the future recovery value of receivership assets[1] and has used the best information available, uncertainties regarding general economic conditions, interest rates, and real estate markets could increase or decrease the final cost of resolving failed institutions. The uncertainties impact the final cost of resolving failed institutions by affecting the amount the Corporation ultimately recovers from disposing of receivership assets.

As described in notes 4 and 5 to the financial statements, the Corporation records as assets the full amount advanced to conservatorships and receiverships for liquidity and working capital (Advances) or paid to close failed thrifts (Subrogated Claims). The Corporation then establishes loss allowances against these assets by estimating the difference between the amounts paid or advanced and the expected recovery. As of December 31, 1994, the Corporation estimated a total net recovery of $20.3 billion from its outstanding Subrogated Claims and Advances. The amounts ultimately recovered and repaid to the Corporation may increase or decrease as a result of changes in general economic conditions, interest rates, and real estate markets.

Recoveries from conservatorship and receivership assets are used to repay the Corporation. As of March 31, 1995, approximately 26 percent of the book value of assets held for sale by the Corporation's receiverships[2] were performing 1-4 family mortgages, cash, and investment securities. The remaining 74 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 a receivership's assets sell later or for less than predicted, the final loss on resolving the failed institution will be higher than estimated. Conversely, higher or earlier recoveries would typically lower the final loss.

[1]The Corporation's estimated recovery values are based in part on a statistical sampling of receivership assets subject to a sampling error of plus or minus $700 million with a 95 percent confidence interval.

[2]The Corporation's one institution in conservatorship at December 31, 1994, was resolved prior to March 31, 1995.

As discussed in note 15 to the financial statements, the Corporation's loss allowances also include estimated losses arising from securitization transactions,[3] and representations and warranties[4] made in the process of disposing of the assets of failed institutions. As of December 31, 1994, the allowances included $1.7 billion representing the expected credit losses on securitization transactions and $1.2 billion representing losses arising from representations and warranties. However, the Corporation's loss experience has been limited to date. Although the Corporation used the best information available to estimate these losses, the amount of future losses may significantly increase or decrease over the remaining life of the loans that were sold, which could be as long as 20 years. 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.

The final cost of resolving failed institutions will also be affected by uncertainties related to the Federal Deposit Insurance Corporation's (FDIC) treatment of the Resolution Trust Corporation's remaining receivership assets after it ceases operations on December 31, 1995.[5] The Corporation's estimated loss on resolving failed institutions at December 31, 1994, includes estimates of future asset recoveries and related expenses. These estimates are largely based on the Corporation's experience in disposing of receivership assets. The actual amounts for some asset recoveries and related expenses will be determined after the Corporation ceases operations. After December 31, 1995, FDIC may apply different asset disposition strategies and valuing methodologies which could result in changes to the estimated recovery values of the remaining receivership assets.

[3]Securitization refers to the Corporation's practice of selling securities backed by the underlying future cash flows of groups of loans. To protect purchasers of the securities against credit losses arising from defaults and delinquencies of the underlying loans, the Corporation has set aside a portion of the securitization proceeds for possible future credit losses.

[4]The Corporation and its receiverships and conservatorships 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 contracts that convey the right to service mortgages.

[5]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 FDIC.

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 it will recover from the sale of the failed institution's assets. The portion not recovered from the sale of receivership assets is a loss to the Corporation and must be covered with loss funds. The amount expected to be recovered is borrowed from the Federal Financing Bank (FFB) and is considered working capital.

As shown in table 1, the Congress has made $105 billion available to the Corporation to cover losses associated with resolutions.

Table 1: Total Loss Funding Made Available as of December 31, 1994

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. After the deadline passed, 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.

Table 2, which is based on estimates in the Corporation's December 31, 1994, financial statements and the related notes, shows cumulative estimated loss funding needs of $90.2 billion. This amount includes funding used to cover the Corporation's losses to date as well as amounts needed to complete the resolution of all receiverships, conservatorships, and institutions for which it is probable that government assistance may be required on or before June 30, 1995.[6]

[6]The Corporation's estimated loss funding needs does not include up to $1 billion in losses that the Corporation could possibly incur from pending lawsuits and as yet unasserted claims as discussed in note 11 to the financial statements.

Table 2: Cumulative Estimated Loss Funding Needs as of December 31, 1994

Dollars in billions	
Receiverships	$89.8
Conservatorships and probable failures	.4
Possible failures[a]	0
Total	**$90.2**

[a]As of the date of our report, it is highly unlikely that the Corporation will have to resolve any institutions considered possible failures before June 30, 1995. Institutions classified as possible failures will more likely become the responsibility of the Savings Association Insurance Fund (SAIF) if failures are to occur. SAIF will assume the Corporation's resolution responsibilities beginning July 1, 1995.

The Corporation's estimates show that $89.8 billion will be used to resolve the 744 institutions closed as of December 31, 1994, and an estimated $.4 billion will be used to resolve the 1 institution in conservatorship and 3 institutions considered probable failures before the Corporation's authority to resolve institutions expires on June 30, 1995.

As shown in table 3, the Corporation estimates it will have $14.8 billion of unused loss funds after resolving all institutions for which it is responsible. This is based on the estimates presented in the Corporation's 1994 financial statements, which are subject to the uncertainties discussed previously and in notes 5 and 10 to the financial statements. The need to use any of the $14.8 billion of estimated unused loss funds is dependent on the Corporation's actual recoveries from receiverships and its actual cost of future resolutions.

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

Dollars in billions	
Total loss funding made available	$105.0
Less: cumulative estimated loss funding needed	(90.2)
Estimated unused loss funds	**$ 14.8**

At December 31, 1994, the Corporation had sufficient net assets to repay its $23 billion in working capital borrowings from FFB. The Corporation would only be unable to repay its FFB borrowings if its combined additional losses on receivership assets and future resolutions exceeded the $14.8 billion in estimated unused loss funds.

Currently, the Corporation, FDIC, and the Thrift Depositor Protection Oversight Board are reviewing the funding needed to dispose of the Corporation's assets and settle liabilities remaining after December 31, 1995. This review will consider the need for any additional funding in excess of the Corporation's currently estimated loss funding needs of $90.2 billion.

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.[7] Also, according to the act, funds in excess of the amounts needed by both the Corporation and SAIF will be returned to the general fund of the Treasury.

Controls Over Contracting Could Affect Recoveries From Receiverships

The Corporation has used thousands of private contractors to manage and dispose of assets from failed thrifts, including activities such as collecting income and paying expenses. The estimated recoveries from receiverships included in the Corporation's financial statements include the results of the receipts and disbursements made by contractors that perform services for receiverships during the year. Weak operating controls over contract issuance and contractor oversight could impact these estimated recoveries from receiverships. While we assess, as part of our financial statement audit, internal accounting controls over receivership receipts and disbursements, the Corporation's operating controls over contract issuance and contractor oversight are not part of the scope of our audit. These operating controls are considered as part of GAO's other reviews of the Corporation's operations[8] as well as by the Corporation's Inspector General and Office of Contract Oversight and Surveillance.

In response to previously reported operating control weaknesses, the Corporation has taken actions to improve the process of contract issuance and contractor oversight. In addition, the Corporation has recently placed

[7]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 needed by the Corporation. However, prior to receiving such funds, 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.

[8]High-Risk Series: An Overview (GAO/HR-95-1, February 1995); High-Risk Series: Quick Reference Guide (GAO/HR-95-2, February 1995); and Resolution Trust Corporation: Efforts Under Way to Address Management Weaknesses (GAO/GGD-95-109, May 12, 1995).

increased emphasis on the process of closing out[9] contracts to ensure that contractors have fulfilled all contractual responsibilities.

However, during 1994, reports issued by the Corporation's Inspector General and the Office of Contract Oversight and Surveillance demonstrate that despite the Corporation's actions to correct contracting problems, the effects of early neglect of contracting operations remain. These reports also identified significant performance problems with contracts that were issued before many contracting reforms and improvements were implemented by the Corporation. As a result, the Corporation remains vulnerable to the risks associated with contracting operations and contractors' performance and cannot be sure that it is recovering all it should from receiverships.

Progress in Reducing Risk

In 1992, we reported that the Corporation was designated as a high-risk entity because of weaknesses in its asset disposition, contracting, information systems, and financial management and accountability.[10] We also noted our concerns about uncertainties affecting its resolution activities and funding levels. Finally, we warned that the thrift clean-up would not be completed before the Corporation closed down and that the total cost would depend, in part, on how effectively FDIC settled any remaining assets and liabilities.

Since 1992, the Congress, the Corporation, and FDIC have reduced these risks to the point that we no longer consider the Corporation a high-risk.[11] The Congress provided the additional funding needed to complete the thrift clean-up, mandated management reforms, and required that a task force be formed to facilitate transition. In addition, the Corporation made substantial progress in addressing internal control and operating weaknesses by implementing mandated reforms and taking additional actions to strengthen operating procedures, information systems, and internal controls. Also, as required, the Corporation and FDIC established a task force to facilitate the transfer of remaining assets, personnel, and operations to FDIC in a coordinated manner. However, one continuing source of concern is the difficulty in terminating a large and complex

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

[10]High-Risk Series: Resolution Trust Corporation (GAO/HR-93-4, December 1992).

[11]See footnote 9.

organization with thousands of personnel and billions in assets, while attempting to minimize disruption. Although transition planning has gone well, the Corporation faces the challenge of disposing of its remaining assets and working successfully to carry out the transition while maintaining internal controls and accountability.

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, 1994 and 1993;
- 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 weakness 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 those estimated in these statements.

Opinion on Management's Assertion About the Effectiveness of Internal Controls

We evaluated management's assertion about the effectiveness of its internal controls designed to

- safeguard assets against loss from unauthorized acquisition, use, or disposition;
- ensure the execution of transactions in accordance with management's authority and with laws and regulations that have a direct and material effect on the financial statements; and
- properly record, process, and summarize transactions to permit the preparation of reliable financial statements in accordance with generally accepted accounting principles and to maintain accountability for assets.

The Corporation's management fairly stated that those controls in effect on December 31, 1994, provided reasonable assurance that losses, noncompliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis, based on the control criteria used. Management's assertion, which is included in appendix III, was made using the internal control and reporting criteria set forth in the implementing guidance for the Federal Managers' Financial Integrity Act of 1982.

However, our work identified the need to improve internal controls, as described in the following section. This weakness, although not considered material,[12] represents a significant deficiency in the design or operation of internal controls which could adversely affect the Corporation's ability to fully meet the internal control objectives listed above. In making its assertion, the Corporation's management considered the internal control weakness we identified.

While management's assertion about the effectiveness of internal controls was reasonable, misstatements may nevertheless occur in other financial information reported by the Corporation. Because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements may nevertheless occur and not be detected.

Reportable Condition

The Corporation's corrective actions during 1993 and 1994 resolved two of the three reportable conditions identified in our audit of its 1993 financial statements. The Corporation strengthened controls over posting wire receipts to the general ledger and in reconciling receivership assets. For the remaining reportable condition, weaknesses in general controls over some computerized information systems,[13] the Corporation addressed the weaknesses we identified. However, our audit of the 1994 financial statements identified additional weaknesses such that this reportable condition continued to exist.

[12]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 that 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.

[13]General controls are policies and procedures that apply to an entity's overall effectiveness and security of operations, and that create an environment in which application controls and certain user controls operate. General controls include the organizational structure, operating procedures, software security features, system development and change control, and physical safeguards designed to ensure that only authorized changes are made to computer programs, that access to data is appropriately restricted, that back-up and recovery plans are adequate to ensure the continuity of essential operations, and that physical protection of facilities is provided.

Because the Corporation relies on its computer systems extensively, both in its daily operations and in processing and reporting financial information, the effectiveness of general controls is a significant factor in ensuring the integrity and reliability of financial data. Our audit of the Corporation's 1994 financial statements found that the general controls still did not provide adequate assurance that data files and computer programs were fully protected from unauthorized access and modification. However, prior to completion of our fieldwork in June 1995, we found that the Corporation had already corrected several of the weaknesses we identified. In addition, for the remaining weaknesses, the Corporation had prepared corrective action plans.

During 1994, the Corporation performed accounting and control procedures, such as reconciliations and manual comparisons, which would have detected material data integrity problems resulting from inadequate general controls. Without these procedures, the weaknesses in general controls would raise significant concerns over the integrity of information obtained from the affected systems.

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 instances of noncompliance that would be reportable under generally accepted government auditing standards.[14]

Recommendation

We recommend that the Deputy and Acting Chief Executive Officer direct the Corporation's staff to monitor the implementation and progress of the corrective actions related to the weakness we identified in general controls over some of the Corporation's computerized information systems.

[14]The Federal Deposit Insurance Corporation Improvement Act of 1991 requires that the Resolution Trust Corporation resolve institutions in the least costly manner and that we report to the Congress annually on the Corporation's compliance with the least-cost provisions. Our most recent least-cost compliance review identified no significant compliance issues. A detailed discussion of our findings and the Corporation's comments is presented in 1993 Thrift Resolutions: RTC's Resolution Process Generally Adequate to Determine Least Costly Resolutions (GAO/GGD-95-119, May 15, 1995).

Corporation Comments and Our Evaluation

In comments 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 IV, discuss efforts, many of which are ongoing, intended to address the reportable condition. We plan to evaluate the adequacy and effectiveness of these efforts as part of our audit of the Corporation's December 31, 1995, financial statements.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

June 2, 1995

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) management's assertion about the effectiveness of internal controls is fairly stated in all material respects based upon the criteria in GAO's Standards for Internal Controls in the Federal Government required by the Federal Managers' Financial Integrity Act. 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 management's assertion about the effectiveness of internal controls.

We conducted our audit between July 1994 and June 1995 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 IV. 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, 1994	December 31, 1993
ASSETS		
Cash (Note 3)	$4,034,900	$6,470,428
Net advances (Note 4, 6, 8 and 14)	2,963,704	7,337,863
Net subrogated claims (Note 5, 6, 8 and 14)	17,378,274	21,158,047
Net assets purchased by the Corporation (Note 6, 7 and 15)	235,097	76,387
Other assets	26,290	10,120
TOTAL ASSETS (Note 14)	$24,638,265	$35,052,845
LIABILITIES		
Accounts payable, accrued liabilities, and other (Note 16 and 17)	$192,622	$183,612
Notes payable and accrued interest (Note 9)	23,222,278	30,773,103
Estimated cost of unresolved cases (Note 6, 10 and 15)	410,517	8,097,851
Estimated losses from corporate litigation (Note 6 and 11)	199,030	171,633
TOTAL LIABILITIES	24,024,447	39,226,199
EQUITY		
Contributed capital (Note 3)	59,526,884	55,523,993
Capital certificates	31,286,325	31,286,325
Accumulated deficit	(90,199,391)	(90,983,672)
TOTAL EQUITY (Note 12)	613,818	(4,173,354)
TOTAL LIABILITIES AND EQUITY (Note 14)	$24,638,265	$35,052,845

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, 1994	Year Ended December 31, 1993
REVENUES		
Interest on advances and subrogated claims	$853,396	$367,751
Other interest income	8,696	12,061
Other revenue (Note 3)	52,644	48,106
TOTAL REVENUES	914,736	427,918
EXPENSES		
Interest expense on notes issued by the Corporation	1,100,133	1,010,562
Interest expense on amounts due receiverships	78,433	72,977
Reduction in provision for losses (Note 6)	(1,138,118)	(6,579,610)
Administrative operating and other expenses (Note 2, 14 and 17)	90,007	102,340
TOTAL EXPENSES	130,455	(5,393,731)
NET REVENUE	784,281	5,821,649
ACCUMULATED DEFICIT, BEGINNING	(90,983,672)	(96,805,321)
ACCUMULATED DEFICIT, ENDING (Note 12)	($90,199,391)	($90,983,672)

See accompanying notes

Statements of Cash Flows

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

	Year Ended December 31, 1994	Year Ended December 31, 1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash inflows from:		
Receipts from subrogated claims	$9,087,943	$14,577,355
Repayments of advances and reimbursable expenditures	6,020,467	5,836,959
Receipts of interest on advances	402,416	322,666
Receipts from asset liquidations	67,783	40,544
Receipts from other operations	64,272	44,777
Cash outflows for:		
Disbursements for subrogated claims	(10,281,291)	(4,931,341)
Disbursements for advances	(1,977,813)	(3,241,601)
Disbursements for reimbursable expenditures	(1,077,711)	(1,446,145)
Administrative operating and other expenditures	(94,434)	(95,366)
Interest paid on notes payable	(1,050,652)	(770,709)
Disbursements for asset liquidations	(28,202)	(8,225)
Net Cash Provided by Operating Activities (Note 13):	1,132,778	10,328,914
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from:		
Contributed capital	4,032,000	34,314
Notes payable	2,300,000	4,100,000
Cash outflows for:		
Repayment of notes payable, principal	(9,900,306)	(11,041,120)
Net Cash Used by Financing Activities	(3,568,306)	(6,906,806)
Net increase (decrease) in Cash	(2,435,528)	3,422,108
CASH – BEGINNING	6,470,428	3,048,320
CASH – ENDING	$4,034,900	$6,470,428

See accompanying notes

Notes to Financial Statements

RESOLUTION TRUST CORPORATION
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1994 and 1993

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. A final date of June 30, 1995 has been selected by the Chairperson of the Thrift Depositor Protection (TDP) Oversight Board.

The activities of the RTC are subject to the general oversight of the Oversight Board, which was redesignated the 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 $59.5 billion to the RTC as of December 31, 1994, $18.8 billion of which was authorized by FIRREA, $30 billion of which was authorized by the Resolution Trust Corporation Funding Act of 1991, $6.7 billion of which related to the

Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991, and $4.0 billion of which related to the Resolution Trust Corporation Completion Act of 1993 (see Note 12). The 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 which had been returned to Treasury in 1992. 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. No further funds have been provided to either the TDP Oversight Board or the RTC since that time.

The RTC has also issued capital certificates of $31.3 billion to REFCORP as of December 31, 1994 (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 1994.

2. Summary of Significant Accounting Policies:

General. These statements pertain to the financial position, results of operations and cash flows of the RTC, and are presented in accordance with generally accepted accounting principles. These statements do not include the reporting of 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. However, these statements do reflect the RTC's transactions with these thrifts. See Note 14 for more detailed information.

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 June 30, 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 Judgments, 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 FDIC's Bank Insurance Fund, FSLIC Resolution Fund, and 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, 1994 and 1993, the RTC did not have any cash equivalents.

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

Reclassifications. Certain balances in the 1993 financial statements have been reclassified for comparative purposes.

3. Office of Inspector General:

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

The OIG has received $140.9 million of appropriated funds from the U.S. Treasury since it was established of which $32.0 million relate to the Government's Fiscal Year (FY) 1995 and $34.3 million relate to FY 1994. These funds are used to finance the activities of the OIG. Restricted amounts of $5,238,693 for FY 1994, $3,967,087 for FY 1993, $9,213,040 for FY 1992 and $773,671 for FY 1991 are included in "Cash."

Reductions to the OIG appropriated funds resulting from obligations are recorded as "Other revenue." Accordingly, the OIG appropriated funds were reduced by $29,108,773 and $32,339,972 during 1994 and 1993, 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 $32,000,098 during 1994 and $34,538,230 during 1993. As of December 31, 1994 and 1993, the unobligated OIG appropriation balances included in "Contributed capital" were $41.7 million and $38.8 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 1994 ranged between 3.27% and 6.25%, and between 3.13% and 3.54% in 1993. At December 31, 1994 and 1993, the interest rates on advances were 5.97% and 3.37%, respectively.

	December 31, 1994	December 31, 1993
Advances to conservatorships	$ 81,089	$ 6,522,853
Advances to receiverships	8,084,024	5,406,256
Reimbursements due from receiverships and conservatorships	130,031	307,268
Accrued interest	154,140	73,165
Write-offs at termination - advances (Note 6 and 7)	(20,489)	(3,815)
Allowance for losses on receivership advances (Note 6)	(5,434,002)	(3,981,719)
Allowance for losses on conservatorship advances (Note 6)	(31,089)	(986,145)
	$ 2,963,704	$ 7,337,863

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 $0.7 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." 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 1994 ranged between 2.73% and 5.91%, and between 2.50% and 3.64% in 1993. At December 31, 1994 and 1993, the interest rates paid on these accounts were 5.90% and 2.79%, respectively.

	December 31, 1994	December 31, 1993
Subrogated claims	$222,450,889	$208,331,406
Recovery of subrogated claims	(129,042,815)	(115,566,781)
Claims of depositors pending and unpaid	10,905	17,540
Due to receiverships - assets sold	(716,197)	(2,316,651)
Write-offs at termination - subrogated claims (Note 6 and 7)	(1,984,435)	(639,585)
Allowance for losses on subrogated claims(Note 6)	(73,340,074)	(68,667,882)
	$ 17,378,273	$ 21,158,047

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, 1992	$67,262,634	$ 4,280,111	$ 11,225	$16,858,857	$375,375	$88,788,202
Provisions (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
Provisions (reductions)	(314,443)	513,901	(9,124)	(1,355,849)	27,397	(1,138,118)
Write-offs at termination (Note 7)	(1,344,850)	(16,674)	-	-	-	(1,361,524)
Cost of resolutions	6,331,485	-	-	(6,331,485)	-	-0-
Balance, Dec 31, 1994	$ 73,340,074	$ 5,465,091	$ 7,126	$ 410,517	$199,030	$79,421,838

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" represents 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):

In order to pay a final dividend to the receiverships' creditors and to expedite the process of legally terminating the receivership entities, the RTC has purchased the remaining assets of selected receiverships. As of December 31, 1994, the RTC had purchased assets from 161 receiverships for $295 million (assets from 77 receiverships for $173 million at December 31, 1993). 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, as of December 31, 1994, the RTC had purchased assets from receiverships, conservatorships, and their subsidiaries for $101 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, 1994	December 31, 1993
Assets in liquidation purchased	$396,377	$173,075
Sales, collections and adjustments	(154,154)	(80,438)
Allowance for losses on corporate assets (Note 6)	(7,126)	(16,250)
	$235,097	$ 76,387

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. 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, 1994 is $101.9 billion (against which $81.5 billion of reserves and contra assets have been recorded). Of this total, $26.6 billion is attributable to institutions located in Texas, $17.0 billion is attributable to institutions located in California, $7.7 billion is attributable to institutions located in Florida and $6.0 billion is attributable to institutions located in Arizona.

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 3.17% and 5.03% during 1994 and between 2.88% and 3.27% in 1993. As of December 31, 1994 and 1993, the RTC had $23.2 billion and $30.8 billion, respectively, in borrowings and accrued interest outstanding from the Federal Financing Bank. These borrowings, approved by the TDP Oversight Board, are within the limitations imposed under FIRREA.

10. Estimated Cost of Unresolved Cases:

The RTC has established a liability of $411 million at December 31, 1994 for the anticipated costs of resolving 4 troubled institutions. Of the 4 institutions, 1 was in conservatorship as of that date. The other 3 institutions were identified by the OTS as institutions for which it is probable that government assistance may be required on or before June 30, 1995 which is the last date the RTC may be appointed conservator.

The 1994 "Estimated cost of unresolved cases" has declined from the December 31, 1993 estimate of $8.1 billion. The primary reason for this decline was the resolution of cases during 1994 leaving fewer unresolved cases at the end of the year.

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, 1994, 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 $199.0 million has been established as of December 31, 1994 for the 57 actions that management feels are probable to result in a significant loss ($171.6 million at December 31, 1993 for 40 actions). Additionally, the Corporation could possibly incur further losses of up to $1 billion 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, 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)
1994 Net revenue	-	-	784,281	784,281
Resolution Trust Corporation Completion Act of 1993	4,000,000	-	-	4,000,000
FY 95 OIG appropriation	32,000	-	-	32,000
1994 Obligated OIG funds	(29,109)	-	-	(29,109)
Balance, Dec 31, 1994	**$59,526,884**	**$31,286,325**	**$(90,199,391)**	**$ 613,818**

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

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

	For the Year Ended December 31, 1994	1993
Net Revenue	$ 784,281	$ 5,821,649
Reduction in provision for losses	(1,138,118)	(6,579,610)
Interest expense financed as additional notes payable	-0-	278,975
Increase (decrease) in accrued interest on notes payable	49,481	(39,122)
Increase in accrued interest on amounts due to receiverships	78,433	72,977
Increase in accrued interest due from advances	(200,758)	(35,033)
Receipts from subrogated claims	9,087,943	14,577,355
Repayments of advances and reimbursable expenditures	6,020,467	5,836,959
Receipts from asset liquidations	67,783	40,544
Increase (decrease) in accounts payable, accrued liabilities and other	57,239	(56,628)
(Increase) decrease in reimbursable portion of liabilities above	(19,877)	55,290
Disbursements for advances	(1,977,813)	(3,241,601)
Disbursements for subrogated claims	(10,281,291)	(4,931,341)
Disbursements for reimbursable expenditures	(1,077,711)	(1,446,145)
Disbursements for asset liquidations	(28,202)	(8,225)
OIG income recognized	(29,109)	(32,340)
Interest accrued on subrogated claims	(235,083)	-0-
Other non-cash (income) and expenses (net)	(24,797)	8,594
(Increase) decrease in other assets	(90)	6,616
Net cash provided by operating activities	$1,132,778	$ 10,328,914

Noncash transactions incurred from thrift assistance and failures:

- $6,331,485 and $1,629,744 were reclassified from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" during 1994 and 1993, respectively, due to the resolution of 64 cases during 1994 and 27 cases in 1993.

- "Due to receiverships - assets sold" decreased by $1,020,715 and $62,157 in 1994 and 1993, respectively, with offsetting decreases of $900,933 and $61,364 to "Advances to receiverships" and of $119,782 and $793 to "Accrued interest" to repay receivership advances and related interest.

- $0 and $278,975 of interest expense was financed through increases in notes payable in 1994 and 1993, respectively.

- "Recovery of subrogated claims" increased by $4,406,990 and $7,602,027 during 1994 and 1993, respectively, with an offsetting decrease in "Due to receiverships - assets sold", to record liquidating dividends declared by receiverships.

- "Subrogated claims" increased by $4,060,927 and $2,983,857 in 1994 and 1993, respectively, resulting from resolution activity with an offsetting increase in "Due to receiverships - assets sold."

- "Due to receiverships" decreased by $11,334 and $15,715 in 1994 and 1993, 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 $130,573 and $89,272 during 1994 and 1993, respectively, with an offsetting decrease to "Due to receiverships - assets sold."

- "Due to receiverships - assets sold" increased by $122,214 and $31,280 in 1994 and 1993, 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, 1994, there were 745 institutions with $40.4 billion of assets for which the RTC was appointed conservator or receiver. This compares to 743 institutions with $75.7 billion of assets at December 31, 1993.

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, 1994, the net balances of advances and subrogated claims were $3.0 billion and $17.4 billion (net of "Due to receiverships - assets sold" of $0.7 billion), respectively. The RTC owed $0.7 billion to receiverships, including the liability account of $2 million, at December 31, 1994 resulting from resolution transactions (see Note 5). Interest income earned on advances and subrogated claims was $853 million during the year ended December 31, 1994 and interest expense on amounts due receiverships was $78 million.

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. Total amounts due receiverships were $2.3 billion, including the liability account of $13 million. Interest income 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.

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 1994, the RTC sold $7.1 billion of loans through these programs ($5.2 billion through 1993).

The RTC funds the activities of the TDP Oversight Board based on its fiscal year budgets. The amounts funded in 1994 and 1993 were $5.2 million and $5.1 million, respectively. These amounts are subject to the Corporation's policy of allocating corporate expenses to the receiverships.

"Administrative operating and other expenses" for the Corporation were $90.0 million and $102.3 million for the years ended December 31, 1994 and 1993, respectively (total costs of $848.3 million and $933.0 million less $758.3 million and $830.7 million billed back to receiverships during 1994 and 1993, respectively). The Corporation bears the costs of administrative expenses for the assets purchased from receiverships in the termination process since they are managed by the Corporation (see Note 7).

15. Commitments and Guarantees:

Securitization Credit Reserves:

Through 1994, the RTC sold through its mortgage-backed securities securitization program $39.2 billion of receivership, conservatorship and Corporate loans ($36.6 billion through 1993). 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 and recovered reserves. Through December 1994, the amount of claims paid was approximately 6% of the initial reserve funds. At December 31, 1994 and 1993, reserve funds related to the RTC securitization program totalled $7.0 billion and $6.7 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, 1994, the RTC included $1.7 billion in these provisions to cover future estimated losses on the reserve funds ($1.5 billion as of December 31, 1993). As of December 31, 1994, the provisions were offset by $0.6 billion, the market value of the residual pass-through certificates ($0.8 billion as of December 31, 1993).

Representations and Warranties:

The RTC has provided guarantees, representations and warranties on approximately $98 billion in unpaid principal balance of loans sold and approximately $151 billion in unpaid principal balance of loans under servicing right contracts which have been sold. In general, the guarantees, representations and warranties on loans sold primarily relates to the completeness and accuracy of loan documentation, the quality of the underwriting standards used, the accuracy of the delinquency status when sold, and the conformity of the loans with characteristics of the pool in which they were 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 the loans.

For loans which were sold through the securitization program or for which the sales terms provided corporate guarantees, the receiverships and conservatorships who sold the loans have established escrow 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' representations and warranties claims as part of the RTC's allowances for losses. Additionally, the RTC estimates Corporate losses related to the conservatorships' representations and warranties claims as part of the RTC's "Estimated cost of unresolved cases." The Corporation has also established a liability for the estimate of losses related to representations and warranties claims associated with loan sales that involved corporate purchased assets (see Note 7).

As of December 31, 1994, the RTC included $1.2 billion in these provisions to cover the estimated costs of representations and warranties claims ($1.2 billion as of December 31, 1993).

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, 1994, the RTC has issued a commitment to honor approximately $1.0 billion of these letters of credit. The Corporation has also established a liability for the estimate of losses related to letters of credit in the amount of $275 million.

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, 1994, $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, 1994, these offices include: (1) the Washington, D.C. Headquarter offices, (2) the six megasite offices, and (3) the three 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 $0.2 million. The RTC's rental expense for 1994 and 1993 totalled $49.8 million and $59.5 million, respectively. The RTC's total contractual obligations under lease agreements for office space are approximately $94.4 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):

1995	1996	1997	1998	1999	2000/Thereafter
$ 37,823	$ 16,982	$ 6,616	$ 7,069	$ 7,069	$ 18,851

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, 1994 and 1993 were approximately $18.4 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 $24.8 million at December 31, 1994, and $20.2 million at December 31, 1993.

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 recorded charges of $6.9 million and $13.8 million for the current periodic cost, for 1994 and 1993, 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 1994 and 1993 included the following components (in millions):

	1994	1993
Service cost, benefits attributed to employee service during the year	$ 7.2	$ 8.5
Interest cost on accumulated postretirement benefit obligations	4.1	4.4
Net amortization and deferral	(1.4)	.9
Return on plan assets	(3.0)	.0
Net periodic postretirement benefit cost	$ 6.9	$13.8

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. As of December 31, 1994, the RTC has included as a current liability on its Statement of Financial Position an amount equal to $6.1 million for a revised 1994 net periodic postretirement cost ($5.2 million as of December 31, 1993).

The discount rate used in the calculation of the postretirement benefit obligation was 6.0% in 1994 (6% in 1993). The assumed medical inflation trend in 1994 was 12.5% (14% in 1993), decreasing to an ultimate rate of 8.0% in 1998 and remaining at that level thereafter. The dental cost trend rate in 1994 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, 1994 would have increased $15.3 million, or 26.2% ($17.8 million, or 27.3% as of December 31, 1993). Additionally, a one percent increase would have increased the aggregate service and interest costs of the 1994 net periodic postretirement health care benefit cost by $2.9 million, or 29.9% ($3.7 million, or 31.7% of the 1993 cost).

Management's Report on Internal Controls

RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

Chief Financial Officer

1994 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 Thrift Depositor Protection Oversight Board (TDPOB) issued a policy statement on internal controls dated July 25, 1991, encouraging the RTC to establish and adhere to internal control 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 vest in its Chief Financial Officer powers substantially similar to those provided in the Chief Financial Officers Act of 1990.

To meet the TDPOB's expectations, the internal control system established by RTC 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.

801 17th Street, N.W. Washington, D.C. 20434

Internal Control Program Activity

The RTC has continuously enhanced its internal control system, reinforced its commitment to promote and encourage internal control program activity and taken major steps to measurably improve internal controls throughout the Corporation.

Over the life of the Corporation, formal internal control and audit follow-up program directives were implemented, automated systems and procedures for tracking internal control weaknesses and audit findings were developed, management training sessions and conferences were held, additional resources were allocated to field internal control components, enhanced coordination was effected between field and headquarters, a proactive program of assessing internal controls was developed and a comprehensive internal control review initiative was completed.

During 1994, the Corporation's objectives were to build on past successes by managing and maintaining its existing programs, by continuing to aggressively pursue its internal control and review activity and to begin planning for RTC's downsizing and consolidation with the Federal Deposit Insurance Corporation (FDIC) in a manner that preserves accountability and fiscal integrity.

In 1994, RTC program managers completed 85 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 1994, the GAO issued a total of 11 reports resulting from its audits and reviews of RTC operations and financial statements, and the RTC's OIG issued a total of 158 reports on its audits and reviews.

Management's Assertion

Management acknowledges its responsibility for establishing and maintaining an effective system of internal control. During the year, management evaluated the Corporation's internal control system to determine whether it achieved its objectives. The evaluation was based on the control criteria established under FMFIA, federal directives and applicable policy statements of the TDPOB. Based on that evaluation, management believes that the Corporation's internal control system as of December 31, 1994, was effective in safeguarding material assets against loss from 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.

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.

It should be noted that, notwithstanding management's overall conclusion on the adequacy of RTC's system of internal control, high risk areas and control weaknesses were identified and disclosed through internal control reviews undertaken in 1994. However, management does not consider the high risk areas and control weaknesses disclosed to be material in relation to the financial statements. Through December 31, 1994, the high risk areas and control weaknesses, along with the status of corrective actions taken or proposed, were disclosed in the Corporation's 1994 Internal Control Report to the TDPOB dated March 31, 1995.

Donna H. Cunningham
Donna H. Cunningham

Comments From the Resolution Trust Corporation

RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

Chief Financial Officer

June 12, 1995

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
1994 and 1993 Financial Statements

Dear Mr. Bowsher:

We appreciate being given the opportunity to respond to the General Accounting Office (GAO) draft report of the Resolution Trust Corporation's (RTC) 1994 and 1993 financial statements prior to its issuance. We are pleased that the GAO has concluded that the statements are reliable in all material respects, and that the objective of the RTC in receiving an unqualified audit opinion for the year ended December 31, 1994, has been met.

We also appreciate that the GAO has concluded that management fairly stated that RTC's system of internal controls provides reasonable assurance that losses, non-compliance, or misstatements material in relation to the financial statements would be prevented or detected on a timely basis. Additionally, we note that the GAO found no reportable instances of non-compliance with laws or regulations during the course of the audit. We acknowledge the positive comments by the GAO related to the progress made by the RTC in addressing and correcting the internal control weaknesses identified in prior GAO financial audits. In that regard, we wish to express our appreciation to the GAO for the assistance and guidance provided in achieving that progress.

Throughout the period from its original formation to the end of the fiscal period covered by the GAO audit, the RTC has expended substantial effort in addressing the operational deficiencies such as those which were documented in the 1992 GAO report (HR93-4). In that report, the RTC was designated as "high risk" because of certain operational weaknesses, concern associated with its resolution activities, and potentially insufficient funding levels. Since the issuance of the 1992 report, additional funding has been provided by the Congress. Further, progress has been made by the RTC in implementing mandated

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The Honorable Charles A. Bowsher
June 12, 1995
Page 2

management reforms, enhancing internal controls and improving its general operating procedures. We are, therefore, pleased that the GAO has removed the "high risk" designation from the RTC.

The RTC is now focused on issues associated with transition of operations to the FDIC, and we are confident that satisfactory results will be achieved in meeting this major responsibility.

The following addresses the remaining significant matters and the reportable condition identified in the GAO draft audit report for 1994:

SIGNIFICANT MATTERS

1) Uncertainties could affect estimated recoveries from receivership assets.

We concur with GAO's assessment that changes in general economic conditions, interest rates and real estate markets could affect the final cost of resolving failed institutions.

Given the present economic circumstances, we are confident that through December 31, 1995, the assumptions used in estimating the recoveries on assets, and the bases for reserve requirements for future credit losses on securitizations and for established reserves for claims arising from representations and warranties are appropriate. We agree that any significant changes in disposal strategies or valuation methodologies by the FDIC, following sunset of the RTC, may change financial asset valuations used for subsequent accounting periods. However, because of the expected reduction in the size of the remaining portfolio of assets and the existing level of corporate reserves, these uncertainties will become less of a substantive exposure.

2) Funding and current status of the corporation.

We are satisfied that the estimated $90.2 billion at year end 1994 in total loss funding needed compares favorably with the estimated funding requirements of $92.0 billion as of December 31, 1993. We expect little change in the amount of the current estimates or the related methodology to be used during fiscal year 1995. Further, a joint effort is presently underway in cooperation with the FDIC to review additional funding needed to dispose of the Corporation's assets and settle liabilities remaining after the RTC ceases operations.

We concur that the level of uncertainties, as noted above, exist as to the actual financial outcome of RTC operations. Certain economic factors could affect the recovery value of the remaining assets. Similarly, other factors could influence the final funding requirements of the RTC through changes in assumptions as to future reserve and/or contingency requirements.

The Honorable Charles A. Bowsher
June 12, 1995
Page 3

3) Controls over contracting could affect recoveries from receiverships.

We concur with the observation in your draft report that the RTC continues to deal with the effects of contracting problems associated with the early years of its operation. As discussed in our prior year commentary on this issue, the RTC established a number of corporate initiatives and enhanced certain operating procedures to ensure that appropriate control and oversight would exist within our ongoing contracting operations. To deal with the historical problems associated with this corporate function, we have encouraged and supported the efforts of the RTC's Office of the Inspector General and the Office of Contractor Oversight and Surveillance in assisting RTC management in identifying and resolving these historical problems.

REPORTABLE CONDITION

1. Computerized Information System controls.

We concur with the GAO report that additional actions are needed in order for the RTC to rely more fully on the automated systems it currently uses in its daily activities. During the past year the RTC has:

A) developed and implemented operational changes to resolve the issues of control identified in the 1993 financial audit report issued by the GAO;

B) responded to and implemented the significant changes and improvements mandated for our Information Systems operation by the Resolution Trust Corporation Completion Act of December 1993; and

C) implemented many changes to correct the control weaknesses identified in January 1995 as a result of the current annual audit effort.

It is our expectation that actions taken and those planned will serve to correct remaining control weaknesses in the near term. Further, it is our understanding that agreement has been reached on the resolution of all these issues between the GAO and the RTC.

Please contact me if any further RTC assistance may be provided by this office.

Sincerely,

Donna H. Cunningham

Donna H. Cunningham

Major Contributors to This Report

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Related GAO Products

Resolution Trust Corporation: Better Data Could Improve Effectiveness of Nonperforming Loan Auctions (GAO/GGD-95-1, November 14, 1994).

Failed Financial Institutions: RTC/FDIC Risk Fraud and Mismanagement by Employing Those Deemed Culpable (GAO/OSI-95-1, October 3, 1994).

RTC Affordable Housing Open House (GAO/GGD-95-23R, October 31, 1994).

Resolution Trust Corporation: Affordable Housing Disposition Program Achieving Mixed Results (GAO/GGD-94-202, September 28,1994).

Resolution Trust Corporation: Recommendations Addresssed to Oversee and Account for Cash Flow Mortgages (GAO/GGD-94-179, July 26, 1994).

Resolution Trust Corporation: Better Analyses Needed Before Terminating Asset Management Contracts (GAO/GGD-94-147, July 8, 1994).

Special Resource Properties (GAO/GGD-94-161R, July 1, 1994).

Resolution Trust Corporation: Interim Report on the Management Reforms in the RTC Completion Act (GAO/GGD-94-114, June 30, 1994).

1992 Thrift Resolutions: RTC Policies and Practices Did Not Fully Comply With Least-Cost Provisions (GAO/GGD-94-110, June 17, 1994).

Bank and Thrift Regulation: Better Guidance is Needed for Real Estate Evaluations (GAO/GGD-94-144, May 24, 1994).

Resolution Trust Corporation: Real Estate Recoveries 1993 (GAO/GGD-94-84FS, March 25, 1994).

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

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