RTC DEBT LIMIT

The RTC should be subject to an appropriate debt limit. RTC should not be in a position to obligate the taxpayers of the U.S. beyond the resources available to the RTC. However, the debt limit should not unduly restrict the operations of RTC. Thus, it would be appropriate to impose a debt limit on the RTC equivalent to that imposed on the FDIC; that is, a limit to assure that RTC obligations do not exceed its "net worth."

There are two primary objections to the debt cap imposed on the RTC by H.R. 1278. First, the RTC would generally not be permitted to count the full amount of the $50 billion in funding in calculating its debt limit. This will unduly and unnecessarily limit the amount of financing the RTC can utilize in its early years when financing requirements will be the greatest. This restricted flexibility may tend to force the RTC to adopt strategies or take actions that will not optimize the resources Congress has committed to resolving the thrift problem.

Second, the RTC is required to negotiate a maximum exposure or cap on its contingent obligations such as guaranties and indemnities. This maximum exposure will fully count against the overall debt limit. This process will dramatically overstate the true exposure on those contingent obligations and thus dramatically restrict the proper use of notes and other obligations by the RTC.

The full $50 billion allocated to the RTC should be included as part of RTC's net worth, and RTC should be required to value on a periodic basis its exposure on contingent liabilities which would count against the debt limit.

Attached is a copy of the Administration's proposed debt cap for RTC, which imposes an appropriate and workable cap.

Attachment