

TESTIMONY OF

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ON

REVIEW OF THE 1988 ASSISTANCE AGREEMENTS

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

9:30 A.M.
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ROOM 2128
RAYBURN HOUSE OFFICE BUILDING

Good morning, Mr. Chairman and members of the Committee. We appreciate this opportunity to testify on the Resolution Trust Corporation's cost evaluation and cost reduction review of the so-called '88 Assistance Agreements. The RTC's report is due to be completed and presented to the RTC Board next week.

Since the final draft of the report is not completed, I can only present the Committee with the information I have at this time. It should be noted that our efforts are to minimize costs to the government within the provisions of the contracts. We are not considering breaking the governments agreements.

The report will incorporate the summary of the findings by outside contractors after review of the '88 Assistance Transactions. The primary options for savings for the government in these contracts are:

- (1) the net worth notes;
- (2) covered assets loss and yield maintenace supports; and
- (3) tax benefits.

The report will reflect options by which the government can realize savings thru prepayment or renegotiation of the various contracts.

By way of background, Section 501(b)(11)(b) of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) requires that the RTC:

(1) review and analyze all insolvent institution cases resolved by the FSLIC between January 1, 1988, and the date of enactment of FIRREA, and actively review all means by which it can reduce costs under existing FSLIC agreements relating to such cases, including restructuring such agreements;

(2) evaluate the costs under existing FSLIC agreements with regard to capital loss coverage, yield maintenance guarantees, forbearances, tax consequences, and any other relevant cost considerations;

(3) review the bidding procedures used in resolving such cases in order to determine whether the bidding and negotiation processes were sufficiently competitive; and

(4) report to the Oversight Board and the Congress the results and the conclusions of the review.

Item 3 will be the subject of a second, separate report which will be presented to the Oversight Board and the Congress in early November. It will consider whether there are legal

grounds for change outside of the contract provisions. While the RTC's review is well underway, the volume of records requiring review in order to develop a complete understanding of the bidding process requires further time. We believe the process emanating from this first report can move forward while the second review proceeds.

Here is how this first review was conducted. Independent accounting firms, law firms, investment bankers and consultants were hired. The report outlines the steps undertaken by each contractor to arrive at their cost estimates and their cost reduction options for each assistance agreement. (A list of the contractors participating in the study and the agreements reviewed by each are attached.)

The report includes general information about the FSLIC Assistance Agreements. Each of the agreements subject to our review is identified, and common terms used throughout the report are defined. It discusses the use of, and the costs associated with, each of the more common types of assistance granted by FSLIC including: (1) cash; (2) promissory notes; (3) capital loss coverage; (4) yield maintenance guarantees; (5) indemnities; (6) forbearance; and (7) tax benefits. The context in which each of the assistance agreements was entered into will be reported in RTC's separate report on the bidding and negotiation process.

The report contains an evaluation of the savings to be achieved by exercising options under the contracts with respect to: (1) promissory notes; (2) capital loss coverage; (3) yield maintenance guarantees; (4) tax consequences; and (5) oversight and monitoring. The RTC's Board and the Oversight Board will review the report and the cost reduction options presented.

For each component of cost savings the fiscal and budgetary ramifications will be provided.

The report which we will provide the Committee next Tuesday will contain the 96 FSLIC Assistance Agreements. The individual transaction reports, attached in five separate volumes, will explain the essentials of each transaction.

As I indicated in accepting the invitation to appear before the Committee today, the report on the '88 Assistance Transactions is not complete at this time. I would be pleased to appear again to discuss the report as soon as it is completed.