



## APPENDIX B

# List of Abbreviations and Glossary of Terms

This list of abbreviations and glossary of terms is compiled from terminology that is used in this publication. An entry with an asterisk in the list of abbreviations is defined in the glossary of terms.

The definitions in the glossary are not intended to be comprehensive and complete. The reader can often obtain more information about specific terms by referring to appropriate chapters in the book. The index at the back of the book includes most of the terms that appear in the glossary.

### Abbreviations

<b>ABA</b>	American Bankers Association
<b>ADC</b>	acquisition, development, and construction
<b>AGS</b>	Automated Grouping System
<b>AHAB</b>	Affordable Housing Advisory Board
<b>AHDP</b>	Affordable Housing Disposition Program
<b>AHP*</b>	Affordable Housing Program
<b>ALA*</b>	Asset Liquidation Agreement
<b>AMDA*</b>	Asset Management and Disposition Agreement
<b>AMDM</b>	<i>Asset Management and Disposition Manual</i>
<b>AMDP</b>	Asset Management and Disposition Plan
<b>AMRESCO</b>	Asset Management and Real Estate Sales Company
<b>AMV*</b>	affordable market value
<b>APP</b>	Accelerated Payment Program

<b>APS</b>	Automated Payout System
<b>ARM*</b>	adjustable rate mortgage
<b>ARP*</b>	Accelerated Resolution Program
<b>AVR*</b>	asset valuation review
<b>BEY*</b>	bond equivalent yield
<b>BIF*</b>	Bank Insurance Fund
<b>BONHAM</b>	Banc One New Hampshire Asset Management, Inc.
<b>BONNET</b>	Bonnet Resources Corporation, Inc.
<b>CAP*</b>	corrective action plan
<b>CARC</b>	Consolidated Asset Recovery Corporation
<b>CBI Act*</b>	Coastal Barrier Improvement Act of 1990
<b>CD</b>	certificate of deposit
<b>CEBA*</b>	Competitive Equality Banking Act of 1987
<b>CEO</b>	chief executive officer
<b>CMBS</b>	commercial mortgage-backed securities
<b>CMO*</b>	collateralized mortgage obligation
<b>CMS</b>	Case Management System
<b>COMB*</b>	Contractor Oversight and Monitoring Branch
<b>CPPM</b>	<i>Contract Policies and Procedures Manual</i>
<b>CRA</b>	Community Reinvestment Act of 1977
<b>CSP*</b>	Conservator's Strategic Plan
<b>DAS</b>	Division of Depositor and Asset Services, a former FDIC organizational unit
<b>DIDMCA*</b>	Depository Institutions Deregulation and Monetary Control Act of 1980
<b>DINB*</b>	Deposit Insurance National Bank
<b>DIRM</b>	Division of Information Resource Management, FDIC
<b>DIV*</b>	derived investment value
<b>DOF</b>	Division of Finance, FDIC
<b>DOL</b>	Division of Liquidation, a former FDIC organizational unit
<b>DOR</b>	Division of Resolutions, a former FDIC and RTC organizational unit
<b>DOS</b>	Division of Supervision, FDIC

<b>DRR*</b>	Division of Resolutions and Receiverships, FDIC
<b>DRS</b>	Division of Research and Statistics, FDIC
<b>ECR*</b>	estimated cash recovery
<b>ERISA</b>	Employee Retirement Income Security Act of 1974
<b>ERV*</b>	estimated recovery value
<b>FADA*</b>	Federal Asset Disposition Association
<b>Fannie Mae*</b>	Federal National Mortgage Association
<b>FASB</b>	Financial Accounting Standards Board
<b>FDI Act*</b>	Federal Deposit Insurance Act of 1950
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>FDICIA*</b>	Federal Deposit Insurance Corporation Improvement Act of 1991
<b>FF&amp;E</b>	furniture, fixtures, and equipment
<b>FFA</b>	Federal Financial Assistance
<b>FFB*</b>	Federal Financing Bank
<b>FHA*</b>	Federal Housing Administration
<b>FHLB*</b>	Federal Home Loan Bank
<b>FHLBB*</b>	Federal Home Loan Bank Board
<b>FIRREA*</b>	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
<b>FIS</b>	Financial Institution System
<b>FmHA*</b>	Farmers Home Administration
<b>FOIA/PA</b>	Freedom of Information Act (1967) and Privacy Act (1974)
<b>Freddie Mac*</b>	Federal Home Loan Mortgage Corporation
<b>FRB*</b>	Federal Reserve Bank
<b>FRF*</b>	FSLIC Resolution Fund
<b>FSLIC*</b>	Federal Savings and Loan Insurance Corporation
<b>GAAP*</b>	generally accepted accounting principles
<b>GAO*</b>	General Accounting Office
<b>GCR*</b>	gross cash recovery
<b>GG*</b>	general grade federal employee
<b>Ginnie Mae*</b>	Government National Mortgage Association
<b>GL</b>	general ledger

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<b>GSA</b>	General Services Administration
<b>HUD</b>	U.S. Department of Housing and Urban Development
<b>IBSGC*</b>	Industrial Bank Savings Guaranty Corporation
<b>ICA</b>	interim capital assistance
<b>ICC*</b>	income capital certificate
<b>ICR</b>	internal control review
<b>IDT*</b>	insured deposit transfer
<b>IG</b>	inspector general
<b>IMA*</b>	Income Maintenance Agreement
<b>IRR*</b>	internal rate of return
<b>ITCV*</b>	initial targeted cash value
<b>JDC*</b>	judgments, deficiencies, and charge-offs
<b>JERNE</b>	J. E. Robert, Inc.
<b>KKR</b>	Kohlberg, Kravis Roberts & Co.
<b>LAMIS</b>	Liquidation Asset Management Information System
<b>LDIMS</b>	Legal Division Information Management System
<b>LG*</b>	liquidation grade federal employee
<b>LIBOR</b>	London InterBank Offered Rate
<b>LOC</b>	Letter of Credit
<b>LSA</b>	Legal Services Agreement
<b>LSI</b>	Legal Services Invoice (System)
<b>LSO</b>	Legal Services Office
<b>LURA*</b>	Land Use Restriction Agreement
<b>MA*</b>	managing agent
<b>MAST</b>	Multi-Asset Sales Transaction
<b>MBS*</b>	mortgage-backed security(ies)
<b>MCR*</b>	management control review
<b>MIF*</b>	Multiple Investor Fund

<b>MIS</b>	management information system
<b>MSB</b>	mutual savings bank
<b>MWOB</b>	minority- or women-owned business
<b>MWOP</b>	minority- or women-owned program
<b>N.A.</b>	National Association
<b>NOW</b>	negotiable order of withdrawal
<b>NPV*</b>	net present value
<b>NTEU</b>	National Treasury Employees Union
<b>NWC*</b>	Net Worth Certificate
<b>OBA*</b>	open bank assistance
<b>OCATS</b>	Outside Counsel Application Tracking System
<b>OCC*</b>	Office of the Comptroller of the Currency
<b>OCIS</b>	Outside Counsel Information System
<b>OIG*</b>	Office of Inspector General, FDIC and RTC
<b>ORE*</b>	owned real estate
<b>OTS*</b>	Office of Thrift Supervision
<b>P&amp;A*</b>	purchase and assumption
<b>PBGC</b>	Pension Benefit Guaranty Corporation
<b>PCA*</b>	prompt corrective action
<b>PLS</b>	Professional Liability Section, FDIC
<b>PMN</b>	predominantly minority neighborhood
<b>QFC*</b>	qualified financial contract
<b>RALA*</b>	Regional Asset Liquidation Agreement
<b>RAP</b>	regulatory accounting principles
<b>RECOLL</b>	RECOLL Management Corporation
<b>REFCORP*</b>	Resolution Funding Corporation
<b>REIT</b>	real estate investment trust
<b>REMIC*</b>	Real Estate Mortgage Investment Conduit
<b>REO</b>	real estate owned

<b>REOMS*</b>	Real Estate Owned Management System
<b>RFC*</b>	Reconstruction Finance Corporation
<b>RICO</b>	Racketeer Influenced and Corrupt Organization
<b>RLIS</b>	RTC Legal Information System
<b>RTC*</b>	Resolution Trust Corporation
<b>RTCCA*</b>	Resolution Trust Corporation Completion Act of 1993 (Completion Act)
<b>RTCRRIA*</b>	RTC Refinancing, Restructuring, and Improvement Act of 1991
<b>S&amp;L</b>	savings and loan
<b>SAIF*</b>	Savings Association Insurance Fund
<b>SAMA*</b>	Standard Asset Management Amendment
<b>SAMDA*</b>	Standard Asset Management And Disposition Agreement
<b>SBA</b>	Small Business Administration
<b>SIMAN*</b>	Subsidiary Information Management Network
<b>SWAT</b>	Settlement/Workout Assistance Team
<b>TAA*</b>	technical assistance advisor
<b>TDPOB*</b>	Thrift Depositor Protection Oversight Board (the RTC's Oversight Board, starting in 1991)
<b>UDAA*</b>	Unclaimed Deposits Amendment Act of 1993
<b>VA</b>	Veterans' Administration
<b>WAC</b>	weighted average coupon (rate)

\*Abbreviations with an asterisk are defined in the following glossary.

## Glossary of Terms<sup>1</sup>

**absolute auction:** An open, outcry sale in which assets are sold to the highest bidder regardless of price, with no reserve price and no minimum bid.

**accelerated dividend:** A dividend paid to proven creditors of the receivership based on a projection of future funds available. Accelerated dividends are calculated based on estimates of asset collections, less projections of administrative expenses, other liabilities, and contingent liabilities.

**Accelerated Resolution Program (ARP):** A means of resolving a failed thrift institution in which there is an expedited transfer of the insolvent thrift's assets and deposit liabilities to a healthy institution, without first placing the failed thrift in conservatorship. This approach, initiated jointly by the OTS and the RTC in 1990, was similar to FDIC resolutions at the time. The program was designed to allow thrifts that were below FIRREA-mandated capital levels, but that otherwise were perceived as having substantial franchise value, to continue to operate throughout the resolution process.

**acquiring institution:** A healthy bank or thrift institution that purchases some or all of the assets and assumes some or all of the liabilities of a failed institution in a purchase and assumption transaction. The acquiring institution is also referred to as the assuming institution. (Also see *assuming institution*.)

**ad valorem real property taxes:** Taxes imposed on real property based on its value.

**adjustable rate mortgage (ARM):** A type of mortgage in which the interest rate is reset at regular intervals, typically at a spread over a stated short-term interest rate index. The most frequently used indexes have been the one-year U.S. Treasury constant maturity yield and the Eleventh District Cost of Funds Index. Because the interest rate paid by the borrower fluctuates with the general level of interest rates in the marketplace, ARMs shift most of the interest rate risk from the lender to the borrower.

**advance dividend:** A payment made to an uninsured depositor or creditor after a bank or thrift failure. The amount of the advance dividend represents the FDIC's conservative estimate of the ultimate value of the receivership. Cash dividends equivalent to the board-approved advance dividend percentage (of total outstanding deposit claims) are paid to uninsured depositors, thereby giving them an immediate return of a portion of their uninsured deposit.

**adverse domination:** A legal doctrine advanced by the FDIC and the RTC in professional liability suits against the officers and directors of a failed institution. Under the doctrine of adverse domination, in a lawsuit against corporate wrongdoers, the statute of

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1. Many of the RTC-related definitions were obtained from the glossary of *A History of the Resolution Trust Corporation's Asset and Real Estate Management and Disposition Program*, by FDIC's Brian D. Lamm and James E. Heath, published August 28, 1995.

limitations does not run during the period when the defendants were in control of the board of directors of the failed institution.

**Affordable Housing Program (AHP):** An FDIC program that increases the stock of affordable housing through disposition of eligible residential properties to low- and moderate-income families. The RTC program was known as the Affordable Housing Disposition Program (AHDP). The affordable housing created comes from the agency's inventory of owned real estate.

**affordable market value (AMV):** A valuation model used to determine the sales price of multi-family residential property sold in the FDIC AHP. The affordable market value was determined by subtracting the cost to cure physical deficiencies and operating deficits from the maximum supportable loan amount, which was determined by applying a debt service coverage factor to the projected net operating income of the property.

**agency swap program:** A method of securitization in which single family residential mortgages conforming to agency underwriting guidelines are swapped for mortgage-backed securities issued by Fannie Mae or Freddie Mac.

**agricultural bank:** Banks of the Farm Credit System and certain other farm-oriented commercial banks, typically located in the farm belt states, that specialize in providing credit to the farming industry. (Also see *Loan Loss Amortization Program*.)

**appraised equity capital:** A regulatory capital item established by the former FHLBB that allowed a savings association to count as part of its regulatory capital the difference between the book value and the fair market value (appraised value) of fixed assets, including owner-occupied real estate.

**Asset Liquidation Agreement (ALA):** An asset management contract between the FDIC and a bank affiliate or private-sector contractor for the management and disposition of distressed assets of all types. The ALA contract was designed for asset pools with an aggregate book value in excess of \$1 billion.

**asset management contract:** A contract with a private-sector asset management contractor for managing and disposing of distressed assets.

**Asset Management and Disposition Agreement (AMDA):** A partnership agreement between the FDIC as manager of the FSLIC Resolution Fund (FRF) and the acquirers of certain failed savings and loan institutions, created as a result of the RTC's review and renegotiation of the FSLIC's 1988 and 1989 assistance agreements. Assets with a book value of \$3.7 billion were assigned to two partnerships under AMDA contracts.

**asset manager:** A term often used to describe an asset management contractor who manages and disposes of assets (for example, an ALA or SAMDA contractor). The term "asset manager" may also be used in a broad, generic sense to describe a person or entity responsible for the management of an asset or a portfolio of assets.

**asset pool:** A portfolio of assets, often composed of assets with similar characteristics.

**asset specialist:** An FDIC or RTC employee with responsibility for the management and disposition of assets, or for the oversight of asset managers employed under asset management contracts.

**asset valuation review (AVR):** A review of a failing institution's assets to estimate the liquidation value of the assets. An AVR estimate is used in the least cost analysis that is required by FDICIA.

**assistance agreement:** An agreement pertaining to a failing institution under which a deposit insurer, such as the FDIC, provides financial assistance to the failing institution or to an acquiring institution. The assistance agreement includes the terms of the purchase of assets and assumption of liabilities of the failing institution by the assuming institution; it may also include provisions regarding a reorganization of the failing institution under new management or a merger of the failing institution into a healthy institution.

**assisted merger:** A failing institution is absorbed into an acquiring institution that receives FDIC assistance. In 1950, the FDIC was authorized by section 13(e) of the FDI Act to implement assisted mergers. In 1982, when the FDI Act was amended, the merger authority, as amended, was written into section 13(c) of the FDI Act. Such transactions allow the FDIC to take direct action to reduce or avert a loss to the deposit insurance fund and to arrange the merger of a troubled institution with a healthy FDIC insured institution without closing the failing institution. Assisted merger was the FSLIC's preferred resolution method. (Also see *Federal Deposit Insurance Act*.)

**assuming institution:** A healthy bank or thrift that purchases some or all of the assets and assumes some or all of the deposits and other liabilities of a failed institution in a purchase and assumption transaction. The assuming institution is also referred to as the acquiring institution. (Also see *acquiring institution*.)

**auction:** An asset sales strategy in which assets are sold either individually or in pools to the highest bidder in an open-outcry auction.

**Bank Insurance Fund (BIF):** One of the two federal deposit insurance funds created by Congress in 1989 and placed under the FDIC's administrative control. The BIF insures deposits in most commercial banks and many savings banks. The FDIC's "permanent insurance fund," which had been in existence since 1934, was dissolved when the BIF was established. The money for a deposit insurance fund comes from the assessments contributed by member banks and also from investment income earned by the fund. (Also see *Savings Association Insurance Fund*.)

**bond equivalent yield (BEY):** A bond, Treasury bill, or other discount instrument's yield over its life, assuming it is purchased at the asked price and the return is annualized using a simple interest approach. The bond equivalent yield is equal to a bill's discount,

expressed as a fraction of the purchase price multiplied by 365 divided by the number of days to maturity.

$$\text{BEY} = (\text{discount/purchase price}) \times (365/\text{days to maturity})$$

**book value:** The dollar amount shown on the institution's accounting records or related financial statements. The "gross book value" of an asset is the value without consideration for adjustments such as valuation allowances. The "net book value" is the book value net of such adjustments. The FDIC restates amounts on the books of a failed institution to conform to the FDIC's liquidation accounting practices. Therefore, in the FDIC accounting environment, book value generally refers to the unpaid balance of loans or accounts receivable, or the recorded amount of other types of assets (for example, ORE or securities).

**book value reduction:** The decrease in book value of all types of assets resulting from activities such as the collection of loan principal, the sale of an asset, the forgiveness of a debt, and the write-off or donation of an asset.

**branch banking:** Multi-office banking. Branch banking occurs when a single bank conducts its business at a number of different offices located in the same or different cities, states, or countries. The ability to operate branches is controlled by state law; most states permit branches within city limits and a few states permit statewide banking. Federal law ties the ability of a national bank to establish and operate branches to the scope of the branching powers granted by state law to the state banks located in the state in which the national bank is situated.

**branch breakup:** A resolution strategy that provides bidders with the choice of bidding on the entire franchise or on individual or groups of branches of the failing institution. Marketing failing institutions on both a whole franchise and a branch breakup basis can expand the universe of potential buyers and may result in better bids in the aggregate. In branch breakup transactions, prospective acquirers are required to submit bids on both the "all deposits" and "insured deposits" options except for bids on the entire franchise. The branch breakup resolution strategy was developed by the RTC to allow smaller institutions to participate in the resolution process and to increase competition among the bidders. (Also see *core branch P&A* and *limited branch P&A*.)

**bridge bank:** A temporary national bank established and operated by the FDIC on an interim basis to acquire the assets and assume the liabilities of a failed institution until final resolution can be accomplished. The use of bridge banks generally is limited to situations in which more time is needed to permit the least costly resolution of a large or complex institution. (Also see *Competitive Equality Banking Act*.)

**bulk sale:** The sale of a large number of assets to one purchaser in a single transaction. Also known as a "portfolio sale."

**capital forbearance:** The temporary permission for a bank or thrift to operate with capital levels below regulatory standards if the bank or thrift has adequate plans to restore capital. For example, banks suffering because of the energy and agricultural crises in the mid-1980s were permitted to operate with capital levels below regulatory standards if they had adequate plans to restore capital. A joint policy statement issued in March 1986 by the FDIC, the OCC, and the Federal Reserve Board encouraged a capital forbearance program for agricultural banks.

**capital loss coverage:** A form of aid in assistance transactions that provided for a payment equal to the difference between an asset's original value (book value) and the proceeds received when the asset was sold.

**charge-off:** A book value amount that was expensed as a loss before receivership and that continues to be a legal obligation of the borrower to the institution. A charge-off is technically an off-book memorandum accounting item that represents the book value of an asset that the bank or thrift previously wrote off.

**chartering authority:** A state or federal agency that grants charters to new depository institutions. For state chartered institutions, the chartering authority is usually the state banking department; for national banks, it is the OCC; and for federal savings institutions, it is the OTS.

**cherry-pick:** The tendency of an asset manager to dispose of the assets in a portfolio that are relatively easy to sell before disposing of the hard-to-sell assets; a P&A variation in which no loans are transferred as of closing but the acquiring institution has an option to acquire loans from the FDIC for a designated time period.

**claim:** An assertion of the indebtedness of a failed institution to a depositor, general creditor, subordinated debt holder, or shareholder.

**classified asset:** An asset that is designated as substandard, doubtful, or subject to loss. An asset becomes classified when it is so designated by the appropriate regulatory agency.

**clean bank P&A:** A purchase and assumption transaction in which the acquiring institution assumes the deposit liabilities and the cash and cash equivalent assets of the failed institution. In addition, the assuming bank purchases the "good" loans of the failed institution or receives an exclusive call option to purchase designated fixed assets and assume certain contracts of the failed institution.

**Coastal Barrier Improvement Act (CBI Act):** Legislation enacted in 1990 that placed limitations on property transfers and required special disposition procedures for certain environmentally significant properties located in coastal areas or located adjacent to publicly managed conservation areas. The act imposed a waiting period of up to six months on FDIC and RTC sales of environmentally sensitive property located in coastal areas or adjacent to publicly managed conservation areas.

**collateralized mortgage obligation (CMO):** A corporate bond backed by a pool of mortgages in which the cash flows of the pool are channeled into two or more series of bonds. Interest payments generally are made to the purchasers of such securities.

**Competitive Equality Banking Act (CEBA):** Legislation enacted in 1987 that permitted qualifying agricultural banks to amortize losses over a seven-year period for agricultural loans, rather than having to deduct losses from capital as soon as the loss was incurred. CEBA also created the Financing Corporation, which was chartered by the FHLBB, to borrow up to \$10.8 billion over three years to finance the closure of failed S&Ls or to subsidize their takeover by healthy S&Ls. In addition, CEBA encouraged the supervisory forbearance of well-managed but undercapitalized institutions.

CEBA also expanded the FDIC's authority to permit out-of-state bank holding companies to acquire stock institutions and mutual savings banks before failure, providing those companies met certain conditions.

In addition, CEBA provided the FDIC with authority to establish a bridge bank, a new national bank that was created to purchase the assets and assume the liabilities of a failing bank until resolution could be accomplished. Under CEBA a bridge bank could be established if—

- The cost of establishing the bridge bank did not exceed the cost of liquidating the failing bank;
- The continued operation of the uninsured bank was essential to provide adequate banking services in the community; or
- The continued operation of the institution was in the best interest of its depositors and the public.

**confidentiality agreement:** An agreement between the FDIC and a potential acquiring financial institution that acknowledges the confidentiality of the information package pertaining to the failing institution and other documents, including the financial transaction agreements. To receive the information package and perform on-site due diligence at the institution before failure, potential acquirers must sign a confidentiality agreement.

**conservator:** A person or entity, including a government agency, appointed by a regulatory authority to operate a troubled financial institution in an effort to conserve, manage, and protect the troubled institution's assets until the institution has stabilized or has been closed by the chartering authority.

**Conservator's Strategic Plan (CSP):** A plan prepared by the managing agent of an RTC-controlled institution within 60 days of the start of the conservatorship. The CSP describes the plan of operation for the failed institution during the conservatorship stage. The CSP formerly was known as the "Conservator's Operating Plan." (Also see *managing agent*.)

**conservatorship:** The legal procedure provided by statute for the interim management of financial institutions used by the FDIC and RTC. Under the pass-through receivership method, after the failure of a savings institution, a new institution is chartered and

placed under agency conservatorship; the new institution assumes certain liabilities and purchases certain assets from the receiver of the failed institution. Under a straight conservatorship, the FDIC or RTC may be appointed conservator of an open, troubled institution. In each case, the conservator assumes responsibility for operating the institution on an interim basis in accordance with the applicable laws of the federal or state authority that chartered the new institution. Under a conservatorship, the institution's asset base is conserved pending the resolution of the conservatorship.

**contractor:** An individual or other legal entity that directly or indirectly submits offers for or receives a government contract for goods or services.

**Contractor Oversight and Monitoring Branch (COMB):** An organizational unit located in Dallas, Texas, within the FDIC's former Division of Liquidation and responsible for overseeing the FDIC's asset management contractors. This contractor oversight group has since been renamed but is still situated in Dallas.

**core branch P&A:** A component in a purchase and assumption (P&A) transaction in an RTC branch breakup resolution. Under the terms of the core branch P&A agreement, the acquiring institution assumes all of the deposit liabilities directly attributable to the failed institution's headquarters branch and other acquired branches, and certain other liabilities. In addition, the acquirer purchases the assets directly attributable to the headquarters and other acquired branches as well as assets that are not branch-specific such as the trust or credit card business. The core branch P&A incorporates the terms of the standard P&A as the standard terms and conditions of the transaction. Generally, the core branch P&A was used in branch breakup transactions for the sale of the headquarters branch or core branch clusters while individual branch offices were sold under the limited branch P&A. (Also see *branch breakup*, *limited branch P&A*, and *standard P&A*.)

**core deposits:** That portion of a bank's deposits that is relatively stable and has a predictable cost. Deposits fluctuate seasonally and cyclically, but even in adverse circumstances, deposits normally do not fall below some minimum level.

**corrective action plan (CAP):** A plan for correcting organizational or operational weaknesses. As defined in the FDIC Internal Control Review program, a CAP states the deficiency, the corrective action required to cure the deficiency, the person or persons responsible for the action, and actual or expected completion dates for the required actions.

**cost-plus:** The practice of establishing the selling price for a product or service by adding a fixed amount or percentage to costs. For example, the FDIC's ALA contractors received a cost-plus compensation package.

**cost test:** The statutory requirement before enactment of FDICIA that a P&A transaction be less costly to the relevant insurance fund than a payoff and liquidation. The "cost test" was introduced in 1982 by the Garn–St Germain Depository Institutions Act, which enhanced the power of the FDIC and FSLIC to provide aid to troubled institutions and imposed the condition that the assistance provided must be less costly than the cost of liquidation.

**critically undercapitalized:** One of the five capital categories of financial condition established by FDICIA and codified in section 38 of the FDI Act. The five categories are well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Section 38 requires banking supervisors to impose constraints on insured depository institutions that are determined to be in any of the latter three categories. An insured depository institution is “critically undercapitalized” if its ratio of tangible capital to total assets is equal to or less than 2 percent.

**cross guarantee:** A provision of the FDI Act added by FIRREA that allows the FDIC to recover part of its costs of liquidating or assisting a troubled insured institution by assessing those costs to the remaining solvent insured institutions which are commonly controlled as defined in the statute. When the FDIC acts to protect its interests under this provision, the assessment can result in a liquidity strain or, in some cases, the immediate insolvency of an affiliated bank.

**deficiency:** The dollar amount that is owed to a lender after foreclosure or repossession has occurred. The deficiency is normally the sum of principal debt outstanding, unpaid interest, and late charges remaining as a legal obligation, minus the net value of the foreclosed or repossessed asset.

**de novo judicial review:** A court’s independent review of the facts and the law with no deference to the agency’s original determination. The court makes its determination based on the facts of the case, independent of any prior decision by the agency.

**Deposit Insurance National Bank (DINB):** The Banking Act of 1933 authorized the FDIC to establish a “new” bank called a DINB to assume the insured deposits of a failed bank. Passage of the act permitted the FDIC to pay the depositors of a failed FDIC insured institution through a DINB, a national bank that was chartered with limited life and powers. Depositors of a DINB were given up to two years to move their insured accounts to other institutions. A DINB allowed a failed bank to be liquidated in an orderly fashion, minimizing disruption to local communities and financial markets.

**deposit payoff:** A resolution method for failed FDIC insured institutions that is used when liquidation of the institution is determined to be the least costly resolution or when no assuming institution can be found. Deposit payoffs generally have two forms: (1) a straight deposit payoff, in which the FDIC directly pays the insured amount of each depositor, and (2) an insured deposit transfer, in which a healthy institution is paid by the FDIC to act as its agent and pay the insured deposits to customers of the failed institution. A deposit payoff is sometimes called a payoff. (Also see *payoff* and *insured deposit transfer*.)

**depositor discipline:** One aspect of “market discipline.” The concern of depositors for the safety of their deposits is theorized to control the riskiness of a bank’s investment and lending portfolios. (Also see *market discipline*.)

**depository:** A bank or other entity responsible for holding assets in safekeeping.

**Depository Institutions Deregulation and Monetary Control Act (DIDMCA):** The 1980 act that began the process of phasing out Regulation Q, the regulation that had placed a ceiling on the rates of interest banks and thrifts could offer their depositors. DIDMCA sought to deregulate banking and promote more competition in the banking industry to benefit customers. It also permitted S&Ls to issue credit cards and offer checking accounts, and it increased FDIC insurance coverage on insured deposits from \$40,000 to \$100,000.

**derived investment value (DIV):** A valuation model that was developed for the RTC, primarily to value portfolios of real estate and nonperforming commercial mortgages. The DIV model discounts expected future cash flows, using many rules that govern holding periods, marketing periods, various discount rates by asset type, and so on. The DIV model has been widely used to value the collateral underlying commercial mortgage-backed securities.

**discounted payoff:** The payoff of a nonperforming loan at a price that is below the book value of the asset; for example, a 15 percent discount would equate to a price that is 85 percent of book value.

**distressed asset:** Owned real estate, nonperforming loan, or other troubled asset. The market value of a distressed asset is almost always less than it was projected to be when the investment was originally made and is often below the asset's current book value.

**Division of Resolutions and Receiverships (DRR):** An FDIC organizational unit, created in late 1996 by combining the Division of Resolutions (DOR) and the Division of Depositor and Asset Services (DAS).

**D'Oench Duhme:** One of the "superpower" remedies relied on extensively by the FDIC and the RTC in disposing of assets. *D'Oench Duhme* has existed since the 1940s and essentially states that side agreements that are not recorded on the books or records of a financial institution cannot be enforced.

**due diligence:** A potential purchaser's on-site inspection of the books and records of a failing institution. Before an institution's failure, the FDIC invites potential purchasers to the institution to review pertinent files so they can make informed decisions about the value of the failing institution's assets. All potential purchasers must sign a confidentiality agreement. In addition, contractors may be hired to perform due diligence work on assets that are earmarked for multi-asset sales initiatives. By hiring outside firms to provide and certify the due diligence, investors have the assurance that an independent source provides them with reliable investment information.

**duty of care:** One of the principal fiduciary duties of bank directors and trustees. The duty of care requires directors and trustees to make appropriate inquiries and acquaint themselves with all information reasonably available to them before making a business decision, and to act with requisite care after becoming so acquainted.

**duty of loyalty:** The fiduciary obligation of a bank director or trustee to act in the best interest of the institution and its constituents, as opposed to acting for the fiduciary's own interest or for the benefit of outsiders.

**energy bank:** Commercial banks, often located in the southwest, that provided credit to the energy industry during the period of the study, 1980 through 1994.

**entrance fee:** A fee required by statute to be paid to the Bank Insurance Fund when an insured depository institution participates in a conversion transaction wherein insured deposits are transferred from a Savings Association Insurance Fund member to a Bank Insurance Fund member. The entrance fee assessed in connection with a conversion from SAIF to BIF is the amount derived by multiplying the dollar amount of the deposits transferred from SAIF to BIF by the BIF reserve ratio. The entrance fee assessed in connection with a SAIF conversion is the amount derived by multiplying the amount of deposits transferred from BIF to SAIF by the SAIF reserve ratio or by .01 percent, whichever is greater.

**equity partnerships:** An RTC asset disposition program in which the RTC transferred a share of the ownership and certain rights and responsibilities regarding specific assets but retained the right to share in future profits. The program was used to dispose of nonperforming commercial mortgages, nonperforming business loans, land, and other distressed assets.

**essentiality:** Under section 13(c) of the FDI Act as originally enacted, the FDIC was allowed to assist an open bank to prevent its failure if the FDIC Board of Directors determined that the insured bank was in danger of failing and continued operation of such bank was "essential." Section 13(c) of the FDI Act was revised by the Garn-St Germain Depository Institutions Act; and this essentiality test was replaced by the cost test, except for cases in which the cost of providing open bank assistance was expected to exceed the cost of liquidating the failed institution. (Also see *cost test*.)

**estimated cash recovery (ECR):** An estimate of the amount and timing of all future cash recoveries, direct expenses, and payment of any prior liens. An ECR is a projection of expected net cash flows and often is used in the process of valuing a nonperforming loan.

**estimated recovery value (ERV):** A mark-to-market valuation of an asset, determined by calculating the net present value of expected net cash flows. The RTC calculated an ERV for each asset that was assigned to the original SAMDA contracts. This method of valuation was similar in concept to the FDIC's "net present value of the estimated cash recovery."

**exit fee:** A fee required by statute to be paid to the Savings Association Insurance Fund (or the Financing Corporation, as determined by the secretary of the Treasury) when an insured depository institution participates in a conversion transaction wherein insured

deposits are transferred from a SAIF member to a BIF member. The exit fee assessed in connection with a conversion from SAIF to BIF is the amount derived by multiplying the dollar amount of deposits transferred from SAIF to BIF by .90 percent. The exit fee assessed in connection with a conversion from BIF to SAIF is the amount derived by multiplying the dollar amount of the retained deposit base transferred from BIF to SAIF by .01 percent.

**failure:** The closing of a financial institution by its chartering authority, which rescinds the institution's charter and revokes its ability to conduct business because the institution is insolvent, critically undercapitalized, or unable to meet deposit outflows.

**Farmers Home Administration (FmHA):** A federal agency created in the 1930s in the U.S. Department of Agriculture. Its mission is to support American farmers through commodity programs, farmer operating and emergency loans, conservation, domestic and overseas food assistance, and disaster programs. In a 1994 USDA reorganization, FmHA became the Farm Service Agency (FSA).

**Federal Asset Disposition Association (FADA):** A corporation, chartered as a savings and loan and wholly owned by the FSLIC, created in 1985 by the FHLBB to manage and liquidate assets of failed thrifts. One of the RTC's duties was to liquidate the FADA within 180 days from the enactment of FIRREA.

**Federal Deposit Insurance Act (FDI Act):** A 1950 act that, among other things, (1) increased the FDIC deposit insurance limit from \$5,000 to \$10,000 and (2) granted the FDIC the authority to provide open bank assistance through loans or the purchase of assets to prevent the failure of an insured bank. Under the "essentiality doctrine" of the FDI Act, a bank was eligible for open bank assistance only if the FDIC Board of Directors decided that the continued operation of the institution was "essential."

**Federal Deposit Insurance Corporation Improvement Act (FDICIA):** A comprehensive package of legislation, enacted in 1991, that included (1) a "least cost" test, imposed in the resolution process, that required the FDIC to evaluate all resolution alternatives, including liquidation, and to choose the resolution method least costly to the relevant insurance fund; (2) section 131 of FDICIA, which imposed new capital requirements, effective December 19, 1992, whereby institutions were to be closed before they became insolvent, although banks with tangible capital of less than 2 percent of assets were "critically undercapitalized" and subject to immediate closure; and (3) an extension of the time period for the RTC to accept conservatorship and receivership appointments from August 31, 1992, to October 1, 1993, a date after which the FDIC would assume responsibility for failed thrifts and would pay losses from the SAIF.

**Federal Financing Bank (FFB):** A bank established by the Federal Financing Bank Act of 1973 with a mission to (1) assure coordination between federal borrowing programs and the overall economic and fiscal policies of the federal government and (2) reduce the cost of federal and federally assisted borrowings from the public. The FFB has become

the vehicle through which most federal agencies finance their programs involving the sale or placement of credit market instruments, including agency securities. The FFB is under the general supervision of the secretary of the Treasury, and it is managed and staffed by Treasury employees.

**Federal Home Loan Bank(s) (FHLB[s]):** A system of banks created in 1932 by the Federal Home Loan Bank Act, which established 12 regional FHLBs to encourage home loans by local thrifts during the Great Depression that began in 1929. The FHLBB was responsible for overseeing the FHLBs from 1932 to 1989, when FIRREA transferred this function to the Federal Housing Finance Board.

**Federal Home Loan Bank Board (FHLBB):** A five-member board established on July 22, 1932, by the Federal Home Loan Bank Act. The board was authorized to establish Federal Home Loan Banks with the authority to regulate and supervise S&Ls, as well as to lend money to S&Ls, which would in turn finance home loans. The FHLBB retained these basic responsibilities until the passage of FIRREA in August 1989. FIRREA created the Federal Housing Finance Board to succeed the FHLBB, and some of the FHLBB's functions were transferred to the FDIC, the RTC, and the OTS.

**Federal Home Loan Mortgage Corporation (Freddie Mac):** A corporate instrumentality of the United States, created by Congress on July 24, 1970. Freddie Mac is owned by its shareholders and accountable to its shareholders and a board of directors. Its primary mission is to increase the availability of money from mortgage lenders to homebuyers and investors in multi-family residential property. As one of the biggest buyers of home mortgages in the United States, Freddie Mac is a secondary market conduit between mortgage lenders and investors.

**Federal Housing Administration (FHA):** A division of the U.S. Department of Housing and Urban Development that insures mortgage loans for a variety of purposes, but primarily for those related to residential housing. Congress originally created the FHA in 1934 to make homeownership possible for first-time homebuyers. Today the FHA helps low- to middle-income families to purchase a home without making a large down payment, encourages improvement in housing standards and conditions, and provides a system of government-guaranteed mortgage insurance.

**Federal National Mortgage Association (Fannie Mae):** A tax-paying corporation, owned entirely by private stockholders, established in 1938 to provide additional liquidity to the mortgage market. In 1968, the original Fannie Mae was reorganized into two corporations: the privately-owned Fannie Mae and the government-owned Ginnie Mae. Fannie Mae purchases and sells residential mortgages insured by the Federal Housing Administration or guaranteed by the Veterans' Administration, as well as conventional home mortgages. Purchases of mortgages are financed by the sale of mortgage-backed securities to private investors. Fannie Mae operates with regulatory oversight from both the U.S. Treasury Department and the U.S. Department of Housing and Urban Development.

**Federal Reserve Bank (FRB):** One of the 12 regional banks in the Federal Reserve System. The 12 FRBs and their 25 branches, which are managed by the Board of Governors of the Federal Reserve System, perform a variety of functions, including operating a nationwide payments system, distributing the nation's currency, supervising and regulating member banks and bank holding companies, and serving as banker for the U.S. Treasury. The FRBs supervise and examine state chartered banks that are members of the Federal Reserve System (state member banks).

**Federal Reserve System (Fed):** The central banking system of the United States, founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system. Over the years, the Fed's role in banking and the economy has expanded. The Fed administers the nation's monetary policy using three major tools: open market operations, the reserve requirement, and the discount rate. The Fed also plays a major role in the supervision and regulation of the U.S. banking system. The Board of Governors of the Federal Reserve System (the Federal Reserve Board) is made up of seven members appointed to 14-year terms by the president of the United States and confirmed by the Senate. The chairman and vice chairman of the board, however, serve four-year terms. The Federal Reserve Board's policies are carried out by the 12 regional Federal Reserve Banks.

**Federal Savings and Loan Insurance Corporation (FSLIC):** The federal corporation chartered by Congress in 1934 to insure deposits in savings institutions. The FSLIC also served as a conservator or receiver for troubled or failed insured savings associations. Effective April 1, 1980, for insured savings and loan institutions, the FSLIC insured savings accounts up to \$100,000. The FSLIC functioned under the direction of the FHLBB, which provided certain administrative services and conducted the examination and supervision of insured S&Ls. In 1989, Congress abolished the FSLIC, transferring its resolution, conservatorship, and receivership functions to the RTC and its responsibilities for the deposit insurance fund to the Savings Association Insurance Fund, which is administered by the FDIC.

**fidelity bonds:** Insurance provided to indemnify employees against loss by reason of the dishonesty of employees or as a result of the nonperformance of contracts. In fidelity insurance contracts, the insurance company issues fidelity insurance bonds as a guarantee against loss arising from the default or dishonesty of the insured person. Fidelity bonds are issued for three classes of risk: larceny, culpable negligence, and unfaithful discharge of duty.

**financial advisers:** Contractors in the private sector who are hired to help select assets for portfolio sales, manage the due diligence process, provide sellers with an opinion about the market value of the assets, find buyers, and negotiate the final terms and conditions of sales contracts. The expertise provided by financial advisers was especially useful to the FDIC and the RTC in organizing and executing their mortgage-backed securities programs.

**Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA):** Legislation that established the Resolution Trust Corporation and the Oversight Board of the RTC as instrumentalities of the United States. Enacted by Congress on August 9, 1989, it includes section 21A of the Federal Home Loan Bank Act (*U.S. Code*, volume 12, 1441[a]), as added by section 501(a) of FIRREA (Public Law No. 101-73, section 501[a], 103 Statute 83, 363-393). Resulting from the thrift crisis of the late 1980s, FIRREA revised the structure of the deposit insurance system creating a new Bank Insurance Fund and a Savings Association Insurance Fund, both of which were to be administered by the FDIC. FIRREA abolished the FHLBB and the FSLIC. FIRREA divided the Federal Home Loan Bank System into three parts: the OTS, under the general oversight of the secretary of the Treasury; the SAIF; and the Federal Housing Finance Board, which was responsible for overseeing the lending activities of the 12 regional Federal Home Loan Banks. A separate FDIC fund, the FSLIC Resolution Fund, was established to assume the assets and liabilities of the FSLIC except for those transferred to the RTC.

**forbearance:** A bank resolution method used by the FDIC in the mid-1980s. Forbearance exempted certain distressed institutions that were operating in a safe and sound manner, from minimum capital requirements. The forbearance program was designed for well-managed, economically sound institutions with concentrations of 25 percent or more of their loan portfolios in agricultural or energy loans. Forbearance is also a means of handling a delinquent loan. A “forbearance agreement” is a written agreement providing that a lender will delay exercising its rights (in the case of a mortgage, foreclosure) as long as the borrower performs in accordance with certain agreed-upon terms.

**FSLIC Resolution Fund (FRF):** A federal fund established under FIRREA in 1989 in response to the thrift crisis of the 1980s. Funded by congressional appropriations, the FRF is responsible for the satisfaction of all debts and liabilities and the sale of all assets of the former FSLIC and the former RTC.

**Garn–St Germain Depository Institutions Act (Garn–St Germain):** Legislation enacted in 1982 that gave the thrift industry a great deal more flexibility in managing assets and liabilities. It gave the thrift industry the right to (1) invest up to 50 percent of assets in construction and development loans; (2) invest up to 30 percent of assets in consumer loans, commercial paper, and corporate debt; (3) own real estate development companies; (4) use land and other noncash assets in the capitalization of new charters, instead of the previously required cash; and (5) offer money market deposit accounts.

**General Accounting Office (GAO):** An investigative arm of the U.S. Congress charged with examining all matters relating to the receipt and disbursement of public funds. Established in 1921 to independently audit federal government agencies, the GAO functions under the direction of the comptroller general of the United States, who is appointed by the president and confirmed by the Senate for a 15-year term.

**general creditors:** Entities, including uninsured depositors, suppliers, tradespeople, and contractors, with unsecured claims against a failed financial institution.

**general grade (GG):** A classification of federal civil service employees who have “career status” regarding pay and benefits.

**general partner:** A type of partner within a general or limited partnership. In a general partnership, there are two or more general partners, all the partners are general, and they are all co-owners liable for company debts to the full extent of their personal assets. In a limited partnership, there are one or more general partners and the business is managed by the general partner(s).

**generally accepted accounting principles (GAAP):** Accounting rules and conventions established by the Financial Accounting Standards Board that define acceptable practices in preparing financial statements.

**Government National Mortgage Association (Ginnie Mae):** A wholly owned government corporation within HUD, established in 1968 as a spinoff from Fannie Mae. The main functions of Ginnie Mae are (1) the purchase and sale of certain FHA and VA mortgages pursuant to various programs designed to support the housing market and (2) the guarantee of mortgage-backed securities secured by pools of FHA and VA mortgages.

**gross cash recovery (GCR):** The gross cash collections projected during the expected holding period of an asset (or a pool of assets) in a receivership.

**gross collections:** The gross cash recoveries—prior to paying the holding, marketing, and selling costs—resulting from the disposition of one or more assets.

**gross negligence:** A standard of conduct under which an officer or director of a failed institution may be held personally liable for monetary damages in a civil action. This standard generally establishes “liability” based upon culpable conduct that is grossly negligent or worse, although definitions vary from state to state.

**hard-to-sell asset:** Those assets remaining unsold other than cash, securities, and performing single-family residential mortgages. By dollar amount, most of the RTC’s hard-to-sell assets consisted of commercial mortgages, owned real estate, and subsidiary assets.

**income capital certificate (ICC):** A method of assistance developed in 1981 by the FSLIC to provide noncash assistance to mutual savings institutions. From 1981 through 1985, the FSLIC gave notes to troubled institutions in exchange for ICCs. The troubled thrift carried the FSLIC note as an asset, and the offsetting liability (the dollar amount of the ICC) was included within regulatory capital.

**income maintenance agreement (IMA):** A resolution method used by the FDIC in the early 1980s to guarantee a market rate of return on the acquired assets of failed savings

banks. The FDIC paid the acquirer the difference between the yield on assets acquired and the average cost of funds of savings banks.

**indemnification:** In general, a collateral contract or assurance under which one person agrees to secure another person against either anticipated financial losses or potential adverse legal consequences.

**Industrial Bank Savings Guaranty Corporation (IBSGC):** A Colorado nonprofit corporation that provides deposit insurance for state chartered industrial banks.

**information package:** A collection of detailed information about the amounts and types of assets and liabilities of a failed or failing institution. The information varies, depending on the composition of assets and liabilities of the troubled institution. An information package, which is subject to a confidentiality agreement, is provided to potential purchasers to facilitate their analyses of the failing institution. (Also see *confidentiality agreement*.)

**inherent risk:** The potential for fraud, waste, abuse, or mismanagement in an organizational unit without regard to the controls contemplated or already in place, as defined in the FDIC Internal Control Review program.

**initial targeted cash value (ITCV):** An estimate of the gross cash collections expected from the disposition of a pool of assets assigned to an asset manager under an RALA.

**insured deposit:** Deposit in an FDIC insured commercial bank, savings bank, or savings association that is fully protected by FDIC deposit insurance. Savings, checking, and other deposit accounts, when combined, are generally insured up to \$100,000 per depositor in each financial institution insured by the FDIC. Deposits held in different ownership categories, such as single or joint accounts, are separately insured. Also, separate \$100,000 coverage is usually provided for retirement accounts, such as individual retirement accounts.

**insured deposit transfer (IDT):** A type of deposit payoff in which the insured and secured deposits of a closed bank or thrift are transferred to a transferee or agent institution in the community, permitting a direct payoff of the failed institution's depositors by the agent institution. The agent institution pays customers of the failed institution the amount of their insured deposits or, at the customer's request, opens a new account in the agent institution for the customer. When no assuming bank can be found for the failed bank, an insured deposit transfer is an alternative to a straight deposit payoff. (Also see *deposit payoff* and *straight deposit payoff*.)

**internal control systems:** Processes designed to provide reasonable assurance that control objectives are achieved, according to the FDIC Internal Control Review program.

**internal rate of return (IRR):** A discount rate at which the present value of future net cash flows of an investment equals the cost of the investment.

**investment grade:** Corporate debt securities that are rated in the top four rating categories (AAA, AA, A, BBB) by one of the nationally recognized bond rating organizations.

**JDC Program:** An RTC equity partnership program. The ownership entity was a limited partnership, in which an investor with collection experience was the general partner and the RTC was a limited partner. There were 30 partnerships created under this program, with an average book value of \$414 million in JDCs per partnership.

**judgment:** An obligation to pay; created by a court and evidenced by an official certificate. A judgment may include loan principal, unpaid interest, unpaid taxes, legal fees, court costs, and other collection expenses.

**Judgments, deficiencies, and charge-offs (JDC):** The three categories of the assets of a failed institution marketed together by the RTC in its JDC program.

**junk bond:** High-yield, high-risk debt that, in many cases, was issued to finance corporate takeovers.

**Land Fund:** One form of the RTC's equity partnerships, targeted for the smaller investor to broaden the market as much as possible. Land Fund portfolios consisted primarily of undeveloped and partially developed tracts of commercially and residentially zoned land. There were three RTC Land Fund transactions.

**Land Use Restriction Agreement (LURA):** An agreement that controls use of single-family and multi-family residential property sold in the RTC Affordable Housing Disposition Program. The LURA used for single-family residential property requires the purchaser to certify to owner occupancy and income eligibility. The LURA used for multi-family residential property requires that a certain percentage of units be continuously rented to lower-income households.

**least cost test:** A procedure mandated by FDICIA that requires the FDIC to implement the resolution alternative that is determined to be least costly to the relevant deposit insurance fund of all possible resolution alternatives, including liquidation of the failed institution. Before enactment of FDICIA, the FDIC could pursue any resolution alternative, as long as it was less costly than a deposit payoff combined with liquidation of the failed bank's assets. (Also see *deposit payoff* and *Federal Deposit Insurance Corporation Improvement Act*.)

**letter of credit:** An instrument or document issued on behalf of a buyer stating that the issuer will honor drafts or other demands for payment upon compliance with the conditions specified in the letter. Letters of credit must be issued in conformity with all applicable rules and regulations. The credit may be revocable or irrevocable. The engagement can be either an agreement to honor or a statement that the issuer is authorized to honor the credit.

**limited branch P&A:** A component of a purchase and assumption transaction in an RTC branch breakup resolution. Under the terms of the limited branch P&A, the acquiring institution assumes all of the deposits and other liabilities of the failed institution directly attributable to the acquired branches. The acquirer also purchases certain assets

directly attributable to the acquired branches. The limited branch P&A incorporates the terms of the standard P&A as the standard terms and conditions of the transaction. Generally, the limited branch P&A was used in branch breakup transactions for any branch or branches not transferred to the core branch P&A acquirer. (Also see *branch breakup*, *core branch P&A*, and *standard P&A*.)

**limited partnership:** A partnership in which certain partners are designated general partners and some are designated limited partners. A limited partnership registers as a limited partnership in the state in which it is organized. The general partners manage the business. The liabilities of the limited partners are limited if certain legal requirements are met.

**liquidating dividend:** A pro rata distribution to uninsured depositors and creditors of the net proceeds of the liquidated assets of a failed institution.

**liquidation:** The winding down of the business affairs and operations of a failed insured depository institution through the orderly disposition of its assets after it has been placed in receivership.

**liquidation cost:** The resolution cost that the FDIC will incur if it pays off only the insured depositors and liquidates the assets of the failed institution.

**liquidation differential:** The decrease in value (if any) of a failed bank's assets that results from liquidating them, rather than having the assets managed by an operating entity.

**liquidation grade (LG):** Classification of federal civil service employees who have temporary status regarding pay and benefits.

**Loan Loss Amortization Program:** A capital forbearance program authorized by Congress in 1986. This program provided relief to 33 agricultural banks by permitting them to defer the recognition of agricultural loan losses. Only institutions with less than \$100 million in total assets and with at least 25 percent of their total loans in qualified agricultural credits were eligible for the program. The Loan Loss Amortization Program allowed such banks to amortize these losses over a seven-year period.

**loan purchase P&A:** An FDIC purchase and assumption transaction in which the acquirer assumes the deposit liabilities and certain other liabilities of the failed institution and purchases only a portion of the loan portfolio, usually just the installment loans, in addition to the cash and cash equivalent assets.

**loan servicer:** A contractor hired by the FDIC and the RTC to manage loans of failed institutions.

**loss sharing:** A method in a purchase and assumption transaction in which the FDIC as receiver agrees to share with the acquirer losses on certain types of loans. Loss sharing may be offered by the receiver in connection with the sale of classified or nonperforming loans that otherwise might not be sold to an acquirer at the time of resolution. The FDIC usually agrees to absorb a significant portion (for example, 80 percent) of future disposition losses on assets that have been designated as "shared loss assets" for a specific

period of time (for example, three to five years). The economic rationale for such transactions is that retaining shared loss assets in the banking sector would produce a better net recovery than would the FDIC's liquidation of the assets.

**management control review (MCR):** An examination of a system of internal controls for a particular process or function as defined by the FDIC Internal Control Review program. The main goal of a management control review is to document controls that are currently in place.

**managing agent (MA):** The FDIC or RTC employee responsible for managing day-to-day operations of an institution in conservatorship. The MA prepares the institution for resolution by downsizing (selling assets).

**market discipline:** The forces in a free market (without the influence of government regulation) which tend to control and limit the riskiness of a financial institution's investment and lending activities. Such forces include the concern of depositors for the safety of their deposits and the concern of bank investors for the safety and soundness of their institutions.

**minority resolution program:** A resolution program that favors a minority individual, a minority-owned business, or a minority depository institution. For example, the Completion Act gave a bidding preference to minority bidders and acquirers in connection with the resolution of failed institutions located in "predominantly minority neighborhoods."

**modified payoff:** A variation of the straight deposit payoff. In a modified payoff, the FDIC sells some of the assets of a failed or failing institution to an acquirer, whereas in a straight deposit payoff the FDIC directly pays the insured amount of each insured depositor and liquidates the remaining assets. (Also see *straight deposit payoff*.)

**modified whole bank P&A:** A purchase and assumption transaction in which the acquiring institution assumes the deposits and certain other liabilities of the failed institution. In addition to purchasing the cash and cash equivalent assets, the acquiring institution also receives an exclusive call option to purchase fixed assets owned by the failed institution. (Also see *whole bank P&A*.)

**moral hazard:** A potentially costly side effect of most insurance. Persons or companies insured against a particular risk have a tendency to assume more risk. For example, deposit insurance tends to encourage banks to hold riskier portfolios than they otherwise would.

**mortgage:** An interest in land created by a written instrument providing security for the performance of a duty or the payment of a debt.

**mortgage-backed security (MBS):** An ordinary bond backed by an interest in a pool of mortgages or trust deeds. The interest and principal payments collected on the underlying mortgages are the source of income to the bondholders. The RTC, which began

issuing one-to-four family residential mortgage-backed securities in June 1991, was instrumental in developing the MBS market in the early 1990s. Most mortgage-backed securities have AA or AAA bond ratings. (Also see *securitization*.)

**Multiple Investor Fund (MIF):** An RTC equity partnership created in early 1993 and targeted for the large institutional investor market. The two MIF transactions disposed of approximately 1,000 nonperforming and subperforming commercial mortgages, with an aggregate book value of approximately \$2 billion.

**mutual:** A savings institution organized in a nonstock business form. Neither mutual savings banks nor mutual savings institutions have stockholders. All depositors in a mutual institution have a share in the ownership of the institution, according to the amounts of their deposits.

**N-Series:** An RTC equity partnership targeted for the institutional investor market. There were six Nonperforming Loan Series, or N-Series, transactions, consisting of relatively large portfolios of nonperforming and subperforming commercial mortgages. The N-Series asset pools had an average book value in excess of \$450 million.

**national depositor preference amendment:** Provisions of the Omnibus Budget Reconciliation Act, that established the priority for paying claims filed against a failed depository institution. The Omnibus Budget Reconciliation Act was enacted on August 10, 1993, and amended section 11(d) of the FDI Act and standardized the assets distribution scheme for all receiverships regardless of the institution's chartering agency. As a result of this act, deposit liabilities of the institution have priority over all claims except the administrative expenses of the receiver. (Also see *advance dividend*.)

**nationalization:** The takeover by the government with or without compensation of a private entity. The Continental Illinois Corporation assistance transaction of 1984 was referred to at the time by some commentators as a "nationalization" of the bank, since the FDIC acquired an 80 percent equity interest in the bank under the terms of the assistance agreement.

**net collections:** The net cash recoveries resulting from the disposition of a portfolio of assets. Generally speaking, net collections are equal to gross collections less all relevant holding, marketing, and selling costs during the collection period.

**net present value (NPV):** The net present value is the value today of a series of future cash flows discounted at a suitable discount rate. The net present value is sometimes referred to as the "present value." (Also see *net recovery rate*.)

**net recovery rate:** Ratio of the net-present-value-of-net-collections-to-book-value-reductions. This performance measurement, in contrast with the "recovery rate," involves discounting net collections at an appropriate discount rate to determine the "net present value of net collections" before this ratio can be calculated. The net recovery rate is sometimes referred to as the "net recovery."

**net worth certificate (NWC):** A capital instrument purchased by the FDIC or the former FSLIC under a special program created by Congress in 1982 to maintain or increase the capital of troubled institutions that qualified for the program. Under this program, the FDIC purchased a net worth certificate from a qualified institution in exchange for an FDIC insured promissory note, which was an asset on the bank's books, with the offsetting liability of the net worth certificate counted as regulatory capital. Extended twice by Congress, this program expired in 1986.

**New Hampshire Plan:** The strategy used in resolving seven New Hampshire banks that failed in October 1991. The FDIC combined and marketed the banks as two franchises instead of marketing the failed bank franchises individually. The FDIC appointed a third-party contractor under an asset management contract to manage and dispose of the failed banks' distressed assets. The New Hampshire Plan was significant in part because it was the first time the FDIC solicited asset management contractors that were not eligible to be assuming institutions.

**NP-Series:** An RTC equity partnership created in 1995 and designed for the smaller investor. The composition of NP-Series portfolios was similar to that of the N-Series, S-Series and SN-Series pools; however, the portfolios of the NP-Series were the smallest in the RTC equity partnership program, averaging under \$70 million in book value each.

**Oakar Amendment:** An amendment to section 5(d) of the FDI Act of 1950 named for its sponsor, Congresswoman Mary Rose Oakar. The amendment allowed an institution to avoid the prohibition against conversion of insured deposits between insurance funds, with approval of the appropriate federal regulatory authority. The Oakar amendment authorized any state depository institution to merge, consolidate, or transfer the assets and liabilities of an acquired institution while maintaining existing fund coverage of the acquired deposits.

**Office of the Comptroller of the Currency (OCC):** A bureau within the U.S. Department of the Treasury, established in 1863. The OCC charters, regulates, and supervises national banks, which can usually be identified because they have the word "national" or "national association" in their names. The OCC also supervises and regulates the federally licensed branches and agencies of foreign banks doing business in the United States. The comptroller of the currency, who is appointed by the president of the United States, with Senate confirmation, and who is one of the FDIC's five directors, heads the OCC.

**Office of Inspector General (OIG):** An independent federal organization established to audit the programs and operations of the FDIC and to investigate complaints of fraud, waste, and mismanagement in those programs. The Inspector General Act of 1978, as amended, required the chairman to appoint an inspector general beginning in 1989, the position changing to a presidential appointment in 1994. The RTC was required to have a presidentially-appointed inspector general throughout its life.

**Office of Thrift Supervision (OTS):** An organization within the U.S. Department of the Treasury, established on August 9, 1989, by FIRREA. The OTS, with five regional offices located in Jersey City, Atlanta, Chicago, Dallas, and San Francisco, is the primary regulator of all federal and many state chartered thrift institutions. A director, who is appointed by the president, with Senate confirmation, for a five-year term and who is one of the five FDIC directors, heads the OTS.

**open bank assistance (OBA):** A resolution method in which an insured bank in danger of failing receives assistance in the form of a direct loan, an assisted merger, or a purchase of assets. OBA usually entails a change in bank management and requires substantial dilution of shareholder interest in the troubled institution. Originally, as provided in the FDI Act of 1950, the FDIC could grant open bank assistance only if the institution's continued operation was deemed "essential." With the passage of the Garn–St Germain legislation in 1982, an institution could receive assistance if the cost of the assistance was less than the cost of liquidating the institution. When FDICIA was enacted in 1991, OBA had to be deemed least costly to the insurance fund of all possible resolution methods. A later amendment to FDICIA prohibited providing assistance to the shareholders of a troubled institution. The FDIC rescinded its OBA policy statement in 1996.

**Operation Clean Sweep:** A catch phrase coined in the spring of 1990 by FDIC Chairman L. William Seidman in a speech to the National Press Club when he announced that the RTC would sell or liquidate 141 conservatorship institutions by June 30, 1990, including at least 50 institutions that would be liquidated without any sales attempts because these institutions were determined to have little franchise value. Chairman Seidman referred to these liquidations as "Operation Clean Sweep."

**oversight manager:** A person designated by a program office to monitor the activities of a contractor.

**owned real estate (ORE):** An accounting classification of real estate. Marketable title has normally been acquired by (1) judicial or nonjudicial foreclosure, (2) deed in lieu of foreclosure, or (3) by purchase or other acquisition to protect the institution's interest in a debt or debts previously contracted. The FDIC's ORE also includes all real estate acquired for investment or resale and the book value of any premises purchased directly or acquired by means of a capital lease used in the reporting receivership's business operations, net of accumulated depreciation. Also known as real estate owned (REO).

**pass-through receivership:** Method used by the OTS to transfer the assets and liabilities of a failed thrift to a newly chartered institution placed in RTC conservatorship. Under this method, the OTS closes the institution, appoints a receiver, and passes the assets and liabilities of the failed thrift to the new institution, which is then placed in conservatorship.

**payoff:** A resolution method for a failed bank or thrift in which the FDIC directly pays the insured amount of each insured depositor. Also known as a deposit payoff. (Also see *deposit payoff*.)

**portfolio sale:** The marketing and sale of a large portfolio of similar assets. Portfolio sales usually have been accomplished through sealed bid sales at the FDIC. Also known as a bulk sale.

**professional liability program:** An investigation by the FDIC or the RTC of all potential claims (inherited from each receivership) for losses caused by the wrongful conduct of officers, directors, lawyers, accountants, brokers, appraisers, or others who have provided services to the failed institution.

**prompt corrective action (PCA):** A provision of FDICIA, which amended the FDI Act by adding section 38. The PCA provision, among other things, requires regulators to take prompt corrective action to resolve the problems of an insured depository institution. Unless other action is determined to be appropriate, regulators are required to close an institution that is “critically undercapitalized” and unable to provide an adequate capital restoration plan. (Also see *critically undercapitalized* and *Federal Deposit Insurance Corporation Improvement Act*.)

**purchase and assumption (P&A):** A resolution method in which a healthy insured institution purchases some or all of the assets and assumes the deposit liabilities of a failed bank or thrift. On a case-by-case basis, the assuming institution’s bid may be sufficient to allow assumption of all the deposit liabilities of the failing institution, including the uninsured deposits.

**put option:** A provision in some purchase and assumption agreements under which an assuming institution has the option of requiring the FDIC, within a specified time frame, to repurchase certain loans that have been transferred to the acquiring institution under a P&A agreement.

**qualified financial contract (QFC):** A type of financial agreement that includes, but is not limited to, securities contracts, forward contracts, repurchase agreements, and swap agreements. When a receiver repudiates a QFC, damages are measured as of the date of the repudiation and may include the cost of acquiring a replacement QFC. Special rules for the repudiation of QFCs are necessary to protect domestic financial markets.

**Real Estate Mortgage Investment Conduit (REMIC):** A mortgage-backed securities vehicle, authorized by the Tax Reform Act of 1986, that holds residential or commercial mortgages and issues securities representing interests in those mortgages. The REMIC structure (1) qualifies as an asset sale for tax purposes, (2) offers tax and accounting flexibility to portfolio lenders, and (3) creates a broad investor market through multiple

classes of securities. The REMIC itself is normally exempt from federal income tax, but investors generally report the interest from the securities as taxable income.

**Real Estate Owned Management System (REOMS):** A national database system that provided the RTC with an online inventory control system designed to monitor the acquisition, management, and disposition of real estate owned.

**receivership:** The legal procedure for winding down the affairs of an insolvent institution.

**receivership certificate:** A document issued by the receiver that represents the total amount of the proved claim that each depositor or unsecured creditor has against a failed bank or thrift in receivership.

**Reconstruction Finance Corporation (RFC):** An entity established by Congress in 1932 to extend credit on an emergency basis “to stop deflation in agriculture and industry” to banks, agricultural credit institutions, railroads, insurance companies, and public works. In its heyday, the RFC was the leading federal domestic financing agency and its financing activities included war projects during World War II. The RFC went out of existence on June 30, 1954.

**recovery rate:** Ratio of net-collections-to-book-value-reductions. This performance measurement does not consider the time value of money. (Also see *net recovery rate*.)

**Regional Asset Liquidation Agreement (RALA):** Asset management contract between the FDIC and a private-sector contractor for the management and disposition of distressed assets, primarily nonperforming loans, designed for asset pools under \$500 million in aggregate book value. The FDIC issued four RALA contracts during 1992 and 1993.

**representations and warranties:** Legally binding statements, made by the parties to a contract, regarding, among other things, asset quality requirements. Representations and warranties, which may extend for only a few months or for the life of the asset or agreement, may protect the purchasers of loans from potential problems associated with missing loan documentation, title defects, or a change in payment status.

**repudiate:** A receiver’s (or conservator’s) right to disaffirm outstanding contractual obligations previously entered into by a failed insured depository institution. The receiver may take such action only if (1) the contracts are considered burdensome and (2) repudiation will promote the orderly administration of the receivership estate. The FDI Act provides that certain contracts cannot be repudiated.

**repudiated contract:** A contract of a failed institution that the receiver has repudiated. When contracts are repudiated, damages are limited to actual damages determined as of the date of the appointment of the receiver.

**reserve price:** The minimum price for which one asset or a portfolio of assets can be sold. A reserve price is often expressed as a percentage of book value for which an asset or a pool of assets can be sold.

**residual:** Cash flows resulting from the difference between the income stream generated by a pool of mortgages and the cash flow necessary to fund a series of collateralized mortgage obligations (CMOs) or REMIC bonds.

**residual value:** The economic value or money received by the R-Class bondholder, the FDIC, when (1) the bonds have been paid off and cash flows from the mortgage collateral are still to be generated, or (2) the proceeds from the sale of the mortgage collateral as whole loans are greater than the amount needed to retire the outstanding bonds.

**resolution:** The disposition plan for a failed institution, designed to (1) protect insured depositors and (2) minimize the losses to the relevant insurance fund, which are expected from covering insured deposits and disposing of the institution's assets. Resolution methods generally include purchase and assumption transactions, insured deposit transfers, and straight deposit payoffs. The term "resolution" can also refer to the assistance plan, through open bank assistance, for a failing institution.

**resolution cost:** For a given resolution method, the sum of the FDIC's expenditures and obligations incurred, including any immediate or long-term obligations and any direct or contingent liabilities for future payment. Since FDICIA was enacted in 1991, the FDIC has been required to select the resolution method that is least costly to the relevant insurance fund. (Also see *least cost test*.)

**Resolution Funding Corporation (REFCORP):** A corporation established under FIRREA to fund the activities of the RTC, primarily through bond sales. FIRREA provided private and public funds to deal with thrifts that failed between 1989 and 1999, as well as providing a mechanism to capitalize the new Savings Association Insurance Fund. (Also see *Thrift Depositor Protection Oversight Board*.)

**Resolution Trust Corporation (RTC):** An entity established in 1989 by FIRREA to oversee the resolution of insolvent thrifts and to dispose of assets acquired from the failed thrifts in the wake of the thrift crisis of the 1980s. The RTC operated from August 9, 1989, to December 31, 1995.

**Resolution Trust Corporation Completion Act (RTCCA or Completion Act):** Legislation enacted on December 17, 1993, that allowed the RTC to use up to \$18.3 billion to resolve the remaining insolvent thrifts. The Completion Act also (1) extended the RTC's authority to take institutions into conservatorship or receivership from September 30, 1993, to July 1, 1995; (2) accelerated the RTC's closing date by a year from December 31, 1996, to December 31, 1995; (3) reduced the maximum funding authorization of the SAIF; and (4) instituted a wide range of RTC management reforms.

**risk:** Exposure to uncertain change. In the investment field, risk is the probability that the actual return on an investment will differ from its expected return. For example, a Treasury bill is considered by most investors to have practically no risk. Risks associated with investments in general include interest rate risk, market risk, business risk, financial risk, and liquidity risk. In the FDIC Internal Control Review program, risk is consid-

ered to be the susceptibility of an organizational unit or process to mismanagement, erroneous reports or data, illegal or unethical acts, and adverse public opinion.

**risk assessment:** Generally, the identification and quantification of risk types, levels, and locations in a process or organizational unit. In the FDIC Internal Control Review program, management tries to identify the susceptibility of an organizational unit or process to the occurrence of waste, loss, unauthorized use, or misappropriation.

**RTC Oversight Board:** An instrumentality of the federal government created in 1989 by FIRREA and responsible for the general oversight of the REFCORP. (Also *see Thrift Depositor Protection Oversight Board*.)

**RTC Refinancing, Restructuring, and Improvement Act (RTCRRIA):** Legislation enacted in 1991 that provided funding and organization for the RTC. Among its major provisions, the act (1) provided \$25 billion in new loss funds for the RTC to be used through April 1, 1992; (2) extended the RTC's ability to accept appointment as conservator or receiver over failed thrifts from August 9, 1992, through September 30, 1993; (3) removed the FDIC as the exclusive manager of the RTC; (4) abolished the RTC Board of Directors; (5) established a chief executive officer position at the RTC; and (6) changed the RTC oversight body from the Oversight Board to the Thrift Depositor Protection Oversight Board.

**S-Series:** An RTC equity partnership created specifically for the smaller investor. The S-Series transactions consisted of relatively small portfolios of nonperforming and subperforming commercial mortgages, similar to the composition of N-Series pools; however, the S-Series pools were smaller in size to permit relatively small investors to participate.

**Savings Association Insurance Fund (SAIF):** One of the two federal deposit insurance funds created by FIRREA in 1989 and placed under the FDIC's administrative control. Created for the thrift industry, SAIF succeeded the FSLIC as the insurer of deposits to specified limits at savings associations (also called S&Ls) and many savings banks. (Also *see Bank Insurance Fund; Financial Institutions Reform, Recovery, and Enforcement Act; and Federal Savings and Loan Insurance Corporation*.)

**sealed bid sale:** A "silent auction" in which investors independently value an asset and submit bids by a certain date. Information on bids or bidders is not released before a sale closes.

**securitization:** The process by which generally illiquid assets with similar features are pooled into interest-bearing securities with marketable investment characteristics. In the securitization of commercial and multi-family residential mortgages, the cash flow associated with the mortgage payments is placed into the most appropriate legal package (for example, CMO and REMIC), techniques are used to reshape the mortgage cash flow, a credit enhancement feature is added, and a mortgage-backed security is created. From

1991 to 1997, 72 RTC and 2 FDIC securitizations were closed, disposing of conservatorship and receivership assets with a total book value of approximately \$44 billion.

**seller financing:** A purchase money mortgage provided to buyers by the FDIC and the RTC to facilitate the sale of hard-to-sell assets and to maximize the value of assets sold. Seller financing was used primarily to facilitate the sale of owned real estate. Seller financing was also offered by the RTC in the disposition of nonperforming loans in structured transactions.

**sequential bidding:** The FDIC's practice of reviewing bids for failing banks in the 1980s. On December 30, 1986, the FDIC Board of Directors established an order of priority for six alternative methods of passing assets to acquirers under authority delegated by the FDIC Board of Directors to staff prior to the receipt of the bids.

**settlement:** Usually, the final disposition of accounts between a receiver and a failed bank acquirer. It is a process that normally takes place after closing a sales transaction with an acquirer.

**simple negligence:** A civil, as opposed to a criminal, standard of negligence. Under simple or ordinary negligence, (1) a person acts negligently when he fails to perceive a substantial and unjustifiable risk that a particular result will occur, and (2) the risk must be of such a nature and degree that the failure to perceive it constitutes a deviation from the standard of care that a reasonable person would observe in such a situation.

**site manager:** The managing agent, financial institution specialist, or other employee responsible for overseeing the operation of a conservatorship or receivership.

**Small Investor Program:** A target marketing plan that was designed to meet the needs of small investors who wanted to buy or invest in RTC assets one at a time or in small pools. The Small Investor Program arranged for the marketing and sale of individual real estate assets (with a value of less than \$5 million) and relatively small pools of loans (up to \$10 million in value).

**SN-Series:** An RTC equity partnership created for both large and small investors. Like the N-Series and S-Series transactions, portfolios generally consisted of nonperforming and subperforming commercial mortgages. However, an SN-series pool was larger than an S-Series but smaller than an N-Series portfolio.

**Standard Asset Management Amendment (SAMA):** A SAMDA contract amended to transfer asset disposition from the SAMDA contractor to the RTC. The RTC began issuing SAMAs in January 1992. SAMDA contractors who accepted the SAMA allowed the RTC to dispose of their remaining assets while the contractors continued to manage assets but not to dispose of them. Later, SAMDA contracts with SAMAs were issued to some new contractors who were hired to perform asset management services only.

**Standard Asset Management And Disposition Agreement (SAMDA):** Contractual agreements for asset management and disposition services that allowed the RTC to manage and dispose of a large volume of distressed assets, primarily real estate and nonperform-

ing loans, through the use of private-sector contractors. The RTC issued the first SAMDA contract in August 1990.

**standard P&A:** The RTC or FDIC agreement that contained the standard terms and conditions under which an acquiring institution could assume the liabilities of and purchase the assets of a failed institution from the RTC or FDIC in its capacity as receiver of the failed institution. In RTC transactions, the standard P&A was originally conceived of as the equivalent of the FDIC's whole bank transaction; it was supplemented with the core branch P&A and the limited branch P&A for multi-acquirer branch breakup transactions. The FDIC's version of the standard P&A has certain optional provisions that allow its use for the range of P&A resolutions between a whole bank transaction and a clean bank transaction.

**straight deposit payoff:** A resolution method for failed FDIC insured institutions which can be used when the liquidation, closing, or winding down of the affairs is determined to be the least costly resolution of the institution. A straight deposit payoff is one of the two methods of deposit payoffs. (The other is an insured deposit transfer.) In a straight deposit payoff, the FDIC determines the amount of insured deposits and pays that amount directly to each depositor. The FDIC as receiver retains all assets and liabilities, and the receivership bears the cost of liquidating all of the assets. (Also see *deposit payoff*, *insured deposit transfer*, and *payoff*.)

**structured transaction:** An RTC multi-asset portfolio sale of distressed assets, which was normally coupled with seller financing with an equity participation feature so that the RTC's equity interest was tied to the terms of a seller financing note. This 1991–92 program generally is considered to have been a first-generation portfolio sales program of the RTC.

**subcontractor:** Any individual or entity with whom a primary contractor enters into a contract to provide goods or services to fulfill the primary contractor's obligation under its contract with the government.

**subordinated debt:** An obligation that has a claim on assets junior to other debt and is repayable only after other debt with a higher claim has been satisfied.

**subrogated claim:** An insured depositor's demand against the receivership that the FDIC acquires by virtue of having provided deposit insurance.

**Subsidiary Information Management Network (SIMAN):** A national system, developed by the RTC in 1992, currently used by the FDIC to collect and track information about subsidiaries, joint ventures, and partnerships.

**systemic risk:** Risk associated with the general health or structure of the financial system which would have serious adverse effects on economic conditions or financial stability. An example of systemic risk might be the probability that the failure of a major bank will cause a substantial number of other banks to fail, leading to a loss of confidence in the safety and soundness of a significant sector of the U.S. banking system. A finding of systemic risk is the only exception to the FDICIA mandate (and subject to satisfying

certain stringent, procedural requirements) that the FDIC choose the resolution method with the least cost to the insurance fund.

**Tax Reform Act of 1986:** A major tax legislation package that amended the Internal Revenue Code of 1954, which was redesignated as the Internal Revenue Code of 1986. In the design of this legislation, Congress attempted to deal with broad public policy implications instead of addressing specific issues such as recessions, energy shortages, and others. The broad objectives of the Tax Reform Act of 1986 were fairness, revenue neutrality, long-term economic growth, and simplicity. This legislation had a major effect on how individuals and businesses earn, spend, save, and invest. For individuals, many tax deductions were eliminated, thereby increasing individual gross income; at the same time, the tax rates were lowered.

**technical assistance advisor (TAA):** Local organizations hired in the RTC Affordable Housing Disposition Program (AHDP). TAAs were nonprofit organizations or public agencies located in every state where the RTC owned residential property marketed under the AHDP. TAAs provided training for single-family purchasers who were, for the most part, first-time homebuyers. The role of TAAs was to conduct training on how to buy a house, to assist the buyers in completing the income certifications required by the AHDP, and to provide post-closing seminars on homeowner responsibilities. In addition, TAAs assisted in the multi-family program. They helped the RTC to identify local nonprofit organizations and public agencies interested in owning multi-family properties and to locate state and federal sources of acquisition and rehabilitation financing.

**thrift:** A financial institution that ordinarily possesses the same depository, credit, financial intermediary, and account transactional functions as a bank, but that is chiefly organized and primarily operates to promote savings and home mortgage lending rather than commercial lending. Also known as a savings bank, a savings association, a savings and loan association, or an S&L.

**Thrift Depositor Protection Oversight Board (TDPOB):** The name chosen in 1992 for the redefined RTC Oversight Board. The original oversight board was an instrumentality of the federal government created in 1989 by FIRREA and was responsible for the general oversight of the RTC and REFCORP. In addition, the oversight board approved funding for the RTC. On February 1, 1992, pursuant to RTCRRIA, the oversight board was redesignated as the Thrift Depositor Protection Oversight Board and given the mandate to review the overall strategies, plans, and goals of the RTC and to continue to approve prior to implementation RTC financial plans, budgets, and periodic financing requests.

**too big to fail:** A catchphrase coined in the 1980s to describe the perception that a depository institution could be immune to failure because of its size or the magnitude of its correspondent relationships.

**traditional dividend:** A dividend paid to proven creditors after the FDIC has determined the net funds available for distribution. Traditional dividends are normally used to pay the final dividend due at the termination of a receivership.

**troubled debt restructuring:** A change in the makeup of an obligation in which the creditor, because of the debtor's financial difficulties, grants a concession to the debtor for the sake of transforming a nonperforming loan to a performing loan. The nature and extent of the concession depends on many factors, including the delinquency status, the value of the collateral, and the financial condition of the borrower.

**unclaimed deposit:** A deposit account in a failed FDIC insured institution that remains unclaimed after the appointment of a receiver. (Also see *Unclaimed Deposits Amendment Act*.)

**Unclaimed Deposits Amendment Act (UDAA):** Legislation enacted on June 28, 1993, to amend the claims procedures for the depositors of a failed institution. Under UDAA, the FDIC is required, among other things, to make insurance payments available for 18 months after the appointment of a receiver, after which all remaining unclaimed funds would be offered to the appropriate state.

**uninsured deposit:** The portion of any deposit of a customer at an insured depository institution that exceeds the applicable FDIC insurance coverage for that depositor at that institution. (Also see *Insured Deposit*.)

**whole bank P&A:** A type of purchase and assumption transaction in which the FDIC or the RTC as receiver sells to an insured institution all or substantially all of the assets of a closed bank or thrift in consideration for the assumption of all deposits and sometimes other liabilities. Prospective bidders are invited to analyze a failing institution's assets and submit bids to purchase essentially all of the assets "as is" on a discounted basis and to assume the outstanding deposits.

**working capital:** The excess of current assets over current liabilities, representing the liquid assets immediately available to fund the continued operation of the business.

**yield:** The effective annual rate of return on an investment expressed as a percentage.

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