CHAPTER 4

Evolution of the RTC's Resolution Practices

Introduction

On August 9, 1989, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 abolished the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Bank Board (FHLBB) and created the Resolution Trust Corporation (RTC). The RTC's primary mission was to manage and resolve failed thrift institutions for which a conservator or receiver was appointed. Initially, Congress gave the Federal Deposit Insurance Corporation (FDIC) the authority and responsibility to act as the RTC's "exclusive manager." The FDIC managed the RTC's activities until November 27, 1991, when the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act (RTCRRIA) separated the RTC from the FDIC. Figure I.4-1 shows the impact of FIRREA.

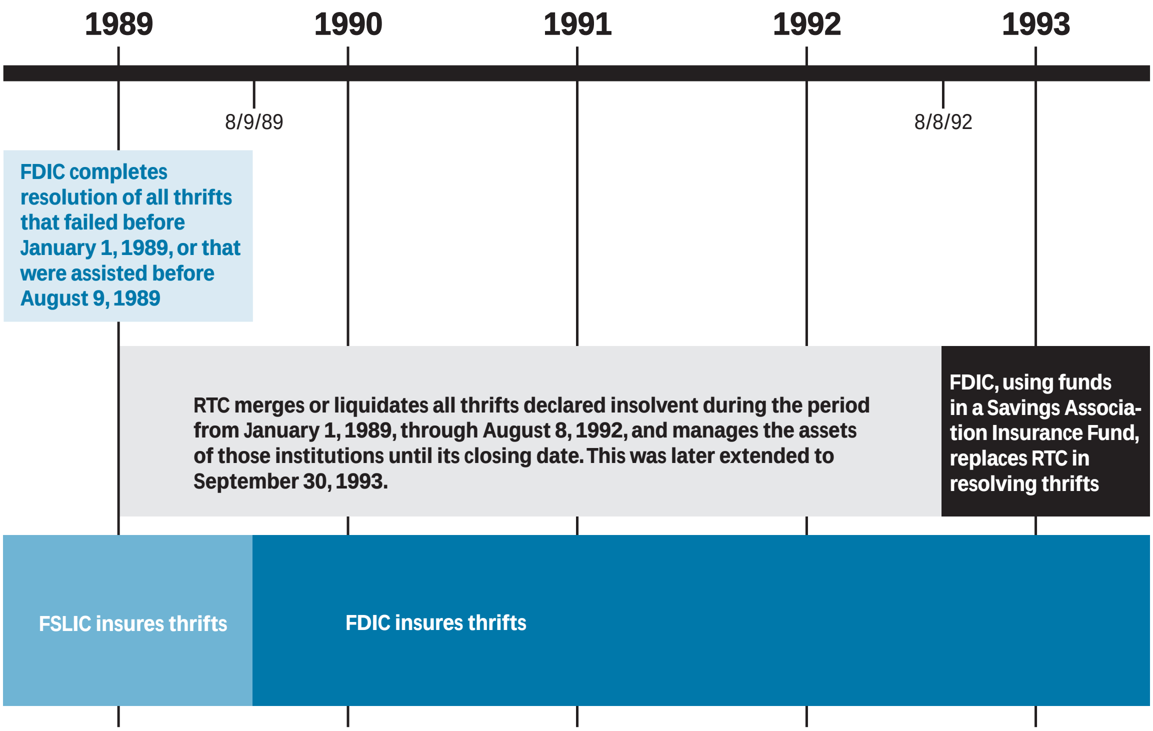
During the RTC's existence from August 9, 1989, to December 31, 1995, it was responsible for resolving 747 insolvent thrifts with assets of $402.6 billion. (See table I.4-1.) The final cost to taxpayers for that cleanup activity is estimated to be $87.5 billion.[1] The scope and magnitude of such a cleanup effort was unprecedented, yet essentially was completed in just six and one-half years. On December 31, 1995, the RTC was shut down, and its remaining work was transferred back to the FDIC.

This chapter focuses on an important part of the RTC's overall activity: the evolution of its resolution practices. Later chapters will discuss the RTC's asset disposition activities in greater detail.

1. Because of a number of factors, including the sale of assets in receivership and updated appraisals, this figure is adjusted periodically. The most recent estimate of RTC losses, as of December 31, 1996, is $86.4 billion.

Figure I.4-1

Impact of FIRREA



Source: RTC , *1989 Annual Report.*

Background

In early 1989, while the executive branch worked on a legislative proposal to solve the thrift crisis, the FHLBB, the FSLIC, and the FDIC developed preliminary plans for the RTC's resolution policies and practices through an interagency relationship that authorized the FDIC to manage thrift conservatorships and receiverships and to develop operating policies and guidelines. The primary focus during that developmental phase was to evaluate and assess the magnitude of the thrift problems and to develop operating strategies for marketing and selling troubled thrift institutions and disposing of their assets.

FIRREA established the RTC Oversight Board whose purpose, in conjunction with the RTC and FDIC, was to develop and establish strategies and policies for the RTC. Activities focused on six broad areas: (1) thrift resolution, (2) asset disposition, (3) affordable housing, (4) conflicts of interest and ethical standards, (5) external relations, and (6) administration. Membership of the RTC Oversight Board included the secretary of the Treasury, who served as chairman; the chairman of the Federal Reserve Board; the secretary of Housing and Urban Development; and two people from the private sector, to

Table I.4-1

Thrift Failures Resolved by the RTC 1989–1995

($ in Millions)

	1989	1990	1991	1992	1993	1994	1995	Totals
Number of Thrift Failures	318	213	144	59	9	2	2	**747**
Conservatorships	318	207	123	50	8	0	0	**706**
Accelerated Resolution Program	0	6*	21	9	1	2	2	**41**
Total Assets at Failure	$141,749	130,247	79,034	44,885	6,105	129	426	**$402,575**
Total Assets at Resolution	$89,144	81,166	47,344	22,480	4,170	129	426	**$244,859**
Total Assets Retained Post Resolution by RTC	$61,396	53,209	35,418	15,486	3,560	71	387	**$169,527**
Total Deposits at Failure†	$112,919	98,672	64,847	33,698	4,823	124	408	**$315,491**
Total Deposits at Resolution	$85,930	69,062	40,336	21,672	3,101	124	407	**$220,632**

* Includes two institutions resolved with P&A transactions before conservatorship that were not in the Accelerated Resolution Program.

† Total deposits as reported in the quarter before failure.

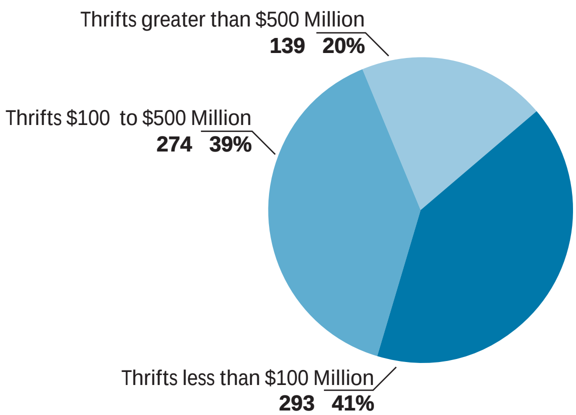
Source: FDIC Division of Research and Statistics.

be appointed by the president of the United States.[2] The RTC Oversight Board also appointed a president and chief executive officer (CEO) to help manage its operations, and in October 1989, the board appointed Daniel P. Kearney as the first president and CEO. In early 1990, William Taylor from the Federal Reserve Board succeeded Kearney; Taylor would later serve as chairman of the FDIC (1991-1992).

2. Originally, the RTC Oversight Board consisted of Secretary of the Treasury Nicholas F. Brady; Chairman of the Federal Reserve Board Alan Greenspan; and Secretary of Housing and Urban Development Jack Kemp. Two independent members were named by President George H. W. Bush and confirmed by the Senate in the spring of 1990: Phillip Jackson, Jr., an adjunct professor at Birmingham Southern College in Birmingham, Alabama, and Robert Larson, president and chief executive officer of The Taubman Company, Inc., a national real estate development and property management firm in Bloomfield Hills, Michigan.

Chart I.4-1

Conservatorships by Asset Size



Source: FDIC Division of Research and Statistics.

The RTC invited public entities and private parties, including potential acquirers of failed thrifts, representatives of community groups, and agencies in related industries such as housing, to participate in developing the RTC's overall resolution policies and plans. As a result, the case resolution mission and policy framework, when fully established, emerged as a product of governmental, private, and public entity collaboration. The RTC then took on the responsibility of implementing the mission and policy.

During the development of FIRREA and the transition of work from the FSLIC to the RTC, certain key developments and planning initiatives took place. On February 7, 1989, the FDIC entered into a management agreement with the FHLBB and FSLIC, under which the FHLBB and FSLIC authorized the FDIC to exercise management authority regarding all insolvent thrifts for which a conservator was appointed.

The FHLBB and FSLIC agreed to make their staffs available to help the FDIC perform its duties under the agreement. Because the FDIC lacked statutory authority and funding to resolve failed thrifts during the developmental phase, its primary activity between the date it entered into the management agreement and the enactment of FIRREA on August 9, 1989, was taking control of and managing 262 failed thrift institutions with $115.3 billion in total assets. By year-end 1989, 56 thrifts had been added to the RTC's conservatorship program and 37 had been resolved, leaving a total of 281 thrifts in conservatorship.

Overview of the RTC's Use of Conservatorships

A conservatorship is established when a manager (in this case, the RTC) has been appointed to take control of a failing financial institution to preserve assets and protect depositors. Banks and thrift institutions can be placed in conservatorship; however, conservatorship was used almost exclusively by the RTC, and before that, by the FSLIC in the resolution of thrifts.[3] With the passage of FIRREA in 1989, Congress granted the

3. The FDIC has used its conservatorship authority only once: to resolve CrossLand Savings Bank, FSB, Brooklyn, New York, a savings association. That action is discussed further in Chapter 6, Bridge Banks, and in Part II, Case Studies of Significant Bank Resolutions, Chapter 11, Crossland Savings Bank, FSB.

RTC the authority to act as conservator.[4] Legislators set up a conservatorship to provide many of the same benefits to the RTC as a bridge bank did for the FDIC.

The RTC used conservatorships extensively to aid in the resolution of failing savings and loans (S&Ls). Upon its creation, the RTC immediately assumed responsibility for 262 thrift institutions already in conservatorship. From inception to June 30, 1995, the RTC managed a total of 706 institutions in the conservatorship program, with the number of conservatorships peaking at 353 in 1990. By the end of June 1995, the RTC had resolved all 706 conservatorships. (Chart I.4-1 shows the distribution of those conservatorships by asset size.)

Reasons for a Conservatorship

The conservatorship was a useful tool for resolving the thrift crisis. In early 1989, with no funds and staff available to simultaneously resolve the large number of failing thrifts, the government needed a mechanism to place the thrifts under its direct supervision while they could be marketed and sold. The RTC was expected to manage the thrifts assigned to its conservatorship program for a period no longer than necessary to complete all actions related to resolving the insolvent thrifts, such as selling or liquidating the thrifts, transferring deposits to thrift acquirers, or paying out insured deposits to depositors. Many savings and loans were in conservatorship for long periods of time, because the number of insolvent thrifts was large, staff resources were limited, and funding was periodically interrupted.

Conservatorship Process

The conservatorship process began when the Office of Thrift Supervision (OTS) closed an insolvent savings and loan and appointed the RTC as receiver.[5] The OTS executed a pass-through receivership in which all deposits, substantially all assets, and certain nondeposit liabilities of the original institution instantly "passed through the receiver" to a newly chartered federal mutual association, subsequently known as "the conservatorship."[6] The OTS then appointed the RTC as conservator of the new institution, which placed the RTC in control of the institution. To achieve its goals and objectives, the RTC assigned a managing agent and one or more asset specialists, who were also RTC employees, to the institution in conservatorship. The RTC retained the majority of the former

4. Before FIRREA, the FSLIC had the authority to act as conservator for failed savings and loans. That authority originally was granted by the National Housing Act of 1934.

5. The OTS was established on August 9, 1989, by FIRREA to assume supervisory and regulatory authority over federal and state savings associations and state savings and loan holding companies.

6. Uninsured depositors were treated the same as insured depositors and were moved to the conservatorships. That practice lasted until September 1993, and from that point, uninsured deposits were left with the first receivership and not moved to the conservatorship.

institution's employees, who continued to perform the same functions they had before conservatorship; however, the day-to-day management and ultimate authority was given to the RTC-appointed managing agent. The managing agent's role was to ensure that management of the institution adhered to the RTC's policies and procedures, while the asset specialist would assist the managing agent with asset management and disposition.

The objectives of the conservatorship were to (1) establish control and oversight while promoting depositor confidence; (2) evaluate the condition of the institution and determine the most cost-effective method of resolution; and (3) operate the institution in a safe and sound manner pending resolution by minimizing operating losses, limiting growth, eliminating any speculative activities, and terminating any waste, fraud, and insider abuse. Shrinking an institution by curtailing new lending activity and selling assets was also a high priority.[7]

At the time the conservatorship was resolved, either through a sale or deposit payoff, the institution again was placed into a receivership (the second recievership). Both receiverships, the initial pass-through receivership and the second receivership, paid unsecured creditors and other claimants on a pro rata basis according to the recoveries within each receivership.

Overview of Resolution Activity

Provisions of FIRREA outlined several objectives for the RTC in its resolution and liquidation activities. Those objectives were to (1) maximize the net present value return from the sale or other disposition of the thrifts or the assets of the thrifts; (2) minimize the influence on local real estate and financial markets; (3) make efficient use of received funds to resolve the failed thrifts; (4) minimize the amount of any loss from resolutions; and (5) maximize the preservation of available, affordable residential properties for low- and moderate-income individuals.

With most of the RTC's senior personnel coming from the FDIC, the RTC initially was managed by the FDIC and followed the same statutory policies and procedures. That management approach meant that the emphasis during the resolution period generally was on purchase and assumption (P&A) transactions. Deposit payoffs usually were considered last resorts. Like the FDIC, the RTC employed a sequential bidding process that favored P&As, which generally protected all depositors against loss.

The RTC marketing process was more public than the FDIC's because the troubled status of RTC-controlled institutions was widely known. Like the FDIC, the marketing process for insolvent S&Ls began with the acquisition of a list of acceptable bidders from the FDIC's examination division.[8] The RTC then placed advertisements in *The*

7. RTC, *1989 Annual Report*.

8. Institutions on this list were deemed viable both before and after a potential acquisition from the RTC.

Wall Street Journal and other major publications listing by name each insolvent thrift that was for sale. The RTC's resolution staff would also check its database for investors and consultants who had previously expressed an interest in that institution or in similar types of thrifts and invite those groups to participate in the resolution without preclearance from the FDIC. Such clearance ultimately was necessary, however, before any bidder could acquire a failed S&L.

Next, the RTC valued the institution's assets. The asset valuation was one of the principal components of the RTC's cost test, which compared all the bids submitted, under each of the structures offered, to determine the least costly option.

After completing an information package that provided detailed schedules of the institution's assets and liabilities for potential bidders, the RTC held a bidders' conference. To each of the parties attending the conference the RTC distributed the information package, the bidder's instructions, the proposed resolution structures, a draft set of legal documents, the projected time line for the resolution, and the requirements from the regulatory authorities. After the meeting, potential bidders would perform their own due diligence to determine what they would submit as a sealed bid.

The RTC worked to develop a resolution process with standard procedures, legal documents, and forms to be used for all resolutions. Potential acquirers would need to become familiar with just one set of resolution procedures and documents and would not be subjected to costly time-consuming negotiations. The RTC intended that the standardized approach would maximize participation by potential acquirers of failed thrifts nationwide.

The vast majority of the RTC's resolutions were P&A transactions. Of the 747 institutions resolved by the RTC, 497 institutions (66.5 percent) were handled through P&As, 158 (21.2 percent) were insured deposit transfers (IDTs), and 92 (12.3 percent) were straight deposit payoffs. Deposit payoffs (IDTs and straight deposit payoffs) generally were used for smaller institutions. While 33.5 percent of the total number of transactions were deposit payoffs, only 17.9 percent of the deposits at resolution were handled as deposit payoffs. (See chart I.4-2.) The RTC did not use open bank assistance.

In 153 transactions, or approximately 21 percent of all resolutions, the RTC used branch breakup transactions. Of the total branch breakup transactions, 119 were P&A transactions and 34 were IDTs. (See table I.4-2 for a summary of the various resolution transactions conducted by the RTC.)

The RTC asset disposition strategy gradually became very different from the FDIC asset disposition model. The FDIC asset disposition strategy has typically emphasized the sale of the maximum amount of the failed bank's assets to the bank acquirer at resolution. The RTC, on the other hand, gradually focused its efforts on selling assets from the conservatorships or receiverships, and it often tried to sell only a limited amount of the failed thrift assets to the acquirer at the resolution. The RTC and FDIC approached asset disposition differently for the following reasons.

Table I.4-2

RTC Resolution Methods by Year of Resolution 1989–1995

Resolution Method	1989	1990	1991	1992	1993	1994	1995	Totals
Straight Deposit Payoff	4	47	33	4	1	3	0	**92**
Insured Deposit Transfer	26	82	14	2	0	0	0	**124**
Standard Purchase and Assumption	7	150	127	39	19	35	1	**378**
Branch Purchase and Assumption	0	22	38	24	7	26	2	**119**
Branch Insured Deposit Transfer	0	14	20	0	0	0	0	**34**
Totals	**37**	**315**	**232**	**69**	**27**	**64**	**3**	**747**

Sources: FDIC Division of Research and Statistics and RTC annual reports.

Volume of Failed Assets

As soon as the RTC was created, it faced a torrent of failed thrift assets. In 1989, it was named conservator for 318 failed thrifts having total assets of $141.8 billion, and in 1990, was named conservator for 213 failed thrifts that had total assets of $126.5 billion. That volume of failed assets was unprecedented. In comparison, in 1989 the FDIC had 207 failed banks having total assets of $29.4 billion, and in 1990, it had 169 failed banks having total assets of $15.7 billion.

Control of Failed Assets

After the RTC had been appointed conservator, it gained control of the failed thrift assets.[9] With the average conservatorship lasting 13 months, the RTC had ample opportunity to sell the most marketable assets at this juncture. During the conservatorship period, it sold or collected $157.7 billion in failed thrift assets. Under normal circumstances, those assets would most likely have passed to the acquirer at resolution. The RTC, however, was not faced with the same set of resolution circumstances as the FDIC.

9. During its lifetime, the RTC acquired $402.6 billion in assets at the time of failed thrift takeover. The conservatorships obtained another $77.5 billion in assets as a result of new loan originations, asset purchases, and other adjustments.

Resolution Scheduling

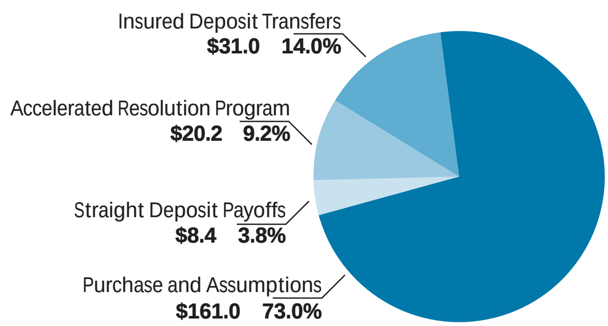
Because the RTC depended on Congress for resolution funding, it did not have complete control over its resolution schedule. When funding became available, the RTC would simultaneously market several dozen failed thrifts for resolution in the interest of stopping ongoing operating losses for those conservatorships as soon as practicable. The marketing periods typically would last for only a couple of months depending on the number of bidders who were interested. That situation created several bidding and logistical problems for the RTC and for the potential bidders: (1) The RTC could have a shortage of qualified acquirers given the large number of failed thrifts in certain markets; (2) potential thrift acquirers had their own limits on the number of thrifts that they could consider for a bid; (3) it could also take a successful bidder several months to fully assimilate a large RTC transaction before they were able to consider another failed thrift acquisition; and (4) a sufficient amount of time and resources was not available for potential bidders to perform a comprehensive due diligence on many of the failed thrift asset portfolios. Initially, the RTC encouraged the failed thrift acquirers to purchase as many assets as possible at resolution. Asset putback provisions were adopted to allow the acquirer to perform a more thorough due diligence after the resolution. Initially, the RTC was able to sell $75.3 billion in failed assets to the thrift acquirer at resolution; nearly $22 billion of these assets were later put back to the RTC.[10]

As the RTC's asset disposition strategies evolved, they placed far more emphasis on selling assets while they were in the conservatorship or receivership process and less emphasis on transferring assets with liabilities during the resolution process. That shift in emphasis meant that the RTC's asset disposition strategies took on relatively greater importance.[11]

Chart I.4-2

RTC Failed Thrift Deposits by Resolution Method 1989–1995

($ in Billions)



Total Failed Thrift Deposits = $220.6

Sources: FDIC Division of Research and Statistics and RTC annual reports.

10. The RTC asset sales at resolution contrast with the FDIC experience in which $230 billion of the $302.6 billion in failed bank assets handled by the FDIC between 1980 and 1994 were sold to the failed bank acquirer as part of the resolution.

11. The RTC's asset disposition strategies are discussed in chapters 12 through 17.

The results were different for thrift deposits. Of the $315.5 billion in deposits handled by the RTC, $94.9 billion (30.1 percent) were withdrawn by depositors while the institution was in conservatorship. The remaining $220.6 billion in deposits (69.9 percent) were transferred to assuming institutions or paid off during the resolution process. (See table I.4-1.)

RTC Funding and Early Initiatives

RTC funding actually was needed for two purposes: loss funding and working capital. In fulfilling its commitment to protect insured depositors, the federal government needed to make funds available to the RTC for both purposes. Working capital was the portion of the funding that the RTC was able to recover by selling the assets of the insolvent S&Ls. The funds were paid back with interest. The portion of the funding that the RTC was unable to recover (the assets of those S&Ls that were not worth as much as the obligation to depositors) was covered by loss funds. Those funds, however, were not recoverable; they were permanent taxpayer contributions for financing the RTC.

In contrast to the FDIC, which could rely on insurance premiums paid by banks, the RTC had no internal source of funds. It relied on congressional appropriations and other indirect sources to fund its operations. Also, because appropriations to pay for insolvent S&Ls were never popular, the RTC often found itself hampered by delays in obtaining funding. It received its funding in stages, with each stage requiring separate legislation and congressional approval. The legislative involvement made long-term planning of the resolution process difficult at best.

In FIRREA, the RTC was initially provided $50.1 billion in funds to carry out its mission of resolving troubled thrift institutions. The $50.1 billion represented a portion of necessary "loss funds" to cover the present value cost of the embedded losses existing in insolvent and likely insolvent institutions at that time. Of the $50.1 billion, $18.8 billion was appropriated by Congress (on budget), with the remaining $31.3 billion placed off budget. Of the $31.3 billion off budget, $30.1 billion was raised through long-term borrowings by an off budget funding entity, the Resolution Funding Corporation (REFCORP), and $1.2 billion was provided by the Federal Home Loan Banks (FHLBs).[12] Provisions of FIRREA also established funds for the payment of interest on the bonds issued by REFCORP to come from payments from the FHLBs, the U.S. Treasury, and the RTC. In 1997, the FHLBs were paying $300 million per year for REFCORP bond interest and the U.S. Treasury was paying the rest.

In 1989 Congress specified that the $18.8 billion "on budget" portion of the money had to be used before the end of the current fiscal year. The immediate problem then

12. RTC, *Annual Report of the Thrift Depositor Protection Oversight Board and the Resolution Trust Corporation for the Calendar Year 1995*, (Washington, D.C.: RTC), Appendix, Table A.

became not so much whether adequate funds would be available but whether billions of dollars in funding could be used in an effective manner within an extremely short time frame. Since the RTC was created on August 9 and the fiscal year would end 52 days later, on September 30, little time was available for the new agency to get up and running and also use $18.8 billion.

To use the money efficiently, the RTC took its less marketable institutions, the ones deemed unlikely to attract a purchaser in a P&A transaction, and conducted straight deposit payoffs and IDTs. Between August 9 and September 30, the RTC completed 24 of those resolutions, which were cash-intensive transactions, because all insured deposits were paid by the RTC. The RTC still would have to liquidate the assets, however, to partially reimburse itself for its initial cash outlay. Of the 37 resolution transactions the RTC completed in 1989, 30 were deposit payoffs.

Those initial transactions were significant because they helped to cut off some of the larger losses that were building up daily. The institutions chosen for those early deposit payoffs were among those that were paying the highest rates on their deposits. By paying off those depositors, the RTC could stop incurring those costs.

The other way the RTC used the initial $18.8 billion was by replacing high-cost funding in its conservatorships. When certificates of deposit (CDs) paying high rates matured, the RTC would not renew them at the same high rate. It would offer rates at or somewhat below market rates. Those depositors, many of whom were there just for the high rates, would then withdraw their money. During the first two months of its existence, the RTC funded such withdrawals with part of the $18.8 billion it needed to use by the end of September. Those early actions—the deposit payoffs of the unmarketable institutions and the elimination of high-cost deposits—helped hold down the overall cost of handling insolvent S&Ls. Furthermore, the RTC's efforts to reduce high-cost funds also helped bring down the high rates that S&Ls had to pay for deposits, thus increasing earnings for an industry that sorely needed it. For example, before August 9, 1989, the average yield on a one-year CD at an S&L was 71 basis points higher than the yield on a bank CD. By March 1990, however, that difference had been reduced to 22 basis points, which translated into an industry savings that could exceed $1 billion per year.[13]

Few people believed the initial $50.1 billion in funding would be adequate to handle the RTC's workload of insolvent S&Ls; rather, they viewed it as a substantial down payment to get the RTC started. That attitude became apparent in the spring of 1990 as resolution costs began to rise. FDIC Chairman L. William Seidman testified to the Congress just six months after the RTC began that the RTC would spend the original $50.1 billion in FIRREA "loss funding" by the fall of 1990.[14] As a result, the March 1991 RTC Funding Act and the November 1991 Resolution Trust Corporation

13. Remarks of FDIC Chairman L. William Seidman before the National Press Club, March 21, 1990.

14. Chairman Seidman also testified to the Congress in October 1989, two months after the RTC began, that the RTC lacked working capital, which was already becoming a constraint upon the pace of the RTC's resolution activity.

Refinancing, Restructuring, and Improvement Act (RTCRRIA) provided funds of $30 billion and $25 billion, respectively, to the RTC.[15] The RTCRRIA legislation, however, required that the funds be used before April 1, 1992. Finally, on December 17, 1993, Congress passed the Resolution Trust Corporation Completion Act (Completion Act) of 1993, which removed the RTCRRIA April 1, 1992, deadline on "usage of funds," and the RTC was authorized to use up to $18.3 billion, the remaining balance of the $25 billion initially authorized under RTCRRIA to finish its mission. The Completion Act also extended the deadline of the RTC's appointment as conservator or receiver for S&Ls from September 30, 1993, to a date not later than July 1, 1995.

It also became clear that the RTC would require funds to meet working capital requirements. After the RTC used a portion of the initial $18.8 billion to eliminate the high-cost deposits at the conservatorships, the issue of working capital became a subject of debate between Congress and the administration. On February 20, 1990, after months of discussion and review of difficult funding options, the oversight board authorized the RTC to borrow from the Federal Financing Bank to meet working capital needs. That agreement provided $11 billion to the RTC during the first quarter of 1990, with additional quarterly borrowings to be authorized thereafter.

The funding process and the related delays increased the cost of resolving the troubled savings and loan associations. The pace of resolutions had to conform to the availability of funds. When funding was available, the number of resolutions increased and kept pace with the establishment of new conservatorships. Sometimes the pace of the resolution process was fast. Other times, the pace was painfully slow. The longest delay was a 21-month period from March 31, 1992, to December 17, 1993, when the RTC was without loss funding and resolution activity was severely reduced. The pace of resolutions followed the availability of funding, and resolution delays kept thrifts in conservatorship longer, which increased conservatorship operating losses. Those losses were $5.4 billion in 1989 and decreased steadily each year. In 1992, they were $669 million, but because of the reduced resolution activity from the lack of funding, in 1993, conservatorship operating losses increased that year to $1.3 billion. Resolution delays and conservatorship operating losses led to increased resolution costs because of the relatively high carrying cost of maintaining assets in failed thrifts.[16] Funding delays had a significant effect on how long an institution remained in conservatorship. (See table I.4-3.) Before FIRREA's passage, when no conservatorships were resolved, thrifts averaged 454 days in the conservatorship program. After the passage of FIRREA, with the exception of 1991 and 1992, the average time until resolution for thrifts put into conservatorship was less than a year.

15. RTCRRIA also extended the RTC's authority to accept appointments as conservator or receiver from August 8, 1992 (set in FIRREA) to September 30, 1993; redesignated the RTC Oversight Board as the Thrift Depositor Protection Oversight Board (TDPOB) and restructured its membership; abolished the RTC Board of Directors; removed the FDIC as exclusive manager of the RTC; and created the Office of Chief Executive Officer of the RTC.

16. RTC, Office of Research and Statistics, "The History of RTC Funding." Unpublished document.

Table I.4-3

Conservatorship Institutions 1989–1995

	Conservatorships Established	Average Number of Days until Resolved	Conservatorships Resolved
Pre-FIRREA 1989 (2/7-8/8)	262	454	0
Post-FIRREA 1989 (8/9-12/31)	56	356	37
1990	207	323	309
1991	123	429	211
1992	50	596	60
1993	8	350	26
1994	0	—	62
1995	0	—	1
Totals	**706**	**412**	**706**

Source: RTC, *1995 Annual Report*

Initially, the RTC had so many S&Ls in conservatorship, it had to set priorities in its resolution schedule. It decided to handle the most unmarketable S&Ls first. If an institution were suffering large operating losses, it was scheduled early in the resolution calendar. If an institution's losses were small, it was left in conservatorship and scheduled for later resolution.[17]

The case priority process was significant because it acknowledged the RTC's limitations regarding the large number of insolvent thrifts in conservatorship and the limited financial resources available. It enabled the RTC to select for resolution those institutions that presented the best opportunity for minimizing costs to the RTC or those that had a higher rate of deterioration because of operating losses, eroding core deposit bases, and loss of key personnel. The priority process also considered the amount of funding available to cover the losses and the estimated cost of resolving each institution.

17. "Strategic Plan for the Resolution Trust Corporation" (report), (Washington, D.C.: RTC Oversight Board, 1989).

Operation Clean Sweep

After the RTC's initial flurry of activity to use $18.8 billion by the end of the third quarter of 1989, its resolution process slowed down. Lawmakers, as well as banking and thrift industry officials, who worried about assets being dumped on weakened real estate markets began demanding that the RTC market all conservatorship institutions as widely as possible and that the RTC be more flexible so that acquirers would purchase more of the assets at the time of resolution. As a result of those pressures, the RTC focused on encouraging whole thrift transactions to maximize the retention of assets in the private sector and to minimize the amount of cash needed from the RTC. Whole thrift transactions entailed passing most of the failed institution's assets to the acquirer along with its liabilities. That approach, however, had distinct disadvantages. Whole thrift resolutions required an acquirer with loan workout expertise, thereby limiting the number of interested bidders. Similarly, such transactions required extensive due diligence by potential bidders, which was lengthy and expensive. Those factors increased the degree of uncertainty that potential acquirers faced, resulting in substantial risk premiums in the final bid prices. Furthermore, many of the failed institutions had little going-concern value, and bidders showed little appetite for thrift assets, especially because, at the same time, most banks were tightening their credit standards under regulatory pressure and signs of a slower economy.

Compounding the obstacles to the RTC's resolution efforts was an increasingly hostile economic and risk-averse market. Many investors believed an oversupply of thrift and bank charters existed. To illustrate, of the 7,500 parties invited to bid on the 52 institutions resolved through the first quarter of 1990, only 263 actually performed due diligence, and only 194 actually submitted bids. Furthermore, of the 52 resolutions, only two transactions resulted in whole thrift transactions.[18] Those results suggest that potential acquirers did not see great value in buying failed thrifts in their entirety, and that what limited franchise value existed was attributable almost exclusively to the deposit franchise.

Meanwhile, while the pace of resolutions was slowing, the takeover of additional institutions into conservatorships was increasing. By the end of the first quarter of 1990, the RTC had taken over 405 institutions in 40 states with more than $200 billion in assets, leaving about 350 institutions still in conservatorship with $180 billion in assets. Furthermore, it was becoming clear to most people familiar with the industry that the RTC's workload would continue to rise; some estimated that it would double, with the RTC having to take over another 250 to 350 institutions with up to $200 billion in assets.

As a result, by the spring of 1990, the RTC was coming under increased criticism and pressure from Congress and others to accelerate the resolution of the conservatorship

18. Testimony of RTC Oversight Board Acting President and CEO William Taylor before the Committee on Banking, Finance and Urban Affairs, United States House of Representatives, April 2, 1990.

institutions. Critics in the industry and on Capitol Hill, who once warned the RTC not to dump assets on weak real estate markets, were now pressuring for action to quicken the pace of the resolutions.

In response, on March 21, 1990, FDIC and RTC Chairman L. William Seidman, in a speech to the National Press Club, announced that the RTC would sell or liquidate 141 conservatorship institutions by June 30, 1990. "Operation Clean Sweep" was a term that was used to describe the resolution of all 141 conservatorship institutions. That initiative was intended, in part, to demonstrate that progress was being made and to maintain credibility with potential investors and acquirers. In addition, the initiative was designed to quickly dispose of those institutions in order to spend the funds then available as quickly as possible so that the RTC could return to Congress for additional funding before the next election cycle began. Even though the S&L cleanup was less than a year old, it clearly needed more funding as an increasing number of savings and loans failed each week with no signs of a slowing pace. The S&L cleanup clearly was also becoming a politically unpopular exercise, indicating that additional funding for the RTC would be difficult to obtain.

Many industry commentators inside and outside the agency expressed skepticism about the RTC's ability to meet its ambitious goals. The RTC's plan represented a sharp acceleration from the pace of its resolutions to that date and surpassed any previous resolution pace undertaken by the FDIC. In addition to accelerating its pace, the RTC was still trying to come up to speed in its start-up phase of operation. It employed about 2,300 people, the majority of whom were new hires. Most of the staff were located in the field, in four regional offices—Atlanta, Kansas City, Dallas, and Denver—and 14 other consolidated offices.

To accomplish its aggressive goal, senior RTC management visited each of the RTC regional offices to "sell" the plan to staff. The plan stated that headquarters staff, located in Washington, D.C., would handle any resolutions with valued assets above $500 million (major resolutions) and staff in the field offices would handle those resolutions valued under $500 million (field resolutions).

On June 30, 1990, the RTC exceeded its goal of 141 resolutions; it completed resolution transactions for 155 failed S&Ls with total assets of $44.4 billion and total deposits of $38.7 billion. The total initial cash outlay by the RTC was approximately $32 billion, and the total cost of those transactions is estimated to be $18 billion. Of the 155 resolutions, 78 transactions with $36.6 billion in assets were P&A transactions, 59 transactions with $6.4 billion in assets were IDTs, and 18 transactions with $1.4 billion in assets were straight deposit payoffs. The institutions resolved under Operation Clean Sweep were located in 31 states, with the largest concentration in Texas (34 institutions with $6.9 billion in total assets), California (19 institutions with $7.8 billion in total assets), Illinois (11 institutions with $0.8 billion in total assets), Kansas (9 institutions with $1.2 billion in total assets), Louisiana (9 institutions with $0.6 billion in total assets), and Florida (8 institutions with $8.0 billion in total assets). Operation Clean

Sweep included institutions of all sizes, ranging from $6.3 million to $6.8 billion in assets, with 18 institutions having assets above $500 million at the time of resolution.

Operation Clean Sweep was successful in rebuilding confidence in the RTC's effort. Insured depositors received protection, and the accounts of the vast majority of depositors transferred to a healthy depository institution with little, if any, disruption in service. Substantial cost savings were achieved because the RTC had targeted conservatorships with the highest operating costs for resolution. Those institutions typically had paid above-market rates to attract and retain deposits, which also caused healthy banks and thrifts in the area to pay a market premium for their deposits. In addition, those efforts represented a significant step toward reducing the backlog of insolvent, government-controlled S&Ls that were competing against privately owned institutions. By reducing the backlog, the RTC was able to move forward with its original operating plan of completing 50 to 75 resolutions each quarter. In addition, by resolving the 155 conservatorship institutions, the RTC was able to reduce the number of insolvent institutions in conservatorship from 350 to 247, despite the addition of 52 new conservatorships during the quarter.

Operation Clean Sweep, however, also had some negative consequences. For one, the RTC's inventory of assets greatly increased; the RTC retained more than half of the assets from the 155 institutions, including a large share of the institutions' problem loans, owned real estate, and junk bonds. In addition, the effects from closing so many conservatorships so quickly contributed to accounting and back office problems that plagued the RTC for several years afterwards.

Put Options

To pass more assets to acquirers, the RTC also used the "put options" method. Because most acquirers did not want to purchase those assets, the RTC decided to require the purchaser to take most of the failing thrift assets but gave them an option that would require the RTC to repurchase most of the assets at a later date. The RTC used put options extensively during the first year of its existence, selling approximately $40 billion of assets subject to put options. The approach for passing more assets of failed thrifts did not work, however, because too many assets were coming back; in fact, acquirers returned more than $20 billion of those assets to the RTC.

One problem that led to the return of assets to the RTC appears to be the limited time acquirers had to evaluate the assets. After an institution closed, acquirers could purchase the assets and return them to the RTC over a 30- to 90-day period, which did not give the acquirer adequate time to review the assets. Those assets contained a wide variety of types of collateral and generally were poorly underwritten. In addition, some of the acquirers were experiencing problems with their own asset portfolios and did not want to take on any additional risk.

In the spring of 1990, in response to the time problem, the RTC extended the option period to 18 months for some assets, to give the acquirers the time necessary to evaluate and perhaps retain the assets. That policy, however, exacerbated the existing problems with the initial policy on put options. In some cases, assets were not being properly serviced before being put back to the RTC. In other cases, acquirers "cherry picked" the assets and kept only those they could sell at a profit. In addition, the limited due diligence before bidding did not allow acquirers to include the potential profits in their bids. Ultimately, the problems led to substantial delays in the final sale and ultimate resolution of those assets.

Development of New Initiatives

As the RTC obtained a stable source of working capital, it eliminated the need to force franchise acquirers to buy assets and was able to return to the resolution strategy that it originally envisioned. Because of the large volume, variety, and quality of assets held by insolvent thrifts, the RTC needed to develop more flexible and efficient programs and asset sale initiatives. The RTC's marketing and selling approach had to attract a diverse client base, including some potential acquirers with a strong interest in assets only.

Separating Assets from Liabilities

One of the RTC's primary goals was to prepare conservatorships for resolution by shrinking the size of failed institutions. Reaching that goal involved curtailing new lending, reducing expenses, and selling assets. (Liquid assets such as securities and mortgage-backed securities were the most marketable and the easiest to sell.) Most attractive to acquirers were performing single-family mortgage portfolios. By 1990, the RTC began to use other asset sales methods, such as auctions, bulk sales, and securitizations. Because those sales methods required large numbers of assets (such as commercial and real estate loans), their closure helped speed the downsizing of conservatorships. Ultimately, the subsequent delays in the RTC's receiving funding prolonged the life of conservatorships, which forced the RTC to reassess how it should deal with conservatorship assets. The RTC decided that it should market performing mortgage portfolios immediately upon entering conservatorship to avoid decay in the value of those assets through prepayments. That decision caused the percentage of assets passing to acquirers at resolution to decrease as those marketable assets were sold. The rapid, cost-effective sale of conservatorship assets was instrumental in preparing the institution for a smooth resolution.[19]

Removing assets from conservatorships for sale caused the asset side of the conservatorship balance sheet to shrink, because few new loans were being made. The liability side of the balance sheet also shrank from deposit runoff. The longer an institution stayed in conservatorship, the more the deposit base deteriorated. Such deterioration

19. RTC, *1990 Annual Report*.

was caused by the lower rates offered to depositors, compared to the higher rates offered before conservatorship, and the publicity from the government takeover.

The RTC's approach for resolving failed S&Ls contrasted with how the FDIC typically resolved failed banks. When the FDIC handled a resolution, it tried to sell as many assets as possible to the bank that was assuming responsibility for the failed institution's liabilities. Only after the resolution process was complete would the FDIC consider marketing assets to nondepository institutions. The RTC, however, made a conscious decision to separate many of the assets from the liabilities and to develop broader asset marketing strategies. Indeed, that step was critical to the RTC's efforts to dispose of $402.6 billion in assets within a few years.

In June 1991, the RTC modified its resolution philosophy and eliminated requiring acquirers to purchase assets in order to buy the deposit franchise. To the extent that assets were available to sell at resolution, winning acquirers were given the option to purchase pools of similar loans at a price set by the RTC. As a result of the success of the transactions instituted by the RTC, the FDIC decided to institute a similar loan pool option in its resolution transactions.

In 1992 and 1993, when lack of funding reduced the ability of the RTC to resolve many of the conservatorships, it focused its attention on selling the assets out of the conservatorships before their resolution. By that time, the RTC had developed a national loan sale program and securitization program, which disposed of many of the assets while they were still in conservatorship.[20]

With adequate funding, the separation of assets from liabilities and the broader marketing of assets at or near the time of resolution was a little easier for the RTC than for the FDIC, because the RTC's inventory of institutions was already in conservatorship and was being managed by the RTC. That factor made it easier to gather information about the assets to prepare for a sale. Also, unlike the FDIC, which conducted resolutions as soon as a bank closed, the RTC had already taken control of the institutions and thus had no need for secrecy.

Branch Breakups

During 1990, the number of institutions being resolved through payoffs and IDTs, together with the decreasing deposit premiums received for failed thrifts, caused the RTC some concern. In addition, commercial banks protested that they were being excluded from bidding on the best deposit franchises because of their size. Those negative resolution trends resulted in part from a decline in the financial health of large bank holding companies and their inability to make acquisitions. Without their participation, the large size of those thrifts limited the amount of competition. In response, the RTC initiated the branch breakup transaction to increase bidder participation, competition,

20. For more information, see Chapter 13, Auctions and Sealed Bids, and Chapter 16, Securitizations.

and flexibility for the resolution process. Because the branch breakup approach enabled potential acquirers to bid on individual branch offices of failed thrifts, it appealed to a much broader group of potential investors. The RTC marketed institutions through branch breakup transactions unless their accounting systems were incapable of handling multiple acquirers.

Beginning in the spring of 1990, the RTC marketed failed thrifts as either "standard" or "branch" P&A transactions. As the branch transaction evolved, it became a variation of the standard P&A transaction and included similar terms and conditions. The branches of a particular institution were offered under two structures: "core" and "limited" branch P&As. Under the core branch transaction, the acquirer assumed a specified group of deposits and obtained an exclusive option to purchase fixed assets associated with the failed thrift's headquarters and other branch offices designated part of the core branch group. The acquirer of the core branch also purchased no-risk assets associated with the core branch group of offices and received purchase options on earning assets at market prices. The core acquirer performed the administrative and operational responsibilities associated with the post-resolution phase of the transaction.

Limited branch transactions were structured for individual branches or branch clusters other than the designated main office and any branches included in the "core" agreement. Limited branch acquirers obtained the branch offices and the deposits, cash, and other loans on deposits directly attributable to the branch offices. They also received exclusive call options to purchase designated fixed assets and to assume leases and other contracts associated with the respective branch offices.

Initially, the RTC offered only deposits and a limited amount of no-risk assets through the limited branch transaction, assigning most of the earning assets to the core branch transaction. In response to changing market demands, the RTC gave limited branch bidders an opportunity to bid on earning assets similar to the core branch and standard transaction bidders. That move was a deviation from the RTC's historical resolution approach of selling earning assets only through all-deposit transactions. The RTC later enhanced the branch transaction format to permit bidders to submit multiple bids for the failed institution's branch offices and related assets.

To further increase the level of competition and to give smaller branch bidders the opportunity to more successfully compete against larger bidders, the RTC allowed such branch bidders to link their individual branch bids together or form "consortium" bids by pooling their premium dollars with other branch bidders. That process transformed branch bids into standard P&A bids through the process of submitting one bid premium for all or most of the failed institution's branch offices. The RTC facilitated the structure of consortium bids, but it entered into agreements with only one acquirer (the lead acquirer) with whom the closing and post-closing processes were conducted. The other participants in a consortium bid were not involved in direct agreements with the RTC; instead, they entered into legal agreements to purchase the failed institution's branch offices from the lead acquirer.

Consortium bid structures facilitated all branches being sold under the same deposit option and accomplished the RTC's policy objective of treating all depositors in a single institution equally from a deposit insurance perspective.

The branch breakup transaction became a successful modification to resolution procedures. Branch breakup bids were the winning bids in 153 of the 747 resolutions (20.5 percent). As time went by, the branch breakup transaction became an increasingly more significant resolution method. (See table I.4-1.) In 1994, more than 40 percent of the resolutions involved a branch breakup transaction. Furthermore, of the 52 resolutions in 1994 involving two or more branch offices, half involved branch breakup transactions. The RTC found that by offering the branch breakup transactions, competition increased, which resulted in additional savings to the RTC through increased premiums and fewer deposit payoffs. For example, in 1994, in those branch transactions in which at least one entire institution bid was also received, the RTC received an additional aggregate premium of approximately $84 million by selecting the individual branch bids instead. Furthermore, in seven instances, the RTC did not receive any entire institution bids that could have resulted in a deposit payoff if the branch bids had not been available.

The Accelerated Resolution Program

Effective July 10, 1990, the RTC and the Office of Thrift Supervision jointly initiated the Accelerated Resolution Program (ARP) on the premise that early intervention in a troubled thrift could create significant savings for taxpayers. Placing an institution with franchise value in conservatorship had the potential of raising rather than limiting the ultimate cost of resolving the institution and selling its assets. Because the publicity surrounding the conservatorship caused a runoff of core deposits and performing loans, the RTC and OTS designed the ARP initiative to initiate the marketing and sale of troubled savings associations before they were declared insolvent by the OTS and placed into conservatorship under RTC control. The ARP usefulness was limited, however, because it could not be fully used in 1992 and 1993 when the RTC had no funding.

Initially, institutions selected for sale through the ARP process were perceived to have a high franchise value and already had attracted viable, cost-effective proposals from prospective acquirers, which indicated substantial private sector interest. Also, the troubled institutions' management had to agree to participate in the process by signing consent agreements and cooperating with the RTC and the regulators.

After gaining consent from the institution's management, the RTC conducted the resolution process in the same manner as conservatorship institutions with some minor changes. First, the RTC did not seek broad market interest through public advertisement. The overall marketing process was more selective and confidential than the RTC's typical conservatorship process. In most ways, the ARP approach resembled the FDIC's historical approach to soliciting bids for troubled banks. In addition to soliciting bidders on its National Marketing List, the RTC reached regional institutions and investors with the help of the OTS and the thrifts' own management, who assisted with the marketing process.

Second, the asset valuation process and due diligence typically involved reviewing more of a thrift's assets because, under the ARP, substantially all of the assets were available for sale at the time of resolution. Transaction documents (purchase and assumption agreements and mortgage loan sale agreements) were modified to offer standard representations and warranties on single-family mortgage loans in lieu of the put back provisions, or put options, that the RTC offered under its conservatorship resolutions. The remaining terms in the ARP P&A contract were similar to the standard P&A contract offered by the RTC when it resolved institutions in the conservatorship program. After 1991, the language in the contract terms in the conservatorship and ARP resolution documents became identical. A major difference regarding resolution still existed between the programs; in the conservatorships, many of the assets were sold before the resolution, while in the ARPs, all the assets were available for sale at the time of resolution.

Initially, ARP transactions were structured so that residential mortgages were offered exclusively to deposit acquirers; the ARP resolution process excluded asset-only acquirers from purchasing assets. In 1991, the RTC decided to market most single-family residential mortgages simultaneously to both deposit-only and asset-only acquirers, which expanded its customer base and created more competition. The vast majority of the loans were sold to asset-only acquirers at prices substantially above the RTC's valuations. The ARP process evolved in a similar manner to the options of conservatorship resolutions, which included selecting optional asset pools, linking deposit-only with asset-only bids, and branch bidding. Of the 747 resolutions completed by the RTC, 39 institutions, or 5 percent, were sold through the ARP process.

The RTC's method for handling ARP transactions was similar to the FDIC's historical method: It avoided using a conservatorship and was generally accomplished in a short time with limited bidder solicitations.

Least Cost Transactions

Another modification to the bidding process came as a result of the language contained in the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, which required the RTC to choose the least costly resolution. Initially, the RTC marketed thrifts through a sequential resolution approach under various purchase and assumption transactions. If the initial attempt was unsuccessful, the RTC reoffered the thrift to the same potential acquirers under an insured deposit transfer. If the reoffer process was unsuccessful, the failed thrift was resolved by a deposit payoff. In response to FDICIA, the RTC and the FDIC replaced the sequential approach with a bid process in which they offered acquirers the choice of buying all the deposits or only the insured deposits. That change resulted in a much higher percentage of resolutions in which only insured deposits were transferred to an acquirer.

Effect of Entrance and Exit Fees

A provision of FIRREA placed limits on the ability of insured depository institutions to change from a Bank Insurance Fund (BIF) member to a Savings Association Insurance Fund (SAIF) member or from a SAIF member to a BIF member for a period of five years. That provision was designed to stabilize membership base and insurance assessment rates. Also, by charging institutions participating in conversions both an exit and entrance fee to the appropriate insurance fund, the provision attempted to prevent dilution of the deposit insurance funds. Acquirers seeking transactions that would involve conversion from SAIF to BIF would be subject to exit fees from SAIF and entrance fees to BIF (or vice versa). Early in the RTC's history, those fees amounted to 1.5 percent of core deposits for a bank buying a failed thrift. For many thrifts the fee was more than they were worth and prevented conversion to the BIF.

However, FIRREA allowed for transactions in which a BIF institution could acquire SAIF institutions and have the acquired deposits remain insured by SAIF. In such instances, the BIF institution paid no exit and entrance fees, and the acquirer continued to pay the SAIF insurance premium. Such transactions, termed "Oakar" transactions, were designed to level the playing field for banks when competing with thrifts for thrift acquisitions and also enhance the acquisition of failing thrifts by banks.[21] Virtually all acquisitions from the RTC by banks were handled as Oakar transactions.

Resolution Initiatives for Minorities

The RTC was committed to preserving and increasing the total number of minority owned depository institutions. To achieve those objectives, the RTC developed and administered programs for minority participation, including the Minority Resolution Program (MRP), which evolved over time as a result of legislation. (The RTC was able to develop a much more extensive minority preference program, which allowed the RTC to offer more assistance to minority purchasers, than the FDIC could develop because specific legislative provisions were governing resolution of the RTC controlled thrifts that did not apply to the FDIC.)

Initial Program

To comply with section 308 of FIRREA, the RTC initiated a plan aimed at preserving the minority ownership of failed minority thrifts. Under that section, bidders of the same ethnic identification as that of the previous owners were allowed to bid separately.

21. The term "Oakar" transaction was derived from the name of the FIRREA provision's author, Congresswoman Mary Rose Oakar.

Only if that bidding process proved unsuccessful (that is, no bids were less costly than a payoff) was the institution offered to all other potential investors.

The RTC also made available to qualified acquirers interim capital assistance (ICA) of up to two-thirds of the required capital for the acquisition. Although not a specific requirement of FIRREA, that financing approach initially was designed to act as short-term bridge financing until the acquirer could raise permanent capital. Because of the inability of many of the minority acquirers to attract permanent capital over a short time, however, the RTC lengthened the loan repayment term to at least two years and finally to five years. The ICA loans carried an interest rate equal to the RTC's cost of borrowing (approximately the six-month Treasury rate plus 12.5 basis points). Because the RTC, in its cost analysis, discounted the cash flow from the ICA note at the RTC cost of funds, the loan was considered to be cost neutral. If the discount rate had been increased to adjust for risk of default, the RTC would have realized a substantial cost for the $56.9 million of ICA notes that they issued. Minority investors preferred the RTC financing, because the interest rate was much lower than comparable financing.

RTCRRIA Modifications

In November 1991, RTCRRIA amended section 12 of U. S. Code 1441(a) to require the RTC to reoffer failed nonminority owned institutions, or branches thereof, to minority owned institutions if it received no other acceptable offers through the conventional marketing efforts (rebidding initiative). In addition, the RTC's existing policy on minority resolutions was made a part of the law. Early in the marketing process, the RTC attempted to notify and inform all potential acquirers, including minority investors, that the RTC would consider accepting bids from minority investors if the institution, or branch thereof, was not sold through normal marketing efforts. If the RTC did not receive a bid that was less costly than a payoff without a request for interim capital assistance, it reoffered the institution, or branch thereof, to minority investors that had made their interest known to the RTC. The bids received under the special initiative were required to represent a lower cost to the RTC than that of paying off the failed thrift's insured deposits. Generally, that reoffer period lasted a few days and did not delay the closing of the failed institution. If the reoffer attempt was unsuccessful and the failed institution remained unsold, the RTC resolved the institution through a deposit payoff. Under that initiative, it also made ICA available to eligible minority owned institutions.

The RTC also offered minority bidders an option to purchase performing loans equal to 100 percent of deposits acquired at an immediate market value determined by the RTC. That option was designed to provide the acquirers with a source of earning assets. Because the loans would be sold at market value, that provision was considered "no cost"; but, it caused the RTC significant difficulty because the acquirers had lower opinions of the value of the loans than did the RTC. The program sold more than $300 million of loans to 10 minority acquirers. In three other cases, the RTC and the acquirer could not agree on a mutually acceptable value for the loans. Those option agreements were terminated with the RTC making cash payments totaling $1.4 million to the acquirers.

The RTC Completion Act of 1993

In December 1993, the RTC Completion Act of 1993 amended section 21 of the Federal Home Loan Bank Act and revised the manner in which institutions were structured for sale, as well as the initial bid analysis process. The statute required that the RTC give “bidding preference” to an offer from a minority owned depository institution to acquire any failed depository institution, or any branch thereof, located in a neighborhood in which 50 percent or more of the residents were minorities, as part of the Predominantly Minority Neighborhoods (PMN) Program. Because the bidding preference was subject to the least cost test, it was limited. Minority bidders were permitted to submit a second bid if their initial bid was within 10 percent of the otherwise winning lowest bid by a nonminority bidder. The option to purchase performing loans at market value and ICA were also available to the minority acquirers.

The RTC executed the special PMN Program by simultaneously offering institutions and branch offices to all potential acquirers through normal marketing efforts and specifically identifying all PMN institutions and branch offices. As a result, the RTC offered institutions having branch offices located in PMN neighborhoods under individual branch and cluster branch transactions. Additionally, under separate provisions of the FHLB Act, section 21(A)(s), the RTC made owned banking facilities located in predominately minority neighborhoods available to minority owned financial institutions on a rent-free basis for five years. The cost of that separate provision of the law was not included in the least cost test completed for the resolution transaction.

Results of the Minority Resolution Program

The RTC’s Minority Resolution Program attracted widespread interest among minority investors, and the RTC’s National Marketing List included nearly 500 interested minority investors. Furthermore, the RTC MRP was relatively successful in preserving minority ownership of the failing minority owned thrifts. Of the 29 minority owned thrifts involving 95 branch offices, 24 institutions, or 83 percent, were sold to acquirers, thus maintaining bank services in those communities. Of those 24 sales, 15 institutions, or 63 percent, preserved the same ethnic minority ownership. Of those 15 institutions, 7 received interim capital assistance totaling $14.3 million. In addition, under the rebidding initiative, minority investors acquired two entire previously nonminority owned thrifts, with a total of eight offices, and three branches of another nonminority owned thrift, and one acquirer obtained $3.2 million of ICA in those transactions.

The RTC resolved 23 nonminority thrifts that had 69 branch offices located in PMNs. Minorities acquired 31 of the branch offices, or 45 percent, in those transactions. The aggregate amount of ICA provided was $39.4 million. Under the PMN Program, the RTC also made rent-free banking facilities available to 11 acquirers.

Resolution Costs

The 747 institutions that the RTC resolved between August 9, 1989, and year-end 1995 had $402.6 billion in assets before failure. Unlike the FDIC, however, the vast majority of those institutions were not sold immediately after failure, but instead were placed into conservatorship and were later resolved after significant asset shrinkage. The 747 institutions at time of resolution had $244.9 billion in assets. The RTC's cost for handling those failures was estimated at December 31, 1995, to be $87.5 billion, or about 22 percent of the assets at time of failure.

The $87.5 billion in costs was almost twice the initial $50.1 billion FIRREA appropriation, but it was substantially less than the high end of the range that the U.S. Treasury predicted at the peak of the cycle in June 1991 of close to $130 billion in 1989 present value costs or $160 billion in absolute dollars.

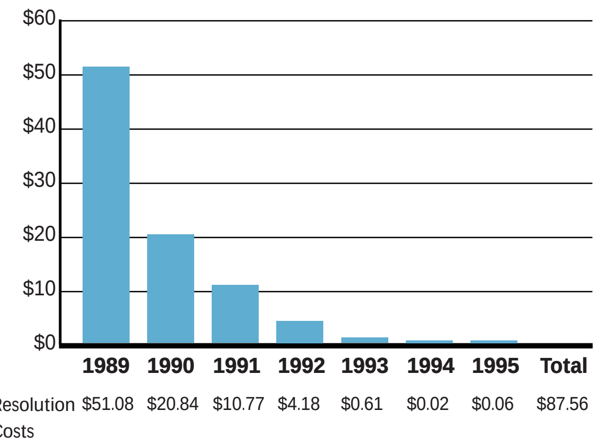
Also, the RTC's resolution costs were skewed by the fact that the majority of institutions resolved in 1990 and 1991 were institutions that had been put into conservatorship by the RTC in 1989 and 1990. A large number of those institutions had been insolvent for some time, were located in declining real estate markets (for example, the Southwest), and had little franchise value remaining. Approximately $72 billion, or 82 percent, of the total RTC resolution costs resulted from those 531 institutions that were put into conservatorships or were resolved through the ARP during 1989 and 1990. (See chart I.4-3.) Another gauge of those institutions' poor financial condition is that 239 of those 531 institutions, or 45 percent, were resolved through straight deposit payoffs or insured depositor transfers. To put those costs in perspective, the FDIC's bank failure costs totaled only $9.1 billion for 1989 and 1990.

Looking at the RTC's annual thrift resolution costs as a percentage of failed thrift

Chart I.4-3

RTC Resolution Costs 1989–1995

($ in Billions)



Costs are as of December 31, 1995. The amounts are routinely adjusted with updated information from new appraisals and asset sales that ultimately affect the asset values and projected recoveries for active receiverships.

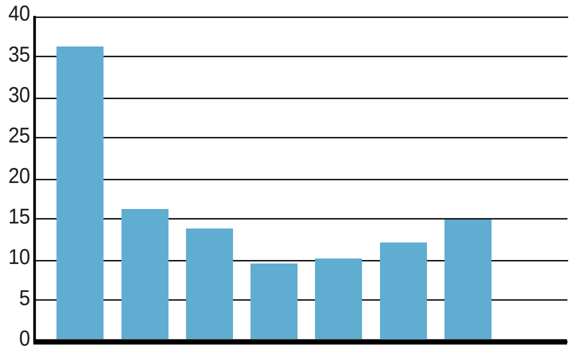
Sources: FDIC Division of Research and Statistics and RTC annual reports.

assets shows a pattern of decreasing costs until 1993 when costs begin to rise through 1995. (See chart I.4-4.) The ratio is extremely high at 36 percent for those thrifts failing in 1989. Again, the RTC expected that ratio because those institutions were the worst off financially and had little, if any, franchise value. For 1992 and 1993, as the economy gradually began to improve in most of the nation, those years show relatively low cost-to-asset ratios, between 9 and 10 percent. Cost-to-asset ratios for 1994 and 1995 increased. In those years, only four failures (two ARP transactions each year) occurred; three of those failures were in California, which was still suffering economically.

Athough a correlation exists between thrift asset size and failure resolution costs as a percentage of assets,

Chart I.4-4

RTC Resolution Costs as a Percentage of Total Assets 1989–1995

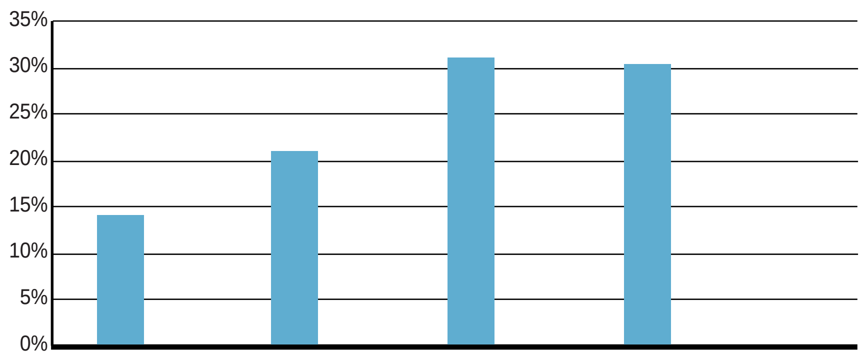


	1989	1990	1991	1992	1993	1994	1995	Average
Costs/ Assets	36.03%	16.00%	13.63%	9.31%	9.97%	11.93%	14.75%	21.75%

Sources: FDIC Division of Research and Statistics and RTC annual reports.

Chart I.4-5

Resolution Costs by Asset Size as a Percentage of Total Assets 1989–1995



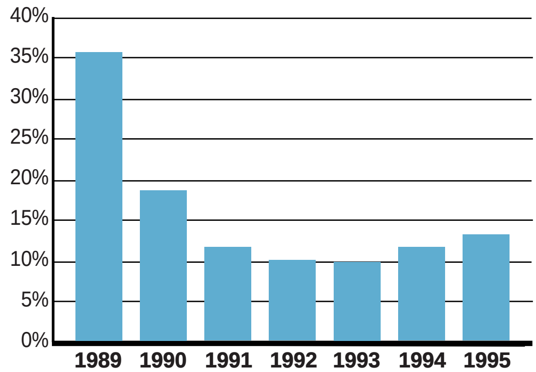
	Thrift Failures with TA Greater than $5 Billion	Thrift Failures with TA $1 Billion to $5 Billion	Thrift Failures with TA $500 to $1 Billion	Thrift Failures with TA less than $500 Million	Average/ Total
Costs as Percentage of Total Assets (TA)	13.94	20.81	30.93	30.19	21.75
Number of Failures	15	74	61	597	747

Sources: FDIC Division of Research and Statistics and RTC annual reports.

that correlation is less pronounced than that expressed for bank failures. (See chapter 3, Evolution of the FDIC's Resolution Practices.) While bank failure costs show a steadily declining cost ratio as bank size increased, thrift costs are almost identical for thrift failures less than $500 million (30.2 percent) and those between $500 million and $1 billion (30.9 percent). The RTC resolution costs as a percentage of total assets does not drop until the total assets increase to more than $1 billion and continues to fall, reaching 13.9 percent for thrifts with more than $5 billion in assets. (See chart I.4-5.)

Chart I.4-6

Median RTC Resolution Costs as a Percentage of Total Assets 1989–1995



	1989	1990	1991	1992	1993	1994	1995
Costs/Assets	35.59%	18.45%	11.51%	9.86%	9.71%	11.52%	13.05%

Sources: FDIC Division of Research and Statistics and RTC annual reports.

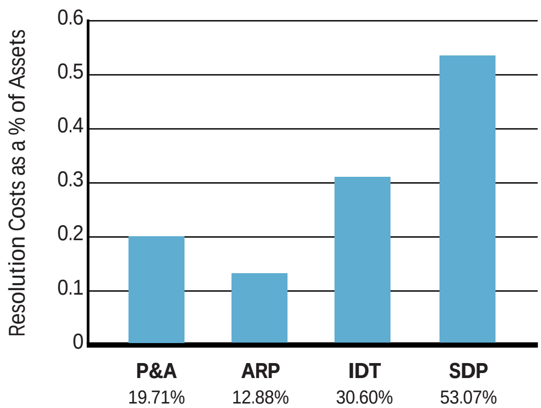
The economies of scale associated with the handling of larger thrift failures make it difficult to discern trends over time in the RTC's cost for handling the "typical" thrift failure. One way to look at possible trends without the possible dominant influence of the larger thrift failure is to look at the median of the RTC's thrift resolution costs over time. (See chart I.4-6.) However, the median RTC resolution costs are quite similar to those costs previously shown in chart I.4-4. This median cost would again seem to indicate the lower correlation between size and cost for RTC resolutions compared to the FDIC resolutions.

Another way of looking at resolution costs is by transaction type. Chart I.4-7 shows the average resolution cost as a percentage of assets by transaction type for all RTC resolutions between 1989 and 1994. As expected, the ARP and P&A transactions have the lowest average cost ratio compared to the straight deposit payoffs and insured deposit transfers. Tables I.4-4 through I.4-7 show annual trends in the RTC's failure resolution costs by transaction type. It is interesting to note that, for thrifts failing in 1989, all transaction types, including the P&As, show much higher cost ratios compared to the more recent years. The RTC resolution costs (as a percentage of assets) for thrifts failing in the other years (1990 to 1995), however, are similar to the cost ratios for bank failures occurring during those years. Interestingly, with the 1989 costs excluded, the resolution costs as percentage of assets at takeover for P&A transactions are similar to the ARP transactions.

Much of the data in this cost section is presented for informational purposes and not for drawing specific conclusions. As was the case with the FDIC cost data shown in chapter 3, it is difficult to point to any one factor to determine what had the largest effect on costs. The poor condition of the thrifts that had been left unresolved and had

Chart I.4-7

RTC's Costs for Failed Thrift Resolutions as a Percentage of Assests by Resolution Type 1989–1994



Average Resolution Cost = 21.76%

Sources: FDIC Division of Research and Statistics and RTC annual reports.

Table I.4-4

RTC's Costs for Purchase and Assumption Transactions by Year of Failure 1989–1995

($ in Millions)

Year	Number of P&As	Assets at Takeover	Assets at Resolution	Cost as of 12/31/95	Costs/Assets at Takeover (%)
1989	147	$ 97,112.0	$ 61,650.0	$ 32,187.6	33.14
1990	141	113,800.0	71,798.9	17,503.9	15.38
1991	116	64,426.0	34,638.8	9,426.5	14.63
1992	49	35,426.0	13,035.8	2,715.8	7.67
1993	5	5,818.0	3,924.2	561.0	9.64
1994	0	0	0	0	0
1995	0	0	0	0	0
Totals/ Average	**458**	**$316,582.0**	**$185,047.7**	**$62,394.8**	**19.71**

Sources: FDIC Division of Research and Statistics and RTC annual reports.

Table I.4-5

RTC's Costs for Straight Deposit Payoffs by Year of Failure 1989–1995

($ in Millions)

Year	Number of SDPs	Assets at Takeover	Assets at Resolution	Costs as of 12/31/95	Costs/Assets at Takeover (%)
1989	51	$ 7,553.0	$4,880.2	$5,003.6	66.25
1990	33	3,963.0	2,570.1	1,265.1	31.92
1991	4	232.0	170.3	46.9	20.22
1992	1	22.0	7.6	14.8	67.27
1993	3	243.0	201.7	44.6	18.35
1994	0	0	0	0	0
1995	0	0	0	0	0
Totals/ Average	**92**	**$12,013.0**	**$7,829.9**	**$6,375.0**	**53.07**

Sources: FDIC Division of Research and Statistics and RTC annual reports.

Table I.4-6

RTC's Costs for Insured Deposit Transactions by Year of Failure 1989–1995

($ in Millions)

Year	Number of IDTs	Assets at Takeover	Assets at Resolution	Costs as of 12/31/95	Costs/Assets at Takeover (%)
1989	120	$37,084.0	$22,613.9	$13,885.6	37.44
1990	35	8,853.0	3,165.9	1,513.8	17.10
1991	3	6,271.0	4,430.9	574.6	9.16
1992	0	0	0	0	0
1993	0	0	0	0	0
1994	0	0	0	0	0
1995	0	0	0	0	0
Totals/ Averages	**158**	**$52,208.0**	**$30,210.7**	**$15,974.0**	**30.60**

Sources: FDIC Division of Research and Statistics and RTC annual reports.

Table I.4-7

RTC's Costs for Accelerated Resolution Program Transactions by Year of Failure 1989–1995

($ in Millions)

Year	Number of ARPs	Assets at Takeover	Assets at Resolution	Costs as of 12/31/95	Costs/Assets At Takeover (%)
1989	0	0	0	0	0
1990	4	$3,631.5	$3,631.5	$554.3	15.26
1991	21	8,105.0	8,104.2	724.9	8.94
1992	9	9,436.7	9,436.7	1,449.2	15.36
1993	1	43.7	43.7	3.2	7.32
1994	2	128.9	128.9	15.4	11.95
1995	2	466.2	466.2	62.9	13.49
Totals/ Average	**39**	**$21,812.0**	**$21,811.2**	**$2,809.9**	**12.88**

Sources: FDIC Division of Research and Statistics and RTC annual reports.

deteriorated before the involvement of the FDIC and the RTC in 1989 certainly increased the cost of those receiverships. The economic conditions, particularly the decline of real estate prices, especially for commercial real estate, profoundly affected the costs for the RTC in its disposal of the failing thrift institutions and their assets. They not only produced a wave of commercial mortgage loan foreclosures, followed by the failure of thrifts in the Southwest, New England, and California, but also added to the decline in the value of RTC sales prices and premiums received for the sale of thrift deposits. As the nation moved further into the 1990s, however, lower interest rates, improved real estate markets, and a stronger economy reduced the number of thrift failures and also reduced the resolution costs for the RTC. The stronger economy and lower interest rates resulted in higher premiums on the sale of deposit liabilities and increased the value of assets sold during that period.

Another factor influencing the ultimate resolution costs for the RTC was inadequate or delayed funding. As previously discussed in this chapter, interruption of funding occurred before passage of each of the three funding bills. The longest and most significant delay occurred for a 21-month period starting from April 1, 1992, through December 17, 1993. During that 21-month period, resolution activity was severely reduced. The delays in resolution funding tended to leave the institutions operating in conservatorship status much longer than the RTC would have preferred. Because of the large percentage of nonperforming assets, those institutions' liquidity needs were funded through deposit liabilities. If those institutions had been resolved promptly, carrying costs would have been reduced because assets retained by the RTC were funded at RTC borrowing rates rather than at the higher insured deposit rates. In addition, allowing failed institutions to continue to operate may also have weakened competing healthy institutions; the RTC largely mitigated that potential adverse effect, however, by placing those institutions into conservatorship while awaiting final resolution.

Those losses, however, are lessened to some extent by the fact that after the RTC had access to working capital, it was able to reduce its funding costs. Furthermore, the delays in RTC funding could have been more expensive over the 21-month period were it not for the more favorable macro-economic conditions. As previously mentioned, the stronger economy reduced the number of anticipated thrift failures over that period. To the extent that some of those institutions would have been closed if funding were available, this earlier action would have increased the cost to the RTC.

Conclusion

The RTC's use of conservatorships and resolution methods was born out of a need to take quick command of a potentially disastrous situation. Upon its creation, the RTC immediately assumed responsibility for 262 thrift institutions already in conservatorship and faced the possibility of assuming responsibility for many more. Placing the failed institutions into conservatorship allowed the underfunded and understaffed RTC to manage, operate, and resolve those failed institutions while continuing to provide services to the institutions' depositors. From inception in 1989 to sunset in 1995, the RTC managed a total of 706 institutions in the conservatorship program and resolved all failed thrift institutions by the end of 1995. In every case, no insured depositor lost money and insured deposits were paid promptly.

The sheer volume of assets, combined with the funding issues and the changing economy, significantly affected the evolution of the RTC's resolution strategies. As the resolution process evolved, the RTC devised new resolution methods to adjust to its changing environment. Initially, the RTC focused on eliminating some of the institutions with the larger carrying costs by quickly paying off the depositors of its unmarketable institutions and by replacing the high-cost deposits of those remaining conservatorships that paid the most for deposits. Those initial transactions were significant because they helped to cut off some of the larger losses that were increasing daily. However, they also reduced liquidity and resulted in a majority of the assets being retained by the RTC.

As the resolution process evolved, the RTC made a conscious decision to separate the marketing of the assets from the marketing of the liabilities and to develop broader asset marketing strategies. In contrast with the FDIC's focus on selling as many assets as possible to the acquiring bank, the RTC's resolution strategies focused more on how to sell the deposit franchise. Such a shift in emphasis meant that the RTC's asset disposition strategies took on a relatively greater importance outside of the resolution process.

Regarding deposit franchises, the RTC developed new methods that enabled it to sell a large number of institutions in a short period of time. The RTC marketed widely and offered multiple bidding options. Unlike the FDIC, the RTC was able to market those institutions publicly because the identity and the problems of the institutions in conservatorship were already well known to the public. The RTC's focus on branch breakup transactions increased bidder participation, competition, and flexibility in the resolution process and ultimately led to increased premiums.

Such flexibility with assets and liabilities helped the RTC accomplish its mission one year ahead of schedule, with the RTC closing on December 31, 1995. From 1989 to 1995, the RTC resolved 747 failed thrifts (706 through conservatorship, 39 through ARP, and 2 that were neither placed into conservatorship nor resolved through ARP). Of the original $402.6 billion in failed thrift assets, only $7.7 billion, or 2.5 percent, were transferred to the FDIC upon the RTC's closure.

The RTC's experience, like the FDIC's, points to the importance of a strong insurance fund. As mentioned in chapter 3, to have an adequate source of liquidity, the insurance funds need to be strong. The RTC's lack of funding (and also the inadequate funding for FSLIC before that) influenced certain resolution decisions. Early attempts at whole thrift transactions and the use of put options are two examples of developments designed to put assets back into the private sector quickly, thereby preserving the RTC's liquidity. In retrospect, however, those methods may not have minimized the overall cost to the insurance fund. Also, the lack of funding kept thrifts in conservatorship longer, which increased conservatorship operating losses. The overall resolution cost estimte of the RTC's sunset of $87.5 billion was about 22 percent of the failed thrifts' assets.

Table I.4-8

Thrift Failures by Location Ranked by Number of Thrift Failures 1989–1995

($ in Thousands)

Location	Number of Failed Thrifts	Thrift Assets at Resolution	Thrift Assets at Failure	Resolution Costs	Costs / Thrift Assets at Failure (%)	Cumulative Percentage of Failures
Texas	137	$43,328,927	$57,575,000	$25,908,011	45.00	18.34
California	73	45,529,855	85,696,000	11,321,265	13.21	28.11
Louisiana	52	6,274,435	9,365,000	3,926,380	41.93	35.07
Florida	49	22,939,697	35,171,000	6,627,297	18.84	41.63
Illinois	49	7,548,788	12,080,000	1,414,926	11.71	48.19
New Jersey	34	12,101,097	24,502,000	3,576,281	14.60	52.74
Kansas	23	4,976,735	16,604,000	1,905,179	11.47	55.82
Mississippi	19	1,494,275	2,609,000	687,300	26.34	58.37
Pennsylvania	19	10,654,226	18,000,000	3,128,702	17.38	60.91
Arkansas	18	2,425,428	4,568,000	2,309,681	50.56	63.32
Ohio	18	5,548,728	8,987,000	638,642	7.11	65.73
Oklahoma	18	3,454,305	5,128,000	714,758	13.94	68.14
Virginia	18	7,647,459	11,549,000	2,354,685	20.39	70.55
Colorado	17	2,660,846	4,026,000	1,925,109	47.82	72.82
Georgia	16	2,607,818	4,422,000	594,800	13.45	74.97
New York	15	10,517,031	14,778,000	3,104,777	21.01	76.97
Maryland	14	3,588,714	8,045,000	1,071,638	13.32	78.85
Missouri	14	6,293,372	7,798,000	1,499,980	19.24	80.72
Iowa	12	1,669,255	3,194,000	288,120	9.02	82.33
Alabama	11	1,779,178	3,998,000	508,891	12.73	83.80
New Mexico	11	2,431,608	4,236,000	1,964,688	46.38	85.27
Tennessee	11	1,154,458	1,813,000	335,273	18.49	86.75
Arizona	9	12,276,776	19,400,000	5,761,817	29.70	87.95
North Carolina	9	1,890,034	3,301,000	433,977	13.15	89.16
Connecticut	8	713,236	1,029,000	200,329	19.47	90.23
Nebraska	8	1,352,614	1,823,000	545,276	29.91	91.30
Massachusetts	6	5,316,082	6,457,000	1,349,711	20.90	92.10
South Carolina	6	716,092	1,436,000	155,483	10.83	92.90
Minnesota	5	2,255,491	3,706,000	961,990	25.96	93.57

Table I.4-8

Thrift Failures by Location Ranked by Number of Thrift Failures 1989–1995

($ in Thousands)

Continued

Location	Number of Failed Thrifts	Thrift Assets at Resolution	Thrift Assets at Failure	Resolution Costs	Costs / Thrift Assets at Failure (%)	Cumulative Percentage of Failures
Utah	5	$2,140,015	$2,990,000	$565,616	18.92	94.24
Indiana	4	268,852	349,000	49,477	14.18	94.78
Michigan	4	532,336	1,295,000	88,986	6.87	95.31
West Virginia	4	142,547	248,000	20,326	8.20	95.85
Wyoming	4	224,737	309,000	43,088	13.94	96.39
Kentucky	3	458,440	484,000	49,944	10.32	96.79
North Dakota	3	589,419	1,157,000	163,165	14.10	97.19
Oregon	3	3,737,290	7,022,000	350,216	4.99	97.59
Washington	3	1,441,134	2,079,000	111,553	5.37	97.99
Wisconsin	3	300,722	453,000	91,045	20.10	98.39
Alaska	2	262,683	314,000	205,380	65.41	98.66
Maine	2	58,192	131,000	27,657	21.11	98.93
New Hampshire	2	125,384	364,000	50,073	13.76	99.20
Rhode Island	2	1,362,336	1,967,000	162,435	8.26	99.46
South Dakota	2	187,124	198,000	35,218	17.79	99.73
Nevada	1	252,373	252,000	7,323	2.91	99.87
Puerto Rico	1	1,629,356	1,667,000	317,411	19.04	100.00
Delaware	0	0	0	0	0.0	100.00
District of Columbia	0	0	0	0	0.0	100.00
Guam	0	0	0	0	0.0	100.00
Hawaii	0	0	0	0	0.0	100.00
Idaho	0	0	0	0	0.0	100.00
Montana	0	0	0	0	0.0	100.00
Vermont	0	0	0	0	0.0	100.00
Totals/Average	**747**	**$244,859,500**	**$402,575,000**	**$87,553,879**	**21.75**	

Sources: FDIC Division of Research and Statistics, RTC annual reports, and RTC statistical abstracts.

Table I.4-9

Thrift Failures by Location Ranked by Resolution Costs 1989–1995

($ in Thousands)

Location	Number of Failed Thrifts	Thrift Assets at Resolution	Thrift Assets at Failure	Resolution Costs	Costs / Thrift Assets at Failure (%)	Cumulative Percentage of Failures
Texas	137	$43,328,927	$57,575,000	$25,908,011	45.00	29.59
California	73	45,529,855	85,696,000	11,321,265	13.21	42.52
Florida	49	22,939,697	35,171,000	6,627,297	18.84	50.09
Arizona	9	12,276,776	19,400,000	5,761,817	18.84	56.67
Louisiana	52	6,274,435	9,365,000	3,926,380	11.71	61.16
New Jersey	34	12,101,097	24,502,000	3,576,281	14.60	65.24
Pennsylvania	19	10,654,226	18,000,000	3,128,702	11.47	68.81
New York	15	10,517,031	14,778,000	3,104,777	26.34	72.36
Virginia	18	7,647,459	11,549,000	2,354,685	17.38	75.05
Arkansas	18	2,425,428	4,568,000	2,309,681	50.56	77.69
New Mexico	11	2,431,608	4,236,000	1,964,688	7.11	79.93
Colorado	17	2,660,846	4,026,000	1,925,109	13.94	82.13
Kansas	23	4,976,735	16,604,000	1,905,179	20.39	84.31
Missouri	14	6,293,372	7,798,000	1,499,980	47.82	86.02
Illinois	49	7,548,788	12,080,000	1,414,926	13.45	87.64
Massachusetts	6	5,316,082	6,457,000	1,349,711	21.01	89.18
Maryland	14	3,588,714	8,045,000	1,071,638	13.32	90.40
Minnesota	5	2,255,491	3,706,000	961,990	19.24	91.50
Oklahoma	18	3,454,305	5,128,000	714,758	9.02	92.32
Mississippi	19	1,494,275	2,609,000	687,300	12.73	93.10
Ohio	18	5,548,728	8,987,000	638,642	46.38	93.83
Georgia	16	2,607,818	4,422,000	594,800	18.49	94.51
Utah	5	2,140,015	2,990,000	565,616	29.70	95.16
Nebraska	8	1,352,614	1,823,000	545,276	13.15	95.78
Alabama	11	1,779,178	3,998,000	508,891	19.47	96.36
North Carolina	9	1,890,034	3,301,000	433,977	29.91	96.86
Oregon	3	3,737,290	7,022,000	350,216	20.90	97.26
Tennessee	11	1,154,458	1,813,000	335,273	10.83	97.64
Puerto Rico	1	1,629,356	1,667,000	317,411	25.96	98.00

Table I.4-9

Thrift Failures by Location Ranked by Resolution Costs 1989–1995

($ in Thousands)

Continued

Location	Number of Failed Thrifts	Thrift Assets at Resolution	Thrift Assets at Failure	Resolution Costs	Costs / Thrift Assets at Failure (%)	Cumulative Percentage of Failures
Iowa	12	$1,669,255	$3,194,000	$288,120	18.92	98.33
Alaska	2	262,683	314,000	205,380	14.18	98.57
Connecticut	8	713,236	1,029,000	200,329	6.87	98.79
North Dakota	3	589,419	1,157,000	163,165	8.20	98.98
Rhode Island	2	1,362,336	1,967,000	162,435	13.94	99.17
South Carolina	6	716,092	1,436,000	155,483	10.32	99.34
Washington	3	1,441,134	2,079,000	111,553	14.10	99.47
Wisconsin	3	300,722	453,000	91,045	4.99	99.58
Michigan	4	532,336	1,295,000	88,986	5.37	99.68
New Hampshire	2	125,384	364,000	50,073	20.10	99.73
Kentucky	3	458,440	484,000	49,944	65.41	99.79
Indiana	4	268,852	349,000	49,477	21.11	99.85
Wyoming	4	224,737	309,000	43,088	13.76	99.90
South Dakota	2	187,124	198,000	35,218	8.26	99.94
Maine	2	58,192	131,000	27,657	17.79	99.97
West Virginia	4	142,547	248,000	20,326	2.91	99.99
Nevada	1	252,373	252,000	7,323	19.04	100.00
Delaware	0	0	0	0	0.0	100.00
District of Columbia	0	0	0	0	0.0	100.00
Guam	0	0	0	0	0.0	100.00
Hawaii	0	0	0	0	0.0	100.00
Idaho	0	0	0	0	0.0	100.00
Montana	0	0	0	0	0.0	100.00
Vermont	0	0	0	0	0.0	100.00
Totals/Average	**747**	**$244,859,500**	**$402,575,000**	**$87,553,879**	**21.75**	

Sources: FDIC Division of Reserarch and Statistics, RTC annual reports, and RTC statistical abstracts.

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The FDIC Mutual Savings Bank Team worked hundreds of hours during 1982 handling the assisted mergers of eight failing mutual savings banks with healthy institutions. The members are (from left): William R. Watson, Roger A. Hood; Dennis A. Olson; Douglas H. Jones; Barbara I. Gersten; Robert P. Gough, Team Leader; Mary R. Warhol; Louise E. Wright; Kathy A. Johnson; William J. Via, Jr.; and William H. Roelle.

The term "open bank assistance" gained national recognition in 1984 when the FDIC provided assistance to Continental Illinois National Bank and Trust Company, Chicago, Illinois.