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Report to the Congress

April 1991

FINANCIAL AUDIT

Resolution Funding Corporation's 1989 Financial Statements

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Washington, D.C. 20548

Comptroller General
of the United States

B-242920

April 2, 1991

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our review and analysis of the Resolution Funding Corporation's audited December 31, 1989, financial statements and our estimate of the avoidable borrowing costs incurred by the Funding Corporation. Public Law 101-73, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), established the Funding Corporation to raise funds, primarily through bond sales, for thrift resolution activities. Section 511 (b) of the act requires us to annually audit the Resolution Funding Corporation. However, since an independent public accountant audited the Funding Corporation's 1989 financial statements, we reviewed that work to avoid duplication and unnecessary expense.

Results in Brief

We believe that the financial statements, together with Price Waterhouse's opinion and our review of that work, provide the Congress with a dependable basis for evaluating the Funding Corporation's financial position. The Funding Corporation's $4 billion deficit at December 31, 1989, represents the difference between the actual cost and ultimate maturity value of its investment in certain Treasury securities. The Funding Corporation's deficit will eventually be eliminated as the value of these securities increases to maturity value over time.

As of January 15, 1991, the Funding Corporation had sold the $30 billion in bonds it was authorized to issue. All bonds were sold at effective interest rates which exceeded those being paid on long-term Treasury bonds. Had the bonds been sold at rates equal to Treasury's, the Funding Corporation would be paying approximately $3 billion less in interest over the 30-year and 40-year terms of its bonds. This $3 billion in additional interest costs could have been avoided had Treasury issued the bonds directly.

Background

The Funding Corporation's sole purpose is to raise funds, primarily through bond sales, for the Resolution Trust Corporation (RTC). RTC resolves failed thrifts by paying off (or selling) insured deposits, selling (or liquidating) the assets, and settling all outstanding claims. The Funding Corporation is subject to the regulations, orders, and directions of the RTC Oversight Board. The Federal Home Loan Banks' Office of

Finance maintains the Funding Corporation's accounting records and performs other administrative services for it.

As of December 31, 1989, the Funding Corporation had transferred $5.7 billion to RTC to resolve failed institutions and pay administrative expenses—$4.5 billion from bond sales and $1.2 billion from assessments of the Federal Home Loan Banks. However, as of January 22, 1991, the Funding Corporation had provided $31.2 billion, its portion of the original $50 billion in funding made available by FIRREA for RTC resolutions. As required by FIRREA, the Funding Corporation raised $30 billion from bond sales and $1.2 billion from direct assessments of the 12 Federal Home Loan Banks. The Funding Corporation provided for the retirement of the bonds by investing in nonmarketable, noninterest-bearing (that is, zero-coupon) Treasury securities with the same maturity dates and values as the bonds sold. The Funding Corporation obtained the funds to invest in the zero-coupon Treasury securities from additional assessments of the 12 banks and from deposit insurance premiums paid by federally insured thrifts.

FIRREA requires the Secretary of the Treasury to pay, through appropriations, all interest on the Funding Corporation bonds that cannot be funded by the following sources: (1) earnings on the Funding Corporation's short-term investments, (2) proceeds, in excess of resolution costs, received from RTC receiverships, (3) assessments of the 12 Federal Home Loan Banks,[1] and (4) net proceeds from the sale of any assets the RTC transferred to the Federal Savings and Loan Insurance Corporation Resolution Fund. The Funding Corporation had not received any monies from RTC assets or receiverships as of January 15, 1991; if this trend continues, we estimate that Treasury will pay more than 85 percent of the Funding Corporation's total bond interest costs.

In May 1989 testimony,[2] we expressed a concern that using the Funding Corporation, and not Treasury, to raise thrift resolution funds would increase the government's interest costs because the Funding Corporation's bonds would carry higher interest rates.

[1]Federal Home Loan Bank assessments after January 1991 are limited to $300 million per year less any assessments for principal payments on obligations of the Financing Corporation, which was established in 1987 to recapitalize the Federal Savings and Loan Insurance Corporation.

[2]The Budgetary Treatment of the Proposed Resolution Funding Corporation (REFCORP) (GAO/T-AFMD-89-8, May 19, 1989).

In the future, the Funding Corporation may be asked to raise additional funds for RTC. As of January 22, 1991, RTC had received the $50 billion provided by FIRREA. However, we testified in April and September 1990[3] that the RTC needs at least $50 billion more to cover resolution and other costs. Without additional funding, the RTC projects that its resolution activity will end during the first quarter of calendar year 1991. Further, in our September testimony, we warned that the RTC must be given the funds to continue resolutions because prolonging the operations of insolvent thrifts significantly increases their resolution costs.

Objectives, Scope, and Methodology

FIRREA requires us to annually audit the Funding Corporation. However, the Oversight Board contracted with an independent certified public accounting firm, Price Waterhouse, to perform a financial and compliance audit of the Funding Corporation's December 31, 1989, financial statements. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and use available resources most efficiently, we reviewed the independent auditor's work and reports.

To determine the reasonableness of the auditor's work and the extent to which we could rely on it, we

- reviewed the auditor's approach and planning of the audit,
- evaluated the qualifications and independence of the audit staff,
- reviewed the financial statements and auditor's reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards, and
- reviewed the auditor's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditor used, (3) whether an understanding was obtained of the Funding Corporation's internal control structure, (4) whether the auditor tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supported the auditor's opinion on the financial statements and internal control structure and compliance reports.

To address any potential concerns about its financial condition, we analyzed the Funding Corporation's 1989 financial statements to determine why it ended 1989 with a deficit. To follow up on the concerns we

[3]Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed (GAO/T-AFMD-90-15, April 6, 1990) and Resolving Failed Savings and Loan Institutions: Estimated Costs and Additional Funding Needs (GAO/T-AFMD-90-32, September 19, 1990).

expressed in our May 1989 testimony, we estimated the additional interest costs the Funding Corporation was incurring based on the level by which its bond rates exceeded Treasury's.

While we did not obtain written comments on this report, we discussed its contents with responsible officials of the Federal Home Loan Banks' Office of Finance and the RTC Oversight Board and have incorporated their views where appropriate.

We performed this review in Washington, D.C., from September 1990 through January 1991. Our work was conducted in accordance with generally accepted government auditing standards.

Independent Audit Results

In the opinion of Price Waterhouse, the Funding Corporation's balance sheet and the related statements of assessments, investment income, and expenses, of capital, and of cash flows present fairly, in all material respects, the financial position of the Funding Corporation at December 31, 1989, and its assessments, income and expenses, and cash flows for the period August 9, 1989 (inception), to December 31, 1989, in conformity with generally accepted accounting principles. Also, Price Waterhouse's reports to the Funding Corporation did not disclose any material internal control weaknesses, reportable conditions, or noncompliance with laws and regulations.

During our review, we found nothing to indicate that Price Waterhouse's opinion on the Funding Corporation's 1989 financial statements is inappropriate or cannot be relied on. Nor did we find anything to indicate that the auditor's reports on internal control and on compliance with laws and regulations are inappropriate or cannot be relied on. As a result, we believe that the financial statements, together with Price Waterhouse's opinion and our review of that work, provide the Congress with a dependable basis for evaluating the Funding Corporation's financial position. Appendixes I through IV of this report contain the auditor's opinion on the financial statements, the Funding Corporation's financial statements, and the auditor's reports on internal accounting controls and compliance with laws and regulations.

The Funding Corporation Ended 1989 With a $4 Billion Deficit

The Funding Corporation's $4 billion capital deficit at the end of 1989 will be gradually eliminated over time. This deficit represents the difference between the actual cost ($0.5 billion) and maturity value ($4.5 billion) of the zero-coupon Treasury securities the Funding Corporation invested in to retire its bonds. The value of these securities will gradually increase to maturity value over time. Under generally accepted accounting principles, these increases are recognized as income and added to the investment balance. In this instance, recognition of the increases in the investments' value will ultimately eliminate the deficit. The Funding Corporation, however, will continue to report year-end deficits approximating the unrecognized difference between the reported and ultimate maturity value of its zero-coupon Treasury securities until all its bonds are retired.

Some Borrowing Costs Could Have Been Avoided

Raising funds for the RTC through Funding Corporation borrowings will result in about $3 billion in costs that could have been avoided had Treasury issued the bonds directly. The Funding Corporation completed its $30 billion in authorized bond sales in January 1991. The Funding Corporation's bonds have either 30-year or 40-year terms. On the average, the effective interest rate on the Funding Corporation's bonds exceeded Treasury's long-term rates[4] by approximately 0.299 percent. This rate differential means the Funding Corporation will pay about $3 billion more than what Treasury probably would have paid. Moneys from the other sources available to the Funding Corporation could have also been provided directly to Treasury. If this had been done and Treasury had issued the bonds directly, the additional costs would have been avoided.

Conclusions

We believe the Funding Corporation's audited 1989 financial statements provide a dependable basis for evaluating its financial condition. Although the Funding Corporation ended 1989 with a capital deficit and will continue to report year-end deficits, it will be able to fund bond principal and interest payments when due because of the funding mechanisms provided by FIRREA. However, using the Funding Corporation to raise funds for RTC has resulted in Treasury incurring about $3 billion in interest costs that could have been avoided. Additional unnecessary interest costs will be incurred if the Funding Corporation, or a similar entity, is used to raise future funds for the RTC.

[4]Treasury's longest term bonds are generally for 30 years. For purposes of this analysis, the effective yield on all Funding Corporation bonds, some of which have 40-year terms, is compared to the effective rates on Treasury's 30-year bonds.

Recommendation

As we previously testified, the Congress needs to provide additional funds to RTC so that resolutions of troubled thrifts can continue without undue interruption. For those additional funds that will be raised through borrowings, we recommend that Treasury be authorized to issue the bonds directly in order to minimize interest costs.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Directorate of the Resolution Funding Corporation, the President of the Resolution Trust Corporation Oversight Board, and the Executive Director of the Resolution Trust Corporation. Copies will be made available to others upon request.

Donald H Chapin for

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
RTC	Resolution Trust Corporation

Auditor's Opinion

1801 K Street N.W.
Washington, DC 20006

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Price Waterhouse

May 21, 1990

To the Directorate and Shareholders of the
Resolution Funding Corporation

In our opinion, the accompanying balance sheet and the related statements of assessments, investment income and expenses, of capital and of cash flows present fairly, in all material respects, the financial position of the Resolution Funding Corporation at December 31, 1989, and its assessments, income and expenses and its cash flows for the period August 9, 1989 (inception) to December 31, 1989 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards and with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

Price Waterhouse

Auditor's Report on Internal Control Structure

1801 K Street N.W.
Washington, DC 20006

Telephone 202 833 7932

Price Waterhouse

May 21, 1990

To the Directorate of the
Resolution Funding Corporation

We have examined the financial statements of Resolution Funding Corporation (REFCORP) for the year ended December 31, 1989. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted auditing and government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on REFCORP financial statements. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended December 31, 1989.

For purposes of this report, we have classified the significant internal accounting controls as:

- Cash
- Cash receipt
- Disbursement
- Capital

Our study included these control categories, but we did not evaluate the internal accounting controls over all functions within the categories. For the areas where controls were not evaluated, it was more efficient to expand the scope of our substantive audit tests which also indirectly test controls; our audit approach was effectively substantive due to the nature of REFCORP. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls previously identified.

The management of REFCORP is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related

To the Directorate of the
Resolution Funding Corporation
May 21, 1990
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costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the second paragraph of this report, would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion of REFCORP's system of internal accounting controls taken as a whole or on any of the categories of controls identified in the second paragraph. However, our study and evaluation disclosed no material weaknesses.

This report is intended solely for the information and use of the Directorate of the Resolution Funding Corporation, Oversight Board of the Resolution Trust Corporation, and others within these organizations.

Price Waterhouse

Auditor's Report on Compliance With Laws and Regulations

1801 K Street N.W.
Washington, DC 20006

Telephone 202 833 7932

Price Waterhouse

May 21, 1990

To the Directorate of the
Resolution Funding Corporation

We have audited the financial statements of the Resolution Funding Corporation as of and for the period August 9, 1989 (inception) to December 31, 1989, and have issued our report thereon dated May 21, 1990.

We conducted our audit in accordance with generally accepted auditing standards and with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to Resolution Funding Corporation is the responsibility of Resolution Funding Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Resolution Funding Corporation's compliance with relevant provisions of laws and regulations, including a review of Section 21B of the Federal Home Loan Bank Act as added thereto by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and 12CFR Part 1510. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Resolution Funding Corporation complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Resolution Funding Corporation had not complied, in all material respects, with those provisions.

This report is intended for the information of the Directorate, Oversight Board of the Resolution Trust Corporation, and the General Accounting Office. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Price Waterhouse

Financial Statements

Balance Sheet

DECEMBER 31, 1989

ASSETS	
Cash and cash equivalents	$ 230,741
Short-term cash investments	15,140,800
Assessments receivable for interest expense (Note 3)	62,582,210
Zero-coupon bond investments, net of discount of $4,030,429,623 (Note 4)	491,638,377
Accrued interest receivable	202,809
Bond issuance costs (Note 9)	292,143
	$ 570,087,080
LIABILITIES AND CAPITAL (DEFICIT)	
Liabilities:	
Accounts payable	$ 227,712
Long-term obligations, net of discount of $12,915,550 (Note 5)	4,509,152,450
Accrued interest payable on long-term obligations	77,723,044
Total liabilities	4,587,103,206
Capital (Deficit)	
Nonvoting capital stock issued to Federal Home Loan Banks ($1.00 par value; 1,685,064,306 shares authorized, issued and outstanding) (Note 6)	1,685,064,306
Resolution Trust Corporation nonredeemable capital certificates (Note 7)	(5,708,757,364)
Accumulated excess of assessments and investment income over expenses	6,676,932
Total capital (deficit)	(4,017,016,126)
Commitments and contingencies (Note 9)	
	$ 570,087,080

The accompanying notes are an integral part of these financial statements.

Statement of Assessments, Investment Income, and Expenses

FOR THE PERIOD AUGUST 9, 1989 (INCEPTION) THROUGH DECEMBER 31, 1989

ASSESSMENTS AND INVESTMENT INCOME	
Assessments:	
Interest costs	$62,582,210
General administrative and custodial costs (Note 8)	74,470
Total assessments	62,656,680
Investment Income:	
Investment income earned from short-term cash investments	205,804
Accretion of discount on Zero-coupon Bonds	6,574,071
Total investment income	6,779,875
Total assessments and investment income	69,436,555
EXPENSES	
Costs of servicing obligations:	
Interest	62,582,210
Amortization of bond issuance costs	10,475
Amortization of discount on long-term obligations	92,468
Total costs of servicing obligations	62,685,153
Operating costs - general, administrative and custodial (Note 8)	74,470
Total expenses	62,759,623
EXCESS OF ASSESSMENTS AND INCOME OVER EXPENSES	$ 6,676,932

The accompanying notes are an integral part of these financial statements.

Statement of Capital

FOR THE PERIOD AUGUST 9, 1989 (INCEPTION) THROUGH DECEMBER 31, 1989

	Nonvoting REFCORP Capital Stock	RTC Nonredeemable Capital Certificates	Accumulated Excess of Assessments and Investment Income Over Expenses	Total
Issuance of 1,685,064,306 shares of REFCORP Stock	$1,685,064,306			$ 1,685,064,306
Excess of assessments and investment income over expenses			$6,676,932	6,676,932
Purchase of RTC capital certificates		$(5,708,757,364)		(5,708,757,364)
Balance, December 31, 1989	$1,685,064,306	$(5,708,757,364)	$6,676,932	$(4,017,016,126)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

FOR THE PERIOD AUGUST 9, 1989 (INCEPTION) THROUGH DECEMBER 31, 1989

Cash flows from financing activities:	
Assessments received from FHLBanks for issuance of REFCORP capital stock	$1,685,064,306
Net proceeds of obligations issued including accrued interest	4,524,200,815
Purchase of RTC nonredeemable capital certificates	(5,708,757,364)
Net cash provided by financing activities	500,507,757
Cash flows used in investing activities:	
Purchase of Zero-coupon Bonds	(485,064,305)
Purchase of fixed term certificates	(15,140,800)
Net cash used in investing activities	(500,205,105)
Cash flows from operating activities:	
Cash received through assessments	75,000
Interest income received	2,995
Operating and bond issuance costs	(149,906)
Net cash used in operating activities	(71,911)
Net increase in cash and cash equivalents and cash and cash equivalents at end of period	$ 230,741
Reconciliation of excess of assessments and income over expenses to net cash used in operating activities:	
Excess of assessments and investment income over costs	$ 6,676,932
Adjustments to reconcile net income to net cash provided by operating activities:	
Accretion of discount on Zero-coupon Bonds	(6,574,071)
Amortization of:	
Bond issuance costs	10,475
Discount on long-term obligations	92,468
Assessments receivable for interest expense	(62,582,210)
Increases in:	
Accrued interest receivable	(202,809)
Bond issuance costs	(302,618)
Accounts payable	227,712
Accrued interest payable on obligations, net of purchased interest	62,582,210
Total adjustments	(6,748,843)
Net cash used in operating activities	$ (71,911)

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

NOTE 1 - ORGANIZATION AND RELATED ENTITIES

The Resolution Funding Corporation (REFCORP) is a mixed-ownership government corporation established by Title V of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) with the sole purpose of providing financing for the Resolution Trust Corporation (RTC) for use in the thrift industry bailout. Pursuant to FIRREA, REFCORP is authorized to issue up to $30 billion in debentures, bonds and other obligations, subject to limitations contained in FIRREA and regulations established by the Oversight Board of RTC. Proceeds of the debt, net of issuance costs, are to be used solely to purchase nonredeemable capital certificates of RTC or to refund any previously issued obligations. Non-marketable U.S. Treasury Zero-coupon Bonds of equal maturity value as the REFCORP obligations issued are purchased to repay the obligations at maturity. The FHLBanks purchase stock in REFCORP and these funds are used to purchase the Zero-coupon Bonds. When applicable, SAIF insurance premiums are also available to purchase Zero-coupon Bonds.

The Resolution Funding Corporation is subject to the general oversight and direction of the Oversight Board of the Resolution Trust Corporation. The day-to-day operations of REFCORP, except for the marketing of the obligations, are under the management of a three-member Directorate comprised of the Director of the Office of Finance of the Federal Home Loan Banks and two members selected by the Oversight Board from among the presidents of the twelve Federal Home Loan Banks (FHLBanks).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bond Issuance Costs

Issuance costs are deducted from the proceeds of the bond sales after discount and prior to the funds being transferred to RTC (Note 9). Such costs are deferred and amortized using the effective interest method over the lives of the obligations.

Zero-coupon Bond Investments

Investment in Zero-coupon Bonds are accounted for as of the trade date and are carried at cost, adjusted for accretion of discounts. Accretion is computed using the effective interest method.

Discounts and Premiums on Obligations

Discounts and premiums on obligations are amortized using the effective interest method over the lives of the obligations.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of deposits held in financial institutions, uninvested funds in REFCORP's General Operating account at the Federal Reserve Bank of New York and investments in U.S. Treasury Special Series Certificates with a maturity of less than ninety days.

NOTE 3 - ASSESSMENTS RECEIVABLE FOR INTEREST

Interest on REFCORP's obligations is funded through a variety of sources as discussed in Note 5. As of December 31, 1989, REFCORP is owed the interest due through this date on the obligations outstanding. Accordingly, the amount due ($62,582,210) as of December 31, 1989 for interest is shown as a receivable on the accompanying financial statements.

NOTE 4 - ZERO-COUPON BOND INVESTMENTS

The following non-marketable U.S. Treasury Zero-coupon Bonds were held by REFCORP in a segregated account at the Federal Reserve Bank of New York at December 31, 1989:

	Bond Equivalent Yield	December 31, 1989 Face Amount	Amortized Cost
U.S. Treasury Domestic Series coupon bonds - 10/15/19	7.590%	$4,522,068,000	$491,638,377

Such securities, at maturity, are intended to repay the related REFCORP obligation and are issued directly by the U.S. Treasury. The amortized cost of Zero-coupon Bonds includes accretion of discounts totaling $6,574,071 at December 31, 1989.

NOTE 5 - LONG-TERM OBLIGATIONS

As of December 31, 1989, the following series of REFCORP obligations was outstanding:

	Series	Annual Interest Rate	Maturity Date	Amount
Principal	A-2019	8.125%	October 15, 2019	$4,522,068,000
Less discount				(12,915,550)
Long-term obligations, net				$4,509,152,450

Interest on these obligations is paid semi-annually and all obligations have equal priority. None of the obligations are subject to redemption prior to maturity and FIRREA currently limits the aggregate amount of outstanding obligations to $30 billion. No obligation may be issued unless at the time of issuance the maturity value of Zero-coupon Bond investments held by REFCORP is sufficient to retire the aggregate amount of principal on the obligation of REFCORP that will be outstanding following such issuance.

Each interest coupon payment on REFCORP obligations is funded by the following methods, in order, to the maximum extent available: through 1) interest earnings in REFCORP investments and any prepaid interest collected at the time of sale; 2) proceeds received by RTC from liquidating dividends and payments from claims made by RTC on receiverships to the extent such proceeds are determined by the Oversight Board to be in excess of funds presently necessary for resolution costs and proceeds received by

RTC from warrants and participations acquired by RTC; 3) $300,000,000 annually from the FHLBanks less amounts required to be contributed by the FHLBanks each year for the Principal Fund for REFCORP or to the Financing Corporation (FICO), a corporation formed by the CIBA legislation in 1987 to refinance FSLIC; 4) FSLIC Resolution Fund proceeds from the sale of assets transferred by RTC; and 5) the U.S. Treasury.

Subsequent to December 31, 1989, REFCORP issued the following series of obligations:

Series	Interest Rate	Maturity Date	Principal Amount
A-2030	8.625%	January 15, 2030	$5,002,232,000
B-2030	8.875%	April 15, 2030	$3,501,265,000

NOTE 6 - NONVOTING REFCORP STOCK ISSUED TO FHLBANKS

The FHLBanks purchase, as prescribed by the RTC Oversight Board, stock in REFCORP. The proceeds are utilized by REFCORP to purchase Zero-coupon Bonds which are intended to repay the outstanding obligations at maturity. The FHLBanks in the aggregate may be called upon to contribute the total of their December 31, 1988 reserves and undivided profits, less the amount of their cumulative dividend stabilization reserve balance at December 31, 1985 ($2,095,827,000, of which $1,685,064,306 has been provided); plus $300 million a year less any required contributions to FICO. Each share of stock has a par value of $1.00 and is transferable only among the FHLBanks in the manner and extent prescribed by the RTC Oversight Board.

NOTE 7 - RESOLUTION TRUST CORPORATION NONREDEEMABLE CAPITAL CERTIFICATES

In accordance with the terms of FIRREA, proceeds of the long-term obligations issued by REFCORP, net of issuance costs (Note 9), are required to be transferred to RTC to acquire RTC Capital Certificates and thus, used for the thrift industry bailout. Such capital certificates are nonredeemable and, as directed by FIRREA, are considered nonreciprocal distributions for the benefit of the savings and loan industry as FIRREA does not provide for the repayment of such amounts. Further, REFCORP does not believe that such amounts will be repaid. Accordingly, the acquisition of RTC Nonredeemable Capital Certificates have been recorded as direct charges to capital as shown on the accompanying financial statements. This treatment results in a capital deficit in the financial statements as of December 31, 1989 of $4,017,016,126; over time this deficit will be reduced as the Zero-coupon Bonds accrete to maturity value.

NOTE 8 - OPERATING COSTS

In accordance with FIRREA, REFCORP has no paid employees and members of its Directorate serve without compensation. Certain employees of the FHLBanks and the Office of Finance of the FHLBanks have been authorized to act for and on behalf of REFCORP as may be necessary to carry out its functions. Such employee expenses are not reimbursable by REFCORP and, thus, are not reported in the accompanying financial statements.

The Federal Reserve Bank of New York provides custodial services to REFCORP. In addition, REFCORP entered into a services agreement whereby the Office of Finance is to provide various administrative services on behalf of REFCORP on a cost reimbursement basis for expenses which are not employee related, e.g., postage, computer time, telephone, etc. All general administrative expenses and custodial charges incurred by REFCORP are assessed to the FHLBanks.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

REFCORP is required to pay the cost of servicing the obligations it issued throughout their term. The Oversight Board of RTC is investigating how these costs will be funded. FIRREA requires that issuance costs be deducted from the proceeds of the obligations prior to the amount being transferred to RTC and that administrative costs be paid by the FHLBanks as discussed in Note 8. The amount of future servicing costs relating to the October 1989 issuance of obligations is estimated to be approximately $1 million. These servicing costs will increase with each subsequent issue, the amount of which is dependent on the life of the issue and other factors.

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