United States General Accounting Office

GAO

Report to the Congress

June 1992

FINANCIAL AUDIT

Resolution Trust Corporation's 1991 and 1990 Financial Statements

GAO/AFMD-92-74

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-240108

June 30, 1992

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

This report presents the results of our audit of the financial statements of the Resolution Trust Corporation for the years ended December 31, 1991 and 1990. Our audit disclosed that the Corporation's statement of financial position as of December 31, 1991, and the statement of cash flows for the year ended December 31, 1991, present fairly, in all material respects, the financial position of the Resolution Trust Corporation and its cash flows in conformity with generally accepted accounting principles. We do not express an opinion on the Corporation's statement of revenues, expenses and accumulated deficit for the year ended December 31, 1991.

We were able to give the Corporation an unqualified opinion on its 1991 statement of financial position because, during the year, it acted to address certain internal control and asset valuation problems in its receiverships. In addition, the Corporation's current projections indicate that its universe of likely resolution candidates has decreased and therefore its exposure to real estate related losses in unresolved institutions is also lower. As a result of these changes, we were able to assess the reasonableness of the Corporation's estimated recoveries from resolved institutions and its estimated liability for unresolved institutions. However, significant uncertainties still exist regarding general economic conditions, interest rates, and real estate markets. These uncertainties, which are beyond the Corporation's control, could result in lower than projected recoveries from resolved institutions or higher than estimated costs for unresolved institutions.

Our report on the Corporation's internal control structure discusses a material internal control weakness regarding controls over cash receipt and disbursement processing at the Corporation's receiverships.

We conducted our audit pursuant to the provisions of section 21A(k)(1) of the Federal Home Loan Bank Act (12 U.S.C. 1441 a(k)(1)) and in accordance with generally accepted government auditing standards. The act requires that we issue our audit opinion on the Corporation's statements no later than June 30 of the year following the year under audit.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs; the

Chairman and members of the Thrift Depositor Protection Oversight Board; the Director of the Office of Thrift Supervision; and the Director of the Office of Management and Budget.

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
FSLIC	Federal Savings and Loan Insurance Corporation
OTS	Office of Thrift Supervision
SAIF	Savings Association Insurance Fund

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To the Thrift Depositor Protection Oversight Board
Resolution Trust Corporation

We have audited the accompanying statements of financial position of the Resolution Trust Corporation as of December 31, 1991 and 1990, and the related statements of revenues, expenses and accumulated deficit; and the statements of cash flows for the years then ended. 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 audits. In addition, we are reporting on our consideration of the Corporation's internal control structure and on its compliance with laws and regulations.

We conducted our audits in accordance with generally accepted government auditing standards. 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. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Corporation's statement of financial position as of December 31, 1991, and the statements of cash flows for the years ended December 31, 1991 and 1990, present fairly, in all material respects, the financial position of the Resolution Trust Corporation and its cash flows in conformity with generally accepted accounting principles. It should be noted that the cash flows statements only report the cash actually received and disbursed by the Corporation. Due to weaknesses in its oversight of certain loan servicers,[1] the Corporation cannot be sure that it is recovering all it should from its receiverships.

We do not express an opinion on the statement of financial position as of December 31, 1990, and the statement of revenues, expenses and accumulated deficit for the year then ended, due to internal control weaknesses in the Corporation's receivership operations, flaws in its methodology for estimating recoveries from the sale of receivership assets,

[1] Resolution Trust Corporation: Oversight of Certain Loan Servicers Needs Improvement (GAO/GGD-92-76, April 24, 1992).

and its significant exposure to losses from real estate and delinquent real estate backed loans for both resolved and unresolved institutions that existed in 1990.

The Corporation's 1991 statement of revenues, expenses and accumulated deficit contains a $1.449 billion reduction in its loss allowances. This reduction in Corporation expenses is a direct result of changes in the following loss accounts from the Corporation's statement of financial position for 1990 and 1991: estimated cost of unresolved cases, estimated losses from corporate litigation, allowance for losses on subrogated claims, and allowance for losses on advances and loans. This reduction had a significant effect on the Corporation's determination of its net loss for 1991. Because we are not expressing an opinion on the Corporation's statement of financial position as of December 31, 1990, which included the loss accounts just listed, we are unable to express an opinion on the Corporation's statement of revenues, expenses and accumulated deficit for the year ended December 31, 1991.

During 1991, the Corporation acted to address certain internal control problems in its receiverships, problems which we reported in 1990. It also implemented a statistical methodology for sampling receivership assets and projecting their estimated values to the population of receivership assets. Use of a statistically valid methodology for estimating asset recovery values also enabled the Corporation to improve its estimates of losses from troubled but as yet unresolved thrift institutions. Finally, the Corporation's current projections indicate that its universe of likely resolution candidates has decreased and therefore its exposure to real estate related losses in unresolved institutions is also lower. Although the Corporation has produced its recovery estimates from the best available information, significant uncertainties still exist regarding general economic conditions, interest rates, and real estate markets that could affect the value of assets in resolved and unresolved institutions. These factors, which are beyond the Corporation's control, could result in lower than projected recoveries from resolved institutions and higher than estimated costs for unresolved institutions.

Estimated Recoveries From Receiverships Appear Reasonable

The Corporation addressed the internal control weaknesses over cash receipts and disbursements and the flaws in its methodology for determining the recovery value of receivership assets, which we reported in 1990. As a result, the Corporation can produce a reasonable estimate of expected recoveries from its receiverships.

In 1991, we expanded our testing of receivership internal controls over cash receipts and cash disbursements. We selected a sample of 62 receiverships and nearly 1,500 transactions for testing. In general, we found that cash transactions during 1991 were valid and correctly recorded in the receiverships' general ledgers. However, receivership personnel could not supply us with all the documents necessary to confirm that transactions were processed in accordance with all of the Corporation's policies and standards. Although we could piece together enough of this year's transactions to assure ourselves of their legitimacy, we were unable to assure the Corporation that all of its internal controls were in place and working as intended to prevent or detect errors in future transactions. We consider the receiverships' lack of supporting documentation to be a material weakness and discuss it in more detail in our report on the Corporation's internal control structure.

During 1991, the Corporation improved its methodology for sampling and valuing receivership assets. The Corporation used statistical techniques to select its sample of receivership assets and a single, experienced contractor to estimate the expected recovery value for all sampled assets. The Corporation then calculated weighted average recovery rates for individual asset types based on information from the sample. For example, the Corporation calculated a weighted average recovery rate of 87 percent of book value for performing mortgages on residential dwellings with one to four units; a rate of 61 percent for delinquent consumer loans; and a rate of 39 percent for acquired real estate held by its receiverships. The weighted average recovery rate for each asset type was then projected to all receivership assets of that type. Although the Corporation's methodology was appropriate and the resulting estimated recovery values were reasonable, we found in our sample some instances for which the contractor calculated a recovery value without sufficient supporting asset file documentation. The most common missing support item was a recent appraisal. We also found instances in which the value of the collateral underlying delinquent loans did not support the recovery values assigned. Because the average of the individual recovery rates assigned to these assets approximated the average assigned by the contractor to all assets, the unsupported asset values did not appear to be overstated.

The Corporation is maintaining relevant sales information for the statistically sampled assets used in its valuation process discussed above. According to these data, the sales proceeds for individual sampled assets supported the estimated recovery rate assigned by the contractor to those particular assets. In addition, the average recovery from the sale of sampled assets was considerably higher than the average recovery assigned to the entire sample. These results indicate that the contractor did a good job of estimating recoveries for those assets that were sold later, that the better assets—those with the higher recovery rates—are being sold first, and that the Corporation's use of lower recovery rates to value the entire population takes into account the harder-to-sell assets remaining in receiverships. As a further test, we compared the estimated recovery rates to aggregate sales information supplied by the Corporation for all 1991 asset sales. The sales results again indicated higher recovery rates than the Corporation is applying to all assets according to its valuation methodology. Based on these tests, it appears that the Corporation is adequately considering hard-to-sell assets in estimating its expected recoveries from the sale of receivership assets.

As of December 31, 1991, Corporation receiverships held assets with a book value of $82 billion—real estate and delinquent real estate backed loans accounted for approximately $29 billion of the total. Even though the Corporation has assumed that these assets will sell for considerably less than their book values, any worsening of the economy or real estate markets could result in recoveries even lower than currently anticipated.

Future Resolution Costs Appear Reasonable

The Corporation used an appropriate methodology to estimate its 1991 liability for future resolution costs. The Corporation's statement of financial position includes a $25.5 billion accrual to cover the cost of resolving 190 troubled institutions. These institutions were identified by the thrift industry's federal regulator, the Office of Thrift Supervision (OTS), as probable resolution candidates before September 30, 1993—the last date for the Corporation to accept thrifts for resolution. The Corporation also disclosed in its footnotes that OTS had identified another 70 thrift institutions as possible resolution candidates. The Corporation calculated that the related costs for the 70 could range from $6 billion to $11 billion. The Corporation's estimate of probable and possible thrift failures was determined according to generally accepted accounting principles.

In calculating its liability for probable resolution candidates, the Corporation assumed that the losses related to these failures had been incurred as of December 31, 1991. In general, the Corporation's cost estimates represent the total of negative capital, operating losses through the expected date of resolution, and losses on asset sales for each of the 190 institutions. Any institution with positive capital was expected to use its equity to offset operating and asset losses, thereby reducing the final cost to the Corporation. Institutions with operating profit were assumed to generate no earnings or losses through the resolution date.

To calculate losses on asset sales, the Corporation assumed that 1 to 5 percent of the unresolved institutions' performing loan portfolios would become delinquent before the date of resolution. The Corporation then applied loss rates to the various asset categories based on asset reviews in resolved institutions. The Corporation developed and applied different loss rates to institutions in its four regions—east, north central, southwest, and west. For example, loss rates of 5 percent to 11 percent were applied to performing one-to-four unit residential mortgages while loss rates of 53 percent to 77 percent were applied to delinquent commercial loans throughout the four regions.

To calculate its expected cost for the 70 thrifts considered possible failures, the Corporation used a methodology similar to the one just described. It considered capital levels, operating losses, and losses on assets. However, the Corporation developed different asset loss rates based on the historical experience of the Federal Deposit Insurance Corporation and the now defunct Federal Savings and Loan Insurance Corporation (FSLIC). Using the two loss ratios, the Corporation calculated a low and high cost estimate for each of the 70 identified institutions.

In general, the Corporation's assumptions were reasonable, given the current conditions of the thrift industry and the economy. We analyzed many of the institutions considered "troubled" by OTS but not included in the Corporation's accrual or footnote disclosure and found them to be only marginally profitable with less than 3 percent tangible capital. However, due to the current positive interest spread and through the sale of portions of their asset portfolios, most of these institutions are likely to remain viable beyond the Corporation's September 30, 1993, deadline. Thrifts that fail after the deadline will become the responsibility of the Savings Association Insurance Fund (SAIF).[2]

The Corporation's exposure to losses in unresolved institutions was significantly lower at year-end 1991. As of December 31, 1990, 775 institutions with $481 billion in assets, of which $135 billion were estimated to be real estate or delinquent real estate backed loans subject to foreclosure, were considered probable or possible resolution candidates. As of December 31, 1991, the number of probable and possible resolutions was down to 260 institutions with $181 billion in assets of which an estimated $38 billion were troubled real estate related assets. As a result, the Corporation is in a better position to estimate its future costs, particularly those due to losses in real estate related assets. Although this reduced exposure has somewhat mitigated the effect of uncertainties on its cost estimates, changes in the economy or real estate markets beyond the Corporation's control could still result in actual resolution costs that significantly differ from estimates.

Future Resolutions Require Additional Funding

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) created the Resolution Trust Corporation on August 9, 1989, to resolve the problems of failed thrift institutions previously insured by the Federal Savings and Loan Insurance Corporation and placed into conservatorship or receivership from January 1, 1989, until August 9, 1992. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 extended the Corporation's resolution responsibility through September 30, 1993. Under the chairmanship of the Secretary of the Treasury, the Thrift Depositor Protection Oversight Board (previously the Oversight Board) monitors the Corporation's operations, provides general policy direction, and reviews its performance. Under FIRREA, the Corporation will terminate no later than December 31, 1996, and all remaining assets and liabilities will be transferred to the FSLIC Resolution Fund.

[2]The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Public Law 101-73, created SAIF to provide deposit insurance to all federally insured savings associations (thrifts) and to thrift deposits acquired by banks. SAIF will assume its full resolution responsibility for thrift institutions on October 1, 1993. However, any thrift requiring resolution after September 30, 1993, which had previously been placed in conservatorship or receivership under the Corporation, may again be placed under the Corporation's control in accordance with a provision of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.

The Corporation's financial statements indicate total needs of between $109 billion and $114 billion in loss funds to complete the resolution of all receiverships and currently identified probable and possible thrift failures. This is more than the Corporation has been provided to date. Through March 1992, the Corporation was provided with $105 billion to cover losses associated with resolutions.[3] As a result of a deadline on the obligation of its most recent appropriation, the Corporation returned $18.3 billion of unobligated funds to the Treasury in April 1992. Assuming the Corporation's projections are correct, it could require between $22 billion and $27 billion in additional loss funds in order to carry out its resolution responsibilities until October 1993 and allow SAIF to undertake its full resolution responsibility without facing a backlog of failed institutions. As we have stated in previous testimonies,[4] we believe that the Corporation should be provided with annual appropriations. Because only 15 months now remain until its resolution deadline, the Corporation should be given sufficient funds to see it through its remaining caseload. Any funding needs beyond current projections could then be provided through the normal yearly appropriations process.

The Corporation's current cost estimates are considerably lower than previous projections of $160 billion. This is due in part to declining interest rates which resulted in a favorable spread between the rates thrifts earn and the rates thrifts must pay to borrow funds. The positive interest rate spread helped the thrift industry earn a $2 billion profit in 1991, making that its first profitable year since 1986. Increased earnings have resulted in fewer thrifts failing and smaller operating losses in those that do.

If interest rates continue to be low, many poorly capitalized thrifts will probably remain viable beyond the Corporation's resolution deadline. For example, the Corporation has estimated a $16 billion cost for resolving the remaining thrifts considered troubled by OTS. Their costs are not included in the Corporation's financial statements because it is unlikely they will fail

[3]FIRREA provided the Corporation with $50 billion in August 1989. The Resolution Trust Corporation Funding Act of 1991 (Public Law 102-18) provided $30 billion in March 1991. The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (Public Law 102-233) provided $25 billion in December 1991, which was only available for obligation until April 1, 1992.

[4]Resolution Trust Corporation: Performance Assessment for 1991 (GAO/T-GGD-92-14, February 26, 1992; and GAO/T-GGD-92-18, March 5, 1992).

within the next 2 years. These costs might still need to be included in the cost of the thrift crisis cleanup but may be transferred to SAIF unless the future brings even greater improvements in the condition of these marginal institutions.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

May 15, 1992

Report on Internal Control Structure

We have audited the financial statements of the Resolution Trust Corporation as of December 31, 1991 and 1990, and have issued our opinion thereon. This report pertains only to our consideration of the Corporation's internal control structure for the year ended December 31, 1991. The report on our consideration of the Corporation's internal control structure for the year ended December 31, 1990, is presented in GAO/AFMD-92-20, dated October 25, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit, we considered the Corporation's internal control structure in order to determine the auditing procedures needed for purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Corporation's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the Corporation's significant internal control structure policies and procedures, including those relevant to compliance with applicable laws and regulations, into the following categories:

- resolved institutions, consisting of policies and procedures related to (1) resolution activities, (2) receipts and disbursements in receiverships, and (3) valuation of the Corporation's net receivables from resolution transactions and assistance;

- unresolved institutions, consisting of policies and procedures related to identifying and estimating the cost of future resolutions and of providing advances to institutions in conservatorship;
- Federal Financing Bank borrowings, consisting of policies and procedures related to the borrowing, use, and repayment of working capital;
- treasury, consisting of policies and procedures related to Corporate cash receipts and disbursements;
- expenditures, consisting of policies and procedures related to disbursements for administrative expenses; and
- financial reporting, consisting of policies and procedures related to the processing of journal entries into the general ledger and the preparation of financial statements.

For all internal control structure categories listed above, we obtained an understanding of relevant policies and procedures, determined whether they have been placed in operation, and assessed the associated control risk. We also performed tests of control procedures for all of the above categories. As discussed in the following paragraphs, our control tests revealed a material weakness in receivership activities related to cash receipts and disbursements. We also noted other less significant matters involving the internal control structure and operations at both receiverships and headquarters. These matters warrant management's attention. We are reporting these other matters in a separate letter to the Corporation's management.

Reportable Conditions

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect an organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

There are basically two levels of reportable conditions—those that are considered material weaknesses,[5] which could affect the fair presentation of the financial statements, and those that, while not material, are

[5]A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

significant matters that merit management's attention. We identified a matter involving the Corporation's controls over cash receipt and disbursement processing which we consider to be a material weakness under generally accepted government auditing standards.

The Corporation cannot be sure that controls over cash receipt and disbursement processing are in place and functioning as intended in its receiverships. Personnel at the Corporation's consolidated offices who were responsible for processing receivership transactions could not locate all of the documentation which evidences compliance with the Corporation's internal control policies and procedures. Although we were able to assure ourselves that the transactions we reviewed represented valid receipts and disbursements of the receiverships and that they were correctly entered into the receiverships' general ledgers, we are unable to assure the Corporation that all of its controls are working as designed and can be relied on to prevent or detect fraud, errors, and/or omissions in future receivership transactions.

The Corporation's receiverships are its largest debtors—as of December 31, 1991, receiverships owed $119 billion to the Corporation for claims paid on behalf of insured depositors and for advances or loans. Receiverships, to repay the Corporation, depend on money received from the servicing and sale of the failed institutions' assets. The expected funds from this activity are far less than the total owed; therefore, receiverships must have strong controls over receipt and disbursement activity to ensure that the Corporation will collect as much, and as soon, as possible.

Personnel at the Corporation's consolidated offices were unable to locate many of the documents necessary to confirm that transactions were processed in accordance with management's policies, objectives, and standards. For the 62 receiverships we selected, at least one significant document was missing for 408 (28 percent) of the 1,474 receipt and disbursement transactions tested. For example:

- Of the 899 receipt transactions tested, consolidated office personnel could not locate at least one significant document necessary to prove that all controls for check and wire receipts were working for 182 (20 percent) of the transactions. In some instances, we were able to determine that the funds received from servicers were deposited and were correctly recorded to the general ledger cash account and a holding account. However, for many transactions, we were not given any documents to show that the servicer funds were removed from the holding account as required and applied to the appropriate principal, interest, and/or expense accounts.

- Of the 182 transactions tested for repayment of advances, the consolidated office could not provide us with the document that authorized the repayment remittance for 31 (17 percent) of the transactions. We were able to obtain copies of 28 of the authorization documents from Corporation headquarters; the remaining 3 could not be located.
- Of the 393 disbursement transactions tested, consolidated office personnel could not locate the originating document that requested the disbursement for 56 (14 percent) of the transactions. For most of these, we did receive documents showing that accounting personnel authorized the funds to be disbursed; however, neither the originating document nor the authorized accounting document could be located for 5 transactions. The dollar value of these transactions was insignificant in relation to the total amount of disbursements reviewed.

During 1991, the Corporation did not have written policies requiring consolidated offices to maintain documentation of transactions. However, the Corporation issued Circular 1250.1, "Internal Control Systems," in March 1992, and it established "policies, objectives, standards and responsibilities for the development, maintenance and evaluation of internal controls for [Corporation] programs and administrative activities." The circular requires each consolidated office to clearly document all financial transactions from inception through recording in the general ledger. It also requires that these documents be available for managers and auditors to analyze the efficiency and effectiveness of the receiverships' control systems.

We believe that the Corporation's new internal control directive, if properly implemented, will address our concerns regarding receivership documentation. We will assess the implementation and effectiveness of the circular as part of our 1992 review and testing of receivership internal controls.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the Resolution Trust Corporation as of December 31, 1991 and 1990, and have issued our opinion thereon. This report pertains only to our review of the Corporation's compliance with laws and regulations for the year ended December 31, 1991. Our report on the Corporation's compliance with laws and regulations for the year ended December 31, 1990, is presented in GAO/AFMD-92-20, dated October 25, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Corporation's management is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatements, we selected and tested transactions and records to determine the Corporation's compliance with certain provisions of section 21A of the Federal Home Loan Bank Act (12 U.S.C. 1441a) which, if not complied with, could have a material effect on the Corporation's financial statements. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Corporation has to comply.

The results of our tests indicate that, with respect to the items tested, the 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 the Corporation had not complied, in all material respects, with those provisions.

Financial Statements

Statements of Financial Position

AS OF DECEMBER 31,
(Dollars in Thousands)

	1991	1990
ASSETS		
Cash	$9,034,326	$5,176,794
Net loans and advances (Note 3)	15,927,967	22,006,729
Net subrogated claims (Note 4)	37,516,144	27,330,659
Other assets (Note 6)	13,398	6,409
TOTAL ASSETS	$62,491,835	$54,520,591
LIABILITIES		
Accounts payable, accrued liabilities and other	$180,930	$41,822
Liabilities incurred from assistance and failures (Note 7)	94,706	490,897
Due to receiverships (Note 8)	1,634,199	1,190,673
Notes payable and accrued interest (Note 9)	57,518,561	53,929,779
Estimated cost of unresolved cases (Notes 5 and 10)	25,492,652	55,941,445
Estimated losses from corporate litigation (Notes 5 and 11)	197,599	158,184
TOTAL LIABILITIES	85,118,647	111,752,800
EQUITY		
Contributed capital	48,827,551	18,810,090
Capital certificates	31,286,122	24,247,854
Accumulated deficit	(102,740,485)	(100,290,153)
TOTAL EQUITY (Note 12)	(22,626,812)	(57,232,209)
TOTAL LIABILITIES AND EQUITY	$62,491,835	$54,520,591

See accompanying notes

Statements of Revenues, Expenses and Accumulated Deficit

FOR THE YEAR ENDED DECEMBER 31,
(Dollars in Thousands)

	1991	1990
REVENUES		
Interest on loans and advances	$1,473,013	$1,378,623
Servicing and other revenue	33,546	25,258
TOTAL REVENUES	1,506,559	1,403,881
EXPENSES		
Interest expense on notes issued by the Corporation	3,472,288	1,787,516
Interest expense on amounts due receiverships	1,903,837	1,395,438
Reduction in loss allowances (Note 5)	(1,449,191)	(1,441,191)
Administrative operating expenses	9,885	12,002
Other expenses	20,072	12,530
TOTAL EXPENSES	3,956,891	1,766,295
NET LOSS	(2,450,332)	(362,414)
ACCUMULATED DEFICIT, BEGINNING	(100,290,153)	(99,927,739)
ACCUMULATED DEFICIT, ENDING (Note 12)	($102,740,485)	($100,290,153)

See accompanying notes

Statements of Cash Flows

FOR THE YEAR ENDED DECEMBER 31,
(Dollars in Thousands)

	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash inflows from:		
Receipts from subrogated claims	$17,665,488	$1,879,579
Repayments of loans, advances and reimbursable expenditures	23,064,174	7,198,660
Receipts of interest on loans and advances	1,595,363	1,160,395
Receipts from servicing and other operations	27,657	20,672
Cash outflows for:		
Disbursements for subrogated claims	(56,199,015)	(60,870,583)
Disbursements for loans and advances	(18,427,996)	(19,037,050)
Disbursements for reimbursable expenditures	(1,022,149)	(250,440)
Administrative operating and other expenditures	(31,081)	(23,177)
Interest paid on notes payable	(907,831)	0
Net Cash Used by Operating Activities (Note 16)	(34,235,390)	(69,921,944)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from:		
Corporate notes payable	12,150,000	52,142,263
Capital certificates	7,038,268	18,539,096
Contributed capital	30,030,328	10,785
Cash outflows for:		
Repayment of notes payable, principal	(11,125,674)	0
Net Cash Provided by Financing Activities	38,092,922	70,692,144
Net Increase in Cash	3,857,532	770,200
CASH - BEGINNING	5,176,794	4,406,594
CASH - ENDING	$9,034,326	$5,176,794

See accompanying notes

Notes to Financial Statements

DECEMBER 31, 1991 and 1990

1. Impact of Legislation:

The RTC, a Government Corporation, was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to manage and resolve all troubled savings institutions that were previously insured by FSLIC and for which a conservator or receiver is appointed during the period January 1, 1989 through August 8, 1992. In December, 1991, this period was extended to September 30, 1993 by the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.

The activities of the RTC are subject to the general oversight of the Oversight Board, which was redesignated the Thrift Depositor Protection (TDP) Oversight Board and increased in size by the December 1991 legislation. The TDP Oversight Board monitors the operations of the RTC, provides the RTC with general policy direction, and reviews the RTC's performance. The seven members on the TDP Oversight Board include: the Secretary of the Treasury; the Chairman of the Board of Governors of the Federal Reserve System; the Director of the Office of Thrift Supervision; the Chairperson of the Board of Directors of the FDIC; the chief executive officer of the RTC; and two independent members appointed by the President, with the advice and consent of the Senate.

Under current law, the RTC will terminate on or before December 31, 1996. All remaining assets and liabilities will be transferred to the FSLIC Resolution Fund. Proceeds from the sale of such assets will be transferred to the Resolution Funding Corporation (REFCORP) for interest payments after satisfaction of any outstanding liabilities. At the time of the RTC's termination, the FDIC will succeed the RTC as conservator or receiver for failed thrift activity.

Source of Funds:

The RTC is funded from the following sources: 1) U.S. Treasury payments, borrowings and appropriations; 2) a contribution from the Federal Home Loan Banks through REFCORP; 3) amounts borrowed by REFCORP which is authorized to issue long term debt securities; 4) the issuance of debt obligations and guarantees as permitted by the TDP Oversight Board ; and 5) income earned on the assets of the RTC, proceeds from the sale of assets, and collections made on claims received by the RTC from receiverships, to the extent such amounts are needed for further resolution costs (as determined by the TDP Oversight Board).

The Secretary of the Treasury has contributed capital of $48.8 billion to the RTC as of December 31, 1991, $18.8 billion of which was authorized by FIRREA and $30 billion of which was authorized by the Resolution Trust Corporation Funding Act of 1991 in March of 1991. The RTC has also issued capital certificates of $31.2 billion to REFCORP as of December 31, 1991, including

$7.0 billion issued in 1991 (see Note 12). FIRREA prohibits the payment of dividends on any of these capital certificates. The RTC is also authorized to borrow directly from the Treasury an amount not to exceed in the aggregate $5.0 billion outstanding at any one time. There were no draws against these authorized borrowings during 1991.

December 1991 legislation authorized the Secretary of the Treasury to provide an additional $25 billion in capital to the RTC for its operations through March 31, 1992. These funds were received in January 1992. In April 1992, the RTC returned $18.3 billion to the Treasury which represented funds not used by the March 31, 1992 deadline.

The RTC's Office of Inspector General (OIG) received $41.1 million of appropriated funds from the U.S. Treasury of which $10.8 million relate to 1991 and $30.3 million relate to 1992. These funds are used to finance the activities of the Office of Inspector General.

2. Summary of Significant Accounting Policies:

General. These statements do not include accountability for assets and liabilities of closed thrifts for which the RTC acts as receiver/liquidating agent or of thrifts in conservatorship for which the RTC acts as the managing agent.

Allowance for Losses on Loans and Advances. The RTC recognizes an estimated loss on loans and advances. The allowance for loss represents the difference between amounts advanced to conservatorships or receiverships and expected repayments.

Allowance for Losses on Subrogated Claims. The RTC records as assets the amounts disbursed for assisting and closing thrifts. An allowance for loss is established against subrogated claims representing the difference between the amounts disbursed and the expected repayments. The allowance is based on the estimated cash recoveries from the assets of the assisted or failed thrift, net of estimated asset liquidation and overhead expenses, including interest costs.

Estimated Cost of Unresolved Cases. The RTC has recorded the estimated losses related to thrifts in conservatorship and those identified in the regulatory process as probable to fail.

Litigation Losses. The RTC recognizes an estimated loss for litigation against it in its Corporate, conservatorship and receivership capacities. The RTC Legal Division recommends these estimated losses on a case-by-case basis.

Due to Receiverships - Assets Sold. The RTC establishes a contra asset account equal to the purchase price of assets acquired by an assuming institution primarily in purchase and assumption transactions. This account offsets the balance due from the receivership for subrogated claims. The amounts that exceed the expected recovery of subrogated claims due from the receivership are recorded as a liability entitled "Due to receiverships." The RTC accrues interest on the total of the contra asset and "Due to receiverships" accounts.

Allocation of Common Expenses. The RTC shares certain administrative operating expenses with several funds of the Federal Deposit Insurance Corporation (FDIC) including the Bank Insurance Fund, the FSLIC Resolution Fund, and the Savings Association Insurance Fund. The administrative operating expenses include allocated personnel, administrative, and other overhead expenses.

OIG Appropriation. The RTC has reported OIG appropriations used to finance operating expenses as part of "Servicing and other revenue" in the Statement of Revenues, Expenses and Accumulated

Deficit. Unobligated appropriations are reported in the equity section of the balance sheet as part of "Contributed capital."

Depreciation. The cost of furniture, fixtures, equipment and other fixed assets is expensed at the time of acquisition and is reported as "Administrative operating expenses." This policy is a departure from generally accepted accounting principles, however, the financial impact is not material to the RTC's financial statements.

Cash Equivalents. The RTC considers cash equivalents to be short-term, highly liquid investments with original maturities of three months or less. As of December 31, 1991 and 1990, the RTC did not have any cash equivalents.

Reclassifications. Certain balances in the 1990 financial statements have been reclassified for comparative purposes. Additionally, certain adjustments have been made to more accurately reflect the nature of expenses incurred during 1990. These revisions affect the "Reduction in loss allowances" and "Administrative operating expenses" line items. These adjustments do not change the net loss previously reported.

3. Net Loans and Advances (in thousands):

The RTC makes both loans and secured advances to its receiverships and conservatorships. Loans and advances are made to conservatorships to provide funds for liquidity needs and to reduce the cost of funds, and to receiverships to provide working capital. The loans and advances generally are either secured by the assets of the conservatorship or receivership at the time the loans were made or have the highest priority of unsecured claims. The Corporation accrues interest on these loans and advances which is included in the Statement of Revenues, Expenses and Accumulated Deficit. The Corporation expects repayment of these loans and advances, including interest, before any subrogated claims are paid by receiverships. The loans and advances carry a floating rate of interest based upon the 13-week Treasury Bill rate. Interest rates received during 1991 ranged between 4.10% and 6.97%, and between 6.97% and 8.50% in 1990. At December 31, 1991 and 1990, the interest rates on loans and advances were 4.26% and 6.97%, respectively.

	December 31, 1991	December 31, 1990
Secured advances to conservatorships	$ 4,931,021	$ 9,051,139
Loans and secured advances to receiverships	13,402,648	13,676,444
Reimbursements due from receiverships and conservatorships	750,398	232,748
Accrued interest	326,789	449,140
Allowance for losses on receivership loans and advances(Note 5)	(3,482,889)	(643,231)
Allowance for losses on conservatorship advances(Note 5)	0	(759,511)
	$15,927,967	$22,006,729

Reimbursements due from receiverships and conservatorships for operating expenses represent amounts paid by the RTC on behalf of the receiverships and conservatorships for which repayment is expected in full. Interest is not accrued on these reimbursements.

4. Net Subrogated Claims (in thousands):

Subrogated claims represent disbursements made by the RTC for depositor liabilities. The Corporation recognizes an estimated loss on these subrogated claims. These estimates are based in part on a statistical sampling of receivership assets, and based on a 95 percent confidence interval, are subject to a sampling error of plus or minus $2.5 billion.

The value of assets under RTC management could be lower (or higher) than projected because general economic conditions, interest rates and real estate markets could change. Because of these uncertainties, it is reasonably possible that the "Allowance for losses on subrogated claims" will be higher (or lower) than the current balance.

In certain instances, the receiverships may sell a portion of their assets along with their deposits. The purchase price of the assets sold is recorded by the RTC in a contra asset account entitled "Due to receiverships - assets sold." This account is offset against subrogated claims expected to be collected from the receivership. The portion of the contra asset account, if any, in excess of expected subrogated claim recoveries is recorded as a liability entitled "Due to receiverships" (see Note 8). The RTC accrues interest payable to the receiverships on the total of the contra asset and "Due to receiverships" accounts. The rates used by the RTC to accrue interest are based upon the Chicago FHLB Overnight Deposit Rates. Interest rates paid during 1991 ranged between 4.08% and 7.68%, and between 5.10% and 11.92% in 1990. At December 31, 1991 and 1990, the interest rates paid on these accounts were 5.15% and 9.23%, respectively.

	December 31, 1991	December 31, 1990
Subrogated claims	$172,625,205	$102,284,412
Recovery of subrogated claims	(41,568,755)	(3,029,291)
Claims of depositors pending and unpaid	50,990	125,946
Due to receiverships - assets sold	(25,503,185)	(30,842,337)
Allowance for losses on subrogated claims(Note 5)	(68,088,111)	(41,208,071)
	$ 37,516,144	$ 27,330,659

5. Changes in Allowance for Losses (in thousands):

	Allowance for losses, subrogated claims	Allowance for losses, loans and advances	Estimated cost of unresolved cases	Estimated losses from corporate litigation	TOTAL
Balance, Dec 31, 1989	$ 5,398,914	$ -	$94,669,000	$ 83,719	$100,151,633
Provision (reductions)	4,690,096	-	(6,205,752)	74,465	(1,441,191)
Reclassifications and adjustments	31,119,061	1,402,742	(32,521,803)	-	-0-
Balance, Dec 31, 1990	41,208,071	1,402,742	55,941,445	158,184	98,710,442
Provision (reductions)	(3,939,842)	-	2,451,236	39,415	(1,449,191)
Reclassifications and adjustments	30,819,882	2,080,147	(32,900,029)	-	-0-
Balance, Dec 31, 1991	$68,088,111	$3,482,889	$25,492,652	$197,599	$ 97,261,251

The "Allowance for losses on subrogated claims" includes future interest costs and overhead expenses. "Reduction in loss allowances" primarily represents the offset of net interest costs incurred in the current period that were previously included in provisions.

Reclassifications and adjustments represent amounts transferred from "Estimated cost of unresolved cases" to "Allowance for losses on subrogated claims" as a result of case resolutions. Amounts are also transferred from "Estimated cost of unresolved cases" to "Allowance for losses on receivership loans and advances" and "Allowance for losses on conservatorship advances."

6. Other Assets (in thousands):

	December 31, 1991	December 31, 1990
Due from Government agencies	$ 6,041	$ 3,504
Miscellaneous	7,357	2,905
	$13,398	$ 6,409

7. Liabilities Incurred from Assistance and Failures (in thousands):

	December 31, 1991	December 31, 1990
Pending claims of depositors	$50,990	$125,946
Due to insured depositors	43,716	364,951
	$94,706	$490,897

8. Due to Receiverships

In certain instances, receiverships may sell some of their assets along with their deposits. The RTC establishes a contra asset account equal to the purchase price of the assets sold. This account is offset against the subrogated claims due from the receivership to the extent that the RTC expects full repayment of such claims. If a receivership's contra account exceeds the expected repayment of its subrogated claims to the RTC, the excess is recorded as "Due to receiverships." The balance of "Due to receiverships" was $1.6 billion and $1.2 billion at December 31, 1991 and 1990, respectively.

9. Notes Payable:

Working capital has been made available to the RTC under an agreement between the RTC and the Federal Financing Bank. The working capital is available to fund the resolution of thrifts and for use in the RTC's high-cost funds replacement and emergency liquidity programs. The outstanding notes mature at the end of each calendar quarter, at which time they are generally refinanced at similar terms. The notes payable carry a floating rate of interest based upon the 13-week Treasury Bill rate and ranged between 5.09% and 6.76% during 1991 and between 7.19% and 8.32% in 1990. As of December 31, 1991 and 1990, the RTC had $57.5 billion and $53.9 billion, respectively, in borrowings and accrued interest outstanding from the Federal Financing Bank. These borrowings, approved by the Oversight Board, are within the limitations imposed under FIRREA.

10. Estimated Cost of Unresolved Cases:

The RTC has established a liability of $25.5 billion at December 31, 1991 for the anticipated costs of resolving 190 troubled institutions. Of the 190 institutions, 91 were in conservatorship as of that date. The other associations were identified by the Office of Thrift Supervision (OTS) as institutions for which it is probable that government assistance will be required by September 30, 1993, the last date by which the RTC may be appointed conservator.

The 1991 "Estimated cost of unresolved cases" has declined considerably from the December 31, 1990 and 1989 estimates of $55.9 billion and $94.7 billion, respectively. The primary reason for this decline was the resolution of 232 cases during 1991 and 315 cases during 1990, leaving fewer unresolved cases at the end of each year.

The OTS has also identified 70 savings associations for which it is reasonably possible that government assistance will be required by September 30, 1993. The estimated cost to resolve these 70 institutions could range from $6 to $11 billion.

Furthermore, the value of assets anticipated to come to the RTC could be lower (or higher) than projected because general economic conditions, interest rates, and real estate markets could change. Because of these uncertainties, it is reasonably possible that the cost of unresolved cases will be higher (or lower) than what has been estimated.

11. Estimated Losses from Corporate Litigation:

As of December 31, 1991, the RTC has been named in several thousand lawsuits while serving in its Corporate, conservatorship or receivership capacities. Currently, it is not possible to predict the outcome for all of the various actions. An allowance for loss totalling $197.6 million has been established as of December 31, 1991 for the 77 actions that management feels are probable to result in a significant loss. Additionally, the Corporation could possibly incur further losses from other pending lawsuits and other yet unasserted claims.

12. Changes in Equity (in thousands):

	Contributed Capital	Capital Certificates	Accumulated Deficit	Total Equity
Balance, December 31, 1989	$18,800,000	$ 5,708,757	$ (99,927,739)	$ (75,418,982)
1990 Net loss	-	-	(362,414)	(362,414)
FY 91 OIG appropriation	10,785	-	-	10,785
1990 Obligated OIG funds	(695)	-	-	(695)
Issuance of capital certificates:				
01/30/90	-	5,017,221	-	5,017,221
04/20/90	-	3,495,438	-	3,495,438
07/19/90	-	4,999,757	-	4,999,757
10/16/90	-	5,026,681	-	5,026,681
Balance, December 31, 1990	18,810,090	24,247,854	(100,290,153)	(57,232,209)
1991 Net loss	-	-	(2,450,332)	(2,450,332)
Resolution Trust Corporation Funding Act of 1991	30,000,000	-	-	30,000,000
FY 92 OIG appropriation	30,328	-	-	30,328
1991 Obligated OIG funds	(12,867)	-	-	(12,867)
Issuance of capital certificates:				
01/23/91	-	7,038,268	-	7,038,268
Balance, December 31, 1991	**$48,827,551**	**$31,286,122**	**$(102,740,485)**	**$ (22,626,812)**

13. OIG Expenditures:

Reductions to the RTC OIG appropriated fund resulting from obligations are recorded as "Servicing and other revenue." Accordingly, the RTC OIG appropriated fund was reduced by $12,867,302 and $694,442 during 1991 and 1990, respectively, and recorded as "Servicing and other revenue." Further, disbursements of the OIG appropriated fund for expenditures are recorded as "Administrative operating expenses." As of December 31, 1991 and 1990, the unobligated OIG appropriation balances included in contributed capital were $27.5 million and $10.1 million, respectively.

14. Pension Plan and Accrued Annual Leave:

The FDIC eligible employees assigned to the RTC are covered by the Civil Service Retirement System and the Federal Employees Retirement System. Matching employer contributions provided by the RTC for all eligible employees for the years ended December 31, 1991 and 1990 were approximately $12.4 million and $5.7 million, respectively.

Although the RTC contributes a portion of pension benefits for eligible employees and makes the necessary payroll withholdings from them, the RTC does not account for the assets of either of these retirement funds and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM also accounts for all health and life insurance programs for retired eligible employees.

The RTC's liability to employees for accrued annual leave was approximately $17.0 million at December 31, 1991, and $8.7 million at December 31, 1990.

15. Commitments and Guarantees:

Asset Sale Guarantees:

The RTC initiated a securitization program during 1991 through which approximately $10 billion of loans secured by various types of real estate, including 1-4 family homes and multi-family dwellings, were sold. Each securitization transaction is accomplished through the creation of a trust, which purchases the loans to be securitized from one or more institutions for which the Corporation acts as a receiver or conservator.

The loans in each trust are pooled and stratified and the resulting cash flow is directed into a number of different classes of Pass-Through Certificates. The regular pass-through certificates are sold to the public through licensed brokerage houses. The residual pass-through certificates, which are entitled to cash flows, if any, from the trust after the obligations to the regular pass-through certificates have been met, are retained by the institutions.

To increase the likelihood of full and timely distributions of interest and principal to the holders of the regular pass-through certificates, and thus the marketability of such certificates, a portion of the proceeds from the sale of the certificates is placed in a reserve fund to cover future losses with respect to the loans underlying the certificates. The receiverships sell the loans to the trust without recourse as to credit risk. The certificate holders' sole source of recourse in the event of credit losses is the reserve fund established for that security. However, the RTC does provide certain standard representations and warranties concerning the loans sold to the trust for securitization. Funds equal to management's estimate of representation and warranty claims have been placed in escrow by the receiverships participating in the securitizations.

The RTC also provides guarantees, representations and warranties on approximately $83 billion in unpaid principal of loans sold for cash, exchanged for mortgaged-backed securities or under servicing right contracts which have been sold. Receiverships have established escrow fund accounts containing a portion of the amount of sales proceeds deemed necessary to honor any obligations that might arise from the guarantees, representations and warranties. No additional losses are anticipated from these arrangements.

Letters of Credit:

The RTC has adopted special policies for outstanding RTC conservatorship and receivership collateralized letters of credit. These policies enable the RTC to minimize the impact of its actions on capital markets. In most cases, these letters of credit are used to guarantee tax exempt bonds issued by state and local housing authorities or other public agencies to finance housing projects for low and moderate income individuals or families. As of December 31, 1991, the RTC has issued a commitment to honor approximately $3.1 billion of these letters of credit. The total amount that will ultimately be paid and the losses resulting from these letters of credit are not reasonably estimable at December 31, 1991.

Affordable Housing Program:

As part of its Affordable Housing Program, RTC management has committed to expend up to $6 million to pay reasonable and customary commitment fees to various state and local housing authorities who will, in turn, assist in providing financing to low and moderate income families. Under this program, the RTC works with state and local housing finance agencies to secure commitments of Mortgage Revenue Bond and Mortgage Credit Certificate funds which will be lent to qualifying families to enable them to purchase properties from the RTC. At December 31, 1991, $2.1 million remains unexpended. No substantial recoveries are anticipated from the program.

Rental Expense:

The RTC is currently leasing office space at several locations to accommodate its staff. These offices include: (1) the Washington, D.C. Headquarter offices, (2) the four Regional offices, and (3) the fourteen Consolidated offices located throughout the various regions. The RTC's rental expense for 1991 and 1990 totaled $41.1 million and $17.1 million, respectively. The RTC's total contractual obligations under lease agreements for office space are approximately $196.2 million. The minimum yearly rental expense for all locations is as follows (in thousands):

1992	1993	1994	1995	1996	1997/Thereafter
$ 37,862	$ 38,558	$ 35,352	$ 29,239	$ 15,604	$ 39,605

All agreements contain escalation clauses which can result in adjustments to rental fees for future years.

At the date of RTC's termination, which under current law shall not be later than December 31, 1996, all of the RTC's debts, obligations and assets, including the above lease obligations, shall be transferred to the FSLIC Resolution Fund (FRF) which is managed by the Federal Deposit Insurance Corporation (FDIC).

16. Supplementary Information Relating to the Statement of Cash Flows (in thousands):

Reconciliation of net loss to net cash used by operating activities:

	For the Years Ended December 31, 1991	1990
Net Loss	$ (2,450,332)	$ (362,414)
Reduction in loss allowances	(1,449,191)	(1,441,191)
Interest expense financed as additional notes payable	3,001,672	857,737
Increase (decrease) in accrued interest on notes payable	(437,215)	929,779
Increase in accrued interest on amounts due to receiverships	1,903,837	1,395,438
(Increase) decrease in accrued interest due from loans and advances	122,351	(218,228)
Receipts from subrogated claims	17,665,488	1,879,579
Repayments of loans, advances and reimbursable expenditures	23,064,174	7,198,660
Increase in accounts payable, accrued liabilities and other liabilities	127,814	33,994
Less: Accrued liabilities above to be reimbursed	(120,016)	(31,945)
Disbursements for loans and advances	(18,427,996)	(19,037,050)
Disbursements for subrogated claims	(56,199,015)	(60,870,583)
Disbursements for reimbursable expenditures	(1,022,149)	(250,440)
OIG income recognized	(12,867)	(694)
Increase in other assets	(1,945)	(4,586)
Net cash used by operating activities	$(34,235,390)	$(69,921,944)

Noncash transactions incurred from thrift assistance and failures (in thousands):

- $32,900,029 and $32,521,803 were reclassified from "Estimated cost of unresolved cases" during 1991 and 1990, respectively, due to the resolution of 232 cases during 1991 and 315 cases in 1990. Of these amounts, $30,819,882 and $31,119,061 were reclassified to "Allowance for losses on subrogated claims" and $2,080,147 and $1,402,742 were reclassified to "Allowance for losses on loans and advances" during 1991 and 1990, respectively.

- "Claims of depositors pending and unpaid" and "Liabilities incurred from assistance and failures" decreased during 1991 by $74,956 and increased during 1990 by $122,759 due to case resolutions.

- $3,001,672 of interest expense was financed through increases in notes payable in 1991. In 1990, interest expense of $857,737 was financed through increases in notes payable.

- "Recovery of subrogated claims" increased by $20,873,976 and $1,149,522 during 1991 and 1990, respectively, with an offsetting decrease in "Due to receiverships - assets sold", to record liquidating dividends declared by receiverships.

- "Subrogated claims" increased by $14,852,406 and $28,487,819 in 1991 and 1990, respectively, resulting from resolution activity with an offsetting increase in "Due to receiverships - assets sold."

- $443,526 and $1,190,673 were reclassified in 1991 and 1990, respectively, from "Due to receiverships - assets sold" (a component of "Net subrogated claims") to "Due to receiverships" for amounts exceeding the expected recovery of subrogated claims due from the receiverships.

- "Reimbursements due from receiverships and conservatorships" decreased by $388,500 and $120,361 during 1991 and 1990, respectively, with an offsetting decrease to "Due to receiverships - assets sold."

17. Related Party Transactions

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 established the RTC to manage and resolve failed savings institutions that were formerly insured by the FSLIC and for which a receiver or conservator was appointed after January 1, 1989. At December 31, 1991, there were 675 institutions with $129.1 billion of assets for which the RTC was appointed conservator or receiver. This compares to 531 institutions with $145.7 billion of assets at December 31, 1990.

In its fiduciary capacity as receiver or conservator, the RTC has substantial control over the operations of the institutions placed in receivership or conservatorship by the Office of Thrift Supervision. The RTC, as receiver or conservator, has ultimate authority in the day to day operations, including the timing and methodology of the disposal of the institutions' assets in an effort to maximize returns on such assets.

The RTC does not include the assets and liabilities of the receiverships and conservatorships in its financial statements. However, certain transactions with these institutions, including loans to and receivables from the institutions, as well as interest paid or received on such items, are included in the RTC's financial records. The net balances of loans and advances, and subrogated claims were $15.9 billion and $37.5 billion, respectively, at December 31, 1991. The RTC owed $27.1 billion to receiverships at December 31, 1991 primarily resulting from purchase and assumption transactions (see notes 4 and 8). Interest income earned on loans and advances was $1.5 billion during the year ended December 31, 1991 and interest expense on amounts due receiverships was $1.9 billion.

The net balances of loans and advances, and subrogated claims were $22.0 billion and $27.3 billion, respectively, at December 31, 1990, and amounts due receiverships totalled $32.0 billion. Interest income on loans and advances was $1.4 billion during the year ended December 31, 1990 and interest expense on amounts due receiverships was $1.4 billion.

18. Concentration of Credit Risk

The RTC is counterparty to a group of receivables with conservatorships and receiverships throughout the United States which are experiencing problems with both loans and real estate. A portion of the entities' ability to honor their contracts is dependent on the economy of the area in which they are located. The gross balance of these receivables at December 31, 1991 is $150.5 billion (against which $97.1 billion of reserves and contra assets have been recorded), of which $37.1 billion is attributable to institutions located in Texas, $22.8 billion is attributable to institutions located in California, $13.2 billion is attributable to institutions located in Florida and $9.7 billion is attributable to institutions located in Arizona.

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