

GAO

Fact Sheet for the Honorable Toby Roth  
House of Representatives

February 1989

# FINANCIAL ISSUES

## Information on FSLIC Notes and Assistance Agreements



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

Accounting and Financial  
Management Division

B-233063

February 27, 1989

The Honorable Toby Roth  
House of Representatives

Dear Mr. Roth:

By letter dated September 13, 1988, you asked several questions concerning the Federal Home Loan Bank Board's (Board) use of promissory notes and assistance guarantees to restructure failed savings and loan institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). On October 11, 1988, we responded to your questions concerning whether the Board has authority to issue obligations as part of its resolution activities and whether such obligations are obligations of the United States backed by its full faith and credit. This letter responds to your remaining questions regarding note and guarantee issuances.

To fulfill your request, we interviewed appropriate officials from FSLIC, the Department of the Treasury, and the Office of Management and Budget (OMB). We also examined pertinent accounting and budget records developed by FSLIC and various Treasury and OMB reports and publications germane to your questions. As agreed with your office, in the interest of time, we did not seek formal agency comments on this fact sheet; however, we discussed the information provided with appropriate Board and FSLIC officials.

COORDINATION WITH TREASURY AND  
THE OFFICE OF MANAGEMENT AND BUDGET

You asked whether the Board and FSLIC, in issuing notes and assistance guarantees, have properly coordinated their actions with the Department of the Treasury and OMB. As we will discuss, FSLIC provides specific financial information concerning the issuance of notes and assistance guarantees in periodic reports to Treasury and OMB. However, beyond this reporting, the Board and FSLIC are not required to coordinate specific resolution activities with Treasury or OMB. Nonetheless, we understand that Board and FSLIC personnel have informally discussed, with both Treasury and

OMB officials, the recent acceleration of resolution actions and its general impact on the amount of FSLIC obligations outstanding.

Each month, FSLIC reports its receipt and outlay activities--including those related to notes and assistance guarantees--to Treasury using the Statement of Transactions (Standard Form 224). Treasury then uses this information to prepare its publication, the Monthly Treasury Statement. In prior years, FSLIC did not include promissory notes as outlays until the cash was disbursed. Beginning in fiscal year 1988, reporting procedures changed to reflect OMB's decision, with which we concur, that promissory notes would be recorded as budgetary outlays when issued. FSLIC has complied with the new reporting procedures and now includes note issuances in its calculation of outlays. However, consistent with OMB guidance, assistance guarantees are included as outlays only in the period in which the related cash is to be disbursed, which may occur at any time during the life of the assistance agreement.

The Board and FSLIC report estimated obligations and outlays to OMB for the President's budget and for the midsession review. FSLIC prepares 6-year cash flow projections (current year plus the next 5 years) to support the estimated budgetary obligations and outlays for notes and guaranteed assistance. In addition, the Board prepares a summary report, the Monthly Outlay Plan, that indicates the actual outlays for the current fiscal year to date and an estimate of outlays projected to year-end on a month-by-month basis. This report is sent to OMB, Treasury, and the Congressional Budget Office quarterly.

#### ACCOUNTING TREATMENT OF NOTES AND GUARANTEES

You also asked whether the notes and assistance guarantees actually being issued are properly accounted for in the federal government's books. As you know, we annually audit the financial statements of FSLIC. In past years, we have not taken exception to amounts reported for notes and guaranteed assistance outstanding. In our audit of FSLIC's financial statements for the year ending December 31, 1988, we will again, as part of our normal audit procedures, evaluate and test amounts reported for FSLIC notes and guarantee agreements.

In regard to the budgetary estimates for FSLIC notes, we stated in testimony before the Senate Budget Committee on October 5, 1988, that FSLIC's estimated budgetary outlays for fiscal year 1988 note issuances fell far short of actual outlays. For the President's budget, released in February 1988, FSLIC estimated that note issuances for 1988 would total only \$4 billion while subsequent midsession adjustments in July increased this amount to \$5.8 billion. However, FSLIC's actual notes issued totaled about \$10 billion by fiscal year-end. Our October 5, 1988, testimony before the Senate Committee on the Budget (GAO/T-AFMD-88-19) contains a more detailed discussion of these issues.

#### IMPACT ON THE FEDERAL BUDGET

Finally, you asked about the impact of the issuance of notes and guarantees, either past or future, on the federal budget. When FSLIC issues notes, the principal amounts of the notes are recorded as outlays; budget authority and obligations for making the outlays are also recorded at the same time. The recorded outlays, as with other budget outlays, increase the reported budget deficit. As discussed earlier, FSLIC did not record outlays this way prior to the February 1988 issuance of the President's budget for fiscal year 1989. Consequently, prior budgets did not show outlays for the FSLIC notes when they were issued, but only for the cash payments later made on the notes. Because the notes' principal amounts were not due for 3 or more years after issuance, this practice reduced the notes' impact on the deficit for the years in which they were issued.

For the fiscal year 1989 budget and beyond, OMB has required FSLIC to record the face value of the notes as outlays in the fiscal year in which they are issued. To provide meaningful and comparable data, the 1989 budget, issued in February 1988, restated outlay amounts in "1987 actual" and "1988 estimate" columns to reflect the full principal amount of notes issued during those years.

Because FSLIC note issuances are counted as outlays and affect the deficit reported in the President's budget, estimates of notes to be issued are included in the Gramm-Rudman-Hollings deficit calculation for governmentwide sequestration. In this regard, two points should be considered. First, the issuance of FSLIC notes in fiscal year 1988 in amounts exceeding OMB's estimates did not

trigger any 1988 sequestrations. The deficit reduction statute did not apply to--and therefore no fiscal year spending reductions resulted from--the actual FSLIC note issuances in fiscal year 1988 that exceeded the estimates made by the administration in fiscal year 1987 for the Gramm-Rudman-Hollings deficit calculation.

Second, FSLIC is now in the same position regarding the 1989 deficit calculation and its impact on sequestration. OMB's estimates of FSLIC note outlays used for the fiscal year 1989 Gramm-Rudman-Hollings deficit calculation have proven to be highly inaccurate. Near the close of fiscal year 1988, OMB estimated that FSLIC would issue \$4.6 billion in notes in fiscal year 1989, a projection that was important to OMB's determination that a governmentwide sequestration would not be required for 1989. However, FSLIC records indicate that note issuances for just the first quarter of fiscal year 1989 have amounted to about \$9.8 billion, or more than double the July estimate. While actual fiscal year 1989 note issuances exceeding earlier projections will not result in sequestration, they will contribute to the deficit.

Budget deficit targets cannot be met if outlays consistently exceed projections; therefore, accurate projections of FSLIC outlays are needed. Meaningful deficit reduction requires accurate OMB estimates and we can only hope that the 1990 estimate of FSLIC notes to be issued is a more accurate forecast.

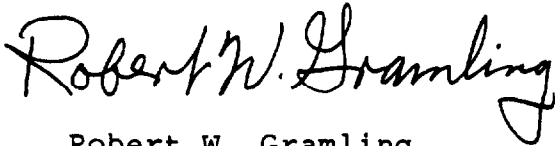
The budget treatment for FSLIC guaranteed assistance differs from that for notes. While obligations are recorded for the guarantees at the time of their issuance, the corresponding outlays are recorded only when disbursements under the guarantee agreements are actually made. Accordingly, guarantees do not affect the deficit until payout. During 1986 and 1987, the effect of this timing difference on the deficit was relatively small; FSLIC's new commitments under guarantee agreements and payouts under new and existing agreements each averaged approximately \$1 billion a year. However, FSLIC commitments made under guarantee agreements during calendar year 1988 exceeded \$19 billion. Because this is a present value estimate of future FSLIC payouts, the actual outlays required by FSLIC will be greater than this amount. The payouts under these commitments may occur over periods of up to 10 years; however, \$19 billion is a sufficiently large amount for the related outlays to have serious

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budgetary implications. However, because of the nature of assistance agreements, the timing of the payouts cannot be predicted with any reasonable degree of certainty.

As requested by your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 10 days from its date. At that time, we will send the report to interested parties and make copies available to others upon request. If you have any questions regarding the contents of this document, please call me on (202) 275-9406.

Sincerely yours,

A handwritten signature in cursive script that reads "Robert W. Gramling". The signature is written in black ink and is positioned to the left of the typed name.

Robert W. Gramling  
Director, Corporate  
Financial Audits

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