FUND OF PROBLEM LOANS
ACQUISITION. MANAGEMENT. SALE.

U.S.A EXPERIENCE IN THE REHABILITATION OF SAVINGS AND LOAN ASSOCIATIONS ACTIVITIES OF RTC

I. The Savings and Loan Crisis in the U.S. Preconditions for the Creation of the RTC (1)

From the 1980s to the mid-1990s, an unprecedented number of financial institutions in the U.S. went bankrupt – a total of about 3,000 organizations, of which 1,295 or 44% were savings and loan associations insured by the Federal Savings and Loan Insurance Corporation (FSLIC). These institutions accounted for approximately $621 billion in assets (11% of GDP). The collapse of most savings and loan associations occurred between 1989 and 1992.

Savings and loan associations are financial institutions specializing in accumulating deposits from the public and providing loans for the purchase and construction of housing. Depositors and borrowers of savings and loan associations can be members and have the right to vote and exercise managerial control over the association (if the savings and loan association was established in the form of a cooperative).

The cause of the savings and loan crisis in the U.S. was the specific nature of these institutions. Although small in size and local in character, the savings and loan industry dominated the mortgage housing credit sector in the U.S. With regulated deposit interest rates and few alternative investment options for small retail clients, these institutions relied on relatively inexpensive deposits to finance their long-term fixed-rate mortgage loans.

Starting in the late 1970s, interest rates sharply increased, leading to a withdrawal of deposits as clients flocked to newly created money market funds, which offered market rates on deposits. This resulted in a sharp decline in the market value of the mortgage portfolios of savings and loan associations, and by mid-1982, the cumulative negative net worth of all savings and loan associations reached $100 billion.

I. The Savings and Loan Crisis in the U.S. Preconditions for the Creation of the RTC (2)

Instead of directly and clearly addressing the issues in the savings and loan industry, the government adopted regulatory and legislative measures aimed at delaying the recognition of losses and deregulating savings and loan associations, hoping that the organizations would be able to resolve the issues themselves by increasing profitability.

To combat the savings and loan crisis, two laws were passed – the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Garn-St. Germain Depository Institutions Act of 1982.

These laws significantly expanded the powers of savings and loan associations, reduced oversight from regulatory bodies, and removed the interest rate ceilings on deposits.

Under the adopted legislation, savings and loan associations began offering higher interest rates on deposits to attract funds, as well as investing in riskier commercial real estate and junk bonds.

The effect of the measures taken was short-lived. As a result of investing in high-risk instruments, many savings and loan associations began to experience profitability issues.

Despite the deteriorating situation, the authorization for lending was not revoked even for illiquid savings and loan associations, which led to the insolvency of the FSLIC in 1987. Despite recapitalization by the federal government, by the beginning of 1989, the FSLIC had again exhausted its reserves, and its insurance fund became insolvent. Congress responded to this by passing the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), under which the Federal Savings and Loan Insurance Corporation was abolished, and the Resolution Trust Corporation (RTC) was created.

II. Creation of the Resolution Trust Corporation (RTC)

The Resolution Trust Corporation (RTC) was created in 1989 as an organization to resolve insolvent savings and loan associations, recognized as insolvent between January 1, 1989, and August 8, 1992.

It is important to note that the RTC was not a traditional asset management company, as it did not acquire the assets of insolvent savings and loan associations but instead managed the resolution of the organizations themselves.

The corporation's headquarters were located in Washington, D.C., with regional offices in Atlanta, Dallas, Denver, and Kansas City. Additionally, RTC had 14 branch offices and 14 sales offices across the country. The maximum staffing level of the corporation was 8,614 employees (in 1991).

In addition to its primary mandate of resolving troubled savings and loan associations, the RTC had the following objectives:

•Maximizing the net present value from the sale/liquidation of failed savings and loan associations and their assets;

•Minimizing the impact of RTC transactions on the local real estate market;

•Increasing the availability of housing for low- and moderate-income buyers.

According to FIRREA, the RTC was under the supervision of the Federal Deposit Insurance Corporation (FDIC), which was also responsible for appointing the CEO of the RTC.

Moreover, an Oversight Board was created within the RTC, which included the U.S. Secretary of the Treasury (as the board chairman), the Chairman of the Federal Reserve, the U.S. Secretary of Housing and Urban Development, and two representatives from the private sector.

III. Financing of the Resolution Trust Corporation (RTC)

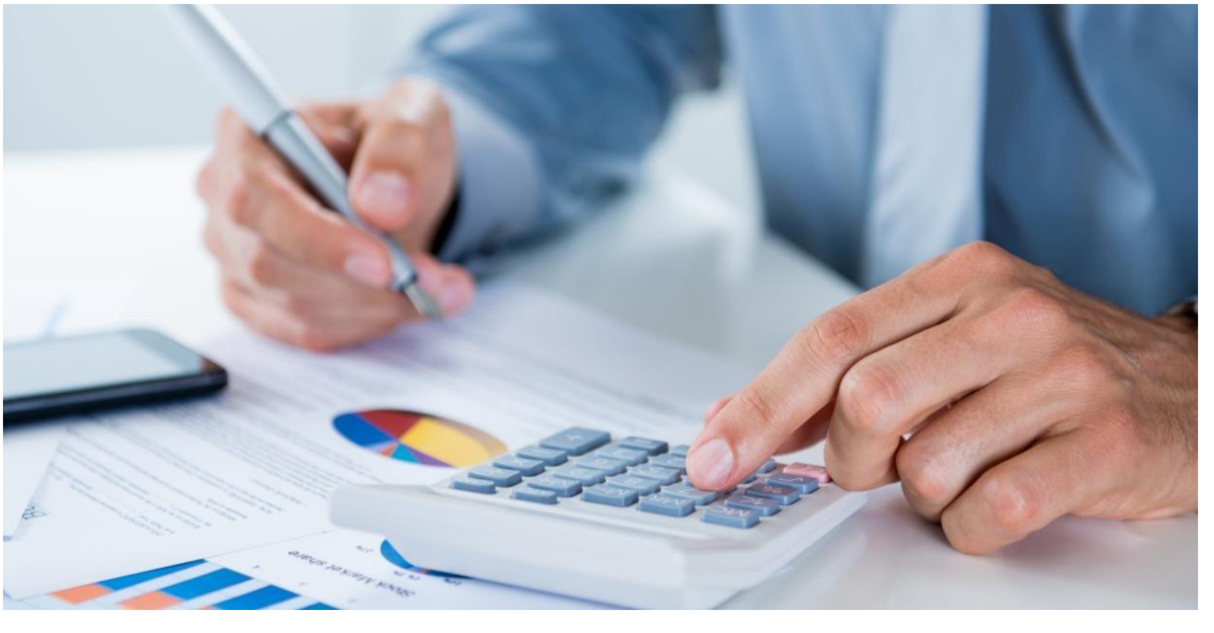
The activities of the RTC were financed through taxpayer funds. In total, Congress approved three tranches for the corporation, totaling $105.1 billion (the corporation used only $91.3 billion), of which:

$31.3 billion was raised through the issuance of 30-year bonds by the government-private organization Resolution Funding Corporation (REFCORP). The burden of paying interest on these bonds was borne by taxpayers and members of the savings and loan industry through higher insurance premiums and taxes on the profits of housing credit banks;

$1.2 billion was provided by the Federal Home Loan Banks;

The remaining funds were raised through budget appropriations.

The working capital of the RTC was provided through short-term loans from the Federal Financing Bank, secured by expected profits from asset sales. The maximum amount of loans received by the RTC was $63 billion (in 1991), which was later fully repaid from the proceeds of asset sales.



IV. Resolution of Troubled Savings and Loan Associations

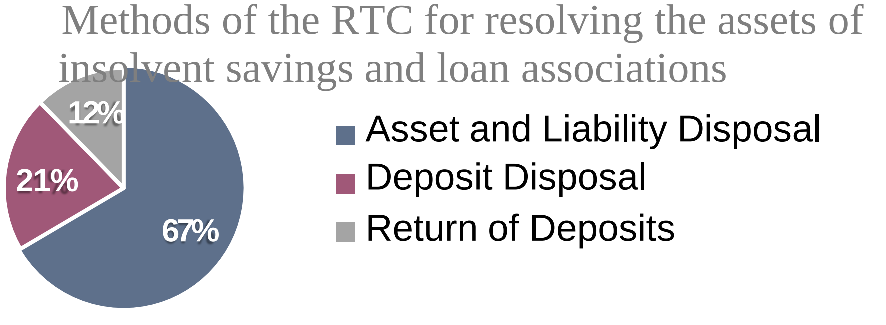
The main activity of the RTC was the management of insolvent savings and loan associations in a trust capacity. As the trustee, the corporation conducted ongoing assessments of the associations' conditions, covered high-cost liabilities and operational expenses. Subsequently, decisions were made regarding their sale or liquidation.

After the resolution of troubled organizations, the corporation began managing and liquidating their residual assets.

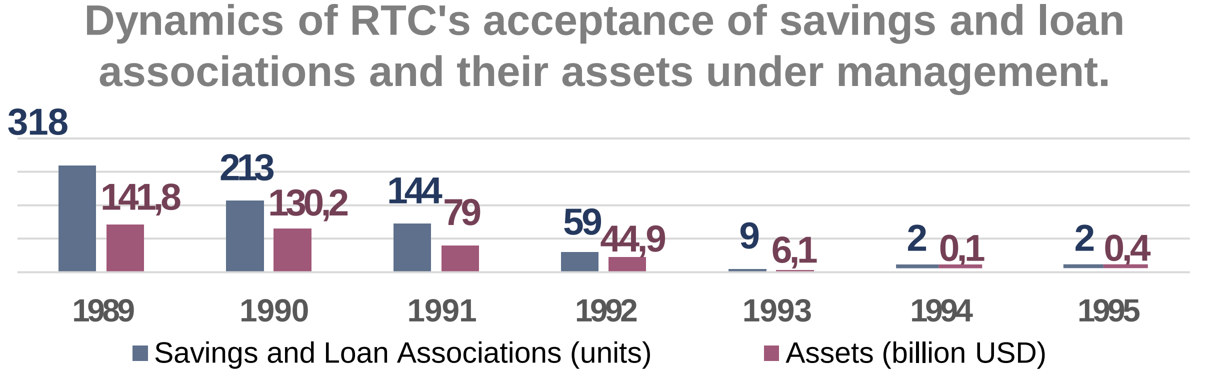
The primary method of asset management was the bulk or partial sale of the assets and liabilities of troubled savings and loan associations to financially "healthy" organizations.

The second method involved transferring the deposits of clients of troubled savings and loan associations to healthy institutions.

Additionally, in some cases, the return of deposits to the depositors of troubled savings and loan associations was carried out by the RTC itself.



In total, during its existence, the RTC resolved 747 savings and loan associations with a total asset size of $402.5 billion.



V. Asset Disposal (1)

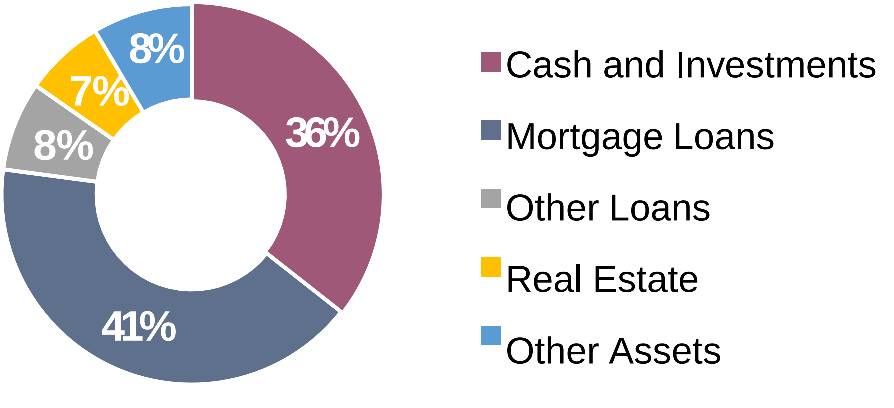
To develop a sales strategy, the corporation carried out asset segmentation based on specific criteria (location, quality, and maturity). Subsequently, in close cooperation with the investment community, the RTC adapted products to meet the needs of investors.

Along with traditional asset disposal methods, such as organizing auctions, the RTC also employed more advanced techniques, including securitization and entering into joint venture agreements to promote the sale of less liquid assets.

To fulfill its mandate regarding increased housing accessibility, the RTC developed a program for the free transfer of property to non-profit organizations or government agencies, provided the transferred assets would be used as shelters for the homeless, housing for low-income families, and daycare centers for families with low and moderate incomes.

During its operation, the corporation sold over 100,000 affordable housing units totaling more than $2 billion and also facilitated the free transfer of over 1,000 residential properties.

Types of Assets Disposed of by RTC:



V. Реализация активов (2)

In accordance with FIRREA, the corporation was also granted the right to engage private sector contractors for asset management and disposal, if necessary. RTC lacked sufficient human resources and the necessary experience in managing, evaluating, preparing for sale, and disposing of the least liquid assets.

As a result, for problematic assets, the corporation relied on private contractors (companies specializing in asset management and sales), with whom it entered into standard Asset Management and Disposal Agreements (SAMDA). The duration of SAMDA agreements was three years, with the possibility of an additional three-year extension.

In the initial SAMDA agreements (known as SAMDA I), the commission structure was tied to the sale of individual assets.

In the SAMDA II contracts, which the corporation began signing in April 1991, the contractors' fees were linked to the performance of the entire pool of assets managed by the contractor.

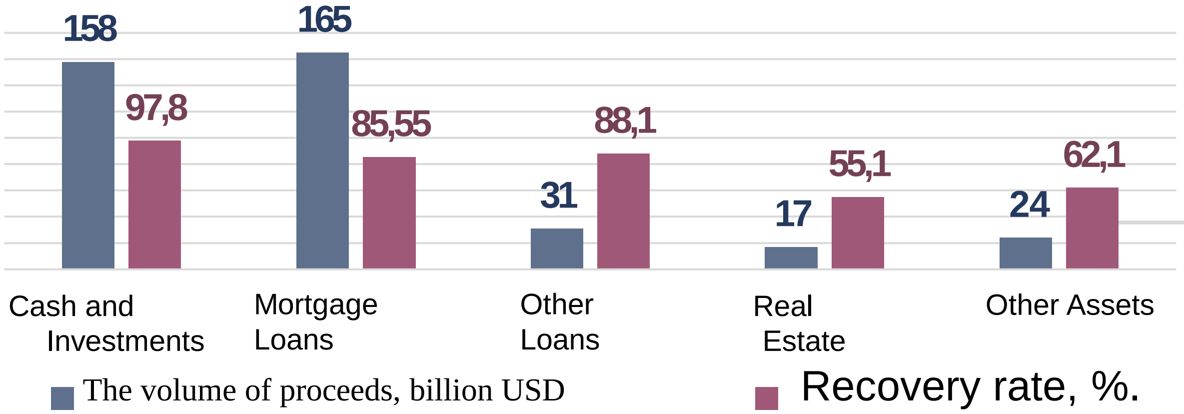
To expedite the asset disposal process, subcontractors could be hired by contractors to manage and dispose of RTC's assets.

From 1990 to 1993, RTC entered into 199 asset management and disposal agreements with a total book value of $48.5 billion with 91 contractors.

VI. Results of Activities

From 1989 to 1995, RTC successfully accomplished its primary objectives, reducing the overall cost of the savings and loan crisis in the United States to 3% of GDP. The corporation successfully resolved 747 insolvent savings and loan associations and disposed of assets worth over $400 billion, with an average recovery rate of 87%. The recovery ratios varied widely depending on asset types, ranging from 98% for highly liquid cash and investment portfolios to 55% for problem real estate.

Recovery rates of RTC by asset types



Additionally, the corporation developed programs to provide affordable housing for individuals and families with low and moderate incomes and involved the private sector in the asset disposition process through asset management contracts.

The high speed of RTC’s asset recovery was largely due to the fact that the corporation managed a portfolio of relatively high-quality assets. About 77% of its assets were in the form of highly liquid cash, investments, and mortgage loans. Liabilities on 80% of the loans accepted by RTC were fully serviced and continued to be paid according to the terms of the loan agreements, with only 20% of the loans classified as problem loans.

The material was prepared by the Corporate Development Department of JSC "FPC."
The following materials were used in the preparation:
Public Asset Management Companies, Caroline Cerruti and Ruth Neyens, World Bank Group;
RTC Statistical Abstract: August 1989/September 1995;
U.S. Resolution Trust Corporation, Aidan Lawson, Yale Program on Financial Stability.
Infographics: JSC "FPC"