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THE WHITE HOUSE
WASHINGTON

Date: October 29, 1990

FOR: GOVERNOR SUNUNU

FROM: **ED ROGERS**

- ☐ Action
- ☐ Your Comment
- ☐ Let's Talk
- ☒ FYI

THE CHIEF of STAFF
has seen

OVERSIGHT BOARD
RESOLUTION TRUST CORPORATION

October 26, 1990

Ed Rogers -

Attached are press releases relating to the Operating Plan for the RTC and Seller Financing which might be of interest to you.

Peter Monroe

PRESS RELEASE

OVERSIGHT BOARD
Resolution Trust Corporation
1777 F STREET, N.W. WASHINGTON, D.C. 20232

FOR IMMEDIATE RELEASE
October 25, 1990
OB 90-62

Contact: Art Siddon
Felisa Neuringer
(202) 786-9672

**OVERSIGHT BOARD APPROVES
RTC OPERATING PLAN**

The Oversight Board of the Resolution Trust Corporation (RTC) today approved an RTC operating plan for the first six months of Fiscal Year 1991 calling for the sale or liquidation of approximately 192 insolvent thrifts by March 31, 1991.

The plan, which is dependent upon appropriate funding action by Congress, would bring the total number of thrifts resolved since Aug. 9, 1989 to approximately 479.

Under the plan, the Oversight Board would authorize the RTC $62.2 billion in new funding, including $23.3 billion to resolve the 192 thrifts and $38.9 billion in working capital to be borrowed through the Federal Financing Bank (FFB).

"The RTC has proposed an ambitious plan for the first six months of FY '91 which will allow it to continue a high level of resolutions," said Peter H. Monroe, Oversight Board president. "If the RTC meets its target of 192 new resolutions, it will have sold or closed approximately 90 percent of all thrifts seized by the RTC to date.

"It is important for the RTC to move forward with these resolutions and to continue to accelerate the pace of asset sales, which should only be enhanced by our recently issued policies on securitization and seller financing," he added.

more

OVERSIGHT BOARD
Resolution Trust Corporation
1777 F STREET, N.W. WASHINGTON, D.C. 20232

Of the \$23.3 billion in loss funds anticipated for the six month period, \$11.3 billion would come from Treasury appropriations and \$12 billion from the sale of Resolution Funding Corporation (REFCORP) bonds -- \$5 billion of the \$12 billion in REFCORP bonds were auctioned Oct. 11.

The Oversight Board, established by FIRREA, formulates the policy, approves the funding, and provides the general oversight for the Resolution Trust Corporation, the agency responsible for resolving the nation's failed thrifts.

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October 25, 1990

FACT SHEET
RTC OPERATING PLAN AND FUNDING REQUIREMENTS
FIRST SIX MONTHS OF FISCAL YEAR 1991

- The Resolution Trust Corporation's operating plan is based on the assumption Congress will provide $40 billion in funding for FY 1991.

- The Oversight Board approved the RTC's operating plan for the first six months of fiscal year 1991 which will permit the RTC to continue a high level of resolutions with a an estimated 192 new cases, which would bring the total number of resolved thrifts to 479.

- The approved plan provides the RTC with new funding of $62.2 billion including loss funds of $23.3 billion (of which $12 billion would come from the Resolution Funding Corporation and $11.3 billion from the Treasury), and $38.9 billion in working capital from the Federal Financing Bank (FFB) [$5 billion of the $12 billion in REFCORP funds were provided in the Oct. 11 auction].

- The Oversight Board approves the RTC rolling over its outstanding borrowings from the FFB of $45.8 billion.

- Of the $38.9 billion of new working capital authorized, $26.2 billion is for new case resolutions and $14.8 billion is for asset puts.

- At the end of fiscal year 1990, the cumulative net loss on resolved institutions was approximately $33 billion.

- Under the approved plan, the cumulative net loss will increase to $61.3 billion based on the RTC resolving 192 new cases.

- As of the end of FY 1990, the Oversight Board has authorized the use of $38 billion in loss funds, which includes $18.8 billion in Treasury appropriations, $1.2 billion from the Federal Home Loan Banks, and $18 billion in REFCORP proceeds.

- As an additional source of funds, the approved plan provides for $12 billion in dividends from the sale of receivership assets.

- The fair market value of RTC's receivership claims as of the end of FY 1990 is approximately $40 billion. If the RTC resolves 192 new cases, the fair market value of its receivership assets would increase to approximately $79 billion, net of the dividends from asset sales.

PRESS RELEASE

OVERSIGHT BOARD
Resolution Trust Corporation
1777 F STREET, N.W. WASHINGTON, D.C. 20232

FOR IMMEDIATE RELEASE
October 24, 1990
OB 90-61

Contact: Art Siddon
Felisa Neuringer
(202) 786-9672

OVERSIGHT BOARD ACTS TO EXPEDITE RTC ASSET SALES

The Oversight Board for the Resolution Trust Corporation (RTC) approved financing strategies today designed to speed the sale of assets by the RTC.

Policies adopted by the Board encourage the RTC to securitize all types of financial assets and expand the current seller financing policy (statement #13) for certain real estate assets, including affordable housing.

"The Oversight Board recognizes the importance of seller financing and the use of the private sector to accelerate the sale of RTC assets and reduce the costs to the taxpayer," said Peter H. Monroe, president of the Oversight Board.

"We will keep a close eye on how the RTC implements the policies and will continue to examine additional financing techniques that may help the RTC accomplish asset sales," he said.

Actions taken by the Oversight Board allow the RTC to:

o Securitize for sale all financial assets -- including mortgage loans, high yield bonds, and any loans originated by the RTC under seller financing -- to help speed sales. Securitization is the process of pooling financial assets to serve as collateral for securities to be sold in the open market.

o Use several types of credit enhancements, including senior/subordinated structures, to create a high quality, investment grade security that is readily marketable. The RTC may hold the subordinated class, up to the amount of its participation.

- more -

o Eliminate the requirement to sell RTC financed loans to the secondary market within one year of origination, as previously specified in the seller financing policy adopted last March.

o Raise the $1 billion revolving cap on outstanding seller financing for real estate to $1.25 billion in order to provide $250 million in low-interest loans to qualified buyers of affordable housing.

o Negotiate with Fannie Mae and Freddie Mac to create a partnership to make affordable housing financing more available. Typically, private lenders would provide a first mortgage for sale to Fannie Mae or Freddie Mac. RTC would provide a much smaller second mortgage, and the buyer would provide a downpayment on the home.

o Originate direct market rate loans for affordable housing properties through a contract with loan underwriters for families and properties ineligible for the Fannie Mae/Freddie Mac Partnership Program or other types of financing.

o Provide special financing for certain families currently renting properties from the RTC who are ineligible for other types of financing. Under this plan, renters would be required to pay two months rent as a down payment.

o Use the private sector in the funding and servicing of seller financed mortgage loans to the greatest extent possible.

The Oversight Board, established by the Financial Institutions Reform, Recovery and Enforcement Act in 1989, formulates the policy, approves the funding, and provides general oversight of the Resolution Trust Corporation.

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RESOLUTION

WHEREAS, the Oversight Board has encouraged the RTC to increase the pace of asset sales of the Resolution Trust Corporation ("RTC"), thereby reducing Treasury borrowing and reducing costs to American taxpayers; and

WHEREAS, the Executive Director of the RTC has proposed financing strategies that are intended to facilitate the sale of RTC assets; and

WHEREAS, at the meeting of the Oversight Board of October 11, 1990, the Executive Director of the RTC presented recommendations and programs for amending the current RTC seller financing policy for real estate assets, and for amending policy for the securitization and sale of financial assets; and

WHEREAS, the Oversight Board wishes to provide the RTC with operating flexibility with regard to asset sales financing; and

WHEREAS, the Oversight Board wishes to encourage the sales of properties in the Affordable Housing Disposition Program; and

WHEREAS, the Executive Director of the RTC has recommended two new programs to facilitate the sales of affordable housing, the "Fannie Mae/Freddie Mac Partnership" program and the "RTC Direct Loans" program, which are described in the Attachment to this Resolution; and

WHEREAS, the Oversight Board wishes to make $250 million in RTC financing available for the purchase of affordable housing in addition to the $188 million of municipal bond financing already committed to RTC affordable housing; and

WHEREAS, the Oversight Board in its Strategic Plan for the RTC has encouraged the packaging or securitization and sale of financial assets of RTC conservatorships;

WHEREAS, the Oversight Board wishes to encourage the RTC's use of securitization for the sale of receivership and corporate held financial assets, not only as a means of expediting sale, but for capturing any eventual appreciation of the assets for the RTC and the American taxpayers:

NOW, THEREFORE, BE IT RESOLVED that the Oversight Board hereby endorses the securitization and sale of financial assets held by the RTC as receiver, as conservator, or in its corporate capacity, including any financial assets held by the RTC as a result of its financing of asset sales, utilizing credit enhancements as necessary and appropriate; and

BE IT FURTHER RESOLVED that the following methods of credit enhancement presented by the RTC are hereby approved as appropriate for use by the RTC in the securitization and sale of financial assets:

1. Mortage pool insurance, provided by a private mortgage insurance company to cover losses on a specified loan portfolio up to a maximum amount;

2. Letter of credit, provided by a bank to cover credit losses up to a specified maximum;

3. Bond insurance, provided by a private bond insurer to reimburse a bondholder in the event of default by the issuer;

4. Overcollateralization, by the application of cash flows from a given amount of loan assets against a lesser amount of liabilities;

5. Senior/subordinated structure, by the creation of two or more classes of investor participation in a pool of loans, the junior or subordinated class, which may be held by the RTC, retaining credit risk, up to the amount of its participation, to the extent that such risk exceeds other credit enhancements that may be in place; and such structure should ensure that the RTC, which represents the interests of American taxpayers, obtains the benefits of any eventual appreciation of the pool assets, commensurate with the risks it has retained; and

6. Spread account/reserve fund, by the dedication of excess income from a loan pool to fund a reserve against future losses associated with the pool; and

BE IT FURTHER RESOLVED that the Oversight Board hereby encourages the RTC to employ and contract with experts in securitization techniques and sales to act on behalf of the RTC in the securitization and sale of financial assets; and the Oversight Board encourages the RTC to establish a single issuing entity or procedure to facilitate the securitization of loans from multiple receiverships and conservatorships, to the extent reasonably practicable; and

BE IT FURTHER RESOLVED that the provision of Policy Statement Number 13 of the Oversight Board, titled "Seller Financing of Asset Sales", which requires the RTC's good faith determination that any seller financed loan may be sold on a non-recourse basis within a reasonable period of time (within one year) from origination, shall not apply to any seller financed loan originated on or after the date of this Resolution; provided, however, that the RTC shall attempt to sell any such loan on a non-recourse basis as soon as the RTC deems such sale to be practicable and cost effective; and

BE IT FURTHER RESOLVED that properties in the RTC's Affordable Housing Disposition program may be sold and financed by purchase money mortgages pursuant to the programs set forth in the Attachment to this Resolution, subject to the dollar limitation on outstanding seller financing of affordable housing set forth below, provided, however, that the RTC shall report monthly to the Oversight Board in such form as the President of the Oversight Board shall direct concerning the implementation of such programs for seller financed disposition of affordable housing properties, it being the intention of the Oversight Board to evaluate such programs based on the RTC's experience thereunder and that this funding shall not set a precedent for future expansion of the program; and the Oversight Board hereby requests the RTC to recommend further actions to accelerate the sale of affordable properties, including pricing reduction policies and strategies to increase FHA participation in the financing of condominiums and physical rehabilitation; and

BE IT FURTHER RESOLVED that the RTC is hereby directed to ensure that the underwriting of seller mortgages for affordable housing minimizes the likelihood of future defaults and foreclosures, which would be detrimental both to the homebuyer and the RTC; and

BE IT FURTHER RESOLVED that the RTC is hereby directed to create mechanisms to ensure that affordable properties achieve compliance with applicable building codes at closing or reasonably soon thereafter; and

BE IT FURTHER RESOLVED that the Oversight Board hereby determines that the amount made available for outstanding seller financing of properties in the Affordable Housing Disposition Program at any time shall be $.25 billion, and the limitation of $1 billion in Policy Statement Number 13 on the amount of total outstanding seller financing loans that may be held by the RTC at any time is increased to a total of $1.25 billion, of which $.25 billion shall be allocated for seller financing of affordable housing; provided, however, that such limitations shall not apply to the trial bulk sales transactions approved by the Oversight Board by Resolution dated July 13, 1990; and

BE IT FURTHER RESOLVED by the Oversight Board that the RTC is hereby encouraged to devise programs utilizing the private sector in the structuring, funding, and servicing of seller financed mortgage loans to the maximum extent feasible, including, without limitation, the delegation of origination and servicing for affordable seller mortgages, provided that adequate safeguards are employed, and that the design of such program be presented to the Oversight Board for review; and

BE IT FURTHER RESOLVED that the policies and procedures established by this Resolution are effective and shall be carried out by the RTC notwithstanding any provision of any other Policy Statement of the Oversight Board.

ADOPTED by the Oversight Board, effective October __, 1990.

Assistant Secretary

Attachment

ATTACHMENT

1. **Fannie Mae/Freddie Mac Partnership Program**
First mortgages at a 75%-80% loan to value ratio would be underwritten by Fannie Mae/Freddie Mac lenders for sale to these secondary mortgage market agencies. Loans would be originated at current market interest rates, and Fannie Mae/Freddie Mac would generally follow their standard "first time homebuyer" underwriting criteria (e.g., 5% downpayment). RTC would take a second mortgage of 15%-20% of the sale price, which would accrue interest at the note rate on the first mortgage. Borrowers would be required to participate in a credit counseling course prior to obtaining the loan and in debt counseling sessions once a year thereafter. RTC would contract for the servicing of the second mortgage with the entity servicing the first mortgage for Fannie Mae/Freddie Mac. RTC could hold the second mortgages or sell them into the secondary mortgage market.

This approach closely follows special "first time homebuyer" programs initiated by Freddie Mac with the Michigan Housing Finance Agency and the City of Greensboro, North Carolina.

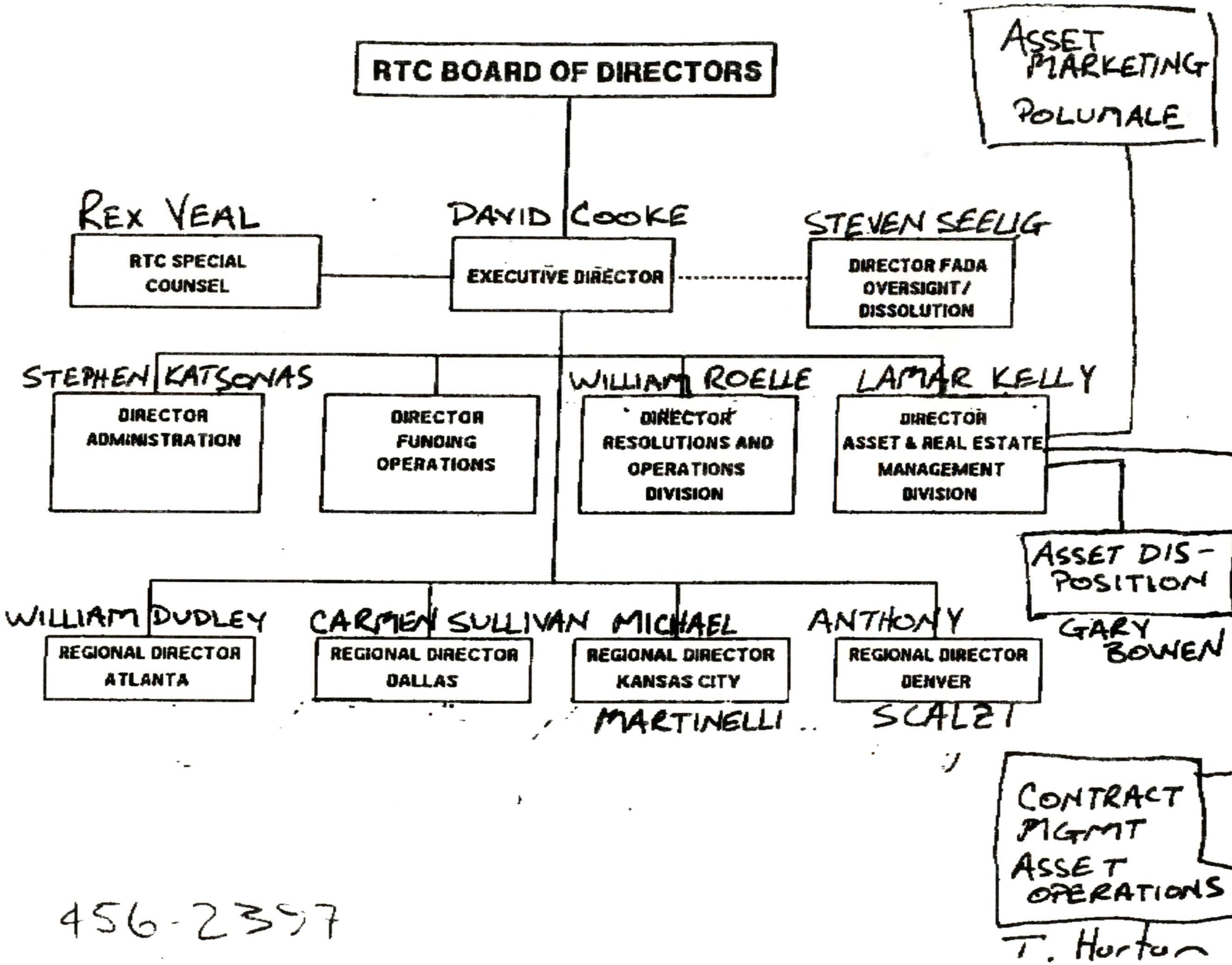
Such financing would be offered for families believed to be ineligible for private sector financing and would be available only for families earning 115% of area median income or less as well as nonprofit organizations purchasing eligible properties in bulk.

2. **RTC Direct Loans**
For families or properties ineligible for the Fannie Mae/Freddie Mac Partnership Program, RTC would contract with loan underwriters to make direct market rate loans generally following FHA borrower underwriting criteria. RTC would offer direct loans to families earning 80% of area median income or less as well as to nonprofit organizations purchasing eligible properties from the RTC in bulk.

Special financing would be provided for certain families currently renting properties from the RTC who are ineligible for other types of financing. Loans would be written at an interest rate between 7% and current market rates in an amount that would permit the purchaser's monthly mortgage/condominium payments to come as close to current rent payments as possible. The RTC would require two months deposit to be made as a downpayment. Borrower counseling similar to the Fannie Mae/Freddie Mac partnership program would be required.

RTC would periodically sell mortgages accumulated under these approaches into a senior/subordinated or other securitization structure. This approach closely follows that used by the VA in its Vendee loan program. Loans which had been originated, but not yet sold, as well as the face value of subordinated pieces held by the RTC would count toward the $250 million cap.

SENT BY:Ashburn Village ; 4-27-90 1:35PM ; 2024562397;# 1



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