

# CBO TESTIMONY

Statement of  
James L. Blum  
Assistant Director  
Budget Analysis Division  
Congressional Budget Office

before the  
Resolution Trust Corporation Task Force  
Committee on Banking, Finance,  
and Urban Affairs  
U.S. House of Representatives

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## NOTICE

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**CONGRESSIONAL BUDGET OFFICE**  
SECOND AND D STREETS, S.W.  
WASHINGTON, D.C. 20515

Mr. **Chairman**, I am pleased to have the opportunity to appear before this Task Force to discuss the Congressional Budget Office estimates of the cost of resolving insolvent savings and loan institutions. I will begin by reviewing **CBO's** cost estimates, published in January in our annual report to the Budget **Committees**. I will then comment on events since January that may affect these estimates, and conclude by comparing our estimates with those recently made by the Administration.

#### PROJECTED COSTS OF RESOLVING THE SAVINGS AND LOAN CRISES

CBO believes that for purposes of summarizing the costs of the savings and loan debacle, the single most useful figure is the present value of future costs. Present value, which economists and financial analysts widely use, reflects that payments and receipts will take place over many years or even decades, and expresses the value of those future flows in **today's** dollars.

In January, CBO estimated that the present-value cost of resolving the savings and loan crisis would be \$215 billion. This included costs of \$60 billion that would be charged to the **FSLIC** Resolution Trust Fund for those institutions that the regulators had closed before the establishment of the Resolution Trust Corporation (**RTC**). Our estimate of the present value of **RTC's**

cleanup costs, expressed in terms of 1990 dollars, was \$155 billion. This estimate was derived from cash flow projections through 2004 and assumed a caseload of 1,600 institutions.

The budget, however, is in terms of current year dollars and is measured on a cash basis. **CBO's** January budget projections through fiscal year 1996 are summarized in Table 1. The insurance losses estimated for the RTC total \$155 billion over the 1989-1996 period. Interest and administrative expenses for the same period amounted to another \$65 **billion**. This amount must also be paid by loss funds. In addition, working capital disbursements were projected at \$382 billion. Receipts, derived from the disposal of assets acquired through the resolution process, were estimated to total \$365 billion. Additional sales of assets were assumed to be made after 1996 to balance out the working capital **disbursements**.

I would like to make two important points about these **estimates**. First, they are very **uncertain**. No one can predict how many thrifts the regulators will decide to close, or how fast RTC will resolve failed or failing institutions. Because a high degree of uncertainty surrounds the future path of interest rates and real estate

TABLE 1. OUTLAYS FOR DEPOSIT INSURANCE IN THE CBO  
BASELINE (By fiscal year, in billions of dollars)

	Actual 1989	Estimate 1990	1991	1992	1993	1994	1995	1996
<b>Resolution Trust Corporation</b>								
Insurance Losses	1	34	47	32	21	17	<b>4</b>	<b>0</b>
Working Capital								
Disbursements	9	33	67	102	87	76	<b>9</b>	0
Receipts	0	-3	-26	-53	-75	-82	<b>-74</b>	-52
Payments from Federal Home Loan Banks	-1	0	<b>0</b>	<b>0</b>	0	0	0	0
Receipts from Resolution Funding Corporation (REFCORP)	0	<b>-18</b>	-12	0	0	0	0	0
Interest and Adminis- trative Expenses	a	1	<b>5</b>	<b>9</b>	14	15	14	<b>9</b>
Total Budget Outlays	9	47	80	90	47	26	<b>-48</b>	<b>-43</b>
Total Including REFCORP	9	65	92	90	47	26	<b>-48</b>	<b>-43</b>
<b>Other Deposit Insurance Agencies</b>								
Federal Savings and Loan Insurance Corporation ( <b>FSLIC</b> )	10	b	b	b	b	b	b	b
<b>FSLIC</b> Resolution Fund	a	5	11	4	3	3	2	2
Savings Association Insurance <b>Fund (SAIF)</b>	a	a	0	-1	a	a	3	4
Bank Insurance Fund	3	6	13	4	-2	-3	-4	-6
<b>Other<sup>c</sup></b>	a	a	a	a	a	a	a	a
Total								
Total Budget Outlays for Deposit Insurance	22	58	103	98	48	25	<b>-47</b>	-42
Total Including REFCORP and <b>FICO</b>	26	76	115	98	48	25	-47	-42

SOURCE: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Year 1992-1996* (January 1991).

NOTE: Budget outlays reflect the treatment of the Resolution Funding Corporation (REFCORP) and Financing Corporation (FICO), shell corporations created solely to borrow funds for savings and loan resolutions, as government-sponsored enterprises. This treatment permits their borrowing to reduce the deficit. CBO has long viewed this treatment as inappropriate. The estimates assume the provision of additional resources to the RTC beyond those available under current law.

- a. Less than \$500 million.
- b. Defunct.
- c. Primarily National Credit Union Share Administration.

**values**, it is difficult to project the cost of disposing of failed thrift assets. As a **result**, we will not know the actual cost of resolving failed savings and loan institutions until the last asset has been disposed, which probably will be well beyond the year 2000. The actual cost could easily vary from our January estimate by \$30 billion in either direction.

Second, **CBO's** January estimates assumed that the RTC would receive adequate funds on a timely basis. Funding delays, such as those that occurred in fiscal year 1991, could increase the final costs of the thrift crisis, and could lengthen the amount of time needed to complete the resolution process.

#### EVENTS SINCE JANUARY \_\_\_\_\_

The last point is particularly important for **CBO's** budget estimates for fiscal year 1991. In January, we estimated that net outlays by the RTC for the current fiscal year would total \$80 billion. At this point, RTC net outlays this year will clearly be considerably **lower**, on the order of \$45 billion to \$55 billion, or about the same level as for fiscal year 1990. Although the RTC was given an additional \$30 billion in loss money in March, the pace of resolving institutions is significantly

slower than that assumed for our January budget estimates.

As loss funds dried up, the pace of **RTC's** resolutions slowed **dramatically**. In the period from January through March, RTC closed only 22 institutions. Another 56 were closed in April through June. For July through September, 127 institutions may be closed. These **quarterly** caseloads are considerably lower than the peak quarter of April through June 1990 when RTC closed 155 **institutions**.

CBO is in the process of updating its January budget projections; these will be made public in mid-August. At this **time**, **CBO's** estimates of the eventual cost and number of thrift resolutions will probably not change **significantly**. To date, the estimated costs of resolution by the RTC have been close to our projected costs. The shortfall in budget outlays for the RTC in 1991 will not affect our 1992 and 1993 estimates much, if at all, since they assumed that the RTC would be operating at full capacity. Rather, we will probably increase our outlay projections for 1994 and beyond.

COMPARISON WITH ADMINISTRATION ESTIMATES \_\_\_\_\_

The Administration has estimated that the cost of the savings and loan cleanup would be in the range of \$90 billion to \$130 billion in 1989 dollars. This range is lower than **CBO's** present value cost estimate of \$155 billion in 1990 dollars. In recent **testimony**, the Administration projected that as much as \$160 billion in loss funds, measured in nominal or budget dollars, would be needed for the RTC to complete its work.

To date, the Congress has provided \$80 billion in loss funds, \$50 billion by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and \$30 billion by the RTC Funding Act of 1991. The Administration has requested that the Congress provide up to an additional \$80 billion to the RTC to finish the job, of which \$50 billion to \$55 billion would be needed in fiscal year 1992.

The Administration apparently expects that the RTC may have to resolve about 900 thrifts and that the job can be completed by the end of fiscal year 1993. Under current law, **RTC's** authority to resolve institutions ends on August 9, 1992, except for those thrifts already

placed in **conservatorship**. The Administration has requested a one-year extension of this authority.

While CBO does not have enough information about the **Administration's** latest estimates to make a precise comparison, our January estimates suggest that the final resolution costs will be higher, that more institutions will be closed, and that the cleanup job will take more time. Specifically, we estimate that the Congress may have to provide \$100 billion to \$140 billion in loss funds in addition to the \$80 billion provided to date. This range reflects the uncertainty in projecting the costs of the cleanup effort that I mentioned earlier in my statement.

CBO also believes that as many as **1,600** thrift institutions will most likely have to be resolved, or between 500 and 700 more than the number the Administration currently projects. Finally, our January estimates assumed that the RTC **would** remain active through late 1995, three years beyond the period contemplated in **FIRREA**. Nothing has happened since January that would lead us to revise our estimates.