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Report to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking and Financial Services

June 1995

1993 BANK RESOLUTIONS

FDIC Further Improved Its Resolution Process

GAO/GGD-95-118

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General Government Division

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Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate

The Honorable James A. Leach
Chairman
The Honorable Henry B. Gonzalez
Ranking Minority Member
Committee on Banking and Financial Services
House of Representatives

This report presents our analysis of the Federal Deposit Insurance Corporation's (FDIC) compliance with section 13(c)(4) of the Federal Deposit Insurance Act, as amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). This section of the act requires FDIC to calculate and document its evaluation of the costs of alternatives for resolving a troubled depository institution and to choose the resolution alternative that it determines to be least costly to the deposit insurance fund. These statutory provisions establish the basic requirements that FDIC must meet in making its resolution decisions.

The act requires that we annually audit FDIC's compliance with the FDICIA least-cost provisions. This is our second such report. In our first report,[1] we stated that FDIC's process for resolving failed institutions during 1992 was adequate to provide for compliance. During the course of that review, FDIC continuously improved its process relative to on-site asset valuations and documentation of the valuation assumptions. We reported that FDIC's process also included using a research model primarily as a secondary source to check the reasonableness of its on-site asset valuations. We also reported that in the 22 resolutions we reviewed, FDIC had chosen the resolution alternative that it determined was the least costly of the alternatives considered and adequately documented the bases for those resolution decisions. However, we found that in 18 of the 22 cases, FDIC had not documented its rationale for the marketing strategy it selected.

[1] 1992 Bank Resolutions: FDIC Chose Methods Determined Least Costly, but Needs to Improve Process (GAO/GGD-94-107, May 10, 1994).

Results in Brief

From our current review of 10 of the 42 banks that failed and were resolved during 1993, we found that FDIC further improved its resolution process, particularly the documentation of its marketing strategies and the bases for its resolution decisions. We also found that FDIC generally conformed to its resolution process and consistently made decisions based on its determination of the least costly available resolution alternative. In 6 of the 10 resolutions we reviewed, we found that FDIC performed prescribed on-site asset valuations, estimated the values of deposits and other liabilities, and developed a broad range of marketing strategies to solicit bids from potential acquirers. FDIC adequately documented its evaluations of the failed banks' assets, deposits, and other liabilities as well as the bids received from potential acquirers. In addition, we found that FDIC made improvements in communicating with potential bidders and monitoring its prior resolution experience, including previous arrangements with acquirers to share with FDIC in the losses of certain failed bank assets.

FDIC, however, was unable to fully conform to its standard resolution process in 4 of the 10 resolutions we reviewed because conditions causing the banks' failures, such as liquidity problems or fraud, required FDIC to move quickly to resolve them without benefit of complete on-site asset valuations. Since FDIC did not have sufficient time to make on-site valuations, it used its research model to estimate the value of most or all of the failed banks' assets. FDIC officials told us that their model yields less accurate and reliable asset valuations than those resulting from on-site reviews. Additionally, without benefit of an on-site review, FDIC cannot identify any assets that may be tainted due to fraud, environmental concerns, or other legal problems. Further, without an on-site review, potential acquirers do not have a basis on which to bid for the failed bank's assets. Consequently, in these cases, FDIC did not offer potential acquirers the opportunity to purchase those assets, thus limiting available resolution alternatives.

Notwithstanding these circumstances, we found that FDIC adequately documented its valuations and their related bases as well as the bids received on the assets, deposits, and other liabilities offered to potential acquirers. We also found that FDIC selected the available resolution alternative it determined to be the least costly.

FDIC officials told us they expect the number of failing banks with liquidity problems to increase relative to total failures, and therefore they anticipate having to use the research model more in the future. FDIC is currently taking several actions to improve its process relative to liquidity failures, such as enhancing the research model and developing a broad-based asset disposition tracking system. However, FDIC officials told us that these efforts will not appreciably improve the research model's asset valuation reliability and thus they would not offer assets valued by the model for sale at the time of resolution. The officials also told us that if they had earlier access to banks with liquidity problems, they could do on-site asset valuations, allow potential acquirers the opportunity to do an on-site review, and market the assets to potential acquirers.

Background

Resolving failed or failing banks is a primary FDIC responsibility. FDICIA generally requires FDIC to select the resolution alternative it determines to be the least costly to the Bank Insurance Fund (BIF). To make this least-cost determination, FDIC must (1) consider and evaluate all possible resolution alternatives by computing and comparing their costs on a present-value basis, using realistic discount rates, and (2) select the least costly alternative on the basis of the evaluation.

In selecting the least costly resolution alternative, FDIC's process is to compare its estimated cost of liquidation—basically, the amount of insured deposits paid out minus the net realizable value of an institution's assets—with the amounts that potential acquirers bid for the institution's assets and deposits. FDIC's Division of Resolutions (DOR) must then estimate the net realizable value of an institution's assets by performing an on-site Asset Valuation Review (AVR) or, when time or other constraints exist, by using a computer model (called the research model). To solicit the greatest number of bids, FDIC normally offers various marketing options to potential acquirers.

FDIC has resolved failed or failing banks using three basic methods, which include (1) directly paying depositors the insured amount of their deposits and disposing of the failed bank's assets (deposit payoff and asset liquidation); (2) selling only the bank's insured deposits and certain other liabilities, with some of its assets, to an acquirer (insured deposit transfer); and (3) selling some or all of the failed bank's deposits, certain other liabilities, and some or all of its assets to an acquirer (purchase and assumption). Within this third category, many variations exist based on specific assets that are offered for sale. For example, some purchase and assumption resolutions have also included loss-sharing agreements—an arrangement whereby FDIC, in order to sell certain assets with the intent of limiting losses to BIF, agrees to share with the acquirer the losses on those assets.

An interim resolution alternative available to FDIC—used occasionally and only under certain conditions, such as known market interest in the troubled bank—is to establish a bridge bank to take interim control of the operations of the bank. In this way, FDIC can operate the bank temporarily to preserve the franchise value—that is, its value as an ongoing entity—until an orderly final resolution decision can be made. FDIC can operate a bridge bank for 2 years with the option for three 1-year extensions; however, FDIC officials stated that their general practice is to operate a bridge bank for less than 6 months.

The resolution alternatives that FDIC considers in the agency's least-cost deliberations result largely from FDIC's efforts to market the failed banks' assets, deposits, and other liabilities. On a case-by-case basis, FDIC develops a marketing strategy for the various ways to offer a failed bank to potential acquirers. The marketing strategy is shaped, according to FDIC policy, by the unique characteristics of the institution and market conditions at the time the strategy is developed. Typically, the marketing strategy includes any one approach or a combination of approaches to selling the failed bank. Usually, FDIC's marketing strategy includes a potential bid framework for both purchase and assumption and insured deposit transfer transactions. Each bid received is an individual resolution alternative that FDIC considers and evaluates in its least-cost resolution process.

FDIC officials believe that better returns on failed bank assets ultimately result if those assets are immediately passed to the private sector rather than being held by the government until they are eventually sold. Accordingly, FDIC devises its marketing strategies so that, to the extent possible, more assets are available for the private sector to consider acquiring at the time of resolution.

Objective, Scope, and Methodology

The objective of this review was to determine the extent to which FDIC complied with FDICIA requirements to select the least costly resolution alternative. To address our objective, we judgmentally selected for review 10 banks with the largest total asset value of the 42 banks that failed and were resolved by FDIC during 1993. These 10 banks had total assets of $2.9 billion and had resolution costs to BIF of $354 million. The 42 banks had total assets of $4 billion and had estimated BIF losses of $532 million. The

10 banks included various attributes, such as different types of resolution methods, the two asset valuation methods, and geographic dispersion. Of the 10 selected banks, 1 major resolution was done at DOR headquarters in Washington, D.C., and 9 regional resolutions were done at DOR regional offices—2 in Boston, 3 in Dallas, and 4 in San Francisco. See appendix I for profile information relative to the 10 sampled resolutions.

We modified the data collection instrument we used in our last study to document and track the information gleaned from our review of the 10 resolution case files. We collected data from the inception of resolution activity through the final resolution decision. In particular, we focused on DOR's performance of asset valuations, documentation of the assumptions used, approaches to marketing the bank, bids received and costed via application of the cost test, and the treatment of uninsured depositors. We also reviewed pertinent policies and procedures, and interviewed numerous FDIC officials.

In our first assessment of FDIC's least-cost resolution process, we reviewed in considerable detail the computer programs underlying the AVR and research model developed by FDIC to value assets. Because the computer programs remained unchanged for 1993 resolutions, we did not repeat that review. Instead, for our sampled resolutions, we concentrated on the circumstances requiring the use of the different asset valuation techniques and on the results they produced.

We assessed the adequacy of FDIC's resolution process to determine the least costly resolution alternative, using the criteria developed in our earlier report on CrossLand Savings Bank.[2] We did not determine whether, in fact, the least costly resolution alternative resulted. The ultimate cost of a resolution cannot be identified until all remaining assets are sold and liabilities are paid by FDIC as receiver, which generally takes several years.

In addition to our detailed analysis of the 10 sampled resolutions, we made a limited review of CrossLand Savings Bank, First City Texas, and Missouri Bridge Bank, which were resolved during 1993 but failed in previous years. Each of those resolutions involved bridge bank arrangements and loss-sharing agreements. We reviewed them to assess the effect the resolution alternatives had on the development of FDIC's marketing strategies.

[2]Failed Bank: FDIC Documentation of CrossLand Savings, FSB, Decision Was Inadequate (GAO/GGD-92-92, July 7, 1992).

We did our work between August and December 1994 at FDIC headquarters in Washington, D.C., and DOR regional offices in Boston, Dallas, and San Francisco. FDIC provided written comments on a draft of this report. The comments are summarized on pages 11 and 12 and reprinted in appendix II. Our work was done in accordance with generally accepted government auditing standards.

FDIC Selected Resolution Alternatives It Determined to Be Least Costly

Our review of the 10 sampled resolutions showed that FDIC generally conformed to its resolution process and consistently selected the resolution alternative it determined to be the least costly. FDIC also adequately documented the marketing strategies and the bases for its resolution decisions. We further found that when circumstances enabled FDIC to make on-site valuations of the assets of failed banks, it generally developed a broad range of marketing options. In addition, we found that FDIC continued to improve its marketing strategies to help ensure least costly resolutions.

AVRs Enabled FDIC to Provide a Wide Range of Resolution Alternatives

FDIC had the opportunity to prepare on-site asset valuations, which FDIC officials told us normally take 4 to 6 weeks, in 6 of the 10 banks we reviewed. FDIC marketed the six banks by offering various combinations of all or most of their assets. Our review of these 6 resolutions showed that FDIC received 56 bids from 19 potential acquirers and consistently chose the resolution alternative it determined to be least costly.

FDIC officials told us they offer failed bank assets to potential acquirers only when on-site asset valuations are made. The officials also said they believe that assets made available to the market and sold at resolution produce greater returns to FDIC than if FDIC retained the assets for subsequent sale. Our review of the six resolutions wherein FDIC completed an AVR showed that FDIC offered all or most of the assets for sale.

FDICIA requires FDIC to document its evaluation of the costs of resolution alternatives considered, including the assumptions on which the evaluations are based. Our review of the six resolutions with an on-site asset valuation showed that the documentation specifically noted the assumptions made for interest rates, asset recovery rates, asset holding costs, and payments of contingent liabilities. For example, one AVR noted that current market interest rates were used for various categories of commercial property, residential real estate, and consumer loans. Further, the AVR noted that all rates were obtained by contacting local financial institutions within the bank's area.

FDIC Improved Its Communication With Bidders and Monitoring of Loss-Sharing Agreements

During 1993, FDIC expanded its communication with bidders and its monitoring of loss-sharing agreements in order to develop a broad range of resolution alternatives and improve future marketing strategies. These efforts involved (1) discussions with nonwinning bidders after final resolution, (2) authorization of second-round bids when acceptable bids were not received during initial bidding, and (3) the monitoring of loss-sharing agreements through on-site reviews and tracking of losses.

DOR took steps to ensure it was offering a broad range of options to potential bidders by meeting with losing bidders to discuss ways to better market future failed institutions. While such meetings have not yet been institutionalized for use nationwide, and the results of the meetings held in 1993 were not always documented, FDIC officials told us that the meetings were very informative and helped them develop marketing strategies. Our review of the six resolutions in which FDIC performed an AVR provides some support for the FDIC officials' belief that FDIC was responsive to the bidders' needs. For example, we found that no nonconforming bids[3] in our 10 sampled cases were determined by FDIC to be the least costly resolution alternative. By comparison, our first least-cost resolution review found that in 4 of the 22 cases reviewed, nonconforming bids were judged to be the least costly resolution alternative. Thus, meetings with losing bidders may have helped FDIC stay abreast of market concerns and offer resolution options more consistent with market interests.

In a further effort to communicate with bidders, to sell most or all of the assets of failed banks, FDIC authorized second-round bids when acceptable bids were not received during initial bidding. For example, the marketing of one bank produced six bids; however, none of the six bids was determined by FDIC to be less costly than the cost to liquidate the bank or included the required purchase of bank operations. FDIC facilitated the two highest bidders' efforts to form a consortium and submit a new bid, which FDIC determined resulted in the least-cost resolution. While FDIC could have liquidated the bank because no better bid was submitted, it took the extra steps in this circumstance and was able to sell the bank and its operations, lessening the cost to BIF.

[3]A nonconforming bid differs from FDIC's marketing strategy and options offered. A nonconforming bid may or may not be significantly different from FDIC's recommended conforming bid.

In another resolution, FDIC received two bids that were comparable when the least-cost test was applied. Rather than force a distinction between the similar bids, FDIC requested a second round of bidding from the two potential acquirers. The second-round bids created a distinction between the two potential acquirers and were higher than the initial bids, enabling FDIC to lessen the cost of resolution. FDIC officials advised us that marketing techniques such as these, as well as potentially selling failed bank branches to different acquirers, will be considered relative to the circumstances of the particular failed bank and its potential market. Consequently, they said these marketing techniques have been tried on a case-by-case basis and will continue to be considered on that basis in FDIC's resolution process.

FDIC also improved its monitoring of loss-sharing agreements to expand its knowledge of the efficiency and effectiveness of this technique for selling poorly performing assets at resolution. In a typical loss-sharing agreement, FDIC reimburses acquirers 80 percent of the loss on certain assets for a period of up to 5 years and shares in any recoveries beyond the loss-sharing period. To ensure that only appropriate losses are shared, FDIC initiated on-site reviews of assets held by acquirers and a quarterly reporting of FDIC's loss-sharing amounts. FDIC anticipates using information on loss-sharing to improve its future marketing strategies.

Liquidity or Suspected Fraud Failures Reduced Resolution Alternatives

When bank failures involved factors such as liquidity problems or suspected fraud, FDIC used its research model to value all or most of the assets because it did not have time to do complete AVRS. However, since FDIC officials were aware that the model's valuations were not as reliable as those resulting from on-site asset valuations, and also because time was not available for potential acquirers to adequately review the failed bank's assets, FDIC did not market the assets valued by the model at resolution. Our review confirmed that when time or other constraints precluded FDIC from making on-site asset valuations, FDIC did not offer assets valued by the model to potential acquirers.

FDIC officials anticipate using the research model more in the future, since they believe that bank failures involving liquidity problems will increase relative to total failures. Although they have initiated several actions to improve the reliability of the model's asset valuations, they have no current solution to the model's shortcomings. They are, however, exploring other options aimed at increasing asset valuation reliability under the tight time constraints often encountered in liquidity failures.

Model's Asset Valuations Less Reliable Than AVRs

FDIC uses its research model instead of an on-site asset valuation to value a failed bank's assets only when certain conditions in the bank require FDIC to promptly resolve it. These conditions include liquidity problems—which limit the bank's ability to meet depositors' withdrawals—legal concerns, and suspected fraud. The research model is based on FDIC's recovery experience for six broad categories of assets that belonged to small banks that failed between 1986 and 1990.

FDIC officials told us that the research model produces asset valuations that are less reliable than those resulting from on-site asset valuations. Further, one official stated that the model does not provide enough information on specific asset valuations because it groups assets into six broad and not very meaningful categories. For example, one-to-four family mortgages and commercial real estate loans are included in the same category. Also, use of the research model prevents FDIC from determining whether any of the assets are tainted due to possible fraud, environmental concerns, or other legal problems. As a result, FDIC does not offer assets valued only by the model for sale at resolution, which limits FDIC's marketing strategies.

Our review of the 10 resolutions disclosed that in 4 of them FDIC primarily used the research model to value assets. FDIC marketed three of the banks by offering deposits and limited loan portfolios and marketed the other bank by offering only deposits. Of the three banks marketed with loan portfolios, one offered a small amount of loans at a price to be determined by the receiver after the bank's closure, and the other two offered only those loans that had been valued by a limited on-site asset valuation. Because of time or other constraints, comprehensive on-site asset valuations could not be made, which precluded FDIC from offering all of the failed banks' assets to potential acquirers.

FDIC Efforts Under Way to Improve Model

FDIC officials are aware they need to improve the model's reliability, particularly because they anticipate using it more in the future. The officials told us they believe that bank failures due to liquidity problems will increase. For instance, they believe that the prompt corrective action provisions of FDICIA, such as the requirement that regulators close banks whose capital falls below a certain threshold, may result in some surprise liquidity insolvencies that could have an impact on the resolution process.

At present, FDIC does not have a ready solution to the research model's shortcomings. Its Division of Research and Statistics, which assessed the model's accuracy by comparing its estimates with actual sales, was unable to find conclusive evidence upon which adjustment could prudently be made or determine why the model's estimates differ appreciably from actual experience. FDIC is refining the model's formulas and updating the database to include its recovery experience for the assets of small and medium banks that failed between 1989 and 1991. However, FDIC officials told us these changes would not be sufficient to provide the information needed to make accurate valuations because the model will continue to group assets in six broad categories.

FDIC is also working on another initiative that may provide a basis for improving asset valuation reliability. FDIC plans to complete an asset disposition system during 1996 that will track the performance of assets from acquisition to disposition. The system would assign each asset a unique number so that its estimated value could be tracked and compared with its eventual sales price, thus establishing a feedback loop to assess the accuracy of the initial asset valuation.

FDIC Is Considering Other Asset Valuation Options

Without a viable interim solution to the model's shortcomings, FDIC is reviewing other options for ways to more accurately value assets when time constraints preclude on-site reviews. For example, FDIC is considering how to reduce the time needed to make an on-site valuation. Also, to expand the time available to value assets, FDIC is planning to develop guidance on the use of bridge banks. However, FDIC officials believe that earlier access to failing banks with liquidity problems is key to allowing them sufficient time to perform on-site valuations of the assets.

FDIC officials told us they are working on ways to reduce the time required to make on-site asset valuations. By using data from another of its systems, called the Risk Analysis and Value Estimation System, FDIC hopes it can reduce on-site asset valuation time. However, this project is in its initial stages, and FDIC has not established timeframes for its completion.

The only other option FDIC has at present is to expand the time available to value assets. One method to expand the time is establishing a bridge bank. Because the risk of changing market conditions is inherent in bridge banks, and they can basically only be considered when there is a known market interest in the troubled bank, FDIC has been judicious in establishing them. FDIC has not yet provided guidance to help its officials decide when the bridge bank option should be considered; however, its officials advised us that a policy and users manual for bridge bank selection at resolution is in the process of being developed and should be ready for use by June 1995.

Another way to expand the time available for valuing assets is for FDIC to gain earlier access to failing banks with liquidity problems. However, FDIC officials told us that when banks fail because of liquidity problems, the banks' primary regulators have generally not provided DOR with access early enough for it to complete on-site valuations or for potential acquirers to do on-site reviews. Thus, FDIC has had to use the research model to value assets and has not marketed those assets at the time of resolution. FDIC officials said they are working with primary bank regulators on a case-by-case basis to gain early access to known problem banks to enhance the least-cost resolution process.

Conclusions

During 1993, FDIC generally conformed to its resolution process and consistently selected the resolution alternative it determined to be least costly to BIF on the basis of its valuations and the bids it received. When circumstances enabled FDIC to value assets on-site, it developed a broad range of marketing strategies that produced various resolution alternatives. FDIC improved the documentation of its marketing strategies and the bases for its resolution decisions, including evaluations of the failed banks' assets, deposits, and other liabilities. It also improved its communication with bidders and strengthened its monitoring of loss-sharing agreements.

When time was not available to make complete on-site asset valuations, because of conditions such as a failed bank's liquidity problems, FDIC had to use its research model to value assets. Because FDIC officials lack confidence in the model's ability to accurately value assets, they did not offer those assets to potential acquirers at the time of resolution, thus limiting available resolution alternatives. FDIC has several initiatives under way to improve its asset valuation capabilities. Even so, FDIC officials believe that gaining earlier access to failing banks with liquidity problems is key to providing the time needed to do on-site reviews and enable FDIC to provide a range of marketing options to potential acquirers.

Agency Comments

FDIC, in its written comments on a draft of this report, indicated it agreed with the content and conclusions. It also said it was drafting a letter to the Comptroller of the Currency to pursue getting earlier access to failing banks with liquidity problems in order to enhance the range of marketing options FDIC can present to potential acquirers. FDIC's comments are reprinted in appendix II.

We are sending copies of this report to the Chairman, Federal Deposit Insurance Corporation, and other interested parties. We will also make copies available to others upon request.

This report was prepared under the direction of Mark J. Gillen, Assistant Director, Financial Institutions and Markets Issues. Other major contributors are listed in appendix III. If there are any questions about this report, please contact me on (202) 512-8678.

James L. Bothwell

James L. Bothwell
Director, Financial Institutions
and Markets Issues

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Abbreviations

AVR	Asset Valuation Review
BIF	Bank Insurance Fund
DOR	Division of Resolutions
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991

Summary Data on GAO Sample of FDIC's 1993 Resolutions

This appendix includes profile information on the DOR resolutions included in our sample. Table I.1 shows the data from our analyses of the 10 sampled resolutions.

Table I.1: GAO Sample of FDIC's 1993 Resolutions

Dollars in thousands

DOR office/Failed bank	Date closed (1993)	Total assets[a]	Total deposits[a]	Percentage of assets retained by FDIC[b]	Least costly resolution alternative	Asset valuation method used	Reason for resolution
BOSTON							
First National Bank of Vermont	January 29	$293,474	$263,244	33	Whole bank purchase and assumption with loss sharing	On-site review	Critically undercapitalized
Jefferson National Bank	February 26	226,518	219,028	88	Insured deposit purchase and assumption	Research model	Liquidity, equity, and fraud problems
DALLAS							
American Bank of Haltom City	February 5	96,984	95,999	40	Insured deposit purchase and assumption with optional asset pools	On-site review	Capital insolvency
College Boulevard National Bank	April 2	205,987	191,404	81	Insured deposit purchase and assumption	Research model	Liquidity problems and possible fraud
Midland Bank of Kansas	April 2	128,963	121,704	82	Insured deposit purchase and assumption	Research model	Liquidity problems and possible fraud
SAN FRANCISCO							
American Commerce National Bank	April 30	131,166	117,835	92	Insured deposit purchase and assumption	Research model	Unsafe and unsound practices and conditions, possible fraud
Capital Bank of California	June 18	229,366	219,509	100	Payout	On-site review	Deterioration in asset quality, poor underwriting
Mid City Bank, N.A.	October 21	104,414	96,354	66	All deposit purchase and assumption with asset pool	On-site review	Critical undercapitalization, unsafe and unsound condition
The Bank of San Diego	October 29	316,755	298,433	83	Insured deposit purchase and assumption with asset pools	On-site review	Critically undercapitalized
WASHINGTON							
New England Savings Bank	May 21	1,146,324	775,856	14	Whole bank purchase and assumption	On-site review	Significant decrease in capital

(Table notes on next page)

[a]Values as noted by DOR before the bank's closing.

[b]Assets retained by FDIC upon closure of the bank.

Comments From FDIC

FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429

Office of the Director
Division of Resolutions

April 21, 1995

Mr. James L. Bothwell
Director, Financial Institutions and Market Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Bothwell:

This letter is in reply to your letter of April 10, 1995 to Chairman Helfer wherein you discuss your draft report entitled 1993 Bank Resolutions: FDIC Further Improved its Resolution Process (code B-259981).

The FDIC is pleased that this statutorily required audit determined that the FDIC consistently chose the resolution alternative that was least costly compared to other alternatives considered as required by the Federal Deposit Insurance Corporation Improvement Act.

We understand that Steve Saks from your office and Fred Selby from DOR met yesterday to discuss additional minor word changes which will be incorporated into your final report.

We are in the process of drafting a letter to the Comptroller of the Currency in order to pursue earlier access to failing banks with liquidity problems in order to be able to enhance the range of marketing options we can reasonably present to potential acquirers in time limited failure scenarios.

Finally, we appreciate the professionalism of Assistant Director Mark Gillen and his team, the audit's fairness and accuracy, as well as identifying the improvements made by the FDIC during the field work period of this audit.

Sincerely,

Robert H. Hartheimer
Acting Director

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