Contents

Managing the Crisis: The FDIC and RTC Experience examines the challenges faced by the FDIC and the RTC in resolving troubled banks and thrifts during the financial crisis of the 1980s and early 1990s. This study reviews the resolution and asset disposition strategies developed and implemented by the FDIC and the RTC in response to the crisis and describes the evolution of the methods used. It also reflects on the effectiveness of these methods, as well as the lessons learned. This study does not discuss the reasons for the upsurge in the number of bank and thrift failures during this period, nor does it explore how the crisis could have been prevented. Those issues are addressed in History of the Eighties—Lessons for the Future: An Examination of the Banking Crises of the 1980s and Early 1990s, a study that was complied and published by the FDIC in December 1997.

Part I

Chapter 1. Executive Summary

The Executive Summary provides an overview of the entire Managing the Crisis study.

Chapter 2. Overview of the Resolution Process

This chapter provides an overview of the specific steps undertaken by the FDIC and the RTC to complete a resolution of a failing or failed institution.

Chapter 3. Evolution of the FDIC's Resolution Practices

The FDIC employed various approaches to address the successive waves of bank insolvencies resulting from high interest rates in the late 1970s and early 1980s, energy and agriculture sector problems in the mid-1980s, and collapsing real estate markets at the end of the 1980s and early 1990s. This chapter describes those approaches and traces the expansion of resolution alternatives from traditional deposit payoffs and purchase and assumption transactions to later variations of those methods.

Chapter 4. Evolution of the RTC's Resolution Practices

On August 9, 1989, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Bank Board (FHLBB) and created the RTC. This chapter focuses on an important part of the RTC's overall activity: the evolution of its resolution practices.

Chapter 5. Open Bank Assistance

Open bank assistance occurs when a distressed financial institution remains open with government financial assistance. To prevent an insured depository institution from closing, the FDIC provided open bank assistance in the form of loans, contributions, deposits, asset purchases, or the assumption of liabilities. This chapter provides the history of the open bank assistance transaction.

Chapter 6. Bridge Banks

A bridge bank is a temporary national bank chartered by the Office of the Comptroller of the Currency and organized by the FDIC to take over and maintain banking services for the customers of a failed bank. It is designed to "bridge" the gap between the failure of a bank and the time when the FDIC can implement a satisfactory acquisition by a third party. This chapter discusses the formation of Bridge Banks.

Chapter 7. Loss Sharing

Loss sharing is a feature that the FDIC first introduced into selected purchase and assumption transactions in 1991. The original goals of loss sharing were to (1) sell as many assets as possible to the acquiring bank and (2) have the nonperforming assets managed and collected by the acquiring bank in a manner that aligned the interests and incentives of the acquiring bank and the FDIC. This chapter discusses various aspects of the Loss Sharing transaction.

Chapter 8. The FDIC's Role as Receiver

The FDIC has three main responsibilities: (1) to act as an insurer, (2) to act as a supervisor, and (3) to act as a receiver. The roles of insurer and receiver require that the FDIC play an active role in resolving failing and failed FDIC insured institutions. The FDIC's role as receiver is discussed in this chapter.

Chapter 9. The Closing Process and the Payment of Insured Depositors

Before federal deposit insurance, depositors typically would recover 50 percent to 60 percent of their money from a failed bank's receivership and depositors often were not able to obtain those funds for several years. Consequently, public confidence in the banking system wavered, and depositor runs became more frequent, thus triggering more bank closings. This chapter discusses that federal deposit insurance was designed to provide greater protection to depositors, thereby enhancing public confidence and leading to greater financial stability.

Chapter 10.Treatment of Uninsured Depositors and Other Receivership Creditors

A failed bank or thrift receivership has a statutory obligation to identify creditors and distribute proceeds of the liquidation of assets to these creditors commensurate with applicable statutes and regulations. This chapter discusses the evolution of the claims process from 1980 to 1994 into a uniform system now codified in federal law.

Chapter 11.Professional Liability Claims

Professional misconduct was a significant factor in the failures of financial institutions during the 1980s. The Professional Liability Program at the FDIC and the RTC played an important role in recovering losses from those failures. This chapter describes the development of professional liability operations at the FDIC and the RTC.

Chapter 12.Evolution of the Asset Disposition Process

This chapter provides an overview of the various asset disposition methods employed by the FDIC and the RTC in their various capacities. The chapter also describes how the

FDIC and the RTC adapted their asset disposition methods to meet the enormous challenges during the 1980 through 1994 period.

Chapter 13.Auctions and Sealed Bids

This chapter reviews the use of auctions and sealed bid marketing strategies by the FDIC and the RTC. It examines how the FDIC and the RTC marketed loans through the sealed bid process, how they used auctions to sell loans, and how they used sealed bid sales and auctions to sell real estate that they held.

Chapter 14.Asset Management Contracting

This chapter reviews the types of asset management and disposition contracts used by the FDIC and the RTC. The analysis includes a discussion of the evolution, strengths, and weaknesses of those contracts.

Chapter 15.Affordable Housing Programs

The volume of assets handled within the affordable housing programs of the RTC and FDIC were relatively minor compared to the total assets sold by both corporations. The RTC and FDIC viewed the programs as significant, however, because of their mission to provide low- to moderate-income housing within a larger program designed to minimize costs and maximize overall returns. This chapter discusses both the FDIC's and the RTC's Affordable Housing Programs.

Chapter 16.Securitizations

In October 1990, one year after the RTC was created, a securitization program was established to facilitate the sale of mortgage loans. This chapter focuses on the creation, development, and performance of this program.

Chapter 17.Partnership Programs

In the late 1980s and early 1990s, the RTC and the FDIC became custodians of a tremendous and unprecedented number of assets from failed banks and thrifts. The agencies therefore had to develop innovative methods to manage and dispose of the assets. One of the RTC's methods, known as the equity partnership, was a joint venture between the public and private sectors. This chapter discusses aspects of the various equity partnerships.

Chapter 18.The FDIC's Use of Outside Counsel

This chapter describes the FDIC's use of outside counsel from 1980 to 1996. It covers the increased use of outside counsel from 1989 to 1993 during the peak of the financial institution crisis, payments to outside counsel during the period, the advent of the

FDIC's Minority and Woman Outreach Program, the formation of a section to oversee the use of outside counsel, the development of uniform policies and procedures governing the use of outside counsel, the use of information systems, and the various statutory provisions that relate to the FDIC's use of outside counsel.

Chapter 19.Internal Controls

Internal controls provide management with reasonable assurance that its programs are effectively and efficiently executed; waste, fraud, and abuse and misappropriation of assets are minimized; financial statements are reliable; and compliance with the law is ensured. This chapter provides an overview of the evolution and implementation of internal control programs at the FDIC and the RTC.

Part II, Case Studies of Significant Bank Resolutions

Case Studies of Significant Bank Resolutions presents case studies of the 10 most notable problem banks to illustrate some of the FDIC's resolution processes. The case studies also show the effects on the FDIC of changes in banking legislation in the 1980s and 1990s.

Chapter 1: Overview

Chapter 2: First Pennsylvania Bank, N.A.

Chapter 3: Penn Square Bank, N.A.

Chapter 4: Continental Illinois National Bank And Trust Company

Chapter 5: First City Bancorporation of Texas, Inc.

Chapter 6: First RepublicBank Corporation

Chapter 7: MCorp.

Chapter 8: Bank Of New England Corporation

Chapter 9: Southeast Banking Corp.

Chapter 10: Seven Banks in New Hampshire

Chapter 11: CrossLand Savings, FSB

Chapter 12: Conclusions

Part III, Appendices

A. Legislation Governing FDIC's Roles as Insurer and Receiver

This appendix focuses on the FDIC from 1980 to 1994. To provide a historical context for that period, however, the appendix begins with a brief overview of some earlier, significant legislation passed by the U.S. Congress.

B. Glossary of Terms/Abbreviations

This list of abbreviations and glossary of terms is compiled from terminology that is used in this publication.

C. Statistical Data

This appendix provides graphical illustrations of the data presented in the study.

PREVIOUS CHAPTER NEXT CHAPTER TABLE OF CONTENTS