PROPOSED QUESTIONS FOR M. DANNY WALL

1. **Question**: Isn't it true that in the early to mid-1980's, the FSLIC used goodwill as a primary incentive, tantamount to assistance, to boost the capital of institutions acquiring failed or failing thrifts thereby avoiding a payout from the FSLIC fund?

   Background: During the period in question, the FSLIC undertook an aggressive program of mergers of failed and failing thrifts with stronger institutions and used goodwill in lieu of tangible assistance. Goodwill was included as an asset in calculating capital under both General Accepted Accounting Principles and regulatory accounting and therefore resulted in an increase in the acquiror's capital.

2. **Question**: In light of these earlier FSLIC practices, to what extent would the exclusion of goodwill from capital affect savings institutions? For example, how many institutions would fail the tangible capital standard under the proposed legislation; and second, how many institutions would be unable to meet their regulatory capital requirements under the proposed legislation allowing all goodwill to be amortized over a maximum 10-year period?

   Background: A study prepared by R. P. Financial, a consulting firm, concluded that an additional 243 thrifts would be considered insolvent under a tangible capital standard if the goodwill acquired in their acquisitions is excluded.

   A study of the 10-year amortization period is presently being conducted. However, the proposed 10-year amortization period is less than half the length of current amortization thereby requiring institutions to increase earnings or raise more capital to compensate for the increased amortization of goodwill.

3. **Question**: To what extent have the costs of rendering insolvent, institutions carrying goodwill on their books been considered in calculating the costs of the proposed legislation? What would the cost of such actions be to FSLIC (or the proposed SAIF)?

   Background: The R. P. Financial study estimates the additional cost to the insurance fund of the failures that will be caused by excluding goodwill as an asset in calculating capital to be $32 billion.