United States General Accounting Office

GAO

CHARTS FOR TESTIMONY

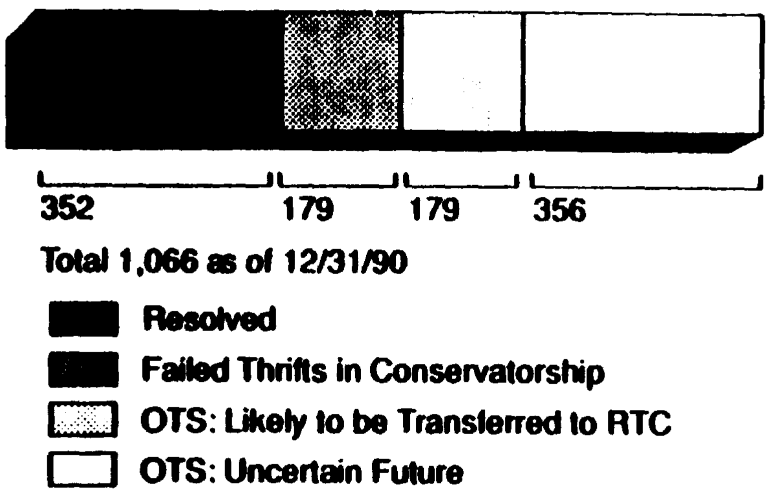
For Release
on Delivery
Expected at
10:00 a.m. EST
Wednesday,
February 20, 1991

Resolution Trust Corporation: Performance Assessment To Date

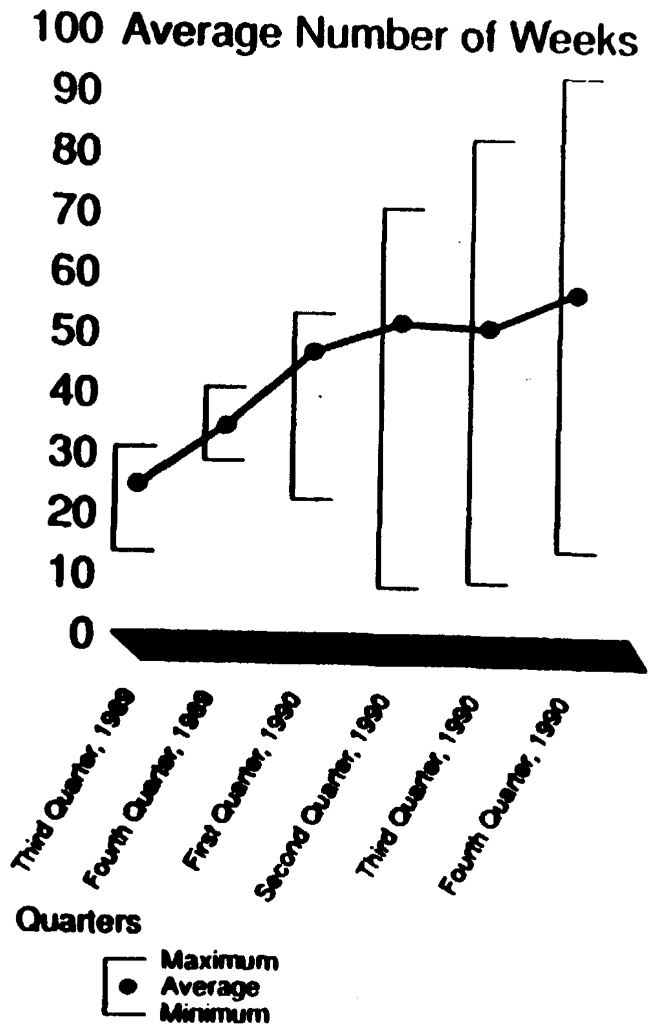
GAO/T-GGD-91-7

GAO Form 160 (12/87)

GAO Inventory of Actual and Estimated Failed Thrifts

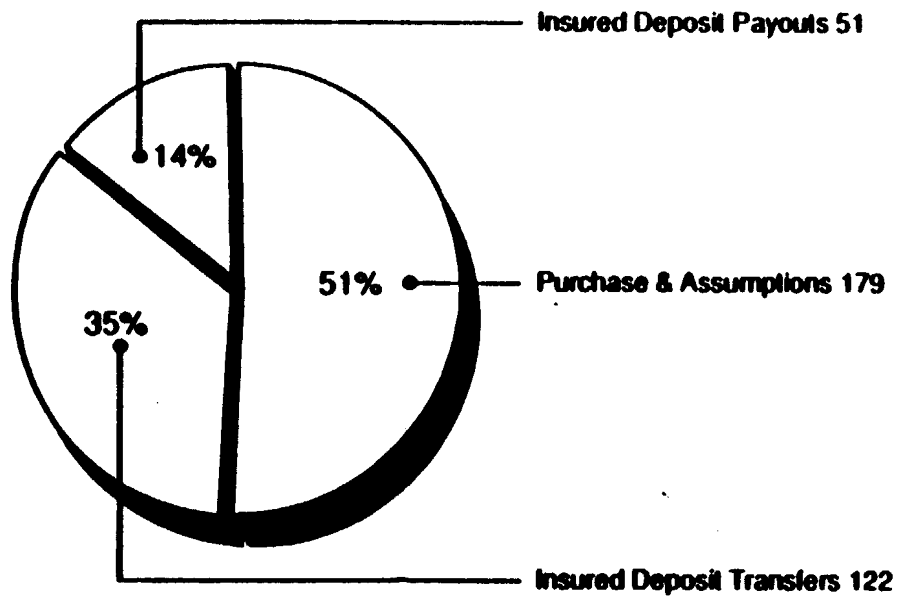


GAO Noncumulative Average Time in Conservatorship at Resolution



GAO Thrifts Resolved by RTC as of 12/31/90

Number of Thrifts: 352



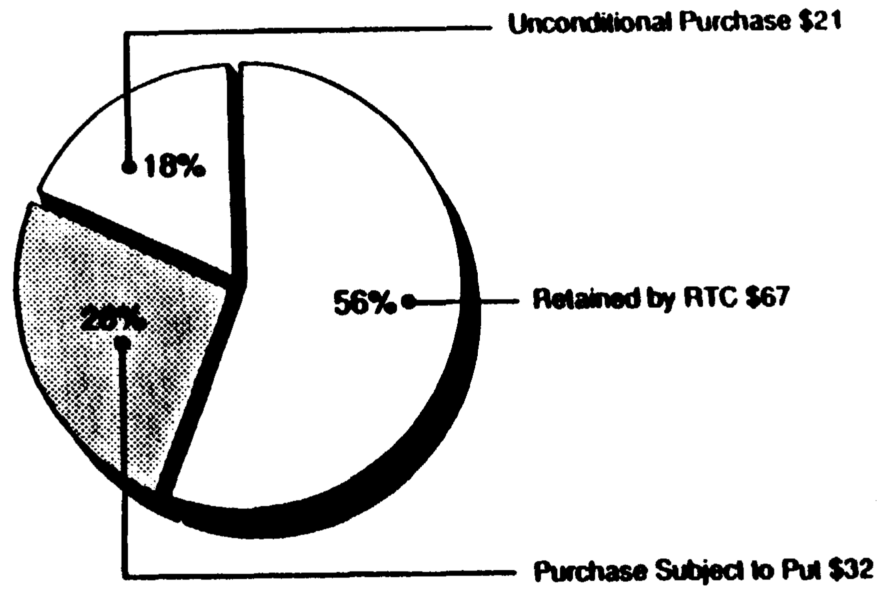
GAO RTC Asset Inventory

Dollars in Billions

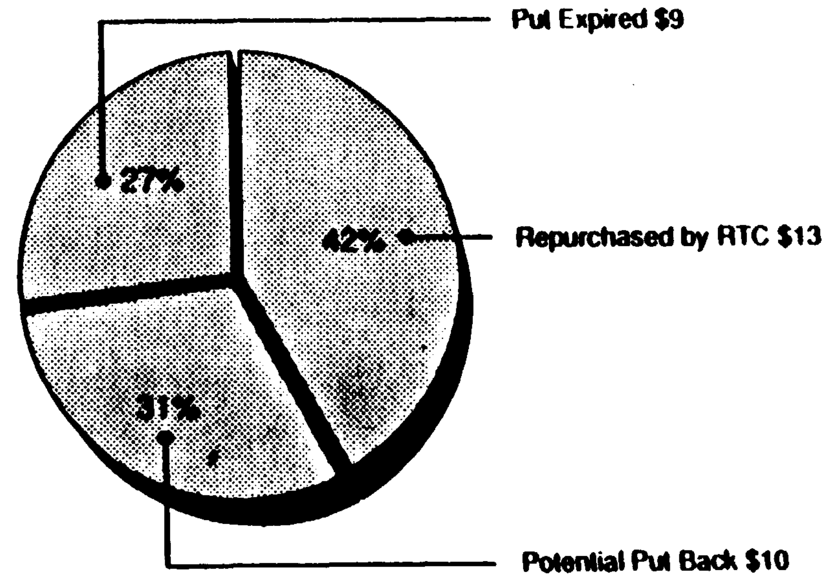
	Assets Received	Reductions	Inventory as of 12/31/90
Cash/Securities	78	50	28
Mortgages	127	53	73
Other Loans	21	8	13
Real Estate	21	5	17
Other Assets	24	11	13
Total	**271**	**127**	**144**

GAO Assets Transferred as of 12/31/90

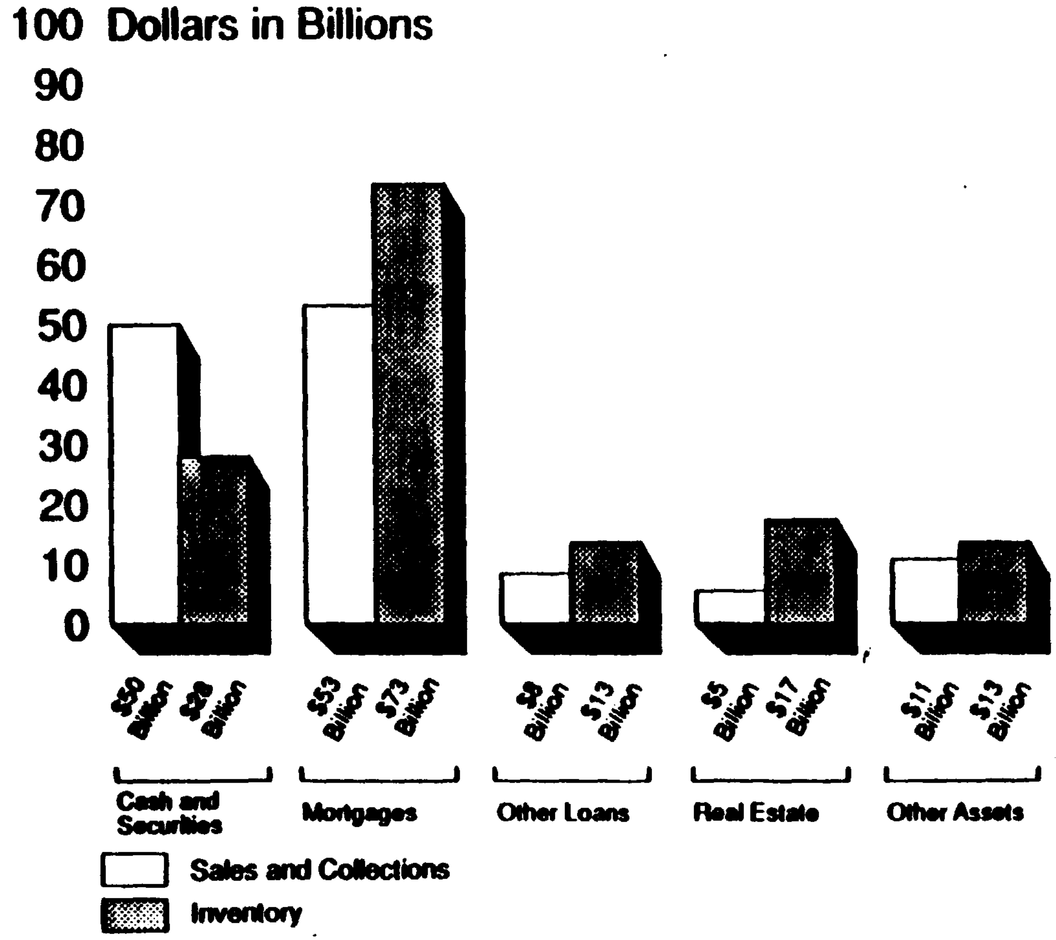
Assets in 352 Thrifts: $120 Billion



Purchased Subject to Put: $32 Billion

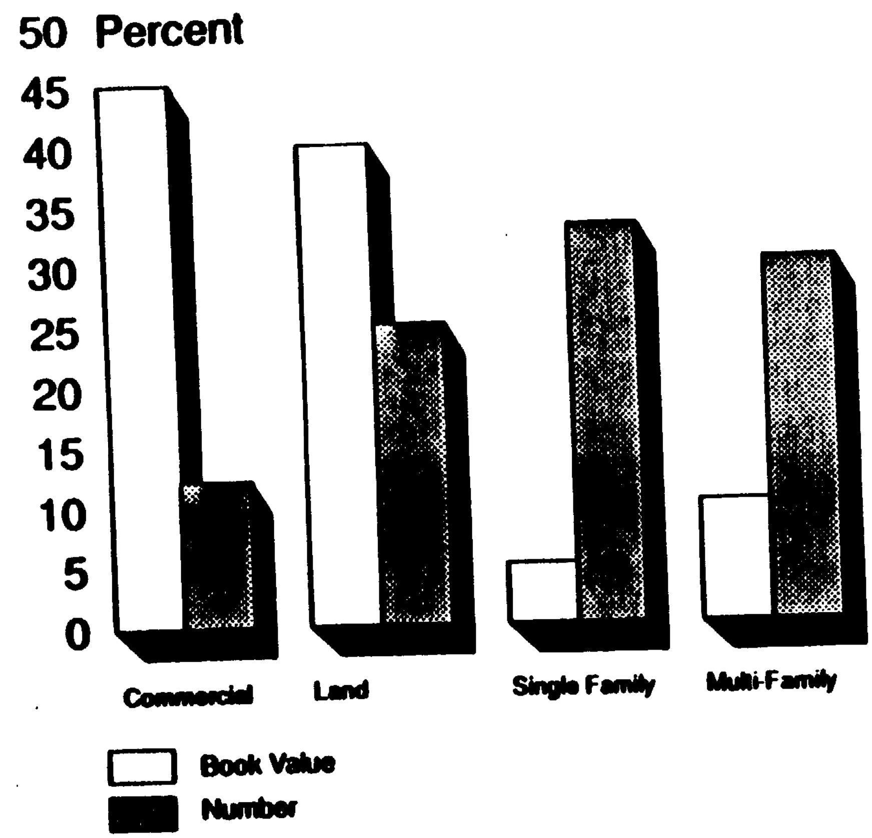


GAO Status of RTC Assets as of 12/31/90



Note: Total sales and collections equaled $127 billion and total inventory equaled $144 billion as of December 31, 1990

GAO Attributes of RTC Real Estate Inventory as of 12/90



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Testimony

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Resolution Trust Corporation: Performance Assessment To Date

Statement of
Charles A. Bowsher
Comptroller General of the United States

Before the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

GAO/T-GGD-91-7

GAO Form 160 (12/87)

Mr. Chairman and Members of the Committee

We are pleased to be here today to provide our observations on how well the Resolution Trust Corporation (RTC) has operated since August 1989. As this Committee knows well, RTC was created to help deal with one of America's largest financial disasters ever.

Clearly, America's taxpayers are being asked to bear a heavy burden for the transgressions of many who abused their responsibilities either as key officials of S&Ls or as regulators and overseers of the thrift industry. That taxpayer burden places a special obligation on the government to clean up the industry as effectively and efficiently as possible. Those who have been involved in this task know well how difficult the job will be.

Regardless of what RTC does and how it does it, there will be those who will criticize some aspects of its operation. But criticism is useful if it is constructive. Our purpose today is to be constructive so that those involved in solving the S&L crisis can provide better assurance to the taxpayers that the job will be done effectively.

Any criticism of the RTC must be tempered by recognizing the circumstances surrounding the initial challenges faced by its leaders. First, an organization of over 5,000 people--with total assets comparable in value to any one of the larger financial institutions in this country--had to be put in place, and its goals carefully sorted through, given the complicated nature of FIRREA.

Second, the need for caution as well as open and fair procedures was on everyone's mind given the unacceptable process and results of the 1988 deals negotiated by the former leadership of the now defunct Federal Home Loan Bank Board. Scandals would have been disastrous for RTC's credibility. Against this background, many in the private sector were skeptical of the government's ability to put together an organization that could effectively take over failing S&Ls and dispose of their assets.

Finally, as one workout specialist told us, "passivity is the enemy of recovery." Thus, there was constant pressure on the RTC to move quickly to sell assets. Yet the records of many S&Ls were so poor, it took months to prepare the assets for sale. There was also pressure to avoid dumping assets because this could contribute further to the decline in the real estate markets in certain parts of the country.

In addition to these pressures, there was also the need to sort out relationships between the members of the RTC Oversight Board, the FDIC Board, the staff of the Oversight Board, and the staff of the RTC. Sorting out relationships is to be expected when any new, large organization is being established. But these activities take time and reduce both the time and energy that can be focused on the task at hand.

Clearly, these were challenges, but they did not prevent RTC from operating. As of December 31, 1990, it used about $101 billion of the $106 billion it received in its efforts to begin cleaning up the S&L crisis.

RTC receives and uses funds for two different purposes: to pay for losses and to provide working capital. Loss funds refer to monies that are not expected to be recovered because they are paid to an acquirer of a failed institution to cover that institution's estimated losses after its assets are written down to fair market value. FIRREA provided RTC with $50 billion to pay for unrecoverable losses; however, current estimates indicate those losses will be much higher.

In contrast, working capital refers to borrowed funds that are not intended to contribute to losses because the borrowings (and interest) will be repaid. The working capital borrowings provide temporary funding for the RTC to purchase the assets of failed institutions at their fair market value. When the assets are sold, RTC will use the proceeds to repay the working capital it borrowed. Working capital is also used to provide advances or loans to institutions in conservatorships. Conservatorships use the advances to provide needed liquidity or to reduce extremely high cost borrowings, thereby reducing eventual costs at resolution. Conservatorship advances are secured claims and will be repaid from asset sales after resolution.

As you can see from the table below, as of December 31, 1990, for example, RTC has used $37 billion for loss and $64 billion for working capital.

RESOLUTION TRUST CORPORATION
Sources and Uses of Funds -- December 31, 1990
(in billions)

SOURCES		
To Fund Losses:		
Treasury Appropriation	$ 19	
Federal Home Loan Bank Contribution	1	
REFCORP Borrowings	23	
Total Loss Funds		43
To Provide Working Capital:		
Federal Financing Bank Borrowings	53	
Repayment of Conservatorship Advances and Proceeds from Receivership Asset Sales	10	
Total Working Capital Funds		63
TOTAL SOURCES		$106
USES		
To Fund Losses:		
Unrecoverable Resolution Costs		$ 37
To Provide Working Capital:		
Asset Purchases at Resolution	36	
Advances to Conservatorships	27	
Interest on FFB Borrowings	1	
Total Working Capital Used		64[1]
TOTAL USES		$101

[1]RTC will sometimes use available loss funds to provide needed working capital on a short-term basis.

Critical to RTC's success is the need to have the necessary funds to operate efficiently. On the other hand, the Committee and the American taxpayers need progress reports from the Administration to ensure that the monies are being well spent. In other words, RTC can't just have open-ended access to funds.

We don't disagree with the Administration's estimate that RTC now needs $30 billion in additional loss funds to continue resolutions through fiscal year 1991. Its request should be approved. And we expect that RTC will need at least another $50 billion in loss funds for fiscal year 1992. The issue we want to address here is what is the best way to provide RTC with those needed funds:

-- a permanent and indefinite appropriation to complete the resolution of failed thrifts;

-- periodic short term funding bills covering 3-6 months of resolution activity; or

-- funding to cover estimated needs for some intermediate period, such as a year.

The Administration has indicated its preference for permanent funding authority since that strategy would eliminate periodic costly interruptions in resolution activity. However, providing

RTC with an "open checkbook" would effectively eliminate controls over its obligational authority specifically written into FIRREA. We believe that it is important to retain those control mechanisms already in place and functioning.

We do understand and agree with the Administration's desire to avoid the slowdown in resolution activity caused by funding shortfalls. RTC has refrained from beginning the marketing process for 95 thrift resolutions because it was unsure that sufficient funding would be available to complete the process in a timely manner. Such slowdowns simply add to the eventual cost of resolution by allowing failed institutions to continue operating and incurring losses. We believe that short term funding bills covering less than one year will prove inefficient and costly.

However, providing sufficient funds to cover resolution needs for a year allows RTC to efficiently plan its workload, while retaining congressional control mechanisms. This yearly appropriation could be linked with the Oversight Board's reporting responsibilities as required by FIRREA. We believe that yearly funding, provided on budget and linked with the FIRREA obligations limit and reporting requirements, is the best alternative. FIRREA's obligations limit would have to be revised to reflect RTC funding through the annual appropriation process, since currently it is linked to the $50 billion originally designated for unrecoverable losses.

Apart from the funding for future operations, the key issue we want to discuss today is how well RTC has done with the monies it has used to date. As we discuss RTC's performance in managing its organization and running its main lines of business, one thing will stand out. Where RTC used individuals with the appropriate skills and business knowledge, operations went quite well. However, progress was not nearly as good in other areas where RTC did not have, or turn to, individuals with the needed knowledge and skills.

Those individuals at RTC who have taken on and worked very hard at resolving the thrift crisis should be commended for their effort. Nevertheless, problems in such areas as information systems, contracting, and marketing assets, seriously hamper RTC's ability to achieve effective results. As the clean up continues, we believe it's important to ask whether RTC's organizational relationship with the FDIC is the best way to get the job finished efficiently and effectively--particularly since this job could take up to 10 years in some areas of the country hardest hit by the thrift industry problems.

The job ahead will shift away from taking control of and resolving insolvent thrifts and focus more on managing and disposing of assets largely through contractors because FIRREA provides that after August 1992, RTC will not accept failed thrifts for resolution. From then on, RTC's main job will focus on the management and disposition of assets. Accordingly, as time passes, less emphasis will be placed on the skills which were transferred to RTC from FDIC which served this country well in the first year. And greater emphasis will be placed on the skills that will enhance its ability to develop and refine business practices that will enable it to work more efficiently and effectively through the private sector. A question we need to begin discussing now is whether the interests of the American taxpayers would be best served by separating RTC from FDIC, and giving RTC its own chief executive officer. This takes on more importance given the current condition of the banking industry and the need for the FDIC Chairman to probably devote full-time to assuring the soundness of the Bank Insurance Fund.

MANAGING CONSERVATORSHIPS

As you can see from chart 1, RTC had assumed control of 531 thrifts as of December 31, 1990; 352 of these have been resolved and 179 are in conservatorship. Another 179 thrifts have been identified by the Office of Thrift Supervision (OTS) as likely to be transferred to RTC, and another 356 have an uncertain future. The main objectives of the conservatorship program are to take control of the institutions, eliminate wasteful and unsound operations, and prepare the institutions for resolution. The operation of the conservatorship program seems satisfactory, but oversight needs to be strengthened.

The key person responsible for running a conservatorship is the managing agent. Our analysis of managing agents' personnel documents showed that RTC has hired individuals with the backgrounds and experience needed to achieve the conservatorship program objectives.

Downsizing the assets and liabilities of a conservatorship is part of RTC's strategy for improving liquidity, disposing of high cost funds, and stabilizing the institution as it is prepared for resolution. Seventy percent of the managing agents who responded to a recent GAO survey said that the downsizing guidance they received from RTC management gave them clear direction, and 86 percent said that they had received specific guidance from RTC headquarters, regional officials, or its consolidated offices on how to prepare thrifts for resolution. RTC reports show that conservatorships have disposed of about $78 billion in assets through downsizing, which represents about 30 percent of the $271 billion that RTC has had under its control since inception.

While many assets have been disposed of, other aspects of RTC's oversight of thrifts in conservatorship has been somewhat disappointing. As shown in chart 2, the average length of time that thrifts have been in conservatorship has increased from about 25 weeks in August 1989 to over 52 weeks at the end of 1990. This increase is attributable to a number of interrelated factors; the capacity of RTC to prepare an increasing number of thrifts for resolution, the weaker than anticipated interest of buyers, and the availability of funds.

Consequently, managing agents are involved for a longer period in operating the thrift as an ongoing business. Unfortunately, RTC headquarters has provided no specific guidance on how the regions should supervise such thrifts and insure compliance with its own, as well as OTS', requirements. Each region has established its own approach and the regional oversight is inconsistent. For example, 22 percent of the managing agents responding to our survey said they had never been visited by their supervisors. For those who had been visited, the frequency of supervisory visits varied from 6 weeks to 1 year.

Managing agents have authority to make final decisions on many financial matters up to $10 million. While we are not aware of any specific problem to date, given the increasing length of time that thrifts remain in the conservatorship program, and the fact that they are managing over $97 billion in assets, as of December 1990, better oversight of conservatorships is essential.

RESOLVING THRIFTS

Of course, the primary goal for RTC is not to keep thrifts in conservatorship, but to resolve them. RTC has made satisfactory progress in this area. For example, through December 31, 1990, RTC had completed 352 resolution transactions in spite of a weaker than anticipated market for thrifts, stemming both from an increasingly adverse economic environment and a diminished value for the thrift charter.

As shown on chart 3, of the 352 thrifts RTC had resolved, 179 were purchase and assumption transactions, in which all deposits, certain other liabilities, and a portion of the assets were sold. Another 122 were insured deposit transfers, in which the acquiring institution served as paying agent for RTC with regard to the insured deposits and frequently purchased some of the assets. The remaining 51 were insured deposit payouts, in which RTC directly paid depositors the amounts of their insured deposits and retained all the assets.

As shown on chart 4, the 352 resolved institutions had about $120 billion in assets. Of these, about $21 billion were unconditionally transferred to acquirers and about $67 billion were retained by RTC. The remaining $32 billion were purchased with an option that allowed the acquirers a period of time after the transaction for analyzing the assets and deciding whether to return them to RTC. By December 31, about $13 billion of assets that had been transferred in resolution transactions had been returned to RTC and $10 billion were still subject to return.

RTC is generally prohibited from using any resolution method that would be more costly to the government than an insured deposit payout. RTC estimated that the resolutions it completed through alternative methods were $1.7 billion less costly to the government than insured deposit payouts would have been for those thrifts. The savings primarily reflect premiums paid for the franchise value of the thrifts, and in some cases, RTC getting a better price for the assets than their liquidation value.

The process by which RTC resolves institutions involves a number of key activities, including setting priorities and scheduling thrifts for resolution, marketing the institutions, and ultimately selecting specific resolution methods and acquirers. We believe the process for setting priorities is logical because it relies on three key factors--the rate of financial deterioration, potential investor interest, and the availability of money and people to handle the transaction.

As I noted earlier, given the history of the 1988 deals, it was absolutely critical that RTC's process for marketing thrifts be appropriate. That has been the case. RTC's process has been fair and open. RTC's marketing efforts for each institution include national advertising in the Wall Street Journal and mailing financial information to certain potential bidders. Potential bidders are also invited to a bidders conference where they can get further information on the institutions being marketed, how to get regulatory approval, and how to submit a bid. In addition, eligible bidders who request an opportunity to examine the records supporting the operations of the marketed institutions are permitted to do so.

RTC has also devised a satisfactory method for selecting resolution methods and acquirers. For most resolutions, RTC's approach has been to allow bids on a variety of standard resolution packages. RTC offers these to level the playing field so that all bidders for the same type transaction are bidding on the same thing. Over time, RTC has made some changes to the transaction packages to reflect the demands of the marketplace. For example, in February 1990, the Oversight Board approved a policy change lengthening the time an acquirer had to analyze assets and return them to RTC.

RTC has devised a methodology it refers to as the "cost test" that enables it to compare bids on various transaction packages to assure that the acquirer and resolution method selected for each transaction is the best offer, and less costly than a deposit payoff. While the cost test methodology is logical, it depends heavily upon accurate appraisals used to value assets.

We have not yet assessed the adequacy of these appraisals, but based on our past experience, we are concerned about the way assets have been valued.

SELLING ASSETS

Over the long-term, the most difficult task RTC faces is effectively marketing and disposing of the assets from the hundreds of closed thrifts. This is no easy task. While everyone would like to see as many assets sold as quickly as possible, for as much as possible, that expectation may be very difficult to realize. Specifically, statistics show that about 56 percent of the assets from all resolved S&Ls have been retained by RTC because acquirers did not want them. For one thing, it takes considerable time to prepare the assets for sale. The records of the S&Ls must be found and sorted through and the assets identified. We have talked to numerous officials during the course of our work, and they say it is rare to find S&L records in satisfactory condition.

For example, during conservatorship RTC must estimate the liquidation value of the assets. This is accomplished through an extensive process known as the Asset Valuation Review. RTC contractors, using sampling procedures, concentrate on the loan and real-estate portfolios. Loans, for example, are divided into categories such as commercial, consumer, residential mortgage and other mortgage. Within each category, the loans are identified as performing, 1-to-3 months delinquent, and more than 3 months delinquent. For each subgroup, a sample of loans is reviewed to estimate the liquidation value. The ratio of liquidation value to book value that was found to exist for reviewed assets is applied to the unreviewed assets in the same subgroup.

This process can go fast or slow, depending on the condition of the files. And this process is needed to determine the value of the institution for sale. The Asset Valuation Review, while critical to sell the institution, is not the process that must be used to prepare individual assets for sale.

To sell individual assets requires a complex process of its own. Ownership must be established, liens sorted out, documentation checked, and the true value of the assets determined. When an institution is in conservatorship this could be done by the staff of the failed thrift or contractors hired by RTC's managing agent, including appraisers, accountants and lawyers. In fact, about 94 percent of the assets sold during conservatorship have been financial assets. The more difficult assets, such as distressed real estate and non-performing loans, remain and pass into receivership.

During conservatorship RTC primarily concentrates on preparing the institution for sale, although there is an attempt to downsize it. Therefore, when the institution passes into receivership, the documentation for many assets may still not be complete. RTC now owns the assets and has used several different methods to manage the assets and continue the asset valuation and due diligence process. Due diligence is the process by which assets and the supporting documentation are reviewed to determine whether condition and value of the assets are properly reported.

Initially, because RTC was not yet organized to handle these remaining assets, it entered into interim agreements with the acquirers of the failed thrifts to manage the assets for RTC. In other instances RTC contracted with firms, usually accounting or asset management firms, to provide interim services for the assets it owned. Management of the assets entailed servicing the loans and managing and maintaining real estate.

Concurrently, RTC contracted with other firms to perform due diligence on the assets. Thus, other groups of accountants, lawyers, and appraisers could be looking at the assets during this period. This interim process generally took about 6 to 9 months and could involve RTC contracting for as many as 25 different types of services.

Not only was the process complex, but it varied among and within RTC regions. These varied approaches and the number of different players involved in assessing and managing the assets probably contributed to the frustrations the public experienced in trying to obtain information on RTC's assets.

It was not until August, 1990, that RTC began to implement its standard management and disposition agreements (SAMDA)--its primary strategy for selling real estate assets. The agreements generally are used to award contracts for a pool of similar assets in a defined geographic location. The agreement requires the contractor to prepare business plans for the management and disposition of assets, provide management services, and ultimately sell the assets. Here again, is still another group of people who had to become familiar with the assets. For example, since they are responsible for assuring that real estate is in proper marketable condition, there is a requirement that they visit each property before putting the business plan together. They must also assure that the records are correct.

One step RTC has recently taken to expedite this process is to begin putting assets under SAMDA contracts while the thrift is in conservatorship. Hopefully this will cut out the need for repeating various aspects of the process and facilitate asset disposition. To its credit, RTC is willing to change as it studies the disposition process.

Even though the disposition process was cumbersome and time consuming, RTC has been able to sell some types of assets. RTC's asset inventory is listed in chart 5. RTC had assumed control of about $271 billion in assets and through sales and collections on loans has reduced the value of the assets to about $144 billion as of December 1990. Chart 6 graphically illustrates how RTC has done in each asset category.

Selling Financial Assets

As chart 6 shows, the largest category of assets is financial assets. These include cash and securities, mortgages and other loans. The book value of these assets when RTC assumed them was about $226 billion. The $114 billion remaining in inventory represents about 80 percent of RTC's total assets.

Other than through resolutions, RTC sells financial assets primarily through three programs: securities sales, bulk loan sales, and securitization. While a large amount of financial assets have been sold, major improvements need to be made in two of the three programs. The marketable financial assets can be sold relatively easily. As of December 1990, about $50 billion in cash and securities have been disposed of. Most were sold in conservatorship or to the institutions acquiring them. The job RTC now faces--selling assets that are not as marketable--will become more difficult.

The securities sales program, operated by RTC's Capital Markets Branch, has been very effective. From March through December 1990, it has sold $17 billion in securities, of which $1.3 billion were junk bonds. Securities are also sold by managing agents, however, some investment banking firms complained about problems in dealing with them.

Much of the Branch's success can be attributed to the recruitment of qualified individuals from outside FDIC, with the knowledge and experience needed to execute securities transactions efficiently. Also, the Branch implemented policies and procedures which have facilitated securities sales because they conform to market practices.

However, the lack of a comprehensive securities portfolio management system is a cause for concern. Such a system would provide RTC managers with critical information on the numbers and types of securities available for sale. At the present time, only a junk bond inventory exists. Several major investment firms told us that RTC needs to develop such a system to effectively centralize all security sales in the Capital Markets Branch. This would allow them to combine similar securities into larger packages and take greater advantage of market opportunities.

RTC's performance in establishing a bulk loan sales program for mortgage loans has been generally disappointing, although the efforts in one region have been effective. Bulk loan sales are done throughout RTC's decentralized organization, including individual institutions, consolidated offices, regional offices, and the RTC Sales Centers--primarily to sell mortgages. In addition, the Eastern Region has obtained authority for a $10 billion pilot program to package and sell mortgages from 19 targeted institutions.

The market generally wants standardized packages when it bids for these types of financial assets. RTC wasn't able to provide that. Participants in the bulk loan sales program have provided us examples of inconsistent policies and procedures, poor internal and external communications, and a lack of coordination across RTC's organization. In particular, problems have arisen due to RTC's nonstandardized due diligence process, decentralized marketing efforts, rigid bidding procedures, and slow closings of sales transactions. These problems have produced mixed results.

However, performance in the Eastern Region has been more effective. Through September 30, 1990, the Atlanta pilot program reported that it sold loans with a book value of $1.4 billion at an average market price of 97 percent of that value. Eastern Region officials expect fourth-quarter transactions to total an additional $3.5 billion. We believe these results can be attributed to (1) early development of a policy of 100 percent due diligence, (2) effective dissemination of information to potential asset purchasers, (3) marketing procedures which are responsive to secondary market requirements and business practices, (4) sufficient delegated authority to regional staff, and (5) knowledgeable and experienced personnel. Atlanta hired people with experience in the field who knew how the market worked.

The securitization efforts undertaken by RTC have also been disappointing. Securitization is the process of assembling similar assets into pools which are used to collateralize newly-issued securities. Although the process is complex and time-consuming, it results in marketable securities which enable RTC to convert its financial assets into cash. RTC has initiated several different efforts under the broad category of securitization, but relatively few transactions which totaled less than $1 billion in sales have been completed to date.

The disappointing results have several causes including (1) a concern by the RTC Board of Directors over potential personal liability resulting from the issuance of securities backed by unknown and poor-quality assets, (2) delays attributable to a decision by RTC senior management to sell assets from receiverships rather than from conservatorships as originally planned in the securitization demonstration project, and (3) a less than aggressive approach toward directly swapping RTC's good-quality mortgage loans for easier-to-sell securities issued by Fannie Mae and Freddie Mac, the principal secondary market agencies.

There are many actions RTC could take to improve the marketing and sale of its financial assets. In addition to developing a comprehensive securities portfolio management system, it is critical that RTC develop an information system capable of maintaining a loan asset inventory. The lack of such a system precludes RTC from fully knowing its product and raises questions about the soundness of marketing decisions.

Also, a number of organizational changes could improve communication and coordination, including identifying a primary decision-maker for the sale of financial assets, defining the roles and responsibilities of the numerous groups involved in marketing financial assets, centralizing all securities sales in the Capital Markets Branch, and consolidating all loan sales activities in its four regional offices.

We were told by several investment firms that RTC could receive higher prices for its financial assets by performing more thorough due diligence; providing more and better information to potential purchasers; marketing its agency-eligible loans directly to the secondary mortgage market agencies; and securitizing as many of its loan assets as possible, recognizing that a wider and more efficient market exists for securities than for bulk loans.

Selling Real Estate Assets

Overall, RTC's efforts in selling real estate assets have been disappointing. This assessment takes into account that disposing of distressed real estate is much more difficult than most people had anticipated and will take longer than originally envisioned--possibly up to 10 years in some areas.

As shown on chart 7, as of December, 1990, of the total book value of real estate, about 45 percent was commercial real estate and 40 percent was land. These two categories represented only 37 percent of the total number of properties. Conversely, only 15 percent of the total book value is in single- and multi-family properties. These two categories represent 63 percent of the total number of properties.

The process RTC must go through to prepare to sell real estate assets involves several key steps. One is assessing asset values. RTC has made some progress in implementing processes for assessing the value of properties in the region we visited. However, asset valuations are dependent on appraisals and we have not yet done work to evaluate these. But if history is prologue, given the previous problems with appraisals, this is an area of concern. An asset valuation review is done while a thrift is in conservatorship; it is used to estimate asset values, compare estimates to book values, and compute the estimated loss or gain. The review is also used to estimate the loan loss reserve for RTC's financial statements.

Our work in RTC's North Central Region showed that the reviews were done by contractors using a standard process that seems reasonable. Officials in that region set up adequate controls to ensure that contractors were generally following RTC procedures and that the resulting report is acceptable before the contractor was paid.

RTC's performance in marketing and selling real estate assets has generally been disappointing. There have been a number of starts and stops as it has tried to develop appropriate strategies for selling real estate. It has tried direct sales, bulk sales, and auctions. None of these has had much effect to date--although RTC has had some limited success selling its low- and moderate-income housing. Some would argue that because of the general economic downturn, and the poor real estate market throughout many parts of the country, expectations for sales should not be too high. There is some validity to that view.

Certainly, during the past year, RTC has been willing to try different approaches to sell real estate, and it has been open in admitting that some did not work. At this time, RTC is focusing on trying to get the assets into the hands of private asset management contractors as quickly as possible, so that they can be sold. But, the jury is still out on the extent to which this effort will be successful.

From inception to December 31, 1990, RTC took control of real estate assets valued at about $21 billion. As of December 31, 1990, it had reduced the book value of its real estate inventory by about $5 billion, recovering roughly $3.9 billion in sales and proceeds. Most of the sales have been residential properties. Commercial property and land have been a disproportionately small percentage of sales.

An example of the somewhat confusing and shifting RTC approach to selling assets is the effort by RTC to set up national and regional sales centers. Even though RTC's primary approach to real estate sales will be working through SAMDA contractors, RTC wants to retain the option of packaging various types of assets into groups that could be marketed either nationally or regionally by its people, as well as its contractors. Thus, it has decided to set up sales centers.

These centers will have a listing of all assets under RTC's control so that any person contacting RTC about a specific asset could be referred directly to the contractor managing the asset. These centers would also enable RTC to have the capability to bulk sell similar type assets. In one sense, these centers will duplicate what the contractors are doing. The contractors also are subcontracting with various brokers to market assets under their control. Another problem is that RTC has not established a consistent strategy for determining how these centers should operate. In several locations that we visited, the centers were in easily identifiable places and clearly resembled similar marketing centers set up by private firms. In another location, an RTC marketing center was on the 23rd floor of a building, clearly not easily identifiable to the public and did not give the appearance that would lead one to feel confident that it was a professional, well-run operation.

There is no doubt that RTC needs to establish some process so that it can show the public that it has control of its real estate inventory and knows who is responsible for selling it. The sales center approach may be the right way to go. However, some private sector firms who deal with RTC perceive it to be too bureaucratic, unwilling to use local standard sales documents, and too slow in responding to offers. Over time, RTC could work to change its practices to be more in line with private sector real estate practices.

RTC has made satisfactory progress in identifying eligible properties for the affordable housing program but has been inconsistent in operating the program. Eligible properties are marketed for a 90-day right-of-first-refusal period, during which only eligible buyers may purchase the properties. By December 31, 1990, RTC had listed 7,626 single-family and 287 multi-family properties under this program and accepted offers on 2,728 and 9 of these respectively. Since inception, 2,569 single-family and 41 multi-family properties have passed through the right-of-first-refusal period. The remaining properties are still in the program. RTC fell short of its 1990 goal for single family affordable housing sales. It had projected closed sales of about $166 million, but as of year end, had only accepted offers totaling about $100 million.

There has been mixed operational effectiveness in the affordable housing program between regions. For example, the Western Region has undertaken aggressive marketing and outreach programs earning it a reputation for being willing to work and negotiate with potential buyers. In contrast, the Southwestern Region holds almost 50 percent of the affordable housing inventory, yet has not developed the marketing network and structure needed to dispose of its inventory. Local nonprofit organizations and state and city government officials knowledgeable about low-income housing told us that the Southwestern Region was inflexible and unresponsive and effectively excluded them from the affordable housing program.

BETTER INFORMATION SYSTEMS NEEDED TO SUPPORT RTC MISSION

Clearly, one of the biggest challenges facing RTC is building a smooth-functioning information system to oversee the resolution of thrift institutions and to manage and dispose of assets. To achieve this, RTC needs to have a sound information resource management program to implement the automation that will support its mission.

RTC's progress in developing such a program has been disappointing. As we recommended in a July 1990 report, however, RTC did establish its Office of Corporate Information in September 1990 to apply such principles. Since its establishment, this office has focused on setting up its organizational structure and recruiting technical staff. It has also developed a strategic plan and systems' architecture, but its plan and architecture are incomplete and do not show how data will flow and how systems will fit together. In other words, it still runs the risk of acquiring costly technology that won't meet its needs.

For example, RTC recently awarded a contract to establish its asset management information system. That effort is a step in the right direction. However, it's important that the real estate information system be compatible with RTC's overall information system. If not, it will be difficult to roll up data from the real estate system together with other relevant data for overall management needs.

To manage and obtain reports on RTC's operations, different offices in RTC headquarters task the four regional offices with information requests which are sent down to their 14 consolidated offices as well as conservatorships and receiverships. Because these requests are not approved regarding their burden or usefulness, they cause extensive reporting burdens on all three field levels.

In response to our survey of managing agents, 70 percent of those who responded viewed RTC's reporting requirements as excessive in terms of the information demanded. Also, about 80 percent said that information requests were duplicative. For example, they had to provide information for ad hoc reports that was already provided through recurring reports, and often were asked to report the same data using different formats and cutoff dates. Additionally, nearly 40 percent of the regional and consolidated office managers who responded to our other survey said that RTC was unsuccessful in establishing reasonable requirements for written reports.

To respond to information requests, field offices have independently developed and acquired numerous manual and automated processes. While it is understandable that regional and consolidated offices have developed various internal systems to help them respond to headquarter's information demands, RTC has no assurance that these separate systems will collectively support RTC's mission. In response to our survey of top managers in the field, more than 50 percent said RTC had ineffectively communicated policies and procedures on information systems development. The automation efforts of the RTC are likely to continue in this unfocused manner until it develops an effective information program to give direction to these efforts.

Clearly, the conditions we have observed in the field affirm the need for RTC to promptly identify information and systems needs at all levels. For example, managing agents told us that they are deluged continually with requests for information, many of which are ad hoc in nature. RTC needs to minimize the information demands it makes of its operating people. RTC should only count what counts. One approach to better assure that only relevant information is collected would be to bring together key staff from all levels of the organization as a task group and sort through fairly quickly what information is really needed by all levels of the organization to achieve success.

GREATER EMPHASIS NEEDED FOR CONTRACTING ACTIVITIES

Contracting is a management process critically important to RTC because of its mandate to work through the private sector. RTC estimates spending between $15 and $20 billion for contract services over the next four years. Overall, RTC's progress has been disappointing in the contracting area.

Various contracting statutes and regulations govern procurement by federal agencies. RTC is exempt from having to follow them but, still needs a good, sound contracting process. RTC developed a loosely defined system which it is using to acquire needed services. However, the existing system does not appear to adequately protect the interests of the government. RTC could have benefitted from reaching outside the agency early to seek help from individuals in the public and private sector in building its contracting system. It did not.

Recognizing the need to award contracts before a system was developed, RTC decided to adopt FDIC contracting procedures as an interim measure to acquire needed services. Given the pressure to move quickly, we understand this decision, even though the

FDIC procedures were not designed to handle the volume or the broad spectrum of professional services RTC would have to acquire.

At this juncture, however, RTC began to proceed down the wrong path. It decided to go forward with the design of its new system using its own staff. Unfortunately, these were, for the most part, program managers with little or no knowledge or expertise in the design and implementation of large contracting systems. It chose not to seek the advice of a wide range of experts in the field of procurement, or from federal agencies, such as the U.S. Postal Service, which have designed and implemented their own procurement systems. We believe this choice has led to some of the weaknesses we see in the system that evolved from the FDIC model.

It also points to what we believe is a mindset which essentially undervalues the significance of contracting in the organization even though the law mandates that much of RTC's business be done through contractors. This can be seen in (1) the original placement of contracting within the Asset Management and Disposition Division, although it was to service the whole agency and (2) the views of top management that contracting is an administrative activity rather than a major agency function. In January 1991, contracting was moved to a new office because there was criticism that the program staff were too involved in contract policy decisions. The establishment of this new Office of Administration and Contracting alleviated some, but not all problems.

Our work to date also shows that unclear contract guidance is given to contractors. RTC's system for communicating policy has no comprehensive index of contracting policies and procedures. Therefore, neither RTC's contracting officials nor contractors in the industry can be confident that they are working with all of the current and applicable policies. Also, directives are sent unsigned and unnumbered, making it difficult for field staff to determine if the document is agency policy.

As a result of unclear directives, RTC has experienced difficulty in determining what businesses qualify for minority and woman-owned business status. To qualify, RTC requires that the business be 51 percent owned and controlled by a minority or woman; however, since RTC has not defined the term, questions of eligibility have been raised. Currently, the program's requirements are being partially revised to correct this problem.

Various contractors have told us that RTC sometimes has not adequately described the nature or extent of assets it wants them to bid on, making it difficult to effectively price their services.

Also, RTC lacks standards for evaluating whether a contractor's proposal is within accepted norms regarding the types of services to be provided and the number of people to be used, given the nature of the assets to be put under control. In essence, RTC allows each of its 19 contracting offices and others who can contract to use their own judgement in evaluating the services the contractor intends to provide. For example, for SAMDA contracts, the RTC contracting process requires two proposals for each contract, a technical and cost proposal. In the technical proposal, the contractor explains its approach to managing and disposing of the assets. In the cost proposal, the contractor bids a fixed management fee and a percentage disposition fee.

Without standards to evaluate the proposals, RTC may not select the best contractor. This leaves RTC vulnerable to certain risks. For example, if the contractor is inexperienced he or she may not have understood the full effort required to manage and market effectively the assets. The contractor may need more people than budgeted for. Since the contractor's management fee is fixed, he or she either has to absorb the loss or try to recover the costs through other means, such as requiring the subcontractors to do more of the work, or reducing the extent of the management services provided. RTC loses in either case--it is provided with diminished services or increased costs.

Just as important, RTC does not have a comprehensive system to monitor the performance of its contractors. Although RTC has developed policies for the oversight of its SAMDA contractors, it lacks similar policies and procedures for oversight of other contractors. In our survey of managing agents, 34 percent with property management contracts outside of their local area said they did nothing to monitor contractor performance.

The lack of contract oversight has already left RTC in the position of paying its contractors in full when there is only partial or poor performance. For example, RTC hired a contractor to review the quality of loan files being prepared for sale. The head of loan servicing at one conservatorship told us that the contractor was paid in full, about $286,000, even though the work was substantially incorrect. Following completion of the contract, the loans were sold to a large investment firm, which immediately discovered problems. After their own file review, the firm required RTC to buy back $2.3 million of the loans it purchased.

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We are continuing to review many of the specific areas we have talked about today. Over the next several months we will issue a number of reports recommending specific actions to deal with the problems we have observed.

This concludes our prepared remarks. We would be pleased to answer questions.