

**GAO**

**Testimony**

Before the Committee on Banking, Finance and Urban Affairs  
United States Senate

---

For Release  
on Delivery  
Expected at  
10:00 a.m.  
Thursday  
March 5, 1992

**RESOLUTION TRUST  
CORPORATION**

**Performance Assessment for  
1991**

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



RESOLUTION TRUST CORPORATION  
Performance Assessment for 1991

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

RTC continued to make good progress in resolving thrifts during 1991, but economic conditions and funding disruptions hampered RTC's scheduling and marketing efforts and contributed to RTC's resolving only 232 thrifts instead of the planned 268. To complete the resolution of an additional 150 to 300 failed thrifts, RTC will need additional loss funds. However, RTC cannot accurately predict the full cost of future resolutions.

To meet RTC's future funding needs, GAO believes Congress should eliminate the April 1, 1992, obligations deadline placed on the \$25 billion authorized in December 1991. In addition, because of the uncertainty surrounding future funding needs, GAO believes that Congress should ask RTC to estimate its loss fund needs through the spring of 1993 and provide RTC with sufficient funds on a timely basis to carry out its responsibilities during this period. GAO believes that funding RTC in this manner will help (1) make RTC accountable for its overall progress and needed management improvements and (2) Congress to reexamine the amount of funds needed to finish the thrift cleanup next year.

In 1991, RTC also improved its speed in resolving thrifts. The average length of time resolved thrifts were in conservatorship declined from 60 weeks in the first quarter to 40 weeks in the fourth quarter. At the end of 1991, 29 of the 91 thrifts in conservatorship had been there for 9 months or more.

Although RTC increased its emphasis on selling assets in 1991, asset disposition continues to be its greatest challenge. While the sale of certain financial assets has gone well progress has been slower on nonperforming loans and real estate. Many of RTC's remaining assets are the hardest to sell. Given the depressed nature of the current real estate environment, characterized by falling values, a large oversupply of existing space, and constrained financing, RTC must continue improving its disposition methods. This will require a greater focus on implementing disposition strategies that target hard to sell assets to a wide range of investor markets.

Although RTC made progress in correcting a number of contract system deficiencies, much more emphasis needs to be placed on contractor oversight and contract administration. Currently, RTC lacks systems to assure that its contracting officers are appropriately monitoring contractor operations and assuring that RTC is getting the contract services it is paying for.

RTC's information systems development efforts continue to be disappointing, and RTC still does not have adequate systems in place to support its critical mission of managing and selling

assets. Major systems are plagued by fundamental problems, such as unclear or changing requirements, inaccurate and incomplete data, poor response times, and software that is not user friendly. Collectively, these problems have delayed systems delivery and use and cast doubt on whether they will adequately support RTC's asset management functions.

RTC's new CEO recently initiated a series of management projects to review and improve RTC's major programs, including many of the areas GAO and Congress have cited as needing improvement. Since RTC is in the third year of its 7-year existence and still has a difficult task ahead, GAO believes that it is critical that RTC devote enough qualified staff to ensure that the projects are completed as quickly and efficiently as possible.

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the Resolution Trust Corporation's (RTC) progress during its second year of operation and its funding needs. Last year, we stressed the importance of building RTC's organization and said that the results of RTC's efforts during its first year of operation were mixed. We pointed out a number of areas where management improvements were needed, and Congress took several legislative actions to strengthen and improve RTC operations.

First, the RTC Funding Act of 1991 provided RTC additional guidance and direction for achieving several management reform initiatives, enhancing the affordable housing program, and strengthening the reporting requirements for the minority- and women-owned business program. Second, the RTC Refinancing, Restructuring and Improvement Act of 1991 established a Chief Executive Officer (CEO) position with broad powers needed to manage RTC. In addition, the act streamlined RTC's board structure and clarified the roles, responsibilities, and accountability for dealing with one of America's largest financial disasters.

The question now is whether RTC is adequately equipped to finish the job for which it was created. Overall, RTC has continued to make good progress in resolving thrifts and selling certain assets. However, RTC is quickly approaching the point when its inventory will consist mostly of hard to sell financial and real estate assets. Thus, it is becoming increasingly important that RTC have not only an aggressive and well-managed disposition program, but the systems and controls to assure that its assets are protected, transactions are properly executed and recorded, and operations are conducted in accordance with established policies and procedures.

But, as I will discuss, while RTC has made good progress in some areas, I am disappointed and concerned about its performance in others, such as information systems development and contracting oversight. These areas present the new CEO with management challenges that must be promptly addressed if RTC is to assure Congress and the American taxpayers that the thrift cleanup is being handled in an efficient and effective manner.

Despite our concerns about RTC's performance, Congress again needs to provide RTC with sufficient funds on a timely basis to carry out its responsibilities.

#### THRIFT RESOLUTIONS AND FUNDING NEEDS

RTC made good progress this year in resolving failed thrifts despite being impeded by funding delays and a weak market for thrifts. Through December 31, 1991, RTC had resolved 584 thrifts at a cost of \$77 billion. As shown on chart 1, 344 of these transactions were purchase and assumptions (including 25

accelerated resolutions), in which all deposits, certain other liabilities, and a portion of the assets were sold. Another 156 were insured deposit transfers, in which the acquiring institution served as RTC's paying agent for the insured deposits and frequently purchased some of the assets. The remaining 84 were insured deposit payouts, in which RTC directly paid depositors the amounts of their insured deposits and retained all the assets and other liabilities.

RTC improved its process for marketing thrifts and structuring resolution transactions in 1991 by broadening its advertising and improving the quality and quantity of information made available to potential bidders. RTC also made several important changes in how it structured resolutions. It began offering branch sales as an initial option for acquirers, rather than waiting until attempts to sell whole thrifts failed. It also began offering assets for sale separately from deposits at the time of resolution.

Other positive changes included shortening asset putback periods and using a pricing system for assets that rewards acquirers for purchasing whole categories of assets, rather than "cherry picking" only certain assets. Overall, these changes may help RTC to increase the percentage of assets that pass at resolution without long-term put options. The top half of chart 2 shows that of the \$212 billion in assets at resolution, about \$35 billion were unconditionally transferred to acquirers and about \$134 billion were retained by RTC. The remaining \$43 billion were purchased with an option to return them to RTC. The bottom half of this chart shows that RTC's put option exposure has declined steadily from March to December 1991.

In 1991, RTC also improved its speed in resolving thrifts. Chart 3 shows that the average length of time resolved thrifts were in conservatorship declined from 60 weeks in the first quarter to 40 weeks in the fourth quarter. At the end of 1991, 29 of the 91 thrifts in conservatorship had been there for 9 months or more. At the end of 1990, 77 of 179 thrifts had been in conservatorship for the same period.

Although both RTC's process and speed in resolving thrifts improved in 1991, economic conditions and funding disruptions hampered RTC's scheduling and marketing efforts and contributed to RTC's resolving only 232 thrifts instead of the planned 268. Unless RTC knows that the needed funds will be available to close a thrift, it will not advertise a thrift for sale. We believe this approach is reasonable; otherwise, RTC and potential acquirers would risk spending money preparing for transactions that could be delayed or canceled for lack of funds. Marketing thrifts when there are insufficient funds available to complete a resolution not only wastes resources, but it may also discourage

market participants from attempting to acquire thrifts in the future.

As I mentioned, 91 thrifts were under RTC's control awaiting resolution at year end; approximately 60 others, although still operating in the private sector, were considered by the Office of Thrift Supervision (OTS) to be probable candidates for future resolution. These other thrifts have negative tangible capital and have been consistently unprofitable. OTS expects to transfer them to RTC before the end of this fiscal year.

An additional 150 thrifts in RTC's total resolution estimate are still open and operating in the private sector. OTS has characterized these thrifts as "troubled with poor earnings and low capital" but has also defined them as "not expected to require government assistance." According to OTS, these thrifts have "reasonable prospects of meeting the 3 percent capital requirement through retention of earnings, restructuring or recapitalization." Included in this group are several very large California thrifts that are being watched carefully by both OTS and RTC.

Although the thrifts included in this last category have low net worth and poor earnings, it is very hard to determine whether and then they will meet OTS criteria for closing and be transferred to RTC. Falling interest rates have created a positive spread for many of these thrifts, resulting in positive net income for the last year. If these conditions continue, thrifts that would otherwise fail could linger beyond October 1, 1993--RTC's deadline for accepting thrifts for resolution. Thrifts failing after this date will become the responsibility of the Savings Association Insurance Fund (SAIF).

OTS has proposed an alternative resolution strategy called "Early Resolution/Assisted Merger" in which a weak but not insolvent thrift is merged with a healthier institution, with government assistance. Under the 1991 banking act, the Federal Deposit Insurance Corporation (FDIC) would have to document that this approach would be the least costly resolution option. Because grounds do not exist for the appointment of a receiver or conservator, the weak thrift's owners would have to agree to the transaction. Further, under OTS' proposal the transaction would be competitively bid.

The funding for such transactions would come from SAIF. The Thrift Depositor Protection Oversight Board would have to approve the transfer of funds from RTC to SAIF for this purpose. The FDIC would approve and pay the assistance under its authority to assist open institutions.

We are not categorically opposed to a strategy that resolves failing institutions without closing them. However, we have

consistently said that failing and nonviable institutions should not be kept open with forbearance and government assistance. It is less costly, in the long run, to promptly resolve such situations and recognize the losses.

In any case of open assistance, we believe the following should be assessed very carefully: (1) the residual stake that owners and creditors of the weak thrift are permitted to retain, (2) the true financial condition of the weak thrift and the capitalization and viability of the assisted institution, (3) factors used to select a candidate and other fairness questions, (4) the manner in which the assisted institution's future losses and profits are distributed, and (5) documentation and reasonableness of the "least cost" test or any "systemic risk" decision.

#### RTC's Funding Needs

Through November 1991, RTC had received \$80 billion to cover resolution losses--\$50 billion originally provided by Congress and \$30 billion provided in March 1991 by the RTC Funding Act of 1991. An additional \$80 billion was requested last fall but only \$25 billion was authorized in December 1991, and the law prohibits the obligation of these funds after April 1, 1992. If this April deadline is eliminated, RTC estimates that the \$105 billion appropriated to date will cover thrifts already resolved, as well as all thrifts now in conservatorship and those thrifts designated "probable" resolution candidates by OTS. We believe the April deadline should be eliminated in order to facilitate the orderly resolution of these remaining thrifts.

The \$55 billion requested last fall but not approved by Congress was intended to resolve the 150 thrifts, including those large California thrifts mentioned earlier. At this time, it is difficult to predict how much additional funding RTC will need and the timing of those needs. The reliability of any prediction is affected by significant uncertainties, including the future condition of the economy. If interest rate spreads continue to be favorable, many poorly capitalized thrifts could remain marginally viable beyond their current expected failure dates. If this happens and RTC receives additional funding, RTC could be holding funds intended for resolving thrifts that will become the responsibility of SAIF after 1993.

However, such a situation would not necessarily result in RTC holding unused loss funds. Given continuing weaknesses in the economy and the real estate market, RTC may be significantly overstating expected sales proceeds for assets in receiverships. RTC must compete with a growing number of distressed sellers seeking to liquidate their asset holdings. Furthermore, RTC has adopted a policy of aggressively discounting real estate assets up to 50 percent of their appraised value. Due to these factors,

actual sales proceeds for many of RTC's assets may not meet projections, and RTC may have to use loss funds to repay working capital borrowed from the Federal Financing Bank.

RTC cannot accurately predict the full cost of its resolution actions. This cost may not even be known when RTC is scheduled to wind down in 1996 and transfers all its remaining assets and liabilities to the Federal Savings and Loan Insurance Corporation Resolution Fund. Therefore, we believe that Congress should ask RTC to estimate its loss fund needs through the spring of 1993 and provide RTC with sufficient funds on a timely basis to carry out its responsibilities during this period. Funding RTC in this manner will help make RTC accountable for its overall progress and management improvement efforts and enable Congress to reexamine the amount of funds that will be needed to finish the thrift cleanup next year.

### SELLING ASSETS

Since RTC's inception, its inventory has continued to grow and as of December 31, 1991, total assets acquired were \$357 billion. Although RTC increased its emphasis on selling assets and cumulative sales and collections totaled \$228 billion, RTC still had \$129 billion in its inventory at the end of 1991. Chart 4 shows the cumulative assets taken under RTC's control, reductions in that total, and remaining inventory at various points in time since June 1990. Disposing of the assets of failed thrifts continues to be the greatest challenge facing RTC.

While good results have been achieved in the sale of some financial assets, RTC's progress in disposing of nonperforming loans and real estate assets has been slower. Chart 5 lists RTC's asset inventory and graphically illustrates RTC's performance in each asset category. Many of the assets remaining in its inventory are the hardest to sell. This situation, coupled with the current economic recession, the depressed real estate market, and the abundance of other assets for sale from banks, thrifts, and other federal agencies and private sector institutions, means that asset disposal will continue to be RTC's most daunting challenge.

### Financial Asset Sales

Overall, RTC made good progress selling financial assets in 1991. RTC implemented new policies and procedures and established successful programs for securities sales and the securitization of performing loans. However, RTC has not yet developed efficient and effective programs for bulk loan sales and portfolio sales of nonperforming loans.

Securities sales continued at a good pace during 1991. RTC sold a total of \$17.5 billion of all types of securities, including

\$2.6 billion of junk bonds and \$11.9 billion of mortgage-backed securities. The remaining inventory of securities was about \$11 billion as of January 31, 1992. Total securities sales were \$20.5 billion in 1990, when RTC's inventories were substantially higher. We believe the results for 1991 reflect both favorable market conditions and several important RTC initiatives, such as the centralization of securities sales in the Capital Markets Branch and the installation of a comprehensive securities portfolio management system.

RTC's securitization effort also produced significant results in 1991, after a slow start that produced poor results in 1990. Agency swaps with Fannie Mae and Freddie Mac have been proceeding steadily; 62 transactions aggregating \$3.1 billion were competitively awarded in 1991. Moreover, since June 1991, 23 issues of RTC residential and multifamily mortgage-backed securities, with a total face value of \$10.3 billion, have been successfully brought to market. Another RTC initiative for the securitization of commercial mortgages has just begun. RTC estimates "savings" to the taxpayers, or enhanced recoveries compared to sales of these same assets as loans, of over \$650 million in the 23 transactions completed in 1991. We are reviewing the reasonableness of this savings estimate.

It is difficult to assess the results of bulk loan and portfolio sales due to the decentralized nature of these activities, poor RTC information systems, and varying economic and market conditions. The disposition of nonperforming loans continues to be a major challenge for RTC. As of December 31, 1991, RTC held \$26.4 billion of delinquent loans of all types, compared to \$19.2 billion at the end of 1990. We have encouraged RTC to standardize its policies and procedures and to improve coordination of this sales effort. RTC has taken some steps in the right direction, such as an enhanced coordinating role for the National Sales Center, but more work is needed to dispose of the increasing inventory of nonperforming loans.

#### Real Estate Asset Sales

RTC's real estate sales have increased. The 1991 sales volume of \$5.4 billion represents a fourfold increase over its 1990 sales volume of \$1.3 billion. While this brings the total real estate assets sold since inception to \$6.7 billion, the year-end inventory increased from about \$13 billion in 1990 to about \$17 billion in 1991, as illustrated in chart 6.

RTC's increased sales in 1991 are largely attributable to its use of multiple disposition strategies and adoption of new pricing guidelines. In 1990, RTC relied mostly on asset management contractors to sell its real estate. In 1991, it also used auction and portfolio sales and an expanded seller financing program.

Through December 31, 1991, RTC had held 125 auctions nationally and sold 9,203 residential, land, and commercial properties. RTC received total gross proceeds of approximately \$368 million for these properties, against a book value of \$679 million. The National Sales Center had sold about \$134 million of real estate assets through the same period using portfolio sales, and it expects to sell about \$1 billion in 1992. Additionally, real estate assets will continue to be sold under mixed asset portfolios that also include performing and nonperforming loans.

The RTC Oversight Board has approved the use of \$7 billion in seller financing authority. Through December 1991, RTC used only about \$496 million to finance transactions, and \$249 million was designated to finance additional sales in process. We believe greater use of seller financing could improve RTC's disposition results.

In March 1991, to address the challenges of selling large quantities of hard to sell real estate assets, RTC developed a pilot program that structured transactions using participating cash flow financing. As of January 1992, RTC had structured three of these transactions totalling about \$440 million: a single asset sale of Centrust Tower, a portfolio sale of real estate to Patriot American, and a portfolio sale of nonperforming loans and real estate. As expected in any start-up program, implementation problems impeded progress.

During our June 11, 1991, testimony on restructuring RTC, you requested our views on participating cash flow financing. We believe that in concept, the use of portfolio sales using participating cash flow mortgages could be an important disposition strategy for RTC's difficult to sell real estate given the current distressed market. Overall, we believe the strengths of the strategy outweigh the weaknesses. However, before RTC proceeds with its pilot transactions, it must develop and implement centralized procedures for overseeing, administering, and accounting for the loans. RTC also needs to address the issues discussed in the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance staff study on the Patriot American transaction.

#### Affordable Housing

RTC was more successful selling affordable housing in 1991 than in 1990. During 1991, RTC accepted offers on 13,229 single family and 167 multifamily properties. This is a substantial increase over 1990, when RTC accepted offers on only 2,728 single family and 9 multifamily properties.

However, RTC has not implemented a national policy to verify that prospective buyers are eligible for the single family program. Essentially, its regional practices are inconsistent, and as a

result RTC may be selling houses to ineligible buyers. RTC relied on applicants' statements regarding their income and eligibility and did not verify that data. RTC has recently begun to take steps to address this weakness.

RTC's multifamily affordable housing program is also operating without an approved national marketing strategy or appropriate policies and procedures. As a result, RTC field offices again designed their own strategies and sales procedures. These different approaches, such as shortened marketing periods, resulted in sales that excluded eligible buyers, affordable housing units lost to the program, and lower prices for some properties. Furthermore, some nonprofit and public agencies were unable to buy these assets because RTC did not implement special financing and pricing options until January 1992.

#### Pricing Guidelines Changed

In addition to using a variety of disposition methods, RTC issued new pricing guidelines. To stimulate sales, in August 1991 RTC revised its policy to allow asset sales at progressively lower prices, ranging from 80 percent of appraised value in the first 6 months, down to 50 percent after 18 months. While this policy may have helped RTC sell more real estate assets, investor awareness of this policy may have diminished RTC's recovery of asset value since potential buyers have access to the appraisals and can anticipate when properties will be available at the lowest possible price.

#### Hard to Sell Assets RTC's Major Challenge

As shown in chart 7, at the beginning of 1992, RTC's commercial properties and land totaled about \$15.4 billion, or 92 percent of its inventory. At the same time cumulative sales of land and commercial properties totaled about \$5.1 billion.

Land is probably the most difficult to sell asset within RTC's inventory. As of December 31, 1991, RTC controlled land with a total book value of \$7.7 billion, representing about 46 percent of the total real estate inventory. Chart 8 demonstrates the large gap between this inventory and the related sales. RTC reports that 62 percent of the total land value is located in Texas and 90 percent of the inventory is located in just five states--Texas, Arizona, Colorado, California, and Florida. Over 75 percent of the land holdings are unimproved commercial and residential parcels. The current market demand for most of these land assets is weak. Therefore, in recognition of the difficulties in this area, and the fact that RTC is holding about \$14 billion of performing and nonperforming loans that are secured by land, RTC is developing a National Land Sales Program.

RTC's current inventory of commercial real estate is about \$7.7 billion and comprises mainly office buildings, hotels, and retail and multifamily properties. Sales of commercial real estate as of December 31, 1991, were \$3.5 billion. Chart 9 shows the gap between inventory and sales results. However, the real estate inventory is only part of the story. Similar to the land situation, an additional \$12.5 billion in nonperforming loans are secured by commercial assets. As new thrifts are resolved, this inventory is likely to grow even more.

Given the depressed nature of the current real estate environment, characterized by falling values, a large oversupply of existing space, and constrained financing markets, RTC will need to continue improving its disposition methods. This will require a greater focus on developing and implementing disposition strategies that target these hard to sell assets to a wide range of investor markets.

#### IMPROVEMENTS MADE TO CONTRACTING SYSTEM, BUT CONTRACT OVERSIGHT REMAINS WEAK

During the past year, RTC has made progress correcting deficiencies in its contracting system but little progress on implementing effective contractor oversight and contract administration strategies. In short, we are disappointed and concerned that RTC lacks systems to assure that (1) its contracting officers are appropriately monitoring contractor operations, and (2) RTC is obtaining the contract services it is paying for.

#### Progress Made on Contracting Initiatives

During the past year, RTC did strengthen some aspects of its contracting system.

- It issued a contracting manual in July 1991 to provide uniform guidance on contracting policies and procedures and developed training programs.
- It restructured headquarters staff to group all contracting related functions under a manager reporting to a Senior Vice President. This should improve the contracting staff's independence by separating it from RTC's program operations.
- It developed standard bid solicitation documents to assure that all Standard Asset Management and Disposition Agreement (SAMDA) contractors were given uniform information on pending contracts.

But, further contract system improvements are still needed. Organizational changes that are in progress at RTC regional and consolidated offices need to be completed to ensure contracting

functions are properly separated from program functions. Also, uniform procedures are needed for evaluating the financial and technical capability of potential RTC contractors. Additionally, training courses vital to the professional development of contracting personnel--many of whom do not have contracting backgrounds--are still needed.

Improvements in Minority and Women Outreach and Contracting Programs

In August and September of 1991 we reported<sup>1</sup> that RTC's minority and women outreach programs had a slow start due to a lack of comprehensive program guidance and oversight, combined with inadequate staff. As a result, RTC was not sure that minority- and women-owned businesses (MWOB) were included in its contracting opportunities to the maximum extent possible.

Since then RTC started several initiatives to improve its MWOB programs for contracting with businesses and law firms.

- In July 1991, RTC adopted final regulations that set implementation standards for the MWOB programs.
- In September 1991, RTC began restructuring the contracting program by creating Minority- and Women-Owned Business Departments in each regional and consolidated office.
- In November 1991, it established the Office of Minority and Women Outreach Contracting Programs. This office was set up to develop, monitor, and oversee the national outreach program for minority- and women-owned businesses and law firms.
- In December 1991, RTC's Legal Division created an Outside Counsel Section to oversee the minority and women outreach program for law firms.

Since September 1991, there has been a slight increase in the number of contracts awarded to minority- and women-owned businesses. As of February 11, 1992, 27 percent of RTC's total contracts were awarded to MWOBs (15,799 of 58,325), in comparison to the 24 percent awarded in September 1991 (7,925 of 33,554). Similarly, the dollar value of these contracts increased from 21

---

<sup>1</sup>Resolution Trust Corporation: Progress Under Way in Minority and Women Outreach Program for Outside Counsel (GAO/GGD-91-121, Aug. 30, 1991).

Resolution Trust Corporation: Progress Under Way in Minority- and Women-Owned Business Outreach Program (GAO/GGD-91-138, Sept. 27, 1991).

percent (\$251 million of \$1.18 billion) to 24 percent (\$404 million of \$1.66 billion).

The number of legal matters referred to minority- or women-owned firms also increased in 1991. For example, during the first half of 1991, 20 percent (3,165 of 16,017) of legal matters were referred to minority- and women-owned law firms, in comparison, to 34 percent (4,464 of 12,962) in the second half of 1991.

#### Contract Oversight Remains Weak

Since inception, RTC has focused on selecting and hiring contractors and paid little attention to administering those contracts. RTC has initiated over 45,000 contracts with estimated fees of about \$1.5 billion; as of December 1991, it had over 23,000 active contracts. Chart 10 shows the tremendous growth in the number of contracts during the last 2 years. With this vast number of active contracts, RTC must have effective contract administration and oversight strategies to hold contractors accountable for providing the required services and remitting collections.

RTC's efforts to verify contractor performance have gotten off to a slow start. As of January 28, 1992, 16 months after the first SAMDA contracts were issued, RTC had 116 audits underway, most of which had been awarded in the last few months; only 12 of the audits had been completed. One of these completed reviews found that several key internal controls and cash management controls were not functioning properly, and the contractor could not adequately account for significant amounts of money.

Our work to date has found that oversight of loan servicing contractors inherited by RTC from failed thrifts was also very weak. In September 1991, these institutions were servicing almost \$8 billion in mortgages and loans. However, RTC does not require its field offices to audit these servicers' loan collection records or verify the accuracy of the loan status reports they submit. Consequently, RTC has not been able to determine whether these servicers are correctly remitting loan payments. This could jeopardize RTC's recovery of asset values and potentially reduce the market value of these loan portfolios since the loan balances are not being verified. Further, without evaluating servicers' performance, RTC cannot identify and take action against servicers that are not performing satisfactorily.

Our work to date on the internal controls for the payments and collections from SAMDA subcontractors shows that this may be a particularly troublesome area. We have indications that SAMDA contractors are not verifying that subcontractors have fully performed services before they are paid, or that collections have been remitted. Further, RTC officials responsible for SAMDA oversight agree that there are few if any controls over the

verification of such transactions. Currently, RTC has \$37 billion of assets under management in 184 SAMDA contracts. These contractors are responsible for managing and disposing of real estate and nonperforming loans, including hiring and paying for subcontractor services. Under the terms of these contracts, subcontractor expenses, which RTC estimates could total in the billions, are fully reimbursed.

Compounding its contractor oversight problems is the fact that RTC's Contracting Activity Reporting System (CARS) does not provide the performance information needed to adequately manage the overall contracting area. Essentially, CARS is limited to providing an inventory of contract solicitations and issued contracts. It does not provide information showing whether contractors have been providing the required services on schedule and within budget. Accordingly, RTC cannot readily target poor performing contractors for review or determine whether RTC staff with oversight responsibilities are effectively doing their jobs.

For example, RTC top management requested information on task orders issued by a regional office on one large contract. Because the data in the system was incomplete, the information from CARS grossly understated the scope and dollar value of the contract. The CARS report listed only 49 task orders with estimated fees of \$271,943 when there were actually over 90 task orders with estimated fees of over \$20 million.

With the large and growing number and dollar value of active contracts, RTC needs to take strong steps to assure that its contracting employees are complying with established policies and procedures and that contractors are providing the best possible services. RTC will need to improve its contracting oversight capability, including its information systems, to monitor contracting activities.

#### INFORMATION SYSTEMS DEVELOPMENT STILL PLAGUED BY FUNDAMENTAL PROBLEMS

RTC's system development efforts continue to be disappointing because RTC still does not have adequate systems in place to fully support its critical mission of managing and selling assets. Although RTC has implemented the Asset Manager System (AMS), Real Estate Owned Management System (REOMS), and Loans and Other Asset Inventory System (LOAIS), none of these corporate-wide systems provide the benefits intended. Problems include unclear or changing requirements, inaccurate and incomplete data, poor response times, and software that is not user friendly. Collectively, these problems have delayed delivery and use of systems and cast doubt on whether they will adequately support RTC's asset management and sales functions. I will briefly summarize these three systems.

### Asset Manager System

AMS is a critical RTC system for SAMDA contract oversight. Under development since July 1990 and first installed at a contractor location in September 1991, the system is still unable to do what it was designed to do. AMS was supposed to account for SAMDA contractor costs and funds, move funds electronically to and from contractors, monitor contractor performance, and calculate the SAMDA contractors' fees. However, it can do some of these functions only partially and others it cannot do at all.

This system was developed without adequately considering the needs and capabilities of the contractors who must input much of the data into the system. Reports produced by the system were developed without adequately considering how they would be used and how they could best be prepared.

Contractors are having difficulties using AMS because it does not easily interface with their accounting systems. This deficiency has the potential of leading to cash management and accountability problems. Also, the electronic funds transfer function may not adequately be protected against misuse and theft because important controls were not built into the system. Further, although RTC had planned to rely on AMS as a critical mechanism for overseeing SAMDA contracts and calculating SAMDA contractor fees, delays in resolving AMS' accounting limitations have caused planned enhancements, including the addition of contractor monitoring capabilities, to be put on hold. As a result, RTC will have to continue to rely on hard copy reports from contractors. This is no easy task since contractors are required to submit 27 reports, as well as any additional reports that RTC may request.

Further, because RTC has not adequately defined its information needs, requiring contractors to submit all these reports without knowing what information is needed is wasteful. We have found that (1) RTC oversight managers do not consistently use all the required reports to monitor contractor performance and track assets, (2) some contractors are not preparing all the required reports, and (3) it is difficult and time consuming to manually extract data from reports submitted by contractors.

### Real Estate Owned Management System

Another critical system that is not doing what it was designed to do is the real estate system. Although RTC accepted REOMS from the contractor in July 1991, significant modifications to the system are being made as RTC tries to determine what information it needs as the system is being used.

RTC staff have found that the system is too slow and inflexible due to slow response times during data input and retrieval,

cumbersome computer screen formats, and restrictive reporting options. Also, the data in the system are often inaccurate, incomplete, and outdated. For example, our analysis of individual property records in the system showed that about 67 percent of the records for unsold property did not have one or more of the following six data elements: list price, list date, expiration date, responsible broker, broker contact, and contact phone number. Because the data in the system are neither accurate nor reliable, and because the system is not responsive to the needs of the users, RTC staff have been forced to use other manual and automated processes to get the job done.

A lack of confidence in RTC's nationwide real estate system has promoted the growth of ad hoc asset tracking systems at RTC's field locations. This perpetuates the data reliability problems, causes inefficiencies, and heightens frustration. REOMS as it is currently functioning hampers RTC's disposition efforts because it does not provide accurate information to identify assets, target assets for specific sales programs, and provide accurate management reports showing disposition results. Also, REOMS does not provide important asset holding cost information essential for key disposition decisions and a focused real estate disposition program.

#### Loans and Other Asset Inventory System

RTC has encountered problems loading loan data from loan servicing contractors in LOAIS. This effort has been more complex and time consuming than RTC had anticipated because it did not adequately consider--before system implementation--contractor data that were maintained in different formats and were not always complete. RTC estimates that only half the loan data will be loaded into LOAIS by late spring 1992.

LOAIS cannot provide accurate and complete information to help RTC market loans through agency swaps or securitization. To overcome this limitation, the securitization staff have obtained contractor services to support disposition activities. Although the securitization program may be operating efficiently, the securitization staff had to meet their information needs on their own.

#### Related Program Problems

Inadequate information systems have impeded RTC's ability to use the most efficient and effective asset management and disposition strategies. As a result, RTC staff have found it necessary to develop ad hoc systems to track asset inventory, structure sales transactions, and report on completed activity.

One example of the effect information systems--REOMS and its predecessor, the Real Estate Owned Inventory System, and LOAIS--

have had on RTC operations relates to the development of SAMDA contract portfolios. Last year, RTC's primary method of disposing of real estate and nonperforming loans secured by real estate was through the SAMDA contracts. Because of the lack of adequate information systems to identify and target specific assets for SAMDA contracts, RTC structured the portfolios in a way that resulted in inefficient and costly contract performance.

Our analysis of 98 SAMDA portfolios showed that these portfolios contained real estate that had been sold; loans that were paid in full; real estate that was under sales contract, with closing scheduled within days following the award of the SAMDA contract; and performing loans. Even though the contractors did not have to provide any services on these types of assets, RTC had to pay for services that would normally have been provided. In other words, RTC had to pay contractors over \$3 million in unearned disposition fees.

Additionally, although RTC recognized the benefits of grouping assets geographically, about 30 percent of the 98 portfolios we reviewed had assets in as many as 27 states. Portfolios with such wide geographic diversity present increased risks for mismanagement, waste, or potential fraud because many of the properties generate large amounts of income and require large outlays for repairs and maintenance. Further, contractors may not have experience in the markets where the assets are located and may neglect assets because of travel costs to distant locations. This geographical diversity of assets occurred because RTC's accounting and information systems were incapable of supporting asset transfers between RTC offices. This condition still exists today.

In addition to hampering RTC's asset disposition efforts, inadequate information systems make the job of managing the corporation more difficult. Managing a large decentralized organization such as RTC requires reliable information so that top management can oversee and coordinate the organization's activities, provide adequate management oversight, evaluate and set policy, and hold various organizational elements accountable for achieving agency missions and program goals. Currently, RTC's information systems do not provide a sound basis for developing this information.

#### Actions Being Taken By RTC

RTC management continues to be receptive to the need to follow sound information management principles. For example, in the fall of 1991 and with our encouragement, RTC began studying asset management information needs at different operating levels. Also, we recently worked with RTC managers and industry and other government officials to explore business strategies and system support needed for managing and selling loan assets. One

potential solution has emerged for obtaining timely, accurate, and complete data from loan service contractors. This would entail a coordinated effort by RTC, OTS, Freddie Mac, and Fannie Mae to influence standard reporting formats for loan servicers. We have encouraged RTC management to pursue solutions like this and to continue working closely with entities experienced in managing and selling loan assets to address other unresolved issues.

We believe it is essential for RTC to continue improving its systems development practices and to complete these efforts before attempting to further develop its nationwide information systems. Specifically, RTC needs to define strategies, match information needs to these strategies, and then develop systems to provide complete, accurate, and reliable information to those who need it to carry out their duties to manage asset disposal programs or oversee contractors hired to carry out asset management and other functions.

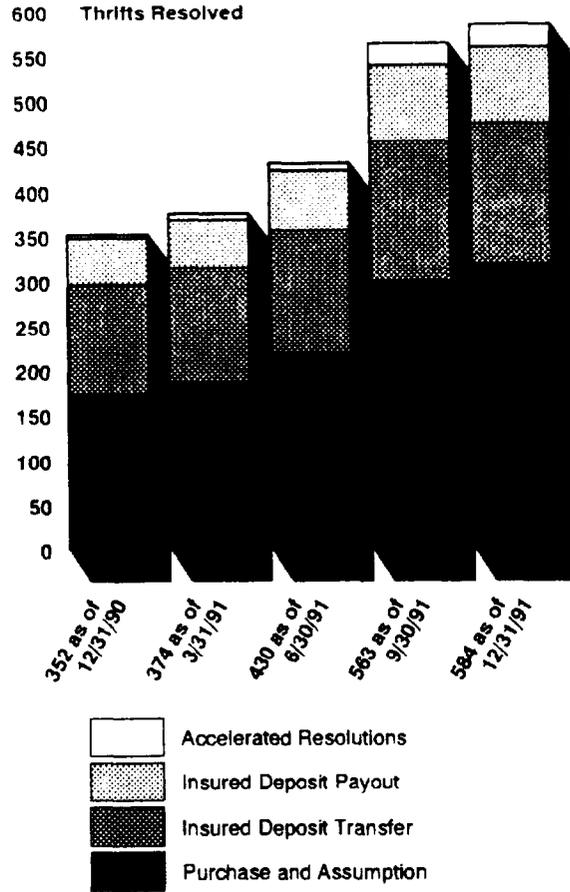
STATUS OF THE 1991 RTC  
FINANCIAL STATEMENT AUDIT

Our audit of RTC's 1991 financial statements is well underway. As requested, RTC provided us with draft statements and footnotes on February 28, 1992. RTC has characterized these statements as final in all respects except for the loss estimates related to resolved and unresolved institutions. RTC is currently working on these estimates, which are very significant to the financial statements, and expects to supply them to us by March 31, 1992. If RTC can provide complete and final statements by the end of March and supplies us with the support necessary to substantiate those statements, we believe that we will be able to issue our report on RTC's 1991 financial statements by June 30, 1992.

Today I have discussed a number of problem areas where RTC's performance has been disappointing. We hope that in the future we will be able to report that RTC has made progress in correcting these problems. We are encouraged that the new CEO has initiated a series of management projects to review and improve RTC's major programs. The projects focus on 20 key areas of management and operations and reflect many of the areas that GAO and Congress have cited as needing improvement. Some of these top-priority projects include developing RTC goals and objectives, developing management information on performance, identifying more effective strategies for hard to sell assets, and improving internal controls and financial accounting systems. Since RTC is in the third year of its 7-year existence and still has a difficult task ahead, it is critical that RTC devote sufficient resources to ensure that the projects are completed as quickly and effectively as possible.

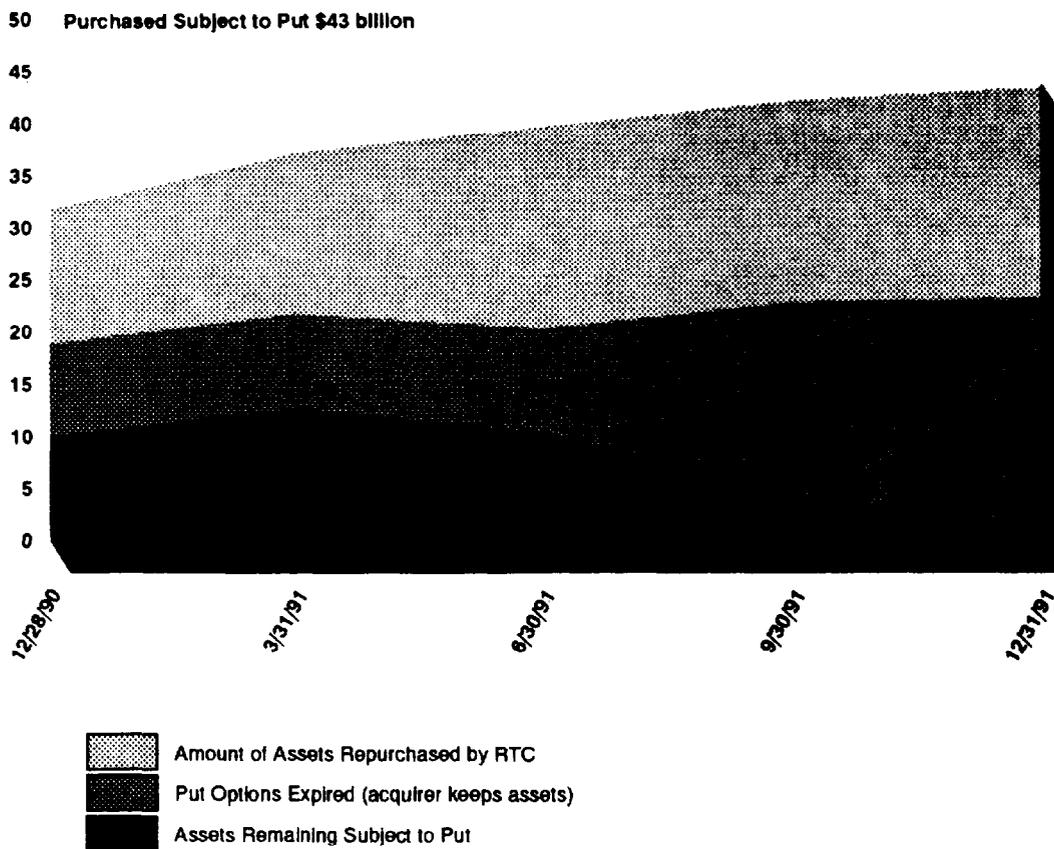
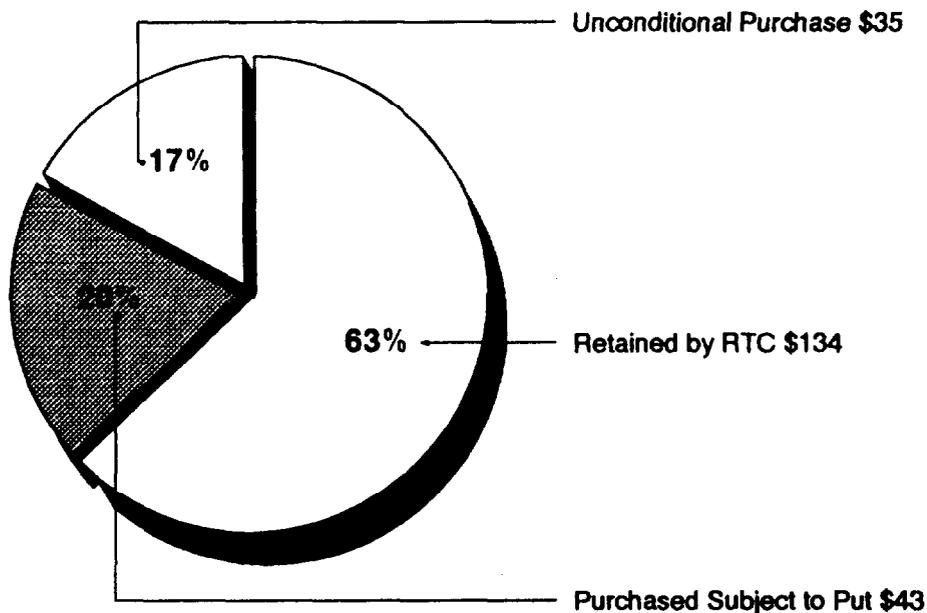
This concludes my prepared remarks. We would be pleased to answer any questions.

# GAO Thrifts Resolved by RTC

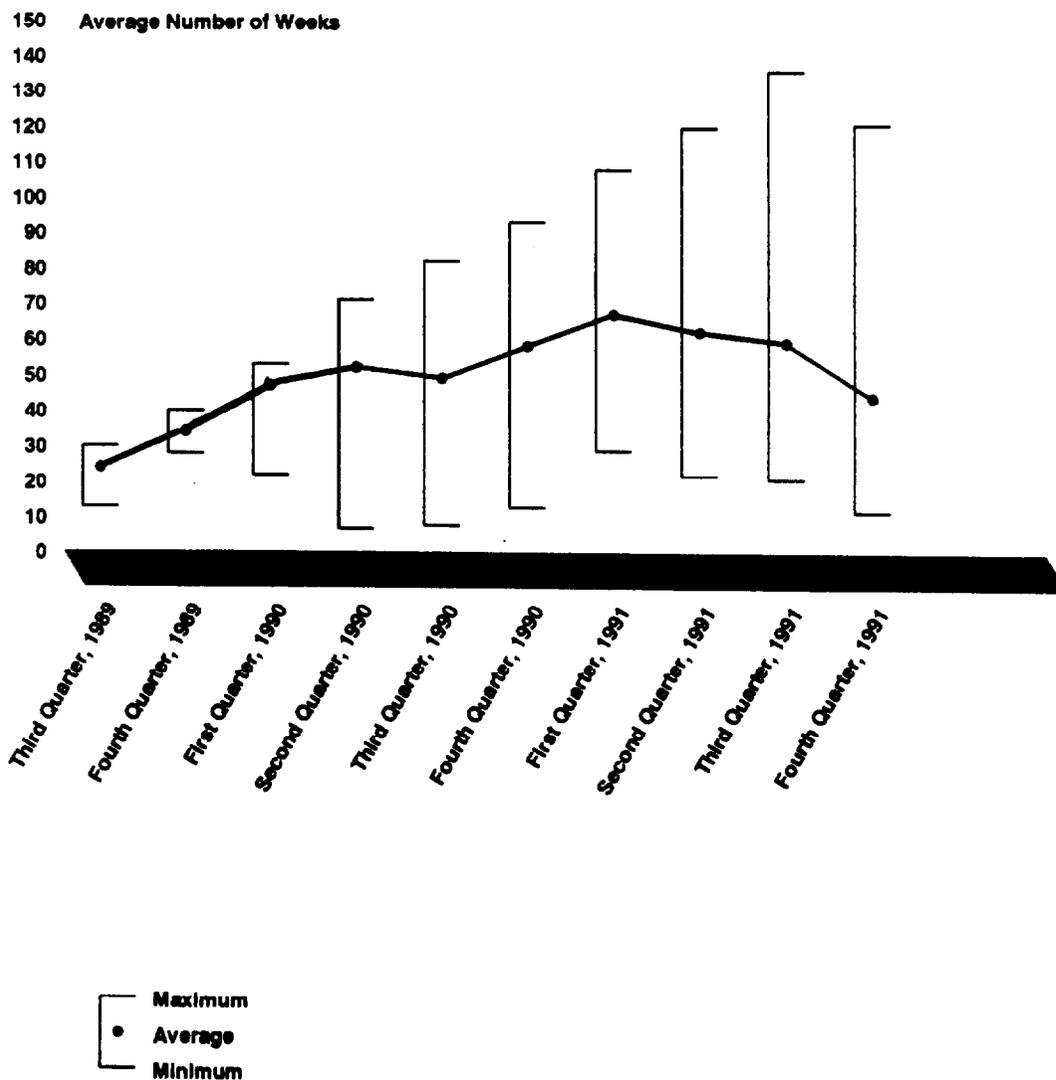


# GAO Assets at Resolution and RTC's Put Option Exposure

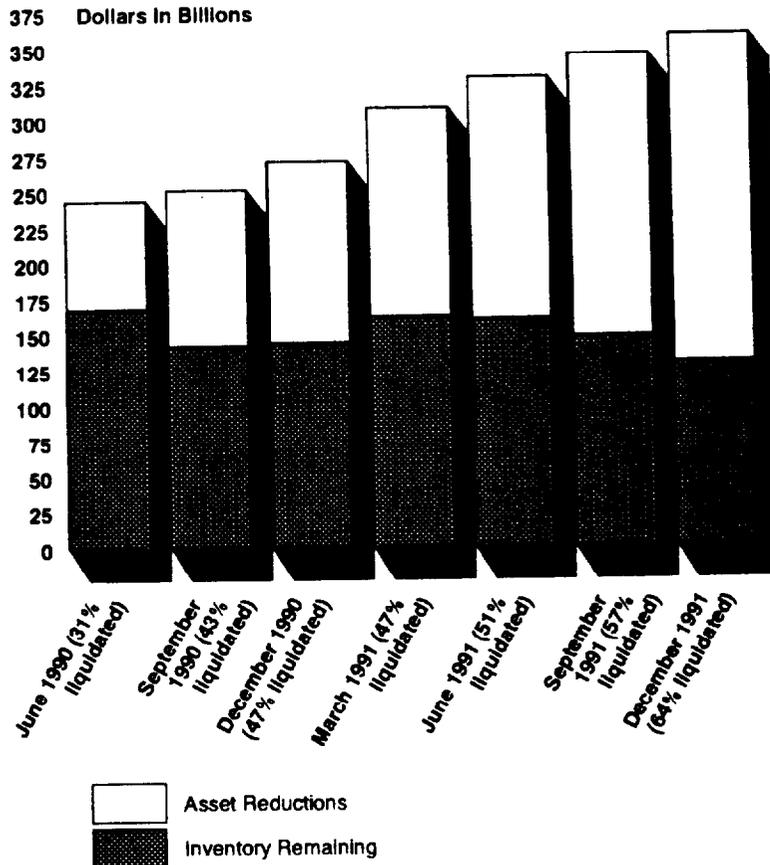
Assets in 584 Thrifts: \$212 billion



# GAO Noncumulative Length of Time in Conservatorship at Resolution



# GAO Assets Under RTC's Control and Inventory Remaining

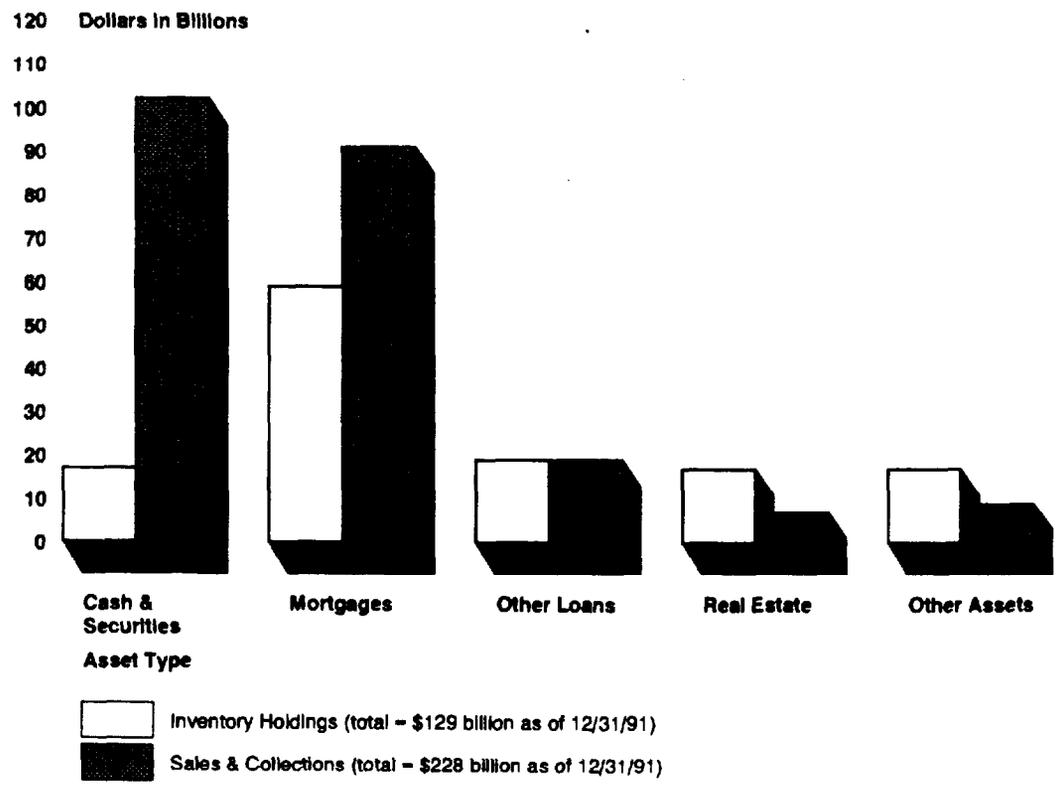


"% liquidated" refers to total asset reduction divided by the total assets put under RTC's control at any given point in time.

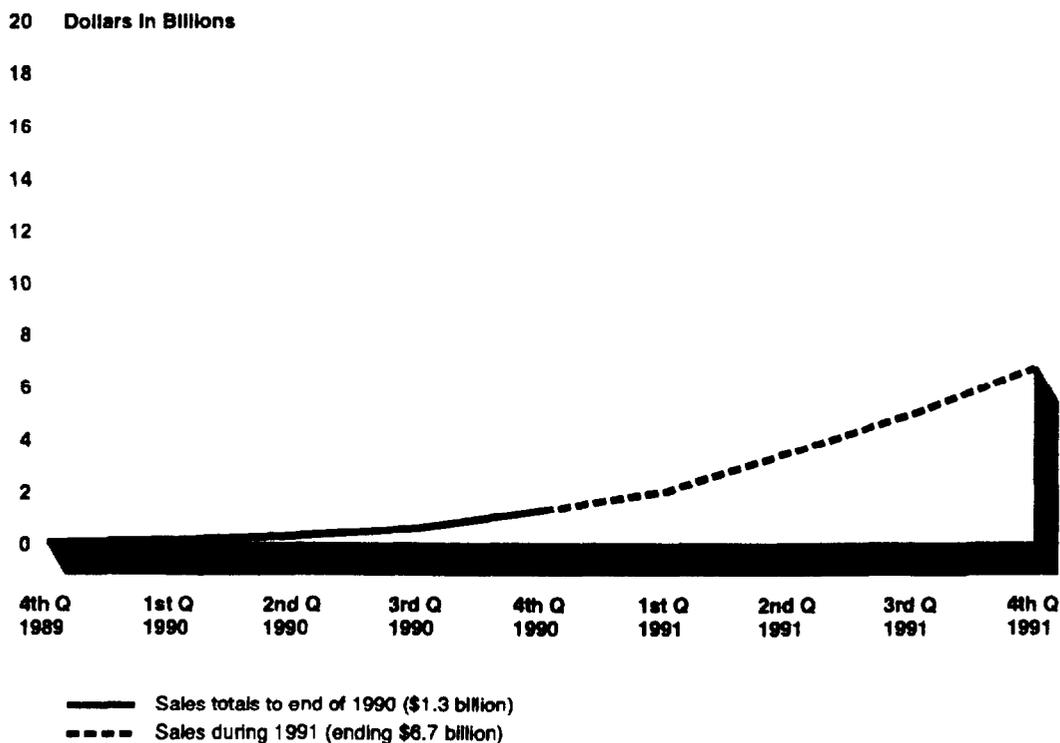
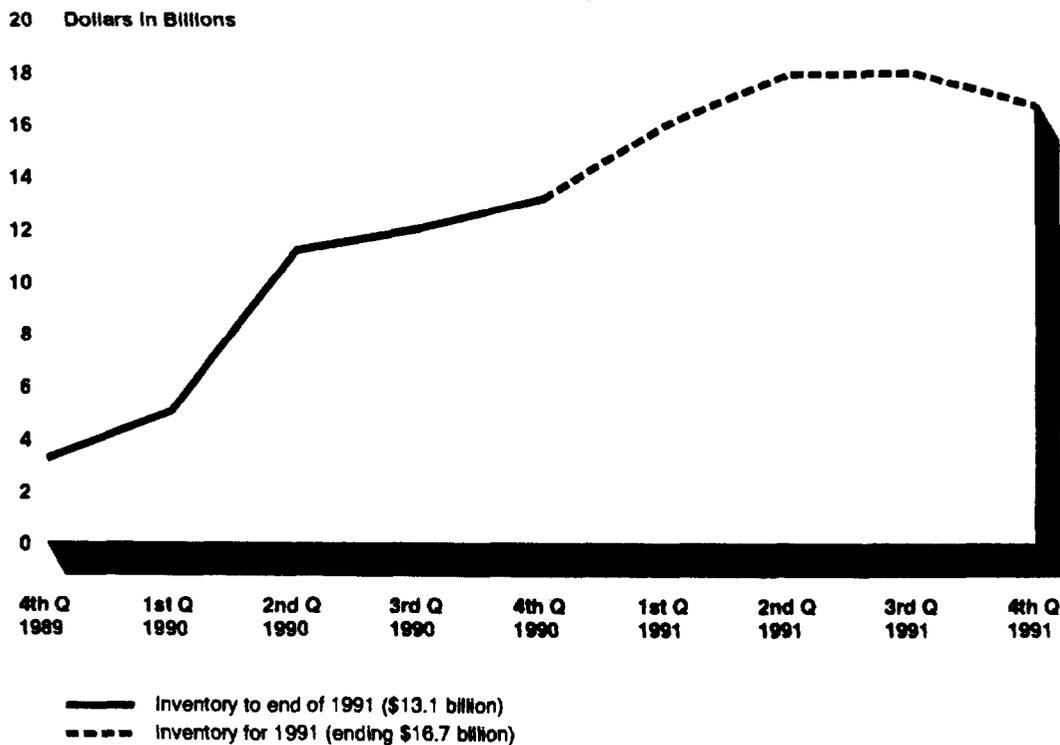
# GAO Inventory, Sales & Collection Totals (as of 12/31/91)

Dollars in Billions

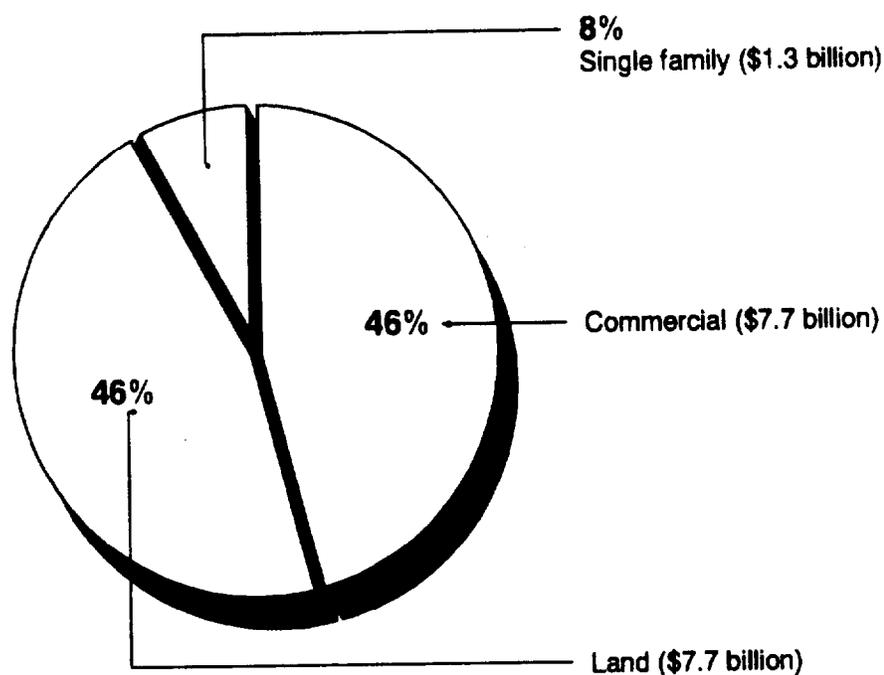
	Total Assets	Sales & Collections	Inventory as of 12/31/91
Cash/Securities	\$119	\$102	\$ 17
Mortgages	150	91	59
Other Loans	38	19	19
Real Estate	24	7	17
Other Assets	26	9	17
<b>Total</b>	<b>\$357</b>	<b>\$228</b>	<b>\$129</b>



# GAO RTC's Real Estate Inventory and Cumulative Sales Totals



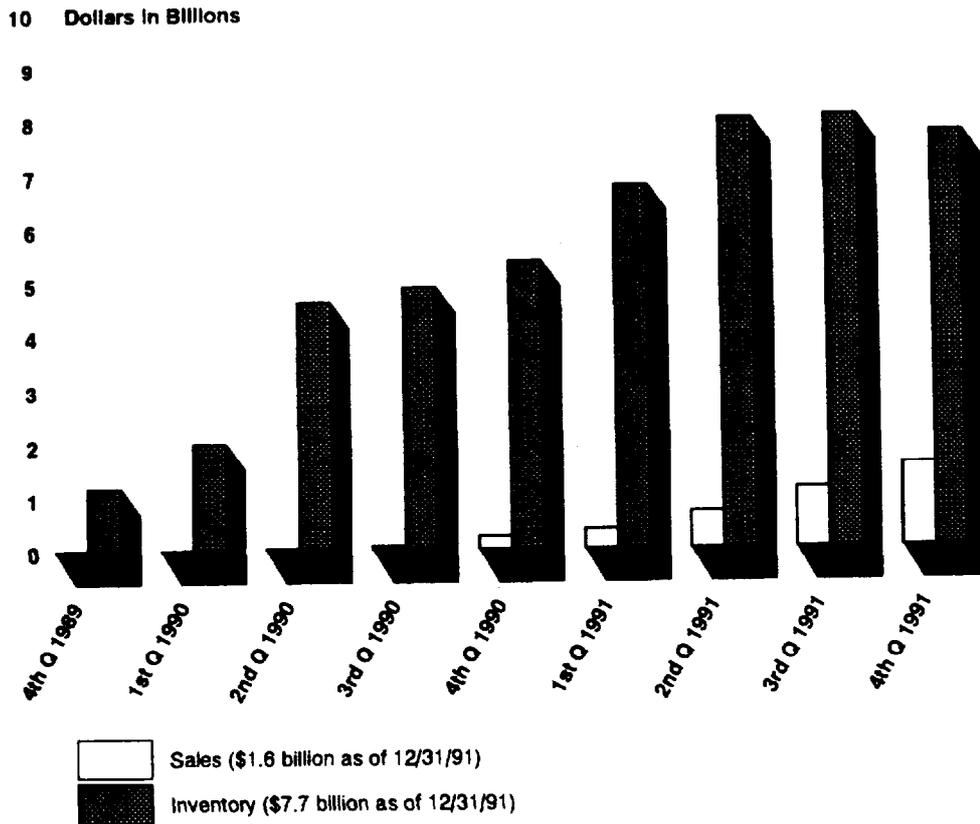
# GAO RTC's Real Estate Inventory by Asset Type as of 12/31/91



Total real estate inventory holdings = \$16.7 billion as of 12/31/91

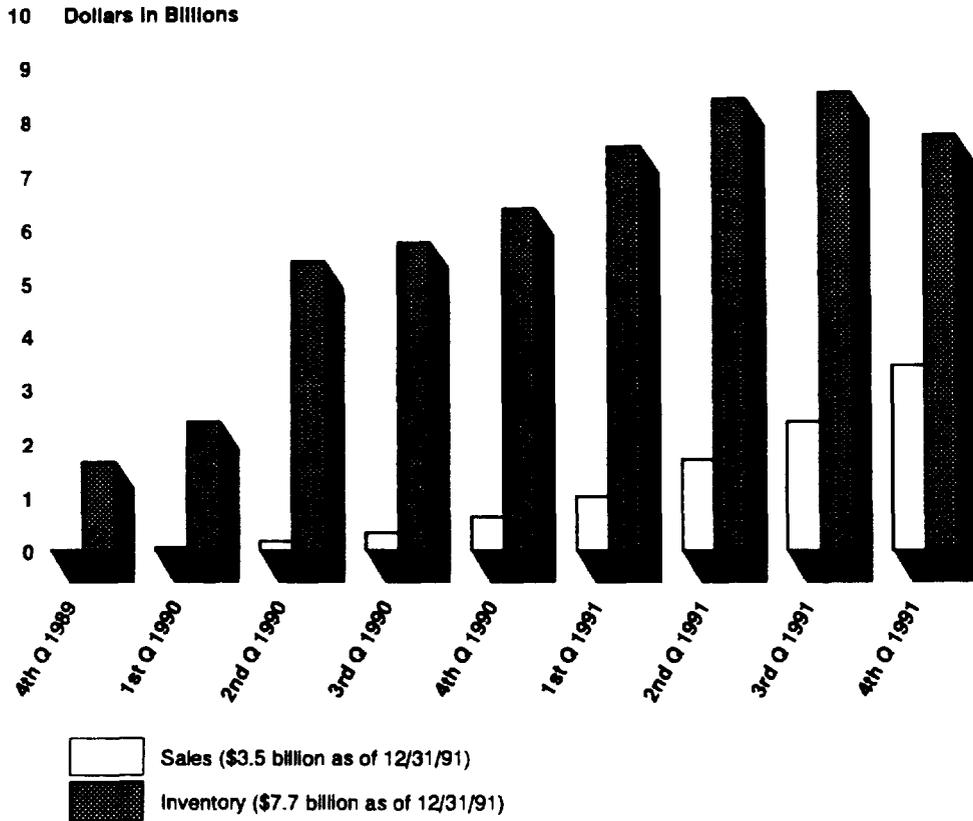
Commercial real estate includes office, retail, hotel/motel, industrial, and multi-family properties

# GAO RTC's Land Real Estate Inventory and Cumulative Sales



GAO

# RTC's Commercial Real Estate Inventory and Cumulative Sales



# GAO Total Active RTC Contracts (1/90 - 12/91)

