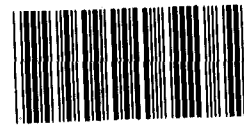


August 1991

# FAILED THRIFTS' ASSETS

## RTC's Oversight of 1988 Deals Needs Improvement



144673

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**General Government Division**

B-244179

August 21, 1991

The Honorable L. William Seidman  
Chairman  
Resolution Trust Corporation

Dear Mr. Seidman:

This report presents the results of our review of the oversight of the asset disposition plans submitted by institutions that acquired failed thrifts from the Federal Savings and Loan Insurance Corporation (FSLIC) in 1988 under financial assistance agreements. We are addressing this letter to you, as the Chairman of the Resolution Trust Corporation (RTC), because administrative responsibility for the assistance agreements has been transferred from the Federal Deposit Insurance Corporation (FDIC) to RTC. The Division of FSLIC Operations in FDIC, which was given this responsibility when FSLIC was abolished in 1989, was also transferred to RTC.

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**Results in Brief**

We did not identify significant problems in the Division of FSLIC Operations' review and approval of the asset disposition plans. We did find, however, that adequate management information systems for monitoring the implementation of the approved plans and tracking covered asset disposition were not yet fully operational.<sup>1</sup>

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**Background**

FSLIC resolved 178 insolvent thrifts by selling them to 89 acquirers in 1988. Three more thrifts were resolved in early 1989 and sold to two acquirers. In addition, there were five transactions involving 18 insolvent thrifts for which there were no acquirers.

In earlier testimony and a report, we noted that FDIC, then responsible for oversight of the agreements, had not (1) developed an overall strategy for dealing with covered asset dispositions, (2) adopted formal guidance for approving or disapproving various asset disposition plans submitted by assisted thrifts, or (3) established integrated management

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<sup>1</sup>Under the assistance agreements, the book value and a negotiated yield on specified (covered) assets purchased by the assisted thrifts as part of the transactions were guaranteed. These guarantees are now funded by the FSLIC Resolution Fund, which is administered by FDIC. When the transactions were entered into, these assets had a total book value currently estimated at \$58.5 billion; RTC has also estimated that the costs associated with the related guarantees would be \$32.5 billion. The assisted thrifts are required to submit various disposition plans for these assets, referred to as covered assets.

information systems for asset management and disposition.<sup>2</sup> We emphasized that without a strategy and guidance for approving asset disposition plans that stressed maximizing net recovery on assets, it would not be possible to ensure that the review process would have that result. Furthermore, without a means of tracking progress under approved asset disposition plans, it would not be possible to determine whether such plans were being effectively implemented. FDIC said that the needed information systems would be developed and implemented. It also approved guidance,<sup>3</sup> related asset disposition policy statements, and criteria for asset disposition plan contents.

## Objectives, Scope, and Methodology

Our objectives were to assess FDIC's review and approval of asset disposition plans submitted by the assisted thrifts and its monitoring of the plans' implementation. We reviewed a sample of disposition plans for 133 high-value assets submitted by 8 assisted thrifts. We judgmentally selected six of the largest assisted thrifts and two of the smallest thrifts to include in our review. We then judgmentally selected, from each thrift, 20 high-value assets—10 assets from its loan portfolio awaiting action or acted upon and 10 real estate-owned assets awaiting sale or sold at the time of our field work. After we removed assets for which plans were not required from the sample, 133 remained.<sup>4</sup> The assisted thrifts from which we selected the 133 asset disposition plans for review accounted for \$36.5 billion of the \$58.5 billion in covered assets as of the agreement dates.

We determined what strategy, policies, and procedures were used to review asset plans, if the plans were reviewed and approved (or rejected), and if the approved plans met content requirements. We also sought information on the methods used to monitor the inventory of covered assets, monitor implementation of approved plans, and track disposition. We discussed the results of our work with RTC officials and included their comments where appropriate. We did our audit work

<sup>2</sup>Thrift Crisis: Strategic Plan for Resolution Trust Corporation and Management of FSLIC Deals (GAO/T-90-14, Jan. 25, 1990); and Failed Thrifts: FDIC Oversight of 1988 Deals Needs Improvement (GAO/GGD-90-93, July 19, 1990).

<sup>3</sup>Mission Statement and Policy Guidance for Administration of Assistance Agreements under the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, June 12, 1990.

<sup>4</sup>Sixteen assets did not require a plan, and 8 had been sold or foreclosed on prior to the plans' submission dates (with FDIC's approval). In addition, one loan did not require a plan because it was performing, and one asset was under contract for sale and FDIC had delayed the plan submission date. In another case, FDIC delayed the plan submission date because the thrift was in the process of negotiating a comprehensive debtor/creditor agreement outlining payment and collateral terms.

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from July 1990 through April 1991 in accordance with generally accepted government auditing standards.

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## Approved Asset Plans Met Requirements

We found that Division of FSLIC Operations officials generally adhered to available guidance in approving or rejecting the asset plans. The 92 plans that had been approved contained (1) information on the history and condition of the assets and appraisals and (2) adequate support for the proposed asset dispositions and rejection of the alternative plans.

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## Integrated Asset Management Systems Not Operating

Although the approved asset plans met the requirements, we found that the integrated systems needed to determine if the assisted thrifts submitted asset disposition plans as required and implemented approved plans were not in place. In its May 18 comments on a draft of our July 1990 report, FDIC acknowledged the importance of integrated information systems to monitor the thrifts' compliance with assistance agreement provisions and oversee the management and disposal of covered assets. FDIC also indicated that limited-scope systems under development would be operational by June 1990 and that a task force had been established to develop and implement integrated management information systems. The goal set for implementation was March 31, 1991.

RTC officials told us they did not meet this goal primarily because they are having serious problems reconciling the available data. The basic problem is that the original inventory of covered assets, the asset dispositions, and the present inventory of covered assets cannot be reconciled. The officials told us that RTC does not have a revised implementation target date for the system.

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## Conclusions

Without adequate tracking systems to monitor the inventory of covered assets, their disposition plans, and their actual dispositions,

- RTC cannot ensure that the costs associated with covered assets are being minimized;
- the government is exposed to potential waste, fraud, and abuse in the disposition of covered assets; and
- RTC cannot make systematic comparisons among all covered assets to determine where funds appropriated for the purpose of reducing assistance agreement costs can best be spent.

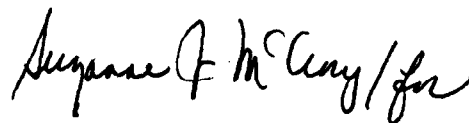
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We recognize that responsibility for the management of the assistance agreements has been transferred twice so far—from FSLIC to FDIC in August 1989 and from FDIC to RTC in January 1991—and that there have been recent proposals related to organizational changes affecting RTC and FDIC. Regardless of any organizational changes, we believe it is imperative to provide effective oversight of the assistance agreements. To do this, the type of information systems FDIC agreed were needed must be fully and expeditiously implemented.

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We are providing copies of this report to interested congressional committees, agencies, and the public. Major contributors to this report are listed in the appendix. If you have any questions about the report, please call me on (202) 275-8678.

Sincerely,



Craig A. Simmons  
Director, Financial Institutions  
and Markets Issues

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# Major Contributors to This Report

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