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Report to the Deputy and Acting Chief Executive Officer, Resolution Trust Corporation

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RESOLUTION TRUST CORPORATION

Better Data Could Improve Effectiveness of Nonperforming Loan Auctions

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Mr. John E. Ryan
Deputy and Acting
Chief Executive Officer
Resolution Trust Corporation

Dear Mr. Ryan:

As a part of our continuing efforts to assess the Resolution Trust Corporation's (RTC) asset disposition activities, we reviewed the national nonperforming loan auction held in August l993 in Kansas City, MO, which was originally scheduled for June 1993. This report discusses the process RTC used to select loans for this auction and the adequacy and usefulness of loan data provided to investors before the auction. We make several recommendations for improving the effectiveness of auctions, which are expected to be the primary disposition strategy for most nonperforming loans during the remainder of RTC's existence.

Results in Brief

Incomplete and outdated loan data hindered RTC's efforts to identify, select, and dispose of nonperforming loans through the August 1993 auction. Using its central loan database, RTC initially identified and planned to offer over 60,000 nonperforming residential, consumer, and commercial loans with a total book value of about $2.7 billion that appeared to meet the loan selection criteria for this auction.[1] However, RTC did not follow its contracting procedures when it attempted to modify loan servicers' contracts to require them to submit monthly standard loan data to ensure that complete and current data needed to market nonperforming loans were collected to update the database. As a result, the database contained incomplete and outdated data, and RTC's initial selection of loans was incorrect because many of the loans (1) did not meet the auction's criteria, (2) were involved in litigation, (3) had already been paid off or sold, (4) had been designated for other sales, or (5) had loan files that could not be located. Consequently, the 11,181 loans, with a total book value of $673 million, offered and sold fell far short of the 60,000 loans initially planned for the August 1993 auction.

The loan data RTC provided to investors before the August 1993 auction were not always adequate, although RTC spent a great deal of time and money on gathering detailed information about the loans to be offered for

[1]In general, for the August 1993 auction, loans had to be nonperforming with a maximum loan amount of $5 million and at least 91 days past due, except that loans secured by real estate had to be at least 121 days past due. The specific criteria are listed in appendix I.

sale at the auction. Investors generally believed RTC's data were useful, but they found that important data were missing. Some investors said that this impaired their ability to evaluate the loans and make bidding decisions, causing them to lower their bids or decide not to participate.

Throughout our review and after we completed our audit work in March 1994, RTC took some actions and had others in process to address the issues we had identified. RTC has implemented three of the five recommendations included in the draft report we sent to RTC for comment, and it is taking actions to implement the other two.

Background

RTC needs complete and current information to ensure that it maximizes recoveries from the sale of its large inventory of hard-to-sell assets, which includes nonperforming loans.[2] With complete and current asset information, RTC could provide investors with pertinent data about assets being offered for sale. RTC has found that the quality of the data it makes available to prospective bidders directly affects how investors bid on assets: better quality data lead to higher bids and, conversely, poor quality data lead to lower bids. Therefore, RTC has spent a great deal of time and resources attempting to provide investors with pertinent loan data before an auction to assist them in making bidding decisions and to increase investor participation and enhance asset recoveries.

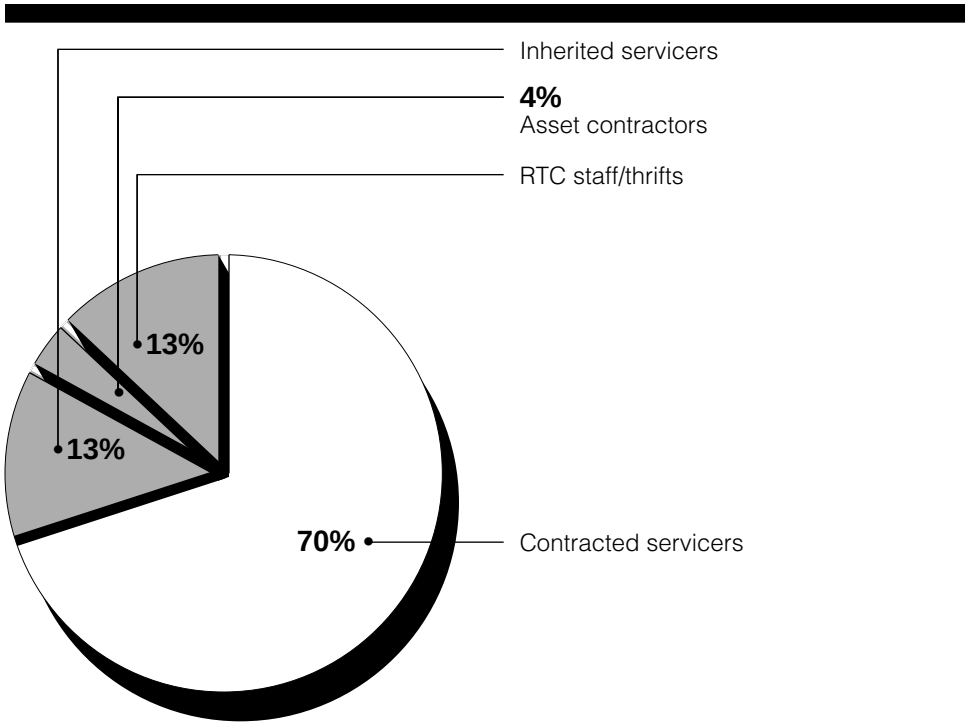
At the time of the August 1993 national auction, RTC data showed that it held about 122,000 nonperforming residential, consumer, and commercial loans with a total book value of $17 billion.[3] By February 1994, this inventory had been reduced to about 96,300 loans with a book value of $11.9 billion. As shown in figure 1, these assets were primarily serviced by contracted loan servicers.[4]

[2]RTC defines hard-to-sell assets as all real estate-owned; all loans except performing single-family mortgage loans; and other assets, such as equity investments in subsidiaries.

[3]RTC defines loans as nonperforming when they are at least 90 days delinquent.

[4]RTC contracts with servicers to collect and remit loan payments from borrowers; maintain escrow accounts for real estate taxes and hazard insurance; and, in some cases, foreclose on or repossess the collateral on defaulted loans.

Figure 1: RTC Nonperforming Loan Servicing Arrangements



Source: GAO analysis of RTC data.

RTC has used a variety of sales methods to dispose of the nonperforming loans of thrifts placed under RTC control, including Standard Asset Management and Disposition Agreement (SAMDA) contracts, securitization,[5] portfolio sales, auctions, individual asset sales, and workouts.[6] Open outcry auctions are used to sell most types of smaller balance (less than $50,000) nonperforming loans. RTC's December 1993 Business Plan lists national auctions as the primary disposition strategy for performing and nonperforming "other" loans.[7] It also lists auctions as a secondary

[5]Securitization refers to the practice of grouping assets (usually performing mortgage loans) and selling securities backed by the underlying future cash flows of those assets.

[6]A workout arrangement is a relatively short-term reconfiguration of a performing or nonperforming loan for the purpose of enabling the borrower to fulfill the loan obligation in time of economic distress.

[7]Other loans are those secured by assets other than first trust on real estate (auto, boat, home equity lines of credit, mobile home, etc.) and small unsecured loans, such as installment loans.

disposition strategy for nonperforming single-family mortgages. To increase recoveries on the sale of these assets, national auction sales have become an important element of RTC's overall asset disposition strategy.

Before June 1991, nonperforming loans were normally assigned to SAMDA contractors. These contractors were required to negotiate with defaulting borrowers and handle the foreclosure and sale of collateral, if necessary. However, RTC concluded that it could dispose of nonperforming loans more expeditiously through auctions, thereby reducing asset holding costs and administrative expenses and increasing net recoveries. Accordingly, in June 1991, instead of giving nonperforming loans to SAMDA contractors for disposition, RTC's field offices began using regional auctions.

In September 1992, RTC held its first large, broad-scale national nonperforming loan auction in Los Angeles. At this auction RTC sold $416 million in nonperforming loans, recovering about $247 million, or about 59 percent of the book value. On the basis of the results of this initial auction, RTC decided to use national auctions as a primary disposition method for nonperforming loans. It shifted responsibility for conducting auctions from its field offices to the National Sales Center in Washington, D.C.[8] According to RTC, through national auctions, it can dispose of large numbers of loans at a single event and improve its ability to group loans by investor preferences, such as loan type, loan size, or location of collateral. RTC believes it can increase investor participation and maximize recoveries by using national auctions to dispose of nonperforming loans.

The National Sales Center has conducted 4 national nonperforming loan auctions, which disposed of about 43,440 loans with a total book value of about $1.6 billion.[9] According to RTC, it has recovered 50 to 60 percent of the loans' book value in each of these auctions. As shown in table 1, in the August 1993 auction RTC sold 11,181 loans with a total book value of $673 million and realized net proceeds of $330 million.

[8]The National Sales Center has designated Kansas City, MO, as the site where all of RTC's national loan auctions will be held.

[9]The four national nonperforming loan auctions were held in September 1992 in Los Angeles and March 1993, August 1993, and April 1994 in Kansas City, MO.

Table 1: RTC's August 1993 Nonperforming Loan Auction Results

Performance indicator	Result
Number of nonperforming loans sold	11,181
Number of registered bidders	146
Number of purchasers	55
Book value ($ millions)	$673
Sales proceeds ($ millions)	$335
Net proceeds ($ millions)[a]	$330
Sales proceeds as percentage of book value	50
Net proceeds as percentage of book value[a]	49

[a]These calculations do not take into account holding costs RTC had incurred during the period the loans were under its control.

Source: GAO analysis of RTC data.

Loan Auction Process

RTC establishes the selection criteria for the loans to be offered in each auction. In general, for the August 1993 auction, loans had to be nonperforming with a maximum loan amount of $5 million and at least 91 days past due, except that loans secured by real estate had to be at least 121 days past due. The specific criteria used for this auction are listed in appendix I.

RTC identified loans for the auction using its central loan database, which contains information on most RTC loan asset types. The database compiles data reported by loan servicers, whom RTC contracts to collect payments from borrowers and perform other tasks. The database contractor who maintained the central loan database used the August 1993 auction's loan selection criteria specified by RTC to search the database to identify potential loans and create a separate auction database of loans meeting the criteria. After the August 1993 auction, about 425,000 active loans remained in the central loan database.

Loan servicers and SAMDA contractors were then asked to send the loan files for the nonperforming loans identified to the national auction site in Kansas City. They were also to provide payment histories, appraisals, and updated legal information that may not have been in the files. Loan servicers were requested to submit monthly loan status updates to keep the auction database current. These updates were to include data such as the unpaid principal balance, current interest rate, maturity date, and number of days delinquent.

A contractor hired by RTC to do due diligence work[10] reviewed the loan files to verify data about each nonperforming loan. This contractor also created diskettes containing loan data that interested investors could purchase for $250 to review the loans being offered in the auction. In addition to conducting the auction, an auctioneer hired by RTC coordinated the marketing process and scheduled investor reviews of loan files. Investors reviewed the loan files and/or the loan data diskettes to decide whether to participate in the auction and how much to bid on loans.

RTC used imaging technology to provide investors access to information in loan files while protecting the original loan documents. It scanned the documents in the loan files and created image databases on computer disks. For a period of about 4 weeks before the auction, investors could use image workstations at the auction site in Kansas City to view loan documents and study the payment histories for loans being offered for sale. The use of the imaging technology allowed multiple investors to review the same loan files simultaneously.

Prior Audits

Both GAO and the RTC Inspector General (IG) have issued reports on RTC's use of auctions to dispose of assets. For example, the IG looked at two earlier auctions held in December 1991 and April 1992 by RTC's Denver and Atlanta field offices.[11] The IG reported that RTC may not have maximized its recovery for some loans sold in these auctions because it did not have an effective screening mechanism and adequate loan information before the auction. As discussed in this report, these conditions had not been corrected at the time of the August 1993 national auction.

GAO, the IG, and RTC's Office of Contractor Oversight and Surveillance have all issued audit reports on loan servicing activities that identified weaknesses in RTC's oversight of loan servicers that could affect the quality of loan data they reported to RTC. For example, in April 1992, we reported that RTC did not adequately oversee loan servicers.[12] It did not require its field offices to audit the servicers' loan collection records and verify the accuracy of their loan status reports. Instead, RTC relied totally on the

[10]Due diligence involves data collection on specific assets. It may include property inspection, market analysis, cash flow analysis, asset valuation, document review, and preparation of asset files. Potential investors use this information to decide whether to bid on a pool of assets and at what price.

[11]Nonperforming Loan Auctions, RTC Office of Inspector General (Audit Report A94-DE-005, Feb. 2, 1994). The Denver Office was formerly the Intermountain Consolidated Office in the Western Region and the Atlanta Office was formerly the Mid-Atlantic Regional Office.

[12]Resolution Trust Corporation: Oversight of Certain Loan Servicers Needs Improvement (GAO/GGD-92-76, Apr. 24, 1992).

servicers to keep accounting records that accurately reflected what debtors had paid and what loan balances remained.

Also, in an October 1993 report,[13] the IG reported that the loan servicing efforts of one contractor were hampered because of continuing problems, such as incorrect loan balances, large loan payment suspense account balances, and unreliable delinquent loan reports. The IG reported that many of the contractor's adjustable interest rate loan amortizations, payoff calculations, and payment postings were not accurate because its information system contained numerous errors resulting from poor quality conversions and mistakes made by unqualified conversion and posting personnel.[14] Furthermore, in a December 1993 report, the IG reported that the Kansas City Financial Service Center did not have an efficient system for maintaining loan servicing information and did not determine and monitor reporting requirements for each servicer.[15]

The related audit reports listed on pages 36 and 37 describe the environment in which the August 1993 nonperforming loan auction was planned. The problems identified in these reports help explain the difficulties RTC experienced in selecting loans for this auction and providing current and complete data to investors prior to the auction.

The RTC Completion Act requires RTC to respond to problems identified by auditors. Consequently, RTC is in the process of improving the maintenance of loan servicing information and other loan servicing problems identified by GAO and the IG. RTC's goal is to reduce its universe of loan servicers, standardize the scope of services it requires, competitively bid new contracts as existing contracts expire, and better support the needs of the loan sales initiatives.

Objectives, Scope, and Methodology

The objectives of our review were to determine (1) how RTC selected loans to be offered in its August 1993 national nonperforming loan auction and (2) whether RTC provided investors with adequate and useful data on loans being offered for sale. RTC was identifying the loans for this auction when

[13]FIServ Joint Venture, Inc., Loan Servicing, RTC Office of Inspector General (Audit Report A94-DA-001, Oct. 29, 1993).

[14]Conversions are the movement of assets from one data processing system to another. In this case, it is the movement of loan asset data from a failed thrift's system of record to RTC's loan servicer's system.

[15]Kansas City Receivership Operations—Controls Over Loan Servicer Remittances, RTC Office of Inspector General (Audit Report A94-KC-003, Dec. 29, 1993).

we began our work in February 1993. We were able to observe how RTC gathered loan data and processed loan files before the auction. We also attended the auction in Kansas City, MO.

To determine RTC's process for selecting loans for the auction, we reviewed the Asset Sales Guide, the loan selection criteria, and policy directives governing auctions. We reviewed RTC records and reports from the due diligence contractor. At the National Sales Center in Washington, D.C., we interviewed the Acting Director of National Auction Programs, auction marketing specialists, and the National Loan Auction Marketing Coordinator. We interviewed the due diligence contractor to determine how data were gathered for the auction database and reasons for auction inventory changes. We also observed the contractor reviewing loan files during the due diligence process. We visited RTC's central loan database contractor to discuss the creation and maintenance of this database. We also met with the official in the Division of Asset Management and Sales responsible for the oversight of the central loan database contractor to discuss problems we had identified relating to the data in this database.

To determine whether RTC was providing investors with adequate and useful loan data, we used a telephone survey to obtain the opinions of investors. We interviewed 29 investors randomly selected from the 146 who participated in the August 1993 auction. About half of the investors interviewed had participated in previous RTC national nonperforming loan auctions. We asked the investors for their opinions on the adequacy and usefulness of the loan data provided through the diskettes and the file reviews. In addition, we asked them for any comments or suggestions to help RTC improve the data provided to investors for future nonperforming loan auctions. Since the survey results were derived from a representative sample, we were able to project our findings to the 146 investors participating in the August 1993 auction.

Furthermore, we independently analyzed the data contained on the diskettes created by the due diligence contractor to determine whether the data were complete and to check for invalid or miscoded data. We visited RTC's Valley Forge, PA, and Atlanta offices to compare the diskette data with monthly loan servicer remittance reports. We did not validate the accuracy of all the data on the diskettes.

Appendix II discusses in more detail the methodologies used in the diskettes' analysis and the investor telephone survey and the precision of our sample survey results.

As we began our work, the RTC IG was finishing the field work on a nonperforming loan auction assignment. We met with the IG staff doing this work and discussed their objectives, scope, and preliminary findings. Later, we reviewed their issued report to determine what recommendations had been made and RTC's response to the report. We also reviewed other IG reports on audits of RTC's loan servicers.

We did our work between February 1993 and March 1994 in accordance with generally accepted government auditing standards.

In July 1994, RTC provided written comments on a draft of this report, and we address these comments on pages 17, 18, and 20. RTC's comments are reproduced in appendix III.

Better Data Needed to Identify Loans for Auctions

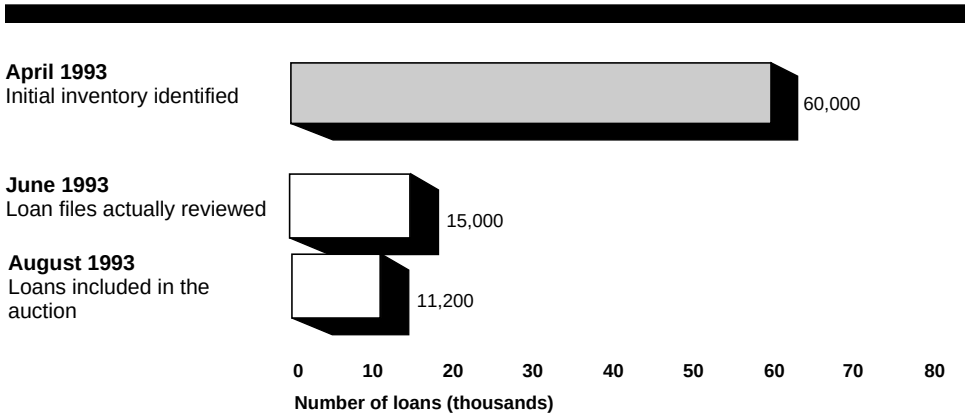
RTC used outdated and/or incomplete loan data from the central loan database to identify and select loans for the August 1993 national auction. It did not take the necessary steps to ensure that current and complete data were being collected to update the central loan database. As a result, RTC offered and sold less than 19 percent of the loans it had initially identified for auction.

Although they were not required by loan servicing contracts to do so, RTC asked its loan servicers to provide the central loan database contractor with monthly loan data tapes to update the database. According to the contractor, many loan servicers provided copies of the tapes they sent to RTC's financial service centers, but some servicers did not report loans that had been sold until the end of the year. The contractor told us that some data in the central loan database had not been updated since 1991.

To identify the loans to be offered in the August 1993 national auction, RTC applied the loan selection criteria for this auction to the data in the central loan database. As a result, RTC initially identified and planned to offer for sale over 60,000 nonperforming residential, consumer, and commercial loans with a total book value of about $2.7 billion. However, because the central loan database contained outdated and/or incomplete data, RTC was able to offer for sale only 11,181 of these loans with a total book value of about $673 million. About 49,000 loans were dropped from the auction because they (1) did not meet the auction selection criteria, (2) were involved in litigation, (3) had already been designated for other sales initiatives, (4) had already been paid off or sold, or (5) had loan files that could not be located. Also, RTC personnel and contractors spent time and

effort trying to locate loan files and doing due diligence and other activities on loans that could not be included in the auction for the above reasons. For example, about 2,500 loans that had been paid off or already sold were incorrectly identified in the database as available for sale. Figure 2 shows inventory changes during the planning and marketing period before the August 1993 national auction.

Figure 2: Reduction in Inventory RTC Initially Identified for the August 1993 Auction



Source: GAO analysis of RTC and contractor records.

Inefficiencies in the selection process caused the auction date to slip from June 1993 to August 1993 and hampered RTC's overall efforts to dispose of nonperforming loans. For a period of 5 months before the event, RTC staff and contractors spent time and resources preparing for the auction. This time was spent doing due diligence work, gathering loan data, preparing the loan data diskettes, locating and imaging loan files, and doing various other tasks. Because the central loan database was outdated and incomplete, some of these efforts were wasted. This, and the slippage of the auction date, increased RTC's holding costs and administrative expenses and reduced the net recoveries from the auction. Also, loans that were identified and selected for the August 1993 auction generally could not be placed in other marketing initiatives during the selection and preparation process, further hampering RTC's disposition efforts.

RTC planned to hold quarterly national nonperforming loan auctions, but it took 8 months to plan and organize the next auction, which was held in

April 1994. RTC offered 6,200 loans totaling $350 million in book value at this auction. It now expects to hold two more national nonperforming loan auctions before the end of 1994.

Loan Servicers Were Not Required to Provide Data Needed to Market Loans

RTC's loan servicing contracts did not require the loan servicers to provide needed loan data to update the central loan database to ensure that it contained complete and current data needed for marketing purposes.[16] Therefore, current and complete loan data needed to determine whether loans met the loan selection criteria for the August 1993 national auction were not always available. For example, loan servicers did not always identify whether loans were judgments, deficiencies, or charge-offs (JDC), which were to be excluded from the auction. In one instance, over 10,000 loans were incorrectly included in the auction inventory because a loan servicer did not identify these loans as JDCs. Similarly, the loan servicers did not always report whether loans were involved in litigation. As a result, another 10,000 loans initially identified for the auction had to be deleted from the inventory because they had also been incorrectly classified.

Under RTC's contracting procedures, only the contracting officer has authority to modify the terms and conditions of any contract or contract task order. Nevertheless, RTC officials made at least two attempts to get needed loan data from loan servicers without having the contracting officer seek to modify the contracts to require standard reporting of the loan data RTC needed for marketing purposes.

In their first attempt, using a form designed to obtain loan data for the securitization program, RTC officials bypassed contracting procedures by asking loan servicers early in 1992 to submit monthly loan data tapes in a specific format to update the central loan database. Although the request form listed certain data elements that were to be included on the tapes, servicers did not always provide this data. RTC officials told us that loan servicers had complained and some refused to comply because their contracts did not require them to provide these tapes. The officials said that some servicers said they would not provide the tapes even if they were paid for this task. In the second attempt, in November 1993, the RTC oversight manager for the central loan database contract asked the RTC oversight managers for the various loan servicing contracts to specify in letters to the loan servicers the data elements that they should update monthly.

[16]Loan servicers are required to submit loan servicing tapes to update RTC's financial accounting records. However, the loan data needed for marketing purposes are not readily available from the accounting records.

Performing Loans Were Included in the Auction

RTC sold performing loans that did not meet the loan selection criteria in the August 1993 nonperforming auction. The criteria RTC provided to loan servicers in April l993 stated that only loans at least 91 days past due should be selected. However, approximately 1,700 performing loans that were less than 91 days past due, totaling about $57 million in book value, were selected for and sold in the auction. We did not determine whether RTC may have lost any revenue by including these performing loans.

An analysis by the IG showed that RTC did not maximize its returns when it pooled performing and nonperforming loans for previous auctions.[17] The IG reported that 1,399 performing loans were sold at deep discounts in two nonperforming loan auctions conducted by RTC field offices in 1991 and 1992. The report estimated that pooling performing and nonperforming loans in these auctions lowered recoveries on the performing loans by as much as $12 million. The IG recommended that RTC require that information submitted by loan servicers be reviewed by RTC auction officials to identify and remove certain loans that do not meet selection criteria for a loan auction.

RTC auction officials told us that the performing loans were included in the August 1993 auction because of a memorandum issued by the Director of the National Sales Center in December 1992. This memorandum stated that loans that were 60 days delinquent could be sold in a nonperforming loan auction even if payments were made to bring the loan up to current status before the auction date. However, our review of the performing loans that were sold in the August 1993 auction showed that about 18 percent of the 1,700 performing loans were less than 60 days past due. These loans should not have been governed by the director's memorandum. RTC auction staff told us that performing loans will not be included in the next scheduled auction due to recent changes to remove loans that are not delinquent at the time of the auction.

These changes implement recommendations made by the IG in its nonperforming loan auctions report. In commenting on the IG's report, RTC said that under the new procedures, loan files submitted by loan servicers and SAMDA contractors will be reviewed at the auction site to verify data on the loan servicing tapes and to provide additional information regarding the loans' delinquency status. Also, loan servicer oversight managers have been asked to intensify their oversight to include review of nonperforming loans to determine whether the servicer is properly managing these loans.

[17] Nonperforming Loan Auctions, RTC Office of Inspector General (Audit Report A94-DE-005, Feb. 2, 1994).

RTC Could Improve Loan Data Provided to Investors

RTC's policy is to conduct "minimal" due diligence on nonperforming loans because they are to be sold "as is" without representations and warranties.[18] Therefore, investors are offered an opportunity to conduct their own loan file reviews prior to bidding. Before the auction, RTC offered data about loans to investors in two ways. First, investors could purchase computer diskettes of basic data about the loans being offered at the auction, such as the unpaid principal balance, current interest rate, maturity date, collateral type, and days delinquent. Second, investors could use RTC's imaging system to review the individual loan files at the auction site to obtain more detailed data.

Our telephone survey indicated that investors who participated in the August 1993 auction generally believed the loan data provided by RTC to be useful, but they found that important data were missing or outdated. Furthermore, our analysis of the computer diskettes revealed missing data, invalid and miscoded data, inadequate documentation, and a cumbersome data format. Investors also said that the loan files were missing important documentation, such as bankruptcy, foreclosure, and miscellaneous correspondence, that they needed to make bidding decisions. Some investors told us that they consequently lowered their bids or decided not to bid.

Investors Cited Problems With Diskettes

Although about half of the investors found the diskettes to be "greatly" or "very greatly" useful,[19] about half found that the diskettes they purchased from RTC were missing important data. Examples of missing data cited by investors included unpaid principal balance, current interest rate, last payment date, lien priority, and bankruptcy status. Some investors said that because these data were missing, they lowered their bids or decided not to bid.

Problems We Identified With Diskettes

RTC identified about 70 data elements that the due diligence contractor was to extract from loan files and loan servicer tapes for loans included in the August 1993 auction. These data elements were compiled on the diskettes offered to investors. Our analysis of these diskettes identified four key

[18]Representations and warranties are basic assurances given by RTC in the form of factual disclosures about the assets being sold. RTC certifies the accuracy of these statements to enhance the assets' sales value. If offered, representations and warranties create contingent liabilities for RTC.

[19]An estimated 47 percent of investors said the diskettes were "greatly" or "very greatly" useful in providing information they needed. The margin of sampling error for this percentage is plus or minus 20 percent. Other findings from the survey have a similar margin of error. See discussion in appendix III.

problems: missing data, invalid and miscoded loan data, inadequate documentation, and a cumbersome data format. These problems may have made it difficult for investors to analyze the data, and they may have doubted its accuracy. As a result, they may have lowered their bids or decided not to bid.

Certain data fields for many loans were left blank on the diskettes because the data were not on the servicer tapes used to create the data diskettes. Blank data fields can imply that the data are not applicable or not available. For example, the data field for lender participation was blank for 86 percent of the commercial loans, 98 percent of the consumer loans, and 76 percent of the residential loans.[20] As a result, investors could not be certain whether the loan was owned by more than one lender. Also, the data field for the maturity date was blank for 21 percent of the commercial loans, 36 percent of the consumer loans, and 18 percent of the residential loans.

Some loan data on the diskettes appeared to be invalid and some data were miscoded. For 3,500 loans, the diskettes showed that each of these loans was 727,000 days (or over 2,000 years) delinquent. This was obviously an invalid entry. Also, the diskettes contained codes that were not defined for investors in the accompanying documentation. For example, about 2,400 loans had an undefined code for the data field indicating lien priority.[21] Consequently, investors could not determine the lien priority that would be applicable to these loans. Further, RTC did not provide adequate documentation to explain why some loan data fields were left blank. For example, the maturity date was left blank for about 3,000 loans. Investors could not determine when the loans were supposed to be paid off, a key factor in determining the current value of loans.

We also observed that data on the diskettes were not easy to review because of a cumbersome data format that used larger data fields than necessary. Consequently, some investors' personal computers did not have the capability to easily access and manipulate the data. The total number of spaces allocated for the 85 data elements for each loan was 712 spaces on a single line. This means that to see the complete file record for an individual loan, the investor had to review multiple computer screens, a tedious, time-consuming process.

[20]This data field indicates whether the loan was made by more than one lender. A participation is the thrift's percentage share of ownership of the loan.

[21]This data field indicates the ranking of a lender's claim against collateral property. A lower lien priority makes a loan less attractive to an investor.

To transfer data from servicer tapes, which were not in a standard format, the due diligence contractor used wide data fields that accepted data from servicer tapes regardless of the format. After the data were transferred, the contractor could have significantly reduced the number of spaces used without eliminating any data, because some data fields were wider than needed to record the data. For example, the width of the data field for the borrower's Social Security number was 21 spaces even though all Social Security numbers require only 11 spaces with hyphens, or 9 spaces if the hyphens are eliminated. Also, the data field identifying the RTC field office responsible for the loan was 10 spaces wide, but this entry needed only 1 space. In total, we identified 63 of the 85 data elements on the diskettes for which the allocated space could have been reduced without any data loss.

After we brought these problems to its attention, RTC took steps to address them. For the next national nonperforming loan auction, RTC has revised the diskette format to include only 25 data elements. In addition, the loan data are being made available on an on-line system that investors may access over telephone lines using a computer that is equipped with a modem. This system, which is to be updated periodically, includes search capabilities to help investors quickly identify loans by various characteristics, such as loan type or location of loan collateral. The data diskettes are still to be available for those investors who wish to continue to use them.

Loan Files Missing Important Documents

Approximately three-quarters of the investors told us that the loan files they reviewed on RTC's imaging system were missing important documents. When performing loans become delinquent, the loan servicers are directed to review the entire loan file to determine whether all required documentation is complete and take necessary steps to obtain any missing documents. Investors said that important documents missing from the loan files included bankruptcy and foreclosure documentation and miscellaneous correspondence. Some investors said that because documentation was missing, they lowered their bids or did not bid at all.

In some cases, investors said they purchased loans that they would not have acquired if they had been aware of problems that they discovered after the sale. For example, two firms said they discovered after the auction that loans they had purchased were in bankruptcy proceedings. Another firm said it discovered the bankruptcy status as a result of a handwritten note in a file received from RTC's loan servicer after the sale. The investors told us that RTC would not buy back the loans despite these

deficiencies. RTC officials said that the loans were sold "as is" without any representations or warranties and that investors knew that they were taking certain risks when they bid. Also, they said that investors were bidding on pools of loans, rather than individual loans, so they should have expected to find some loans with such deficiencies in a loan pool.

Investors Experienced Problems Conducting File Reviews

Over two-thirds of the investors said that they experienced at least some problems reviewing individual loan files on RTC's imaging system. First, some investors said they had to spend too much time learning to use RTC's imaging system. Additionally, investors said using the image workstations to review loan documents and study payment histories was slow because they had to review documents in sequence and could not randomly call up specific pages within a document. Since the August 1993 auction, RTC has upgraded the imaging system to address the access problems identified by investors.

Finally, some investors said that imaged documents were not clearly marked to indicate whether they were originals or copies. Investors reported they were unwilling to buy loans if the original documents were not available. RTC officials said they thought that the system clearly identified original documents. They said they would check the imaging system for the next auction to ensure that this information is provided.

RTC Actions to Address Problems

Throughout our review, we met with the RTC headquarters auction staff to discuss our findings and observations. As a result of those discussions, the auction staff began taking corrective actions in their planning for the April 1994 national nonperforming loan auction to address the issues we identified. Other actions were taken after we completed our audit work in March 1994.

After we discussed the data integrity problems with RTC officials during the review, RTC took some steps to address the quality of nonperforming loan data provided by loan servicers for auctions and other sales events by reemphasizing certain tasks oversight managers should perform in overseeing contractor performance. In January 1994, loan servicer oversight managers were asked to routinely include a number of specific items in their oversight activities. These items included

- visiting the servicer, reviewing the asset files, and meeting with appropriate servicer personnel to ensure that each loan is properly managed; and
- verifying that the servicer is documenting the asset files on a regular basis to reflect collection efforts, bankruptcy, litigation, appraisals, and environmental reports and impress upon the servicer the importance of maintaining current information in asset files.

While these steps, which oversight managers should have been doing all along in carrying out their oversight responsibilities, are necessary to adequately oversee loan servicers' performance, they do not address one of the root causes of the problem of inadequate loan data for marketing purposes. Until the loan servicing contracts require loan servicers to submit monthly loan status updates of data needed by RTC for marketing purposes to the central loan database contractor, RTC cannot compel servicers to provide the needed information.

In RTC's written response to the draft report (see app. III), the Vice President for Asset Management and Sales said that since the August 1993 auction, RTC had developed new standard loan servicing documents that incorporate the requirements for tape submissions to RTC's central loan database contractor and require servicer support of RTC's marketing and disposition activities. He said that (1) all existing servicing contracts were either being modified and extended or allowed to expire, and (2) RTC had announced in the Commerce Business Daily a solicitation for 1- to 4-family residential mortgage loan servicing using the new standard servicing documents. He said that RTC anticipates announcing solicitations for other loan types shortly. The new contracts and extensions are to include language requiring the servicers to (1) submit loan data tapes to the central loan database contractor and (2) assist RTC during loan sales initiatives.

He further said in his written comments that to ensure compliance with the new standards, RTC had developed agreements with the central loan database contractor to revise its procedures for notifying RTC of the failure of servicers to deliver acceptable tapes in a timely manner. He said that RTC had appointed "technical monitors" in each field office to coordinate efforts to obtain acceptable tapes from servicers and to resolve data discrepancies.

To improve the quality of the central loan database and the loan data provided to investors, the Vice President for Asset Management and Sales

stated that RTC hired contractors, effective June 1, l994, to implement the central loan database data quality improvement plan approved in May l994. He also said that RTC had implemented a data quality program to review the data being provided to investors to ensure that it is as correct as possible before it is released. In addition, RTC's Loan Servicer Oversight Program has been revised to address database quality integrity concerns. Furthermore, RTC has modified both the format of the loan data diskettes and the contents of the loan data to meet bidders' needs more precisely. Data are available in a spreadsheet format, and the user can also download the data into user-specified formats. According to RTC, the summary information that it now provides ensures that the investor has adequate information from which to determine initial interest in participating in the auction process.

To address the loan file imaging problems identified, the Vice President for Asset Management and Sales said that RTC has dedicated on-site personnel at the Auction Center to monitor the current procedures and the imaging contractor to ensure better oversight and completeness of the imaging process.

Conclusion

The process used by RTC to initially select nonperforming loans for the August 1993 auction was not efficient. As a result, the auction date had to be changed and RTC personnel and contractors spent time and effort trying to locate loan files and doing due diligence and other activities on loans that, although initially identified for the auction, could not be offered for sale in the auction for various reasons. This occurred because the loan data in the central loan database were outdated and/or incomplete.

On the basis of outdated and/or incomplete data in the central loan database, RTC selected loans for the auction that had already been sold or otherwise did not meet the loan selection criteria for this auction. Although RTC initially identified and planned to offer over 60,000 loans for the auction, it was able to offer and sell only 11,181 of these loans. The added costs associated with culling out the loans that could not be offered decreased the net recovery from the auction. RTC needs current and complete data to efficiently identify and select loans that meet auction criteria.

The central loan database did not provide the loan data RTC needed to identify and select loans for the auction because RTC had not taken the necessary steps to ensure that needed data were obtained regularly from

loan servicers. RTC officials told us that they requested loan servicers to provide monthly updates and specified certain data elements to be reported. However, RTC did not modify the loan servicing contracts to include these requirements as provided for by RTC contracting procedures. RTC has advised us that it is in the process of modifying existing loan servicing contracts and awarding new contracts to require loan tape submissions to RTC's central loan database contractor. RTC has also revised the procedures for contractors to use when notifying RTC that servicers failed to deliver acceptable tapes in a timely manner.

Finally, although investors generally found them useful, the loan diskettes that RTC made available to investors for the August 1993 auction contained invalid and incomplete data. In addition, the diskettes were inadequately documented and had a cumbersome data format that made it difficult for some investors to analyze the loans and make bidding decisions. Furthermore, investors told us that the loan files on RTC's imaging system were missing important documents needed to make bidding decisions, and loan documents accessed through RTC's imaging system were not always clearly identified as originals or copies. As a result of these problems, some investors said they either lowered their bids or did not bid on certain loans in the August 1993 auction. Better data for investors should increase participation and enhance recoveries in nonperforming loan auctions.

The actions RTC has taken or has in process should adequately address the issues we identified. When RTC completes its efforts to modify existing loan servicing contracts and award new contracts for all types of loans using the new standard servicing documents, it should be able to obtain the loan data needed to effectively market nonperforming loans. However, while RTC has implemented a data quality plan to improve the quality of the data provided to investors, it must be diligent in overseeing the implementation of the plan to ensure that it is implemented consistently throughout RTC.

Recommendations

To improve the quality of the data in RTC's central loan database and the data provided to investors to market the loans being offered for sale, we recommend that the Deputy and Acting Chief Executive Officer ensure that

- all loan servicing contracts require loan servicers to submit monthly loan status updates of data needed for marketing purposes to the central loan database contractor; and

- information provided to investors on loan data diskettes or in imaged loan files is valid, complete, well documented, and in a format that meets investors' needs.

Agency Comments

In commenting on a draft of this report, RTC officials agreed with our recommendations. They said that they had made changes to the April and September l994 auctions to incorporate the procedures and changes we recommended. We added a new section to the body of the report recognizing the actions that RTC has taken, and we revised our conclusions as appropriate. Because RTC had already completed actions to address three recommendations in our draft report, they are not included in the final report. These recommendations pertained to developing standard loan servicer reporting requirements, ensuring that loan servicers complied with these requirements, and ensuring that RTC's imaging system provided complete loan data.

Because RTC was created as a mixed-ownership government corporation, it is not required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the House and Senate Committees on Appropriations. However, we would appreciate receiving such a statement within 60 days of the date of this letter to assist in our follow-up actions and to enable us to keep the appropriate congressional committees informed of RTC activities.

We are sending copies of this report to interested congressional members and committees and the Chairman of the Thrift Depositor Protection Oversight Board. We will also provide copies to others upon request.

Major contributors to this report are listed in appendix IV. Please contact me on (202) 736-0479 if you have any questions concerning this report.

Sincerely yours,

Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues

Contents

Letter		1
Appendix I Loan Selection Criteria for the August 1993 National Nonperforming Loan Auction		24
Appendix II Methodologies for Loan Diskette Analysis and Investor Survey		25
Appendix III Comments From the Resolution Trust Corporation		31
Appendix IV Major Contributors to This Report		34
Related Audit Reports		35
Tables	Table 1: RTC's August 1993 Nonperforming Loan Auction Results	5
	Table II.1: 95-Percent Confidence Intervals for Reported Findings From Survey of Investors	26
Figures	Figure 1: RTC Nonperforming Loan Servicing Arrangements	3
	Figure 2: Reduction in Inventory RTC Initially Identified for the August 1993 Auction	10

Abbreviations

IG	Inspector General
JDC	judgments, deficiencies, or charge-offs
RTC	Resolution Trust Corporation
SAMDA	Standard Asset Management and Disposition Agreement

Loan Selection Criteria for the August 1993 National Nonperforming Loan Auction

1. Nonperforming, wholly-owned loans only.

- No participations unless fully participated by other RTC institutions.

2. Real estate backed loans.

- 1- to 4-family, commercial real estate, and land.
- 120+ days past due only.
- $5 million maximum loan amount.
- Securitization waiver will be obtained.

3. Non-real estate backed loans.

- Consumer and commercial non-real estate.
- 90+ days past due only.
- $5 million maximum loan amount.

4. Timeshares.

- Performing and nonperforming.
- $5 million maximum loan amount.

5. No judgments, deficiencies, or charge-offs.

Methodologies for Loan Diskette Analysis and Investor Survey

Methodology for Analysis of RTC Loan Diskettes

We analyzed the completeness of loan data on diskettes that were supplied to investors before the August 1993 auction. Using computer analysis techniques, we analyzed the loan diskettes to determine the extent to which data were missing or invalid. We also compared codes used in the data on the diskettes with coding information in the documentation given to investors along with the diskettes to determine whether all the codes used were defined. To conduct our analysis, we obtained copies of the data diskettes from RTC. We did not validate the accuracy of all of the data on the diskettes.

Methodology for RTC Investors Survey

We surveyed investors through telephone interviews to obtain comments about the adequacy and usefulness of the loan data RTC provided them for the August 1993 nonperforming loan auction. We identified 146 investors from RTC's lists of bidders who registered for the August auction. We also used RTC records to stratify our sample by whether they were winning bidders and by the type of loan data investors reviewed before the auction—i.e., the loan diskettes or the loan files or both. We then drew a stratified probability sample of 34 participants to represent the 146 participants in the auction. Of these participants, 17 were successful bidders and 17 were not.

We developed a questionnaire covering the loan data diskettes and the loan files that RTC provided investors. A copy of the questionnaire is provided at the end of this appendix. We pretested the questionnaire in September and October 1993 and conducted the telephone interviews in October and November 1993. Before conducting the survey, we faxed the questionnaire to the investors and we contacted the investors by telephone to obtain their responses. To ensure consistency, we read the questions verbatim and entered the investors' responses and comments directly on the questionnaire form. We combined individual responses with those of other respondents for analysis and reporting purposes.

We interviewed 29 of the 34 sample members, which gave us a response rate of 85 percent. Five investors declined to respond. All sample results have been weighted to provide an estimate that represents the total population of 146 participants.

We considered the possibility that our survey findings on the usefulness and completeness of RTC data might apply only to certain investors. We compared successful bidders with other participants, individual investors with institutional investors, new auction participants with those who had

previously participated in an RTC loan auction, and small investors with larger investors (more than 10 employees). None of these differences between investors was associated with a statistically significant difference in evaluations of the usefulness of either the loan data diskettes or the loan file reviews. The lack of a statistically significant difference was also found for the investors' experiences with missing or omitted data on the diskettes and the file reviews. We therefore concluded that our findings were not limited to particular investors.

Sampling Errors

Because we surveyed a sample rather than all investors, each reported estimate has a sampling error associated with it. The size of the sampling error reflects the precision of the estimate; the smaller the sampling error, the more precise the estimate. We used a 95-percent confidence level to describe the precision of survey findings. This means that the chances are about 95 out of 100 that the actual percentage falls within the confidence interval. For example, we have estimated that 47 percent of investors said the diskettes were "greatly" or "very greatly" useful in providing information they needed. The margin of sampling error for this percentage is plus or minus about 20 percentage points, which means that we are 95-percent confident that between 27 and 66 percent of investors found the diskettes to be greatly or very greatly useful. Other survey findings have a similar degree of precision, as shown in table II.1.

Table II.1: 95-Percent Confidence Intervals for Reported Findings From Survey of Investors

		Figures in percent	
Page	Responses presented	Estimate	95-percent confidence interval
13	Although about half of the investors found the diskettes to be "greatly" or "very greatly" useful,	47	27-66
13	about half found that the diskettes they purchased from RTC were missing important data.	54	35-74
15	Approximately three-quarters of the investors told us that the loan files they reviewed on RTC's imaging system were missing important documents.	75	58-92
16	Over two-thirds of the investors said they experienced at least some problems reviewing individual loan files on RTC's imaging system.	70	51-88

In addition to the reported sampling errors, the practical difficulties of conducting any survey may introduce nonsampling errors. For example, variation in the wordings of questions, the sources of information available to the respondent, or the types of people who do not respond can lead to somewhat different results. We included steps in both the data collection and data analysis stages for the purpose of minimizing such nonsampling errors.

United States General Accounting Office

RTC Registered Bidder Survey
Non-Performing Loan Auctions

Introduction

The U.S. General Accounting Office (GAO), an independent agency of the Congress, is reviewing the Resolution Trust Corporation's (RTC) non-performing loan auction program. As part of this effort, we are interviewing investors who reviewed loan information for RTC's August 1993 non-performing loan auction held in Kansas City, Missouri. According to RTC's auctioneer, JBS & Associates, Inc., you or your firm registered to bid for loans at that auction. The purpose of this survey is to obtain your comments about the usefulness of the information RTC provided you about the loans.

Your answers will be summarized with other investors' responses in our report on RTC's auction sales.

If you have any questions, please call Mr. Gary Malavenda at (404) 679-1844, or Ms. Cynthia Scott at (404) 679-1876. Thank you for your help.

* * * * *

Name of Firm:

_____

Telephone Number: (____) _____ - _____

Firm Representative:

_____

Title:

_____

Address:

_____

_____

Background

1. How would you characterize yourself or your company? *(Check one.)* [1]
   1. **55 %** Private investor
   2. **8 %** Real estate firm
   3. **15 %** Bank/S&L/financial institution
   4. **3 %** Securities firm
   5. **18 %** Another type of firm *(Describe briefly.)*

      _____
2. About how many people are employed by your company? *(Please give your best estimate.)*

   _____ employees
3. Which previous RTC National Sales Auction for nonperforming loans did your firm register to bid or attend? *(Check all that apply.)*
   1. **31 %** September 9, 1992 (Los Angeles)
   2. **37 %** March 23-24, 1993 (Kansas City)
   3. **59 %** None
4. What type of loans was your firm interested in for the August 1993 auction? *(Check all that apply.)*
   1. **64 %** Commercial
   2. **75 %** Residential
   3. **42 %** Consumer
5. Did your firm have a preference on the geographic location of the loans in the August auction? *(Check one.)*
   1. **65 %** Yes *(Please describe.)*

      _____
   2. **35 %** No preference

[1] Percentages do not add to 100 for this question due to rounding.

Loan Information Provided

We are interested in your assessment of the information RTC provided for the August auction of nonperforming loans in Kansas City.

A. Trial Balance Diskettes

6. How useful (if at all) were the trial balance diskettes in providing information your company needed? *(Check one.)*

   1. **15 %** Very greatly useful
   2. **32 %** Greatly useful
   3. **31 %** Moderately useful
   4. **10 %** Somewhat useful
   5. **0 %** Not useful

   -

   6. **3 %** Varied from pool to pool/It depends
   7. **9 %** No basis to judge - did not request diskettes. *(Skip to Question 10.)*

7. What problems did your company experience (if any) in using the trial balance diskettes? *(Check one.)*

   1. **49 %** No problems
   2. **13 %** Some problems
   3. **17 %** Moderate problems
   4. **0 %** Great problems
   5. **12 %** Very great problems

   9 % No basis to judge (volunteered)

8. Was any important information missing or omitted from the trial balance diskettes? *(Check one.)*

   1. **54 %** Yes --> What was missing or omitted? Did this create any problems for your company?
   2. **31 %** No
   3. **6 %** Don't know

   9 % No basis to judge (volunteered)

9. How easy or difficult was it for your company to access and use the trial balance diskettes? *(Check one.)* [1]

   1. **34 %** Very easy
   2. **39 %** Generally easy
   3. **3 %** Generally difficult
   4. **16 %** Very difficult

   -

   5. **0 %** Don't know

   9 % No basis to judge (volunteered)

B. File Reviews

10. How useful (if at all) was your company's review of the loan files in providing information your company needed? *(Check one.)* [1]

    1. **31 %** Very greatly useful
    2. **32 %** Greatly useful
    3. **16 %** Moderately useful
    4. **6 %** Somewhat useful
    5. **0 %** Not useful

    -

    6. **8 %** Varied from pool to pool/It depends
    7. **8 %** No basis to judge - did not request files. *(Skip to Question 14.)*

11. What problems did your company experience (if any) in conducting file reviews? *(Check one.)* [1]

    1. **23 %** No problems
    2. **33 %** Some problems
    3. **32 %** Moderate problems
    4. **1 %** Great problems
    5. **5 %** Very great problems

    8 % No basis to judge (volunteered)

[1] Percentages do not add to 100 for this question due to rounding.

2

12. Was any important information missing or omitted from the files reviewed? *(Check one.)* [1]

    1. **75 %** Yes --> What was missing or omitted? Did this create any problems for your company?
    2. **13 %** No
    3. **5 %** Don't know

    8 % No basis to judge (volunteered)

13. How easy or difficult was it for your company to conduct file reviews: very easy, generally easy, generally difficult, or very difficult? *(Check one.)* [1]

    1. **19 %** Very easy
    2. **58 %** Generally easy
    3. **5 %** Generally difficult
    4. **11 %** Very difficult
    5. **0 %** Don't know

    8 % No basis to judge (volunteered)

C. RTC's Information: Your Experience and Suggestions

14. Please describe any additional information gathering efforts your company performed because the information in RTC's trial balance diskettes or loan files was not useful enough for your firm to evaluate loan packages.

15. In general, was RTC's information about the loan packages sold in August better, about the same, or not as good as information provided in prior RTC National non-performing loan auction sales? *(Check one.)*

    1. **8 %** Better
    2. **33 %** About the same
    3. **0 %** Not as good
    4. **59 %** Don't know/unable to compare

16. In general, was RTC's information about the loan packages sold in August better, about the same, or not as good as information provided by other sellers of non-performing loans? *(Check one.)* [1]

    1. **10 %** Better
    2. **34 %** About the same
    3. **31 %** Not as good
    4. **26 %** Don't know/unable to compare

17. We would welcome any suggestions you may have for improving how RTC provides information on non-performing loans.

18. How likely or unlikely is your company to participate in future RTC national auctions of non-performing loans? *(Check one.)*

    1. **53 %** Very likely
    2. **21 %** Generally likely
    3. **10 %** Uncertain
    4. **9 %** Generally unlikely
    5. **7 %** Very unlikely

19. Do you have additional comments on this survey, or about RTC's August non-performing loan auction?

Thank you for your help!

[1] Percentages do not add to 100 for this question due to rounding.

3

Comments From the Resolution Trust Corporation

RESOLUTION TRUST CORPORATION
Resolving The Crisis
Restoring The Confidence

July 26, 1994

TO: Gaston L. Gianni, Jr.
Associate Director
Government Business Operations Issues
U.S. General Accounting Office

FROM: Thomas P. Horton TPH
Vice President for
Asset Management and Sales
Renetta D. Jackson for:
T. Michael Thompson
Director and Field Financial Officer
Office of Field Accounting and Asset Operations

RE: **GAO DRAFT REPORT: BETTER DATA COULD IMPROVE EFFECTIVENESS OF NONPERFORMING LOAN AUCTIONS**

This is in response to your July 11, 1994, draft report which examined the August 1993 Nonperforming Loan Auction III held in Kansas City, Missouri.

We have reviewed the report and agree with its recommendations. In fact, the RTC has already addressed and incorporated your five recommendations into procedures for our Non-performing Loan Auction IV, held April 26-27, 1994, and our upcoming Loan Auction V, scheduled for September 27-28, 1994.

The following are our responses to each of the recommendations:

Recommendation:

Develop standard loan servicer reporting requirements for loan data needed to market nonperforming loans.

See p. 17.

In addition to the November 16, 1993 the Office of Pipeline Management's standard servicing letter mentioned in the report, we have developed new standard loan servicing documents which

801 17th Street, N.W. Washington, D.C. 20434

incorporate the requirements for tape submission to the Central Loan Database and provide for servicer support of our marketing and disposition activities. Currently all servicing contracts are either being modified and extended or allowed to expire.

Recommendation:

Modify loan servicing contracts to require loan servicers to submit monthly loan status updates of data needed for marketing purposes to the Central Loan Database contractor.

See p. 17.

We have developed standard loan servicing documents as well as reviewed the requirements for tape submission to the Central Loan Database. A solicitation for 1-4 familiy residential mortgage loan servicing using the new standard loan servicing agreements has been announced in the Commerce Business Daily. Solicitations for standard servicers for other loan types are anticipated shortly. Currently all servicing contracts are either being modified and extended or allowed to expire. The intent is to be down to only 7 or 9 major contractors. The new contracts (and extensions) include language which require the servicers to assist during asset sales initiatives.

Recommendation:

Ensure that loan servicers comply with these requirements.

See pp. 17-18.

To ensure compliance with the new standards, RTC has developed agreements with its Central Loan Database (CLD) contractor, Univest, to revise its procedures for notifying RTC of the failure of servicers to deliver acceptable tapes in a timely manner. Further, we have appointed "technical monitors" in each field office to coordinate efforts between RTC, Univest, and servicers to receive acceptable tapes and to resolve data discrepancies. Further, the RTC has hired contractors, effective June 1, 1994, to implement the Central Loan Database data quality plan approved in May 1994.

See p. 18.

Furthermore, we revised the Loan Servicer Oversight Program to address these concerns. Attached is the questionnaire from the Loan Servicer Oversight Program manual that loan servicers must complete.

Recommendation:

Ensure that loan data diskettes provided to investors are valid, complete, well documented, and in a format that meets their needs.

See p. 18.

Subsequent to the August 1993 auction, RTC, upon suggestions from bidders, had modified both the format of the loan data diskettes and the contents of the loan data to more precisely meet bidders needs. Data is now available in a Lotus spreadsheet format and on an on-line system which permits the user to download the data into user-specified formats.

See p. 15.

The RTC reduced the number of fields from 80 to 25 so that information provided to the investors would be more complete and not have missing data fields. The summary information which is now

provided ensures that the investor has adequate information from which to determine initial interest in participating in the auction process. By adjusting the number and selection of reported data, RTC has improved the overall quality of the information available to bidders. Furthermore, by increasing the overall quality of the Central Loan Database, the RTC continues to enhance the quality of information we provide. The number of fields for auction V has been expanded because investors have asked to have certain fields that are required on certain loan types. Although it is the RTC's intent to provide complete and valid information, how well the fields are populated and the validity of the information provided (i.e., principal balance, paid-to-dates, days delinquent, etc.) are areas which are still at the mercy of the servicer reporting. The RTC has implemented a data quality program that reviews the investor file and corrects as much as possible before it is released.

Auction IV also included the opportunity for investors to obtain trial balance information via an on-line ROLIN system. This also permitted the investor to obtain information in various formats, such as dBase, Lotus, and other computer software formats.

Recommendation:

Ensure RTC's imaging system used by investors provides complete loan files and clearly indicates whether these documents are originals.

See p. 18.

The RTC has dedicated on-site personnel at the Auction Center to ensure better oversight of our imaging process. The on-site personnel will continue to monitor the current procedures and the imaging contractor to ensure the completeness of the process.

Conclusion:

The Nonperforming Loan Auction concept has evolved since it began with Auction I. All of the recommendations made in your report had been undertaken or completed well in advance of receipt of your report. We believe the changes have improved the auction process and ensured easier access for all levels of investors.

We did not reproduce the attachments.

Attachments

Major Contributors to This Report

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Related Audit Reports

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Resolution Trust Corporation: 1992 Washington/Baltimore Auctions Planned and Managed Poorly (GAO/GGD-93-115, Jul. 7, 1993).

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