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Accounting and Information
Management Division

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June 2, 1994

Mr. Andrew C. Hove, Jr.
Acting Chairman, Board of Directors,
Federal Deposit Insurance Corporation

Dear Mr. Hove:

During a recent review of the Federal Deposit Insurance Corporation's (FDIC) information systems that support asset disposition, we found that FDIC has not analyzed sold assets to determine which disposition strategies produce the greatest net return for the government. In addition, we found that there are no corporate systems that track asset-level expense data needed for effective strategy analysis. When we discussed these matters with your staff, they agreed with the findings and said that the Corporation is addressing some of the systems issues through the Asset Disposition System Project. The purpose of this letter is to reinforce the importance of quantitative analyses to manage asset dispositions and stress the need for FDIC corporate systems to provide essential expense data for these analyses.

We have issued previous reports that have noted that FDIC's automated systems have fallen short in helping to meet the need for management information.[1] Without this management information, FDIC's ability to manage the large volume of assets acquired from failed institutions has been adversely affected.

Asset-specific expense data could help FDIC perform post-disposition analyses of the efficiency and effectiveness of various disposition strategies. For example, FDIC could compare its auction strategy with its broker strategy to determine which produced better net results for selling single-family homes. Such a comparative analysis might show

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[1] Asset Management System: Liquidation of Failed Bank Assets Not Adequately Supported by FDIC System (GAO/IMTEC-93-8, Feb. 3, 1993); FDIC: Loan Sales Jeopardized by Systems and Other Internal Control Problems (GAO/IMTEC-91-61, Aug. 21, 1991).

that FDIC recovered only a moderate amount of cash from the sale of single-family homes in auctions, but incurred few costs because the properties sold in a short period of time. In contrast, FDIC may have recovered more cash from the sale of single-family homes through brokers, but incurred additional property management costs because properties had to be maintained for longer periods. By performing post analyses and comparisons of the relative net return derived from completed disposition strategies, FDIC could gain information for future decisions in order to realize the best value for the government.

However, FDIC's current automated corporate systems were not designed to provide the descriptive and financial information about assets needed to analyze disposition strategies. These systems typically do not track the expenses associated with a particular strategy or specific asset. For example, the Financial Information System (FIS), which supports FDIC's financial and accounting requirements, was not intended to provide, and does not contain, information about specific assets--such as the individual book value or income and expenses associated with each asset. Instead, FIS tracks the aggregate expenses of disposing all assets at each failed financial institution.

In addition, the Liquidation Asset Management Information System (LAMIS), which supports FDIC's management of loans and other assets, does not maintain a complete inventory of all FDIC assets because it does not contain information on each asset managed and sold by contractors. In addition, contractor systems are not directly accessible by FDIC, and contractors are not required to provide FDIC with detailed data about the income and expenses of individual assets they manage. As a result, FDIC does not have the data it needs to quantitatively analyze the expenses of the contractors' strategies compared with those of in-house staff to determine which strategies produce the greatest net value.

We discussed our findings with FDIC management, and they agreed that the Corporation has insufficient data on previous sales to conclude that one particular strategy of selling assets is more effective and efficient than another. FDIC's management also recognized the need to collect and analyze additional asset information to assess disposition strategies; however, the Corporation has not yet decided whether it will require a post analysis of disposition strategies using asset-level expense data.

In addition to managing and disposing its own assets, FDIC will acquire Resolution Trust Corporation (RTC) assets from failed institutions when RTC closes on December 31, 1995. We have previously noted the importance of preparing for asset management challenges that are likely to continue after RTC closes.[2] One such challenge will be identifying what data are needed to perform effective post analyses of asset disposition strategies. For example, a recent GAO report concluded that data limitations hindered RTC's efforts to analyze its sales strategies.[3] In a February 1994 response to this report, RTC discussed its plans to refer the challenge of strategy analysis to the FDIC/RTC task force for consideration during the transition period. Because of the common nature of the missions of both RTC and FDIC, we believe that the FDIC/RTC transition affords FDIC the opportunity to define an approach for analyzing various disposition strategies by using data on expenses incurred to dispose of comparable assets.

FDIC's recent decision to revisit the business information needs for managing assets also affords the opportunity to enhance corporate systems to include data that support quantitative disposition strategy analyses. In September 1993, FDIC began the Asset Disposition System Project to review and improve its use of automation for managing assets. This project responds to a previous recommendation by us to identify, prioritize, and translate asset management requirements into effective automated systems.[4]

The combination of the RTC transition and the Asset Disposition System Project presents FDIC with a unique opportunity to revise its approach to analyzing and managing asset disposition using asset-level expense data. Corporate systems can now be designed to provide the descriptive and financial information needed to analyze disposition strategies. By pursuing a quantitative approach to asset management, FDIC can be more confident that future asset disposition decisions would result in the greatest value to the government.

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[2] High-Risk Series: Resolution Trust Corporation (GAO/HR-93-4, December 1992); Resolution Trust Corporation: Funding, Organization, and Performance (GAO/T-GGD-93-13, Mar. 18, 1993).

[3] Resolution Trust Corporation: Data Limitations Impaired Analysis of Sales Methods (GAO/GGD-93-139, Sept. 27, 1993).

[4] (GAO/IMTEC-93-8, Feb. 3, 1993).

The Asset Disposition System Project shows that FDIC recognizes that more needs to be done to improve asset management. We would appreciate being kept apprised of the extent to which the concerns raised in this letter are being addressed by this project or other initiatives. Should you have any questions about this letter or require additional information, please contact me at (202) 512-6418.

Sincerely yours,

Hazel E. Edwards

Hazel E. Edwards
Director, Information Resource Management/
General Government Issues

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