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High-Risk Series

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Resolution Trust Corporation

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Comptroller General
of the United States

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The President of the Senate
The Speaker of the House of Representatives

In January 1990, in the aftermath of scandals at the Departments of Defense and Housing and Urban Development, the General Accounting Office began a special effort to review and report on federal government program areas that we considered "high risk."

After consulting with congressional leaders, GAO sought, first, to identify areas that are especially vulnerable to waste, fraud, abuse, and mismanagement. We then began work to see whether we could find the fundamental causes of problems in these high-risk areas and recommend solutions to the Congress and executive branch administrators.

We identified 17 federal program areas as the focus of our project. These program areas were selected because they had weaknesses in internal controls (procedures necessary to guard against fraud and abuse) or in financial management systems (which are essential to promoting good management, preventing waste, and ensuring accountability). Correcting these problems is essential to safeguarding scarce resources and ensuring their efficient and effective use on behalf of the American taxpayer.

This report is one of the high-risk series reports, which summarize our findings and recommendations. It describes our concerns over the thrift cleanup, which is mostly under the control of the Resolution Trust Corporation (RTC). This report focuses primarily on the risks that RTC can minimize through better management of its asset disposition and contracting activities and by strengthening its information systems. The report also discusses opportunities to reduce the overall cost of the thrift cleanup to the taxpayers by providing adequate funding to RTC to carry out its thrift resolution responsibilities.

Copies of this report are being sent to the President-elect, the Democratic and Republican leadership of the Congress, congressional committee and subcommittee chairs and ranking minority members, the Director-designate of the Office of Management and Budget, the President and Chief Executive Officer of the Resolution Trust Corporation, and the Chairman of the Thrift Depositor Protection Oversight Board.

Charles A. Bowsher

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Overview

In August 1989, Congress established the Resolution Trust Corporation (RTC) to resolve hundreds of failed savings and loan institutions and dispose of their assets. As of September 1992, RTC had disposed of assets totaling $287 billion, and RTC's remaining inventory was valued at approximately $107 billion. Through November 30, 1992, RTC had used nearly $87 billion of taxpayer funds to cover losses emanating from thrift resolutions, and it estimated that $25 billion in additional loss funds are needed to resolve institutions that were expected to fail through September 30, 1993. Billions more may be needed to resolve thrifts that fail after that date. However, because of uncertainties involving the economy, interest rates, and asset sale recoveries, it is difficult to estimate precisely the ultimate cost of the cleanup.

RTC relies extensively on private sector contractors to manage and dispose of assets and fulfill other needs. By September 30, 1992, RTC had awarded over 95,000 contracts with estimated fees totaling about $2.8 billion.

The Problem

RTC has discharged some of its resolution and asset sales responsibilities fairly well.

But poor planning and execution of real estate disposition strategies, problems with the contracting system, and inadequate information systems have hampered RTC's overall performance. Deficiencies in these areas reduce the amount of money RTC recovers through asset disposition and increase the likelihood that taxpayers will need to cover additional costs.

The Causes

Of the several factors contributing to the risks at RTC, two are outside RTC's control. First is the sheer amount of taxpayer funds involved in the program due to the inherent losses associated with failed thrifts. Estimates of the eventual cost to taxpayers of the savings and loan cleanup exceed $300 billion. Second is the difficult economic environment. During the past 3 years, the demand for whole thrifts has been limited, real estate markets have declined, the availability of credit to finance asset purchases has been uncertain, and the economy as a whole has been in recession. Further, RTC's asset inventory for both financial and real estate assets is becoming increasingly concentrated in hard-to-sell categories. As a result, the final cost of the cleanup will depend not just on how well thrift regulators and RTC discharge their responsibilities, but on the state of the economy at large.

Other factors such as disposition approaches, the contracting system, and asset information systems are within RTC's control. RTC has used a variety of techniques to dispose of its real estate assets, including individual sales, auctions, and portfolio sales. But RTC's disposition approaches have sometimes been inefficient, and it has failed to adequately plan its sales approaches.

RTC's contracting system—the means through which RTC pursues its mission—is troubled by poor planning and oversight. RTC does not adequately define what services are needed, the scope of work, and the types of contracts that would best accomplish these ends. Moreover, RTC has difficulty overseeing the tens of thousands of contractors who manage and dispose of billions of dollars in assets on its behalf.

RTC's asset information systems are inadequate. In March 1992, we reported that RTC had not adequately defined its business strategies for managing and selling assets; matched information needs with these strategies; or developed systems to provide the timely, accurate, and complete information needed to manage and evaluate disposition programs and oversee contractors. Since then, RTC has taken steps to correct these problems, but much work remains.

In addition to these concerns, RTC's efforts have been hampered by repeated funding disruptions. RTC has run out of funds and has had to stop resolving thrifts three times since it was established. Most recently, RTC had to return $18.3 billion to the Treasury because it did not obligate the funds before the April 1, 1992, deadline. Certain RTC operations have not been funded since that date. As a result, thrifts under RTC's control have continued to post losses that will contribute to the overall cost of the cleanup.

GAO's Suggestions for Improvement

We have made recommendations to RTC for improving its asset disposition and contracting activities and its information systems. RTC is implementing many of these recommendations, but additional actions are needed.

We continue to believe that RTC should be given the additional funds needed to pursue its resolution activities. Any further delay merely increases the eventual cost of the savings and loan cleanup.

Finally, we have pointed out the need to prepare for the challenges that are likely to endure beyond 1993, when RTC relinquishes its resolution responsibilities, and 1996, when RTC is scheduled to close.

RTC: an Organization With a Monumental Mission in a Difficult Environment

In 1989, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) was enacted in response to a major financial crisis. FIRREA abolished the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC) and established RTC to resolve hundreds of failed savings and loan institutions. RTC is scheduled to stop taking in failed thrifts on September 30, 1993. Subsequent thrift failures will be handled by the Savings Association Insurance Fund (SAIF), which will be managed by the Federal Deposit Insurance Corporation (FDIC). RTC will continue to manage and dispose of its remaining inventory of thrifts and assets until its scheduled closing on December 31, 1996. At that time, any remaining assets and liabilities will be passed on to the FSLIC Resolutions Fund, which will be managed by FDIC.

The Mission

RTC resolves failed thrifts formerly insured by FSLIC before the enactment of FIRREA and for which a conservator or receiver is appointed before October 1, 1993. RTC will dispose of the assets of failed thrifts until it closes in 1996. RTC is required by FIRREA to carry out sometimes competing objectives, such as minimizing losses incurred in resolving cases, maximizing recoveries on the sale of institutions and their assets, minimizing the impact of its activities on local markets, and maximizing preservation of affordable housing. In addition, FIRREA authorizes RTC to use private sector contractors to the extent practical and efficient. Clearly, RTC's most difficult role is the management and disposition of the billions of dollars in assets from hundreds of failed thrifts. RTC's ability to dispose of these assets effectively will have an impact on the final cost of the thrift cleanup.

RTC has been provided $105 billion[1] to cover losses from thrift resolutions. Additionally, as of November 1992, RTC had borrowed about $41 billion from the Federal Financing Bank to be repaid from the proceeds of asset sales. Each of RTC's key functions directly affects the total cost of the thrift cleanup. Every dollar that RTC fails to recover on the resolution of thrifts or sale of assets or wastes through inefficient operations is one more dollar added to the cost of the cleanup.

As authorized by FIRREA, RTC has used private sector contractors extensively to manage

[1]Of the $105 billion, RTC returned $18.3 billion to the Treasury as a result of the April 1, 1992, deadline on obligation of its December 1991 appropriation.

and dispose of assets as well as to fulfill other needs. From its inception through September 1992, RTC awarded over 95,000 contracts with estimated fees of about $2.8 billion. Since RTC is not subject to the same contracting laws and regulations that federal agencies must follow, it developed its own contracting system. Because RTC achieves its mission through the use of contractors, one of its most important tasks has been to oversee the performance of thousands of contractors.

The Environment

RTC's task has been complicated by the difficult environment in which it has had to operate. During the last 3 years, there has been limited demand for whole thrifts, declining real estate markets, increasing numbers of troubled assets, uncertain availability of credit to finance asset purchases, and the recession. These factors are outside RTC's control.

While RTC has achieved good results in the sale of some types of assets, its progress in disposing of other assets has been slower. Also, its remaining assets are increasingly the hard-to-sell variety. This situation, in addition to the difficult environment, means that disposal of these hard-to-sell assets, while maximizing returns, will continue to be RTC's most difficult challenge. Also, the expected failure of more thrifts could give RTC additional inventories of assets to dispose of in the future.

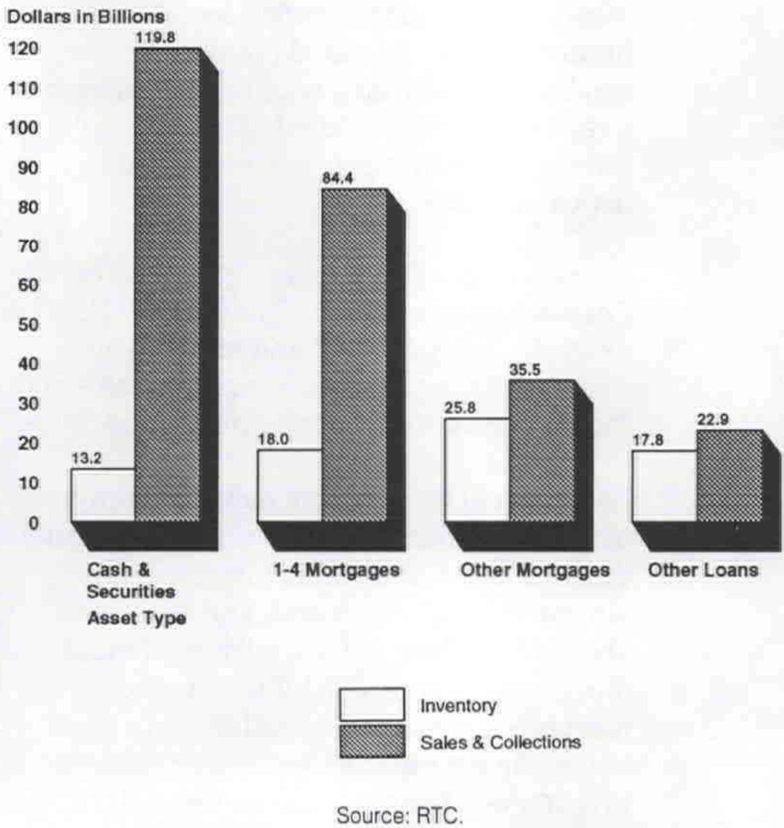
Resolution and Certain Financial Asset Sales Tasks Executed Fairly Well

RTC's effectiveness in resolving failed thrifts directly affects the final cost of the savings and loan cleanup. RTC has executed its resolution tasks fairly well, resolving 653 thrifts as of November 1992. Initially, RTC's resolution strategy emphasized whole thrift sales over branch sales and liquidations. In 1991, however, RTC adapted its strategies to respond more to the market by 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.

During the past 3 years, RTC executed certain financial asset sales tasks fairly well. For example, it established and implemented successful programs for securities sales and the securitization of performing loans.

As shown in figure 1, RTC has made progress in selling its financial assets. From inception through September 1992, RTC disposed of almost $120 billion in cash and securities, about $84 billion in 1-4 family residential mortgages, almost $36 billion in other mortgages, and almost $23 billion in other loans. Figure 1 also shows RTC's remaining inventory of financial assets. Overall, RTC has recovered about 95 percent of book value on financial assets it has sold. There remains, however, some risk of future claims that could reduce this recovery rate.

Figure 1: RTC Financial Assets Inventory, Sales, and Collections as of September 30, 1992



Source: RTC.

RTC's securities sales included about $8 billion (face value) of junk bonds, and the junk bond inventory has been reduced to $211 million (face value). The total remaining inventory of cash and securities was about $13 billion as of September 30, 1992.

RTC's success in selling a large volume of securities is attributable, in part, to its diligent efforts to hire people with the right skills and to develop strategies responsive to market demands. In addition, generally favorable market conditions for securities have helped RTC during the past 2 years.

RTC's securitization program has also produced significant results. Agency swap transactions aggregating almost $4 billion have been competitively awarded through July 31, 1992. In addition, 52 issues of RTC residential, multifamily, commercial, and other mortgage-backed securities with a total face value of about $28 billion had been successfully brought to market as of September 30, 1992.

However, RTC's financial assets inventory is becoming increasingly concentrated in hard-to-sell categories such as highly leveraged transactions, limited partnership interests, equity investments, and nonperforming loans. Hence, RTC faces the risk of lower recoveries as it sells these assets.

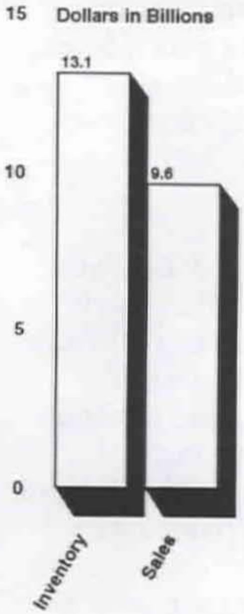
RTC faces two other types of risk in its financial assets activities. One of these is the contingent liability remaining from assets that have already been sold, including claims on representations and warranties in loan sales transactions, and losses charged to reserve funds on securitization deals. The other is the risk associated with the potential mismanagement of assets by RTC contractors, which could result in forgone revenues, additional expenses, and deteriorating asset values.

Some Real Estate Disposition Practices Poorly Planned and Executed

RTC has used a variety of techniques to dispose of its real estate assets, including individual sales, auctions, and portfolio sales. However, RTC's real estate disposition approaches have sometimes been inefficient, and RTC has failed to adequately plan its sales approaches. Specifically, RTC disposed of real estate assets for 3 years before studying its principal sales strategies to determine which were most effective for which type of asset. RTC's Inspector General has also examined several of RTC's real estate sales events and found deficiencies in their planning.

RTC has disposed of billions of dollars in real estate assets but still faces a challenge in reducing its land and commercial real estate inventories. Figure 2 shows that as of September 30, 1992, RTC disposed of about $9.6 billion in real estate while just over $13 billion in real estate remained to be sold. RTC has had great success in reducing its single-family real estate inventory; reducing land and commercial real estate inventories has been more difficult. Land and commercial real estate comprise about 80 percent of RTC's real estate inventory. Overall, RTC estimated that it has recovered about 63 percent of book value on real estate assets it has sold. However, much of the remaining land and commercial real estate are considered hard-to-sell assets, and RTC expects recoveries on these assets to be lower overall.

Figure 2: RTC Real Estate Assets Inventory and Sales, as of September 30, 1992



Source: RTC.

Auctions and Portfolio Sales Frequently Used but Untested

Beginning in late 1991, RTC increased its emphasis on disposing of real estate assets in bulk through auctions and portfolio sales. This increased emphasis was due, in part, to specific disposition goals that focus on reducing book value dollar amounts within specific time frames. We pointed out RTC asset disposition planning problems in our October 1991 report assessing RTC's auction program. Additionally, it was not until its third year of operation that RTC began to study its sales strategies to determine which methods were most effective for which type of asset. It is imperative that RTC carefully evaluate its past disposition results to better plan its future disposition strategies and ensure that recoveries are maximized.

RTC has not appropriately planned its real estate disposition activities nor executed them well. Policies and procedures governing the implementation of the disposition methods are not consistently followed. RTC developed manuals and policy statements on auctions designed to minimize costly mistakes and pass on lessons learned. However, because of the decentralized nature of the organization coupled with weak internal controls and inaccurate information, guidance is not always followed.

For example, the Auction Handbook suggests marketing campaign time frames. For residential auctions, a 4-week campaign is suggested, and for commercial properties valued above $500,000, a 60-day campaign. Our work on the Washington, D.C., area auction, which included residential, commercial, and land assets, revealed that the brochure and buyers' packages were available about 3 weeks before the scheduled auction. Furthermore, the buyers' packages did not always contain adequate or accurate information. Inadequate information and insufficient time to perform asset reviews increase buyer risk, narrow the investor market, and can reduce recovery values.

RTC's National Sales Center had completed several major portfolio sales and, as a result, a variety of real estate assets with a book value of about $900 million were sold or under contact as of June 1992. RTC continues to conduct major portfolio sales without the benefit of comparing this method to other disposition strategies. Further, RTC, in some cases, is providing long-term financing for these sales and for other assets. RTC must ensure that these loans are properly monitored to minimize potential future losses. This monitoring is especially important for cash-flow participating mortgages that have been used for portfolio sales. These transactions, because of their complicated nature, demand rigorous oversight to protect the taxpayers' interests.

Furthermore, although FIRREA mandated that RTC maximize recoveries on the sales of its assets, RTC has not set goals tied to maximizing recoveries. In addition, RTC has not given adequate consideration to the overall net return of the various real estate asset disposition strategies used. Instead, RTC's real estate asset disposition efforts seem to be driven by its book value reduction goals and are not balanced by goals related to maximizing recoveries.

Contracting System Not Adequate

Contractors working for RTC are primarily responsible for the management and disposition of assets from insolvent thrifts. These activities generally include such tasks as collecting income and making disbursements for the maintenance of the assets. RTC's total asset sales and collections from its inception through September 1992 were about $287 billion; much of this was managed or collected by thousands of private sector contractors. Given that such a large amount of money is flowing through private sector contractors acting on behalf of RTC, it is critical that a comprehensive system of oversight is established to reduce the inherent vulnerabilities in such a system.

In the past 3 years, RTC has made some improvements to its contracting system, but RTC's contracting system remains a key weakness in its operations. We have identified weaknesses that have added millions of dollars to the cost of the government's cleanup efforts, but we have no way of estimating the extent that losses may be occurring. When RTC was first established, it had a mindset that essentially viewed contracting as an administrative activity rather than a key function. Downplaying the significance of contracting activities has led RTC to make a series of strategic decisions in developing and implementing its contracting system that have increased RTC's vulnerability to mismanagement and waste.

Poor Contract Planning

Contract planning is the first critical step in effectively developing a contract. RTC must determine what services are needed, how the scope of work is to be defined, and the most efficient type of contract to achieve these goals. RTC has not performed this step well. Several recent examples have shown that RTC has issued contracts that did not describe the services needed and inadequately defined the scope of work.

RTC's handling of the Western Storm project, which was initiated by its Western Region in April 1991, illustrates poor contract planning. RTC paid about $24 million under an improperly issued, sole-source contract for the reconciliation of assets from 92 failed institutions to RTC financial management records. RTC hired an independent auditor to review the project after the problems came to light. The contractor found that three of the project's five goals were either (1) so poorly documented that they were unable to determine the propriety of the work done or (2) not accomplished. Further, they found that RTC's management practices and procedures were inadequate to ensure that payments to the contractor of about $24 million were proper. Accordingly, poor planning, poor internal controls, and inappropriate contracting techniques hampered RTC's ability to monitor contractor performance and control costs and diminished the value of one of RTC's largest contracts.

Another step critical to effective project planning is having accurate information regarding the type of assets to be placed under contract. Because of inadequate information and poor compliance with policies, RTC has paid or is contractually liable for $4.5 million in management and disposition fees to standard asset management and disposition agreement (SAMDA) contractors for work that was done entirely or primarily by staff at failed thrifts.

Also, RTC often structured SAMDA portfolios with real estate and loan assets in widely dispersed geographic locations, increasing contracting costs and risks. One-third of 98 SAMDA contract portfolios we analyzed included assets located in as many as 27 states. For example, 58 portfolios had assets located in Dallas/Fort Worth, but 40 of these portfolios were managed from states other than Texas. In these situations, the risk of mismanagement and waste was higher because there were greater numbers of subcontractors performing services and relatively wider spans of control for RTC managers and SAMDA contractors who were charged with contract oversight.

Contractor Oversight Needs Improvement

RTC's job does not stop once a contract has been awarded. RTC must ensure that the money spent is for appropriate and timely contractor services. However, inadequate information places RTC at a disadvantage in attempting to oversee the activities of tens of thousands of contractors working on many types of assets. Contractor oversight still needs improvement, as shown by the following examples related to loan servicers and subcontractors.

RTC had not adequately overseen its inherited loan servicers, who service approximately $7.5 billion in mortgages and loans. It did not have the necessary policies and procedures in place to monitor the inherited servicers' loan collection activities. Consequently, RTC cannot ensure that servicers are accurately accounting for and remitting loan payments. In addition, RTC does not know if its servicers are sound financial institutions capable of maintaining the value and marketability of RTC's mortgages and loans. For example, 84 of 298 institutions servicing loans for RTC's receiverships in Florida were considered ineligible by the Federal National Mortgage Association (Fannie Mae) to service its mortgages. Furthermore, at the time of our review RTC did not have an accurate inventory of its inherited loan servicers.

Also, neither RTC's field offices nor the SAMDA contractors adequately monitored SAMDA subcontractors to ensure compliance with RTC's policies and to ensure that funds were not vulnerable to loss from unauthorized use. Several subcontractors told us that they had not been visited and their operating procedures had not been reviewed by the SAMDA contractor or RTC. Also, subcontractors were not following appropriate cash management policies and practices governing the use and control of cash from RTC properties.

Information Systems Are Critical to the Management and Sale of Thrift Assets

Information systems are critical to RTC's efforts to manage and sell failed thrift assets. Yet, until recently RTC's asset information system development efforts were disappointing. Problems include unclear or changing requirements, inaccurate and incomplete data, poor response times, and difficulty of use.

Although RTC has taken steps to better define its business needs and to strengthen its control over the corporate system development processes, more improvements need to be made. We remain concerned about the integrity of the real estate system data and the data in the systems now being used to manage and sell loan assets. Real estate system data as of January 1992 contained property records that were incomplete and inconsistent. For example, about 80 percent of the unsold properties did not have one or more key data elements, such as list price, date the property was listed for sale, and identification of the broker. Although there have been efforts to improve the data since then, these efforts have not included verifying important information such as the properties' managers, appraisals, and listings.

In addition, the Real Estate Owned Management System does not contain sufficient edit checks to prevent incorrect data from being entered into the system or adequate field office access to an audit trail of system changes for more than a day. As a result, RTC has no way of ensuring the continued reliability of these data or of knowing who changed them last. Further, RTC does not have a program to improve the data integrity of the wide variety of ad hoc field office and contractor systems it relies on to manage and sell its loan assets. RTC recognizes these issues and by March 1993 plans to have the corporate oversight programs and system changes in place to ensure the integrity of its real estate and loan systems data. Although necessary, these changes come late—after billions of dollars of assets have been placed under contract or sold.

We also continue to be concerned about the ability of the Asset Manager System to track contractors who manage, market, and sell RTC assets. Until needed modifications are completed and tested, the system will likely continue to have inadequate interfaces to account for contractors' income and expenses, insufficient automated controls to ensure that electronic funds transfers are both timely and reconciled, and difficulty calculating certain management and disposition fees. Until improvements are made in these three areas, RTC has increased risk of errors and losses in the asset management system.

Financial Management and Accountability Must Be a Priority

In 1990, we were unable to express an opinion on RTC's financial statements due to weaknesses in its receivership internal controls, flaws in its methodology for estimating recoveries from the sale of receivership assets, and its significant exposure to losses from both real estate and delinquent real estate-backed loans for both resolved and unresolved institutions. During 1991, RTC acted to address the identified control and methodology problems. In addition, then-current projections indicated that RTC's universe of likely resolution candidates had significantly decreased and, therefore, its exposure to real estate-related losses in unresolved institutions was also lower. Given these factors, we were able to give RTC an unqualified opinion on its balance sheet and statement of cash flows for 1991.

While cash transactions during 1991 were valid and correctly recorded in the receiverships' general ledgers, receivership personnel could not supply all the documents necessary to confirm that transactions were processed in accordance with all of RTC's policies and standards. Although we could piece together enough of the year's transactions to ensure ourselves of their legitimacy, we were unable to assure

RTC that all of its internal controls were in place and working as intended to prevent or detect errors in future transactions. Lack of accountability and poor internal controls over cash management in RTC receiverships could increase the cost of resolutions and the amount to be paid by taxpayers and negatively affect future financial statement opinions.

Future Uncertainties Affect Resolution Activities

Costs attributable to RTC resolutions represent a significant part of the total for cleaning up the thrift crisis. In 1990, we estimated the total cleanup cost to be between $335 billion and $370 billion, not including the interest cost of Treasury borrowing to provide the needed funds. Current estimates of the number and cost of recent and future resolution actions support the lower end of the range. This low cost estimate is, in part, due to favorable interest rate spreads that have kept some troubled thrift institutions viable beyond expected resolution dates and reduced operating losses in institutions that did require RTC resolutions. The low cost estimate also assumes that RTC will minimize its losses by exercising proper control over its asset management and disposition responsibilities and that even hard-to-sell assets will meet certain minimal recovery rates.

However, funding disruptions have hampered RTC's efforts to resolve failed thrifts. RTC has run out of loss funds and has had to stop resolving failed thrifts three times since it was created. Most recently, RTC had to return $18.3 billion to the Treasury because it did not obligate the funds before the April 1, 1992, legislative deadline. Certain RTC operations have not been funded since that date. As a result, thrifts under RTC's control continued to post losses that contribute to the overall cost of the cleanup. For example, the 60 failed thrifts under RTC's control on June 30, 1992, reported net losses totaling $283 million during the 3-month period ending in June.

In testimony on March 5, 1992, we recommended that the Congress eliminate the April 1992 obligations deadline, ask RTC to estimate its funding needs through the spring of 1993, and provide RTC with sufficient funds on a timely basis to carry out its responsibilities. Failed thrifts do not improve over time; their resolutions remain obligations that become more expensive when delayed. Therefore, we continue to believe that RTC should be provided with the necessary additional funds because without them the cost of the cleanup simply increases.

In December 1992, RTC estimated that an additional $25 billion in loss funds would be needed for it to resolve current thrifts in conservatorship and thrifts anticipated to fail before September 30, 1993. We must caution that uncertainties beyond RTC's control related to general economic conditions present an even greater risk of higher cost to taxpayers. Increased interest rates or further deterioration in real estate markets could cause marginally viable thrifts to fail. If additional failures occur, resolution costs will increase. These increased costs will have to be borne by RTC and after September 30, 1993, SAIF. Since SAIF is not expected to receive more than $2 billion a year from thrift industry assessments, it will be unable to resolve many failed institutions without itself facing insolvency. If SAIF inherits a troubled thrift industry from RTC, the industry may not be able to assume full responsibility for its problems. In that case, taxpayers will undoubtedly be called on to continue funding thrift resolutions.

Conclusions and Action Needed

The total cost to taxpayers of the thrift cleanup depends both on the economy and on how well RTC discharges its responsibilities. RTC's greatest challenge in its remaining years will be to maximize the rate of return on its growing inventory of hard-to-sell assets and provide adequate contractor oversight. We have made several recommendations to RTC to minimize risks that are within its control. While RTC has acted on many of these, the following further actions are needed:

- RTC needs to better plan its real estate disposition activities to ensure that it maximizes recoveries on asset sales. Specifically, RTC needs to carefully evaluate its past disposition results to better plan its future disposition strategies and ensure that recoveries are maximized.
- Given the large amount of money flowing through private sector contractors acting on behalf of RTC, it is critical that RTC establish a comprehensive system of contract oversight.
- RTC needs to continue its efforts to improve the integrity of the Real Estate Owned Management System data and its Asset Manager System.

Additionally, we believe that the new administration needs to work with Congress to obtain the additional funds RTC needs to pursue its resolution activities. Any further delay merely increases the eventual cost of the savings and loan cleanup.

Although RTC has made progress in improving its operations and cleaning up the problems it inherited, many problems are likely to remain after 1996, when RTC is scheduled to close. Thus, the total cost of the cleanup also depends on the effectiveness of structures established to deal with thrift losses occurring after RTC relinquishes its resolution responsibilities in 1993 and all of its other responsibilities in 1996. In large part, the condition of RTC's accounting and management information systems at the time of turnover will determine how effectively the FSLIC Resolution Fund will manage the remaining responsibilities.

The Congress and the new administration will need to work together to ensure that FDIC has the capacity to carry out the resolution and asset disposition responsibilities it will inherit from RTC and that there is greater certainty that SAIF will remain solvent. Also, consideration should be given to how best to apply RTC's investment in both processes and people skilled in the management and disposition of financial and real estate assets should a large number of banks fail in the near future. Such consideration should include whether it would be beneficial to use RTC to dispose of the assets of all failed financial institutions as opposed to increasing the capacity of FDIC to handle such tasks.

The savings and loan cleanup will remain a highly risky endeavor that bears close scrutiny. RTC can minimize the risks within its control—namely those associated with asset disposition, contracting, and information systems. Congress can help minimize the risks by continuing its oversight activities and making funds available for resolutions. We will continue to do our part to monitor RTC improvements and assist Congress in its oversight.

Related GAO Products

Resolution Trust Corporation: Subcontractor Cash Management Practices Violate Policy and Reduce Income (GAO/GGD-93-7, Oct. 20, 1992).

Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs (GAO/GGD-93-2, Oct. 7, 1992).

Resolution Trust Corporation: More Actions Needed to Improve Single-Family Affordable Housing Program (GAO/GGD-92-136, Sept. 29, 1992).

Resolution Trust Corporation: Affordable Multifamily Housing Program Has Improved but More Can Be Done (GAO/GGD-92-137, Sept. 29, 1992).

Resolution Trust Corporation: Western Storm Investigation and Related Contracting Deficiencies (GAO/T-GGD-92-67, Aug. 6, 1992).

Insurance Fund: Outlook Affected by Economic, Accounting, and Regulatory Issues (GAO/T-AFMD-92-11, June 30, 1992).

Financial Audit: Resolution Trust Corporation's 1991 and 1990 Financial Statements (GAO/AFMD-92-74, June 30, 1992).

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

Resolution Trust Corporation: Corporate Strategy Needed to Improve Information Management (GAO/IMTEC-92-38, Mar. 5, 1992).

Resolution Trust Corporation: Further Actions Needed to Implement Contracting Management Initiatives (GAO/GGD-92-47, Mar. 5, 1992).

Resolution Trust Corporation: Preliminary Results of Western Storm Investigation and Related Contracting Deficiencies (GAO/T-OSI-92-5 and GAO/T-GGD-92-16, Mar. 3, 1992).

Resolution Trust Corporation: Performance Assessment for 1991 (GAO/T-GGD-92-47, Feb. 26, 1992).

Resolution Trust Corporation: Assessing Portfolio Sales Using Participating Cash Flow Mortgages (GAO/GGD-92-33BR, Feb. 25, 1992).

Resolution Trust Corporation: Effectiveness of Auction Sales Should be Demonstrated (GAO/GGD-92-7, Oct. 31, 1991).

Financial Audit: Resolution Trust Corporation's 1990 Financial Statements (GAO/AFMD-92-20, Oct. 25, 1991).

Resolution Trust Corporation: A More Flexible Contracting-Out Policy Is Needed (GAO/GGD-91-136, Sept. 18, 1991).

Resolution Trust Corporation: Stronger Information Technology Leadership Needed (GAO/IMTEC-90-76, July 23, 1990).

Resolution Trust Corporation: Structure and Oversight Issues (GAO/T-GGD-91-55, July 15, 1991).

Resolution Trust Corporation: Performance Assessment to Date (GAO/T-GGD-91-07, Feb. 20, 1991).

Resolution Trust Corporation: Unnecessary Loan Servicing Costs Due to Inadequate Contract Oversight (GAO/GGD-91-19, Jan. 17, 1991).

Resolution Trust Corporation: Automation Efforts Need Management Attention (GAO/T-IMTEC-91-1, Oct. 16, 1990).

RTC Asset Management: Contracting Controls Need to Be Strengthened (GAO/T-GGD-90-53, Sept. 24, 1990).

Asset Management: Resolution Trust Corporation Needs to Build a Strong Foundation to Support its Asset Disposition Efforts (GAO/T-GGD-90-38, May 4, 1990).

Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed (GAO/T-AFMD-90-15, Apr. 6, 1990).

High-Risk Series

Lending and Insuring Issues

Farmers Home Administration's Farm Loan Programs (GAO/HR-93-1).

Guaranteed Student Loans (GAO/HR-93-2).

Bank Insurance Fund (GAO/HR-93-3).

Resolution Trust Corporation (GAO/HR-93-4).

Pension Benefit Guaranty Corporation (GAO/HR-93-5).

Medicare Claims (GAO/HR-93-6).

Contracting Issues

Defense Weapons Systems Acquisition (GAO/HR-93-7).

Defense Contract Pricing (GAO/HR-93-8).

Department of Energy Contract Management (GAO/HR-93-9).

Superfund Program Management (GAO/HR-93-10).

NASA Contract Management (GAO/HR-93-11).

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Management of Overseas Real Property (GAO/HR-93-15).

Federal Transit Administration Grant Management (GAO/HR-93-16).

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