United States General Accounting Office

GAO

Report to the Honorable
Roger C. Altman, President and Chief Executive Officer, Resolution Trust Corporation

July 1993

# RESOLUTION TRUST CORPORATION

# 1992 Washington/ Baltimore Auctions Planned and Managed Poorly



GAO/GGD-93-115

GAO

United States
General Accounting Office
Washington, D.C. 20548

**General Government Division**

B-252969

July 7, 1993

The Honorable Roger C. Altman
President and Chief Executive Officer
Resolution Trust Corporation

Dear Mr. Altman:

As part of our continuing effort to assess the Resolution Trust Corporation's (RTC) real estate disposition activities, we reviewed the Washington/Baltimore area real estate auctions held in April and May 1992. We did this work because RTC's use of auctions as a disposition strategy increased substantially over the past year and because RTC had not determined the effectiveness of auction sales as we recommended in our report Resolution Trust Corporation: Effectiveness of Auction Sales Should Be Demonstrated (GAO/GGD-92-7, Oct. 31, 1991).

The objectives of this review were to determine how well RTC planned and conducted these auctions and to calculate the net recoveries from these auctions. Work for this review began before the auctions were held, and as a result we observed much of the process first-hand.

## Results in Brief

RTC sold 101 assets with a book value of $43,836,396 through these auctions and realized net proceeds of $19,179,357. In addition, as of December 4, 1992, about 7 months after the auctions, settlement was still pending for six assets. However, in order to maximize its recoveries, RTC could have better planned and managed these auctions. RTC should have provided more complete and accurate asset information, allowed potential buyers more time to conduct due diligence,[1] and better prepared the assets for sale. Because of these planning and management inadequacies, closings were delayed, contracts cancelled, and recoveries reduced.

Also, our analysis of these sales shows different results from what RTC reported to Congress because RTC's report did not reflect net recoveries, as required by the RTC Refinancing, Restructuring, and Improvement Act of 1991. Instead, RTC reported only gross sales proceeds. Further, RTC underreported the book value of assets sold at these auctions, because it did not include all the assets offered in the auctions and did not amend the data.

[1] Due diligence is the process of evaluating information on the assets to fully assess their value.

## Background

The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 created RTC to manage and resolve failed savings and loans. FIRREA mandates, among other things, that RTC operate in a manner that maximizes the net present value return from the sale or other disposition of failed thrifts or the assets from failed thrifts.

Since its inception in 1989 through November 1992, RTC has disposed of almost $10 billion in real estate assets with about $12.6 billion remaining in its inventory. In an effort to dispose of these real estate assets, RTC uses a variety of approaches, including individual sales, portfolio sales, and auctions.

Auctions have been used as a method to expedite asset sales and dispose of distressed assets. RTC's use of auctions increased significantly in its third year of operation. From its inception in 1989 to December 31, 1991, RTC held 125 real estate auctions. The properties sold in these auctions had a book value of $679 million, and RTC reported its actual sales price was about $368 million—about 54 percent of book value. In just the first half of 1992, RTC held 122 real estate auctions, selling properties with about $712 million book value. RTC's congressional report shows that the sales results of these auctions were $364.2 million—about 51 percent of book value. RTC plans to continue using auctions as a disposal method for real estate.

In our October 1991 report on auction sales we pointed out that RTC's auction approach was conceptually sound. However, there was widespread uncertainty about the viability of auctions because there had not been enough analysis to determine whether auctions are more effective in maximizing results than the more commonly used brokered sales approach. We recommended that RTC determine the effectiveness of auctions used to sell its real estate by comparing a sample of the results of auction sales with results realized from various other sales methods, particularly sales by brokers. RTC agreed to conduct such an analysis, and it analyzed auctions as a disposition method in December 1992 as part of a broader study.

## Objectives, Scope, and Methodology

The objectives of our review were to assess how well RTC prepared for and managed the Washington/Baltimore auctions and to analyze the net returns from the sale of these real estate assets. Prior to the auctions we (1) attended the broker and buyer seminars to determine what information was provided to potential buyers; (2) visited the open houses to preview the auction properties and observe the broker's performance; and (3) obtained bidder information packages and reviewed 13 of the packages, for higher valued land assets, to assess the adequacy of the information. We interviewed responsible RTC staff in Atlanta, Georgia, and headquarters, as well as the auctioneer to discuss the planning, monitoring, and management processes for the auctions.

We also attended two of the four auctions held by RTC in April and May 1992—one conventional and one affordable housing auction. We also attended the miniauction of two properties that did not sell in the April auction. Following the four auctions we interviewed the auctioneer, all the closing attorneys, and some registered bidders to get their perspectives on the auction process. We asked the bidders about (1) the timeliness and quality of information that was available to the public, (2) the auctions in general, (3) the local broker's performance, and (4) the closing process. In addition, we asked them for any comments or suggestions to help RTC improve future auctions.

We analyzed the sales and cost data to calculate net proceeds from these auctions. Since all costs associated with the sale of assets are not recorded in RTC's Real Estate Owned Management System (REOMS), to determine the net proceeds for each sale we analyzed closing statements and other documents, including sales contracts. From the sales price, we deducted cash discounts as well as related fees and expenses, such as commissions, marketing costs, title costs, and contractor fees, to calculate the net proceeds. For assets under certain contracts, the contractors' disposition fees could not be calculated for individual assets. We also determined the amount of time between the auctions and the closing dates for individual assets.

We did our work between April and December 1992 at RTC Headquarters, and its Mid-Atlantic Consolidated Office (MACO) in Atlanta, Georgia. We also interviewed the auctioneers in Pompano Beach, Florida; visited properties; and reviewed asset files at various locations throughout the Washington/Baltimore Area. The conclusions are based on our analysis of the Washington/Baltimore auctions and can not be generalized to all RTC auctions. Our work was done in accordance with generally accepted government auditing standards.

## Washington, DC/Baltimore, MD, Area Auctions

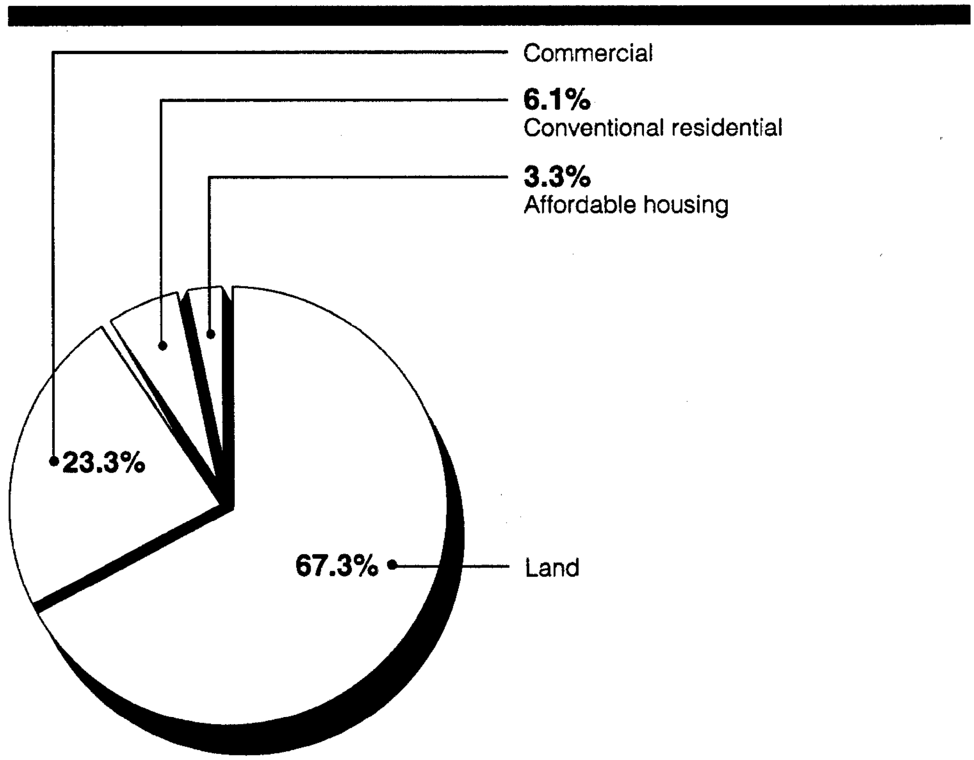
Four real estate auctions were held between April 29 and May 2, 1992—one in Arlington, VA, one in Silver Spring, MD, and two in Linthicum, MD. In addition, a miniauction was held in Arlington, VA, on July 21, 1992, to sell two land assets that had not sold at the April 29, 1992, auction. A total of 118 properties representing $49,602,991 in book value were offered during these auctions.

These auctions were planned and managed by RTC's MACO in Atlanta, Georgia. The MACO officials approved this auction and identified the assets in December 1991. An auction coordinator was responsible for managing all related activities, including monitoring the performance of the auctioneer and reporting the auction results to headquarters. The auctioneer, who was based in Florida, began working in February 1992. In addition to conducting the auction events, the auctioneer was responsible for hiring and monitoring a local broker, advertising and marketing the events, and preparing the information packages. The local broker was responsible for preparing broker price opinions, preparing the properties for the open houses, and conducting the open houses.

A mix of asset types were auctioned, including conventional residential properties, such as condominiums, townhouses, and single-family homes; affordable housing units;[2] commercial assets; and land zoned for both residential and commercial uses. Land assets constituted 67.3 percent of the auctions' book value, followed by commercial assets with 23.3 percent. Conventional residential assets were 6.1 percent, and 3.3 percent were affordable housing assets (see fig. 1).

[2]RTC's affordable housing program was mandated by FIRREA. FIRREA requires that RTC preserve affordable housing for moderate- to very low-income families.

Figure 1: Book Value of Assets by Type




Nearly 800 registered bidders attended the four Washington/Baltimore area auctions, and contracts were signed for nearly all of the properties offered. All 42 affordable housing properties offered were sold via these auctions. RTC seller financing was available to qualified buyers. Also, RTC offered discounts from the sales price for cash sales, if the contracts were closed within the original contract period. These discounts applied to all affordable housing properties and all other properties with a sales price of $25,000 or more. Specifically, the discounts were 5 percent for residential, 15 percent for commercial, and 20 percent for land assets. The discounts were used to encourage cash sales and to expedite the closings.

## Auctions Inadequately Planned

Generally, in planning these auctions, the regional staff did not follow the RTC guidelines nor did they seek advice or assistance from staff in headquarters, according to both RTC headquarters and regional officials. The assets to be placed in the auctions were not identified at the time the contract for auction services was signed, and assets were still being added to the auction in early March 1992. Once identified, the assets were not adequately prepared for sale. The bidder information packages were not available until about 2 weeks before the auctions and often contained inaccuracies. Furthermore, according to the regional staff, the book value reduction goals were a driving force for conducting these auctions.

## Late Selection of Properties

For the Washington/Baltimore area auctions, the final assets selections were made 6 weeks after RTC signed the contract with the auctioneer. Once the final assets were selected the auctioneer identified 10 of them as "important properties." These 10 were land assets with a book value of about $31 million. Because of these assets, the auctioneer determined that a due diligence contractor who specialized in land assets should be hired. However, this contractor was given only 4 days to research and analyze the information on these land assets. The contractor stated that 4 days was not sufficient time to thoroughly review the assets.

Underlying the inadequate planning for these auctions was an emphasis on book value reduction goals. For fiscal year 1992 RTC's total book value reduction goal was $100 billion, and the regional goal was $666 million. These goals were a strong motivator for the regional staff to get this auction done quickly. MACO officials stated that in addition to meeting these goals, they had to meet the RTC requirement to sell all real estate assets valued at below $500,000 within 1 year of obtaining control. In an effort to meet both the requirement and the goals, MACO conducted 55 auctions from April 1 to June 30, 1992, including the 4 Washington/Baltimore auctions. This emphasis to meet the book value reduction goal, in part, drove the responsible managers to disregard some of RTC's guidelines and procedures.

## Assets Not Adequately Prepared for Sale

Not only was RTC slow in selecting assets to include in these auctions, RTC had not resolved all of the related ownership issues. For example, a property was included and later sold for $295,000 without an updated title report. Title questions were raised, and it took 7 months to resolve these questions and close the sale. Another asset included in the auctions, an affordable housing property that sold for $65,000, did not have a clear title report. Following the auction it was determined that the property was deeded to the Secretary of Housing and Urban Development. Further, following the auction RTC found out the property had federal tax liens and other judgment liens totalling about $111,000. Ultimately it was determined that RTC was not responsible for the liens, but it took 123 days to resolve these title issues and close the sale.

Title issues such as these were not resolved prior to the auction because all title updates were not obtained nor were all problems resolved. Although the auction coordinator requested specific information on each asset, steps were not taken to ensure this information was obtained before the assets were placed in the auction.

## Inaccurate and Incomplete Information Provided to Bidders

The auctioneer and the local broker prepared bidder information packets with information about each asset. RTC's auction handbook states that complete, accurate, and current information on each property is essential in order for RTC to conduct a successful auction. RTC staff are responsible for ensuring that information in marketing packages is correct and complete. These bidder information packets were made available to potential bidders about 2 weeks before the auctions at the brokers and buyers seminars.

According to a research report on auctions, accurate information is an important factor in maximizing revenues from the sale of assets.[3] This study points out that information gathering for real estate assets, especially commercial assets, is both costly and critical to buyers for forming reliable value estimates. According to the study, information assumes even greater importance for properties located in areas where future market conditions are uncertain or where properties are somewhat atypical. The study authors state that these are characteristics of many of the locations and properties in the RTC inventory.

Additionally, the study points out that, especially for commercial properties, potential buyers can incur information gathering and bid preparation costs, that are, at a minimum, in the tens of thousands of dollars. To recoup these expenses, potential buyers often reduce their bids.

Similarly, the inadequate bidder packages, especially for the land assets, were a result of inadequate planning and management. Although RTC officials requested specific information about the assets before the auctions, RTC planning and management efforts did not include a process to ensure the information was received and that it was accurate. We

[3]"On the Use of Auctions as a Disposition Strategy for RTC Real Estate Assets: A Policy Perspective," Kerry Vandell and Timothy Riddiough, Housing Policy Debate, Vol. 3, Iss. 1.

determined the property-specific information packages were missing critical information. For example, 12 of 13 packages did not have preliminary title reports, and only 4 packages had Phase I environmental reports. Nonetheless, RTC distributed the packages that lacked important information needed for potential bidders to make informed decisions. Furthermore, for example, one land asset with a book value of over $2.1 million was advertised as having preliminary zoning approval for 60 condominium apartment units. But, based on the buyers' subsequent due diligence review, it was determined that only 15 units could be built on that tract of land. As a result, the buyer cancelled the $550,000 contract. Bidders told us that RTC needs to do a better job disseminating information in a timely manner and that information packages should include better quality information.

Similar planning problems were reported by the RTC Office of Inspector General (OIG) in May 1991. RTC's OIG reviewed the National Auction scheduled for November 15, 1990, but cancelled. The report[4] stated there were deficiencies in RTC's up-front planning, developing, and following polices and procedures and with communicating among all parties.

## Auctions Poorly Managed

For these auctions, RTC's management of the marketing, open house, and closing processes could have been better. RTC did not provide enough time for potential buyers to adequately evaluate the assets, especially the commercial and land assets. Although, RTC scheduled open houses to allow potential buyers to inspect the properties, all the open houses were not held. Further, closings were delayed for some conventional assets and most affordable housing assets.

### Asset Marketing Time Too Short

Various techniques were used to market and provide information about the assets in these auctions. The auctions were advertised in newspapers, a brochure was prepared describing all of the assets in the auction, separate packages were compiled with information on each of the assets, and seminars were conducted for brokers as well as potential buyers.

RTC's Auction Handbook, issued January 1991, explains that the advertising and marketing campaign should be designed to maximize exposure of the auction. The handbook recommended a 4-week marketing time for residential assets and 8 weeks for commercial assets valued in excess of $500,000. RTC announced the auctions on TV and radio in February, and the

[4] Valuable Lessons To Be Learned From Cancelled Real Estate Auction, (A91-001), May 13, 1991.

first newspaper ad appeared on March 20, 1992, about 6 weeks before the first auction. While the 6-week period from the first newspaper ad to the first auction met the time criterion for the residential assets, it did not meet the criterion for commercial assets. This is especially critical because nearly 80 percent of the total value of the auction assets were commercial and land assets with book values greater than $500,000.

Furthermore, although the ad gave potential buyers a phone number to call if they wanted to order an auction brochure with specific property information, these brochures were not available until about 3 weeks before the auctions. The newspaper ad directed interested parties to call for auction brochures as early as March 20, 1992, but the auctioneer's reports indicate the brochures were not available until after April 8, 1992. As a result, the earliest that potential buyers could receive the brochures was about 20 days before the first auction.

## Open Houses Not Always Held

RTC scheduled open house previews for each property to allow potential bidders to view the properties, but they were not always held. The local broker hired by the auctioneer was responsible for the open houses as well as for answering questions from prospective buyers. We attempted to visit 23 open houses and made an appointment to see another property. However, 10 of the 23 properties were not open during the scheduled times, and the broker did not show for the scheduled appointment.

## Closings Delayed

Although the auctions attracted many bidders and contracts were signed for most of the properties, most closings were delayed. Two factors that contributed to the delays were (1) RTC's failure to prepare the assets for sale; and (2) a lengthy seller financing approval process, especially for affordable housing properties. As a result of these delays, some purchasers were able to negotiate price reductions, and others cancelled their contracts.

Of the 118 properties offered, all but 2 were placed under contract. As of December 4, 1992, 7 months after the auctions occurred, 101 of the 116 properties had closed, contracts for 9 properties valued at about $1.1 million were cancelled, and 6 properties were pending settlement. However, of the 101 closed properties, only 42 closed within the applicable contract period—60 days for affordable housing properties and 45 days for conventional properties. Overall, closings took from 21 to 215 days with an average of 68 days. Closings were delayed for 31 of the 69 conventional properties. Thirty-four of the closings for the 38 affordable housing properties were delayed, and closing for the affordable housing assets took from 52 days to 217 days, with an average of 113 days.

We identified two factors that contributed to these delays. First, as previously discussed, in planning the auctions RTC failed to prepare the assets for sale. As a result, several issues had to be addressed after the auctions, such as clearing titles, obtaining condominium documents, getting keys, and making repairs. The second factor was the seller financing process. We did not determine the reasons for the delays in the seller financing process, but according to RTC officials there were several reasons. Some of the reasons cited were (1) the difficulty in dealing with an underwriter in California, when the properties and buyers were in the Washington/Baltimore area; (2) a new underwriter unfamiliar with the RTC process; (3) buyers who did not always understand the need to submit the necessary financial information; (4) new procedures for processing the loans; and (5) a heavy workload due to the number of auctions held that quarter.

## Recoveries Reduced

Because of RTC's inability to meet the contract dates and conditions, it was placed in a vulnerable position and began to negotiate price reductions with buyers. For example, one purchaser negotiated a $4,000 reduction from the original sales price of $110,000 in exchange for a second extension of the closing date by RTC to resolve title issues. The purchaser remained entitled to the 20-percent cash discount in addition to this $4,000 reduction. Another buyer negotiated a $5,000 price reduction from an original contract price of $125,000 in exchange for agreeing to extend the closing while RTC resolved title problems. These price reductions lowered RTC's net recoveries from the sale of the assets.

Some purchasers cancelled their contracts due to delays in closings. For example, one purchaser cancelled when RTC refused to agree to pay 3 points to his lender in exchange for a second extension by RTC to clear title problems on an asset that sold for $67,501. Another purchaser cancelled a contract of about $300,000 because RTC failed to deliver a title commitment within 14 days as required by the contract.

RTC's failure to prepare the assets for sale caused many of these delays and cancellations. If RTC had completed the necessary due diligence to ensure that the assets were ready for sale, some closing delays could have been shortened or even eliminated. Also, RTC might not have needed to negotiate lower sales prices, and fewer sales may have been cancelled. RTC could have realized higher recoveries if it had better prepared the assets before placing them in the auction.

## RTC's Report to Congress Does Not Reflect Net Recoveries

The RTC Refinancing, Restructuring, and Improvement Act of 1991 requires RTC to report to Congress on the results of its auctions. As part of this reporting requirement, RTC is to include information on the net recovery or loss on assets sold through auctions during the quarter. RTC's report on the results of the Washington/Baltimore area auctions does not reflect net recoveries or losses as required.

The report on the Washington/Baltimore area auctions indicates that RTC's sales proceeds were 60 percent of the book value of the assets sold. However, our analysis shows a total net recovery of 44 percent for these assets. Our analysis by asset type shows that RTC's net sales recovery was 62 percent for conventional residential assets, 51 percent for affordable housing residential assets, 44 percent for commercial assets, and 42 percent for land assets. The following table summarizes the results.

Table 1: Recoveries by Asset Type and Total for 101 Properties Closed as of December 4, 1992

| Property type | Book value | Sales price | Total expenses[a] | Total commissions[b] | Cash discounts[c] | Net proceeds[d] | Net/book value[d] |
|---|---|---|---|---|---|---|---|
| Conventional residential properties | $2,737,644 | $1,935,600 | $62,604 | $111,240 | $77,905 | $1,683,851 | 62% |
| Affordable housing properties | 1,475,174 | 895,100 | 73,182 | 66,021 | 4,915 | 750,982 | 51% |
| **Residential total** | $4,212,818 | $2,830,700 | $135,786 | $177,261 | $82,820 | $2,434,833 | 58% |
| Office/retail industrial | 7,255,810 | 4,038,062 | 132,285 | 190,702 | 461,969 | 3,253,106 | 45% |
| Branch banks | 2,639,343 | 1,435,000 | 25,250 | 69,316 | 229,250 | 1,111,184 | 42% |
| **Commercial total** | $9,895,153 | $5,473,062 | $157,535 | $260,018 | $691,219 | $4,364,290 | 44% |
| Residential land | 27,786,485 | 14,411,000 | 353,981 | 561,379 | 1,547,000 | 11,948,640 | 43% |
| Commercial land | 1,941,940 | 625,000 | 18,416 | 49,990 | 125,000 | 431,594 | 22% |
| **Land total** | $29,728,425 | $15,036,000 | $372,397 | $611,369 | $1,672,000 | $12,380,234 | 42% |
| **Total** | **$43,836,396** | **$23,339,762** | **$665,718** | **$1,048,648** | **2,446,039** | **$19,179,357** | **44%** |

[a]Total Expenses includes processing fees, such as document preparation, tax service, flood certification, underwriting, loan origination, credit report, bank wire, courier, deed preparation fees, and other expenses, including surveys, pest inspections, lawn care, and asset management fees.

[b]Total Commission includes Co-broker, Terminating broker, Auctioneer's commissions, and available asset management disposition fee.

[c]Cash Discounts: 5 percent of sales price for residential, 15 percent of sales price for commercial, and 20 percent for land.

[d]Total expenses, net proceeds, and net/book value percentage do not take into account legal fees. Approximately $214,000 was estimated in legal expenses that were not applicable to any particular property. With legal fees included the total expenses would be $879,485, net proceeds would total $18,965,589, and net/book value would be 43 percent.

One reason RTC's results differ from ours is because RTC reported only gross sales proceeds and did not take into consideration selling expense and closing costs. Specifically, our analysis included contractor disposition fees, commissions, marketing costs, the cash discounts offered to the buyers, and other closing costs.

Additionally, the act requires RTC to report on the total book value of assets sold at each auction. The August 28 report understated the book value of the assets sold as a part of these auctions. RTC reported that the book value of the assets sold at these auctions was $29,729,116. Our analysis shows that assets with a book value of $43,836,396 were sold during these auctions. In some cases, RTC excluded sales from the report because they were not completed. However, RTC did not amend subsequent reports to reflect these sales. According to RTC officials, the report is not updated because it would require an excessive amount of time.

## Auction Guidance Changed

At the time of these auctions, the RTC procedures for planning and managing auctions were issued as guidelines. Subsequently, RTC took steps to strengthen its procedures and help ensure that auctions are planned and executed in a consistent manner. In July 1992, RTC revised the guidelines and issued them as policy in a new Auction Handbook and an Asset Sales Guide (Auctions). Additionally, on November 25, 1992, RTC issued a directive requiring that all auctions be conducted in accordance with the policies and procedures stated in the Asset Sales Guide (Auctions). This directive gives the auction coordinators responsibility for managing the auction process and ensuring compliance with established policies.

MACO officials stated that since these auctions they have reorganized their auction group and made changes to the way that future auctions will be planned and implemented. According to MACO officials, future auctions will be smaller, single-asset type auctions to minimize the problems, and the marketing time for auction assets will be lengthened to 60 days. Also, the officials stated that the auction group has a team leader who will advise the auction coordinators and ensure that guidelines are followed.

## Conclusions

RTC did not plan and manage these auctions in a manner that would have maximized net recoveries. RTC did not provide potential bidders adequate time or accurate information needed to fully evaluate the assets. For these auctions, the marketing period was short, information in asset packages was not always adequate, and scheduled open houses were not always held. These inadequacies occurred, in part, because RTC field office officials did not follow recommended procedures and because the staff were motivated to get sales done quickly in order to meet the book value reduction goals.

In addition, when information was limited or unreliable, combined with inadequate time to conduct due diligence reviews, buyer risk was increased. As a result, the investor market was narrowed and the interested buyers tended to lower their bids to compensate for the risks associated with inadequate information. Furthermore, RTC did not adequately prepare all the assets for sale, which delayed some closings. As a result of these delays, RTC was placed in a vulnerable position, and some buyers were able to negotiate price reductions and other buyers cancelled their contracts. In this context RTC's return on these assets was lowered and net recoveries to the taxpayer were reduced.

Further, RTC's report to Congress on the auction results did not include all the information required by the RTC Refinancing, Restructuring, and Improvement Act of 1991. Specifically, the report reflects only gross sales proceeds and does not include costs incurred to sell and close the assets. By using gross sales data, RTC's report indicates higher recoveries than actually received. Additionally, RTC underreported the book value of the assets sold at these auctions.

## Recommendations

The Washington/Baltimore auctions were but four of many RTC auctions. However, the problems noted with these auctions impaired RTC's ability to maximize net returns. We recommend that you develop methods to monitor future auctions to ensure that similar problems do not occur and that book value reduction goals do not cause staff to disregard established policies and procedures, which are designed to maximize recoveries. At a minimum, RTC staff must ensure that (1) marketing time is adequate, (2) asset information is accurate and complete, and (3) assets are prepared and title issues resolved before the auction.

Additionally, we recommend that you provide all the information required by the RTC Refinancing, Restructuring, and Improvement Act of 1991 by revising RTC's reports to Congress on auction results. The reports should reflect net recoveries by deducting cash discounts and all costs related to the sales, including commissions, marketing costs, closing costs, and legal fees and should accurately reflect the total book value of the assets offered. Also, to provide a complete description of auction sales during each quarter, reports should update sales data related to previously reported auctions.

## Agency Comments

RTC officials provided written comments on a draft of this report. A copy of these comments and our evaluation are included in appendix I. The agency did not dispute any of our findings in its response to the draft report. Overall, RTC's comments reflect a commitment to make changes to its auction process and procedures that address many of the concerns identified in our report. However, RTC stated that the weaknesses identified were neither "unusual or excessive" considering the magnitude of RTC's disposition effort. RTC also noted that as in any auction, certain assets fall through due to problems outside of its control. As described in our report, the deficiencies noted in these auctions—inadequate marketing time, inaccurate and incomplete asset information, and unresolved title issues—were all within RTC's direct control and should have been avoided.

In response to our recommendation that RTC develop methods to monitor future auctions to ensure that similar problems do not occur, RTC stated that it has developed additional procedures for conducting auctions and placed additional focus on auctions. Although we are encouraged that the new procedures should help improve RTC auctions, RTC did not indicate how it would monitor future auctions to ensure that these new procedures are implemented.

Furthermore, we are concerned that some of the changes cited by RTC in its response may be implemented only at the Atlanta office. RTC stated that closings for RTC financed sales will be improved due to the addition of a unified financing group in the Atlanta Sales Center. Also, RTC said that the Atlanta group will hold more auctions with fewer assets in order to allow more time to review properties and complete due diligence needed to ready the assets for auction. We believe that RTC should explore the need for such procedures at other locations as well.

In response to our recommendation on its reports to Congress on auction results, RTC said it will review its reporting process and determine if updates can be compiled on a national basis. However, RTC did not address whether future auction reports will reflect net recoveries as required by the RTC Refinancing, Restructuring, and Improvement Act of 1991.

Since RTC was created as a mixed-ownership government agency, 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 our follow-up actions and allow us to keep the appropriate congressional committees informed of RTC activities. We are also providing copies of this report to interested congressional committees and members. Copies will be made available to others upon request.

The major contributors to this report are listed in appendix II. If you have any questions about this report, please contact me at (202) 736-0479.

Sincerely yours,

Gaston L. Gianni

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

# Comments From the Resolution Trust Corporation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

RTC
RESOLUTION TRUST CORPORATION
Resolving The Crisis
Restoring The Confidence

May 12, 1993

Johnny C. Finch
Assistant Comptroller General
United States General Accounting Office
Washington, DC 20548

Dear Mr. Finch:

Your letter addressed to Mr. Roger C. Altman, President and Chief Executive Officer of the Resolution Trust Corporation has been forwarded to this office for response. We have reviewed the GAO draft report entitled Resolution Trust Corporation: 1992 Washington/Baltimore Auctions Planned and Managed Poorly and have conducted an investigation of the specific events noted in this report.

Enclosed you will find our written response regarding this draft report. We trust this information is helpful in finalizing your report on this matter.

Sincerely,

Lamar Kelly

Lamar C. Kelly, Jr.
Senior Vice President for
Asset Management and Sales

Enclosure

cc: James Collins
Jean Lorentzen
Sherrie McGill

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

**RESPONSE TO**
**GAO REPORT OF AUCTIONS CONDUCTED**
**IN THE WASHINGTON/BALTIMORE AREA**
**APRIL AND MAY OF 1992**

The subject draft report references certain deficiencies in planning and managing four auction events conducted by the RTC's Atlanta Office and held in the Washington/Baltimore area during April and May of 1992. It should be noted that these four events were only a part of the total of 55 auctions, which disposed of 1,147 properties, conducted during a three month period. These sales represent 52% of the total properties disposed of by the Atlanta Office through auctions in 1992 and resulted in approximately $110 million reduction in book value.

See comment 1.

As with any undertaking of this magnitude, there is a greater possibility of error. However, we do not feel the exceptions noted in the draft report are unusual or excessive due to the enormous task at hand. In any normal auction, there are certain assets which will fall through due to problems outside of the control of the RTC. During 1992, the Atlanta Office experienced an auction contract failure rate of 4 - 7%, which is down from the 1991 range of 14 - 20%. The events referenced in the report realized only a 3.3% fall-out.

The RTC has developed methods to monitor future auctions. Since the completion of the auctions audited in this report there has been a substantial increase in the focus on control over the auction process, including a new Asset Sales Guide-Auction Manual, 10300.25, dated July 20, 1992, additionally Circular 10300.29, dated November 1992, which references conducting actions. Additional focus has been placed on auctions in the form of training for auction coordinators and all auction representatives. There are ongoing training programs to ensure all directives are read and understood by all participants in the process.

With these additional procedures and focus we feel sure that the concerns mentioned in the recommendation are adequately addressed. Specifically, in addressing marketing time, accuracy of asset information, and reporting requirements we offer the following:

ENSURE ADEQUATE MARKETING TIME:

See comment 2.

1. The National Auction Policy for freezing an asset is now set at 60 days prior to an event. The Atlanta auction group will not add any asset into an auction event after this 60 day period. This will avoid lack of marketing time and increase buyer inspection periods. Also, the brochure with available assets will be produced 60 days prior to the event or sooner.

**RESPONSE.GAO**
**page 2**

See comment 2.

2. A notice of intent to include an asset in an auction event will go out approximately 90 to 120 days prior to the event. This will give the responsible entity managing the asset enough time to prepare the asset for the auction by completing all appraisals, environmental reports, etc. that are needed in addition to clear title.

See comment 2.

3. Longer due diligence periods will allow buyers to inspect the properties offered and to review the completed asset files prior to the bidding event. This should result in RTC receiving higher bid amounts on these clean assets.

See comment 2.

4. As a result of the 60 day marketing period prior to the event, more seminars and open houses will allow more bidders to be reached. This helps insure that more bidders will be at the auction and allow RTC to obtain higher sales prices.

See comment 3.

5. Closings of RTC financed deals will also be enhanced due to the addition of a unified financing group that is now in charge of all RTC financing deals for the Atlanta Sales Center. This group was only established as of November 1992. They track all auction properties that are financed and work with the Auction Coordinator for the event to assure a smooth and timely closing. All RTC financed deals are targeted to close within 90 days of the event, except for affordable housing, which requires a maximum of 120 days.

See comment 3.

6. Cash closings for all but affordable housing assets will be within 60 days. Affordable housing requires 90 days.

ACCURACY OF ASSET INFORMATION/PREPARATION OF ASSETS FOR SALE:

See comment 4.

1. All assets that will be included in an auction must be on REOMS. Only those assets on REOMS will be included in any list of REO assets scheduled for an auction. No asset will be added after the freeze date - 60 days prior to the event. Recently foreclosed assets not on REOMS will be included in the next auction event in the area if not already sold by the time a new auction is scheduled.

See comment 4.

2. All environmental requirements, appraisals, broker price opinions, clear title, etc. will be completed prior to an asset being included in the list of assets going to an auction.

**RESPONSE.GAO**
**page 3**

3. A full Auction team is now available in each of the nine states and Washington D.C. Sixteen auction companies, two per state, are now under contract to hold auctions by assigned states. These companies will work with the same Auction Coordinator assigned to that state on a regular basis, thus creating an effective team throughout 1993 and into 1994, and 1995, by extension of the existing contract.

See comment 5.

4. Brokers that have current listings on assets scheduled for auctions will be retained through a modification of their contract. This modification requires that they conduct open houses for the properties in conjunction with the auction contractor. This avoids properties not being available for buyers to review during the 60 days prior to the event.

5. More auctions with fewer assets in each event is the rule for the Atlanta Auction group. This allows for more time to review properties and complete the due diligence work needed to have an asset clean for the auction event. No more than 50 properties in any one event is planned. This should also increase the sales amount, as the bidders will not plan to wait for many of the assets to be sold, hoping for a lower price.

6. All events are listed with the NASC system or the Calendar of Events produced by the National Sales Center. This additional marketing tool allows for broader exposure to the marketplace.

7. A continuous training program has been instituted for all auction group personnel as well as the auction contractors that conduct the auctions.

REPORTING OF NET RECOVERIES:

See comment 6.

1. Results of auctions are reported on a quarterly basis to Congress. The reports are due shortly after the end of the quarter and reflect the results as of the day of the auction events. The RTC field offices receive monthly reports from the auction contractors which reflect up-to-date status of closings and expenses.

   The RTC has conducted over 350 auctions representing sales of several thousand properties since its inception. Unfortunately, to track each property through the closing process on a National basis is very labor intensive.

   The RTC will review its quarterly auction results reporting process to determine if updates can be compiled on a national basis.

**RESPONSE.GAO**
**page 4**

2. All discounts for cash closings have been reduced to five (5%) percent for all residential properties and ten (10%) percent for commercial and land properties. Discounts of 15% and 20% have been eliminated.

The RTC appreciates constructive criticism from the GAO in pointing to areas we can address for future improvement. While we have addressed the immediate concerns, we will continue to improve performance and control for future auctions.

## GAO Comments

1.We did not discuss the contract failure rate during our review.

2.RTC's policy changes are steps in the right direction. However, it is still important that RTC monitor actual practices to ensure that these policies are followed, as we recommend in our report.

3.The new closing procedures should improve the process. However, RTC's comments indicate that these changes may apply only to the Atlanta office, and we believe that these procedures should apply RTC-wide.

4.Efforts to better prepare the assets for sale are appropriate and directly respond to major deficiencies identified in the report.

5.If RTC uses existing brokers who are familiar with the assets, potential buyers should be able to obtain better information at open houses and throughout the marketing period. RTC still needs to oversee this activity to ensure the open houses are held as scheduled.

6.Under the RTC Refinancing, Restructuring, and Improvement Act of 1991, RTC is required to report net recoveries from auction results. RTC stated that it would be very costly to track and monitor auction results and stated that it would review its reporting process to determine if updates can be compiled on a national basis. RTC's response does not address the recommendations that the report reflect net recoveries and accurately reflect the total book value of the assets offered and sold.

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