United States General Accounting Office

GAO

Report to the Honorable Bruce F. Vento, House of Representatives

July 1993

RESOLUTION TRUST CORPORATION

Loan Portfolio Pricing and Sales Process Could Be Improved

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GAO

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

General Government Division

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July 23, 1993

The Honorable Bruce F. Vento
House of Representatives

Dear Mr. Vento:

You requested that we review the Resolution Trust Corporation's (RTC) portfolio sales of loans and real estate assets. Under this sales strategy, RTC groups loans and real estate assets with similar characteristics into portfolios of various sizes and sells them to investors through a competitive bidding process.

As agreed with you, this report discusses portfolio sales of loans. Specifically, the report addresses (1) the pricing of loan portfolios, (2) the loan portfolio sales process, and (3) the availability of overall information on loan portfolio sales results. We will discuss portfolio sales of real estate assets in a separate report.

Results in Brief

Although RTC policy states that loan portfolio characteristics provide the basis for setting a reserve price[1] before a loan portfolio is offered for sale, three out of the four RTC offices we visited did not consider these characteristics when pricing loan portfolios. These offices routinely set reserve prices at 85 percent of the loan portfolio's book value because this was the minimum reserve price that could be approved locally. As a result, RTC could not evaluate the reasonableness of the bids received or determine whether it was maximizing recoveries on loan portfolio sales.

Although the 60 investors we surveyed generally gave high marks to certain aspects of RTC's loan portfolio sales process, they also raised concerns about: (1) vague announcement letters for loan offerings, (2) inaccurate portfolio information in bid packages, (3) late notification of bidding results, and (4) nonresponsiveness to problems after loan sales were closed. According to some investors, these problems discouraged their participation or caused them to submit lower bids in RTC loan portfolio sales.

[1]The reserve price is the lowest price that will be initially considered by RTC in a loan portfolio sale. It serves as a benchmark against which RTC can assess the reasonableness of the bids it receives from investors. It is not normally disclosed to investors in advance of bidding.

RTC headquarters did not systematically collect, summarize, and analyze loan portfolio sales results. It delegated the reporting of sales results to each RTC field office and the National Sales Center in Washington, D.C. Each of these offices developed its own sales reporting format. RTC's ability to measure program results and identify needed improvements has been impeded because it does not maintain consistent and comprehensive information about loan portfolio sales.

Background

As of December 31, 1992, RTC had disposed of assets with a book value of about $330 billion. This included about $90 billion in one-to-four family residential mortgages, almost $40 billion in other mortgages, and about $24 billion in other loans. RTC considers loan portfolio sales to be an important asset disposition method for a variety of loan types. RTC field offices throughout the country and the National Sales Center organize and conduct loan portfolio sales.[2] Loan portfolios offered by RTC field offices generally come from a single failed thrift and are marketed to local and regional investors. Loan portfolios offered by the National Sales Center tend to include loans from several failed thrifts and are attractive to national and international investors.

RTC must establish a reserve price before a loan portfolio can be offered for sale. According to policy guidance in RTC's Asset Management and Disposition Manual, the reserve price should be based on an evaluation of the loan portfolio's characteristics, such as loan balances, average interest rate, estimated or actual prepayment rate, and delinquency rate. The reserve price allows RTC to evaluate the reasonableness of the bids received and determine whether it is maximizing recoveries on loan portfolio sales.

RTC field offices and the National Sales Center advertise upcoming loan portfolio sales in financial publications and newspapers. They also generate investor interest by sending announcement letters to individuals and firms that have expressed a willingness to purchase RTC loans. Investors may request bid packages containing more detailed information about the loans for sale and RTC's bidding procedures.[3] In addition, investors may be allowed to review the files that document the loans before submitting their bids. Depending on the terms of the offering,

[2]RTC had 15 field offices when we began our review. Following a reorganization in May 1992, RTC planned to reduce the number of its field offices to six.

[3]RTC charges fees that vary with the value of the portfolio being offered to cover bid package preparation costs.

investors may bid on the entire portfolio or on selected loan pools within the portfolio.[4] RTC evaluates the bids and sells the loans to the highest bidder.

Objectives, Scope, and Methodology

To assess RTC's reserve pricing of loan portfolios and the loan portfolio sales process, we reviewed 31 loan portfolio sales completed at RTC offices in Atlanta; Kansas City, MO; Tampa; and the National Sales Center. We selected these offices because they had conducted many sales of loan portfolios with book values of $10 million or more. From the sales done at these offices from January to December 1991, we judgmentally selected for review all loan portfolios over $10 million and, for comparison, three loan portfolios under $10 million. These portfolios included residential, consumer, and commercial loans that totaled over $3 billion in book value. Appendix I provides a summary of the characteristics of these loan portfolio sales.

For these 31 loan portfolio sales, we collected and analyzed the marketing information, case memoranda, bid summaries, RTC and investor correspondence, and closing documents. We reviewed the relevant policies and procedures in RTC's Asset Management and Disposition Manual and other related guidance on loan portfolio sales. We interviewed RTC asset specialists and asset marketing directors about the selected sales and the loan portfolio sales process in general.

We also did a telephone survey of 60 investors from local, regional, and national firms to assess their overall experiences with the RTC loan portfolio sales process. These investors had participated in loan portfolio sales from 9 of RTC's 15 field offices and the National Sales Center in the first 6 months of 1992. The results from this survey cannot be projected to the universe of RTC investors. Appendix II provides a more detailed discussion of the methodology of our telephone survey. Appendix III contains a copy of the telephone survey.

To assess the availability of overall information on loan portfolio sales results, we obtained the most recent sales reports from each of RTC's 15 field offices and the National Sales Center. We collected sales reports in this manner because RTC headquarters does not maintain consistent and comprehensive information about loan portfolio sales. We reviewed and analyzed these sales reports to determine the amounts and types of

[4] In large loan portfolio sales, loans may be grouped into pools with similar characteristics such as collateral type, geographic location, and interest rate.

information RTC field offices and the National Sales Center compiled on loan portfolio sales activity.

Throughout the review we met with cognizant RTC field and headquarters personnel to discuss our findings and observations. In December 1992, we met with RTC officials from the National Sales Center and the Office of Field Liaison to discuss the results of our work, including our findings and initial conclusions. We have included their comments where appropriate. RTC also provided written comments on a draft of this report. These comments are discussed in the body of the report and are reprinted in appendix IV.

We did our work from January to December 1992 in accordance with generally accepted government auditing standards.

Reserve Prices Not Always Based on Loan Portfolio Characteristics

Three out of the four RTC offices we visited routinely set the reserve prices for loan portfolios at 85 percent of book value, rather than basing them on loan portfolio characteristics as required by RTC policy. RTC's Asset Management and Disposition Manual states that reserve prices should be set on the basis of a loan portfolio's characteristics, such as loan balances, average interest rate, estimated or actual prepayment rate, and delinquency rate.[5] These characteristics determine the loan portfolio's market value. Therefore, basing the loan portfolio's reserve price on these characteristics helps RTC determine whether it is obtaining market value and maximizing recoveries on loan portfolio sales.

In 20 of 31[6] loan portfolio sales we reviewed, RTC's offices did not set the reserve price on the basis of the loan portfolio's characteristics. Instead, for these sales the RTC offices automatically set the reserve price at 85 percent of the loan portfolio's book value because this is the lowest reserve price that local officials can approve without the concurrence of RTC headquarters. Table 1 shows the number of loan portfolio sales with a standard reserve price of 85 percent of book value at each office we visited.

[5]The process of gathering this information is known as due diligence.

[6]In 1 of the 31 loan portfolio sales we reviewed, no reserve price was set because it was a special case, according to RTC officials. This sale was a commercial loan portfolio with a book value of $1.1 billion.

Table 1: RTC Loan Portfolio Sales With Reserve Prices of 85 Percent of Book Value, January to December 1991

Offices	Total sales reviewed	Sales with a reserve price of 85 percent	Percent of total sales reviewed
National Sales Center	5	1[a]	20
Atlanta	5	5	100
Kansas City	8	4	50
Tampa	13	11	85
Total	**31**	**21**	**68**

[a]One of the five sales had an 85-percent reserve price, but it was based on a loan sale advisor's recommendation that did consider loan portfolio characteristics.

RTC's standard 85-percent reserve price was either too low or too high, compared to the winning bid, for 20 of the 21 loan portfolio sales where it was used. Therefore, RTC was unable to effectively evaluate the reasonableness of the bids received and determine whether it was maximizing recoveries on these loan portfolio sales (see app. I).

In 13 of the 20 sales, RTC sold loan portfolios at prices above the standard 85-percent reserve price. The proceeds from these sales ranged from 77 to 104 percent of the loan portfolios' book values. In one sale, an RTC field office sold several pools of loans at prices ranging from 77 percent to 98 percent of book value.

In 7 of the 20 sales, RTC sold loan portfolios at prices below the standard 85-percent reserve price.[7] The proceeds from these sales ranged from 13 to 82 percent of the loan portfolios' book values. In one case, a loan portfolio was marketed six times because bids consistently failed to meet the standard 85-percent reserve price. In the sixth offering, RTC sold the loans for 65 percent of book value.

If the reserve price is too low, RTC may accept a bid that is unreasonable and sell a loan portfolio for too low a price. If the reserve price is too high, RTC may reject a bid that is reasonable and miss a loan portfolio sale. By setting reserve prices based on loan portfolio characteristics rather than the standard 85 percent of book value, RTC can avoid repetitive and unsuccessful loan offerings, such as the above example, and have greater assurance that it is maximizing recoveries on loan portfolio sales.

[7]RTC can accept the highest bid it receives, even if it is lower than the reserve price, if advance approval is obtained from the appropriate review committee. Alternatively, RTC can reject all of the bids, if they are lower than the reserve price, and then remarket the loan portfolio at a later date.

In RTC's written response to the draft of this report (see app. IV), the Senior Vice President for Asset Management and Sales said that RTC staff now work actively with the financial advisor to set reserve prices that are based on the characteristics of the assets in each individual pool. He stated that given its experience over the past year, RTC is better able to tailor reserve prices to the assets being sold in current and future initiatives.

This change, if properly implemented, should result in reserve prices consistent with RTC's policy. However, as we have reported on numerous occasions, RTC needs to give more attention to overseeing the implementation of its policies and procedures to ensure that they are achieving the desired results. RTC management will need to monitor reserve prices to ensure that they are set properly.

Loan Portfolio Sales Process Could Be Improved

Although the 60 investors we surveyed generally gave high marks to certain aspects of RTC's loan portfolio sales process, they also identified the following problems and areas for improvement:

- announcement letters that were not targeted to their interests or were too vague,
- inaccurate or incomplete loan portfolio information in bid packages,
- late notification of bidding results to unsuccessful bidders, and
- nonresponsiveness to problems after loan sales were closed.

Some investors told us that these problems discouraged their participation or caused them to submit lower bids in RTC's loan portfolio sales.

Announcement Letters Were Not Targeted or Were Too Vague

We asked 60 investors if announcement letters were received in a timely manner, matched their investment interests, and contained sufficient information to make a decision to participate in a loan portfolio sale. Although most of the investors said the announcement letters were timely, many stated that the letters did not match their investment interests or were too vague.

Nine of the 52 investors who had received announcement letters told us that the letters were not targeted to their investment interests. Although RTC had requested that the investors complete an "investor profile" detailing their investment interests, it routinely sent announcement letters to its entire investor database rather than matching loan offerings to stated investment interests. One investor said he had completed RTC's investor profile at least 10 times but still received announcement letters on loan portfolio sales outside his stated interests.

Nineteen of these 52 investors told us the letters contained insufficient information about the loan portfolios being offered for sale. They said these letters frequently omitted important information, such as the number of loans being sold, loan types, geographic locations, or delinquency status. These investors stated that the letters did not contain enough specific information for them to decide whether to purchase a bid package.

Many investors said that, because the announcement letters did not contain sufficient information, they had to purchase a bid package to obtain specific information about the loan portfolio for sale. However, 32 of 47 investors who purchased bid packages said that they did not place a bid in a given sale after they determined that the loan portfolio offered did not match their investment interests.[8]

In the 31 loan portfolio sales we reviewed, we observed that the number of investors participating in bidding was generally low compared to the number of announcement letters sent by RTC. Although RTC typically sent several hundred announcement letters, fewer than 10 investors submitted bids in 23 of the 31 loan portfolio sales we reviewed. Five or fewer investors actually submitted bids for 10 of these sales.

An RTC headquarters official said that the practice of sending announcement letters to a large number of investors was intended to reduce complaints about not receiving information on upcoming loan portfolio sales. He said that the National Sales Center used "investor profile" information to target investors, but he did not know whether the field offices followed this practice. He agreed that the missing information described by investors was important in deciding whether to purchase a bid package.

Loan Portfolio Information Was Inaccurate or Incomplete

RTC contracts with private firms to collect and prepare certain information about the characteristics of the loan portfolio being sold. RTC uses this information to package the loans and also includes a summary of the data in bid packages. Many of the investors we surveyed told us that

[8]Thirteen investors who were contacted during the pretest were not asked this question because it was added in the final survey.

they experienced problems in varying degrees with the accuracy of information in bid packages. Their descriptions of incomplete information covered both major and minor deficiencies. Major deficiencies included the lack of disclosure in bid packages about missing mortgage notes or other incomplete loan documentation.

Eleven of the 60 investors we surveyed said that the information in RTC bid packages was not accurate. They told us that the bid packages often included inaccurate information about loan quality and loan types, which caused problems after the loan sales were closed. For example, an investor returned 77 loans valued at $1.9 million because RTC had inaccurately described the loans as residential when, in fact, the loans were secured by nonresidential property.

Five investors also commented that, on the basis of their prior experiences with inaccurate bid package information, they usually tried to corroborate this information by reviewing loan files. They said that, whenever they could not complete loan file reviews, the inaccurate portfolio information discouraged their participation or caused them to submit lower bids.

The RTC Senior Vice President stated in his written response that the quality of information provided to investors in both the bid packages and the detailed information packages on the assets has improved significantly. He said that quality control checks are regularly done to ensure that the information presented to investors is correct. If these checks are thorough and complete, the action taken by RTC should correct the problem of inaccurate or incomplete information.

Some Investors Were Not Promptly Notified of Bidding Results

RTC contacts the winning bidder or bidders after the bidding deadline for a loan portfolio sale. However, it does not routinely provide bidding results to all other bidders. Twenty-seven of the 60 investors we surveyed told us that RTC did not notify them of bidding results in a timely manner. Furthermore, RTC requires that investors submit a written request for bidding results. Many investors said that even when they requested bidding results, RTC was slow in providing the information. Some investors said that they could make more informed decisions on future loan portfolio sales if they knew how their bids ranked with other investors' bids.

The RTC Senior Vice President responded that RTC Directive 1020.4, dated November 14, 1991, established a uniform policy to provide bidding results to all investors through the RTC Reading Room. He said that this directive was designed to provide the public with bid results as quickly as possible after the closing of each individual transaction, while not placing the transaction's closing in jeopardy. This directive was in effect for all the loan portfolio sales included in our review. However, we believe that on the basis of the responses to our survey, it appears that RTC needs to improve the timeliness of its feedback to bidders.

RTC Was Not Responsive to Postclosing Problems

Although most closings of loan portfolio sales were held as scheduled, many investors said that RTC was not responsive in resolving problems after the closings. Thirty of the 60 investors we interviewed had purchased RTC loan portfolios between January and July 1992. Fifteen of these investors rated RTC's postclosing process worse than other sellers of similar assets.

The investors identified a variety of postclosing problems that were not handled promptly by RTC. For example, eight investors said that they encountered problems with the transfer of funds after closing. Other investors described the following problems:

- a 3-month delay in obtaining a refund from RTC for a loan returned,
- a 5-month wait for RTC to transfer a loan payment it had received from a borrower whose loan was sold, and
- an 8-month delay in obtaining a missing mortgage note after a loan sale closed.

Investors said that RTC staff turnover, slow decisions by headquarters officials, and the lack of a specific contact person delayed the resolution of their problems.

The RTC Senior Vice President responded that since the period of time covered by our draft report, the National Sales Center has established its own Closing Department that is responsible for all closing procedures and, in conjunction with Asset Claims Administration, for handling post-closing claims from investors. He said that the field offices have delegated the oversight of the closing procedures to the Sales Coordinator assigned to the initiative. He stated that this insures accountability for timely responsiveness to investor inquiries. With periodic monitoring by RTC management to ensure that responses are timely, this action should address our concern.

Lack of Information Hinders Assessment of Sales Results

RTC does not collect consistent and comprehensive information about loan portfolio sales. Although RTC field offices and the National Sales Center prepare reports on loan portfolio sales results, the types and amounts of information in these reports vary greatly. Furthermore, because these reports are not summarized RTC-wide, overall results on loan portfolio sales are not available for analysis and evaluation. Without consistent and comprehensive information, RTC cannot measure the success of its efforts or identify potential improvements in the loan portfolio sales process.

Inconsistent Information Collected by RTC Offices

In the absence of standard reporting requirements, each RTC office developed its own loan portfolio sales reports. The variety of reports makes interoffice consolidation and analysis of sales results difficult. For example, we were able to obtain the information we needed to analyze 31 loan portfolio sales only by reviewing supporting documents maintained in RTC's case files.

The sales reports we reviewed from 15 RTC field offices and the National Sales Center varied considerably in the types and amounts of data summarized. Some offices reported sales by total portfolio, while others reported sales by specific pools of loans within a portfolio. The sales reports often did not include the basic information necessary to evaluate sales results. Some examples of the inconsistent information collected by RTC offices follow:

- None of the sales reports showed the total number of bidders, which could indicate the success of marketing efforts and the degree of competition.
- One office reported the book value of the initial offering and the book value of the loans actually sold, which could allow RTC to calculate how much of a loan offering was deleted for various reasons.
- Two offices showed the reserve prices, which could allow a comparison of RTC's minimum acceptable prices to the actual bids received.
- Three offices showed the dates of the initial offering and the final closing of the sale, which could be used to determine the timeliness of the sales process.

Without common elements of information about each loan portfolio sale, RTC cannot compare the results achieved in different sales or assess the relative performance of different offices.

RTC Lacks Comprehensive Information on Sales Results

Although some RTC officials acknowledge that it is important to collect comprehensive information on loan portfolio sales, only limited information is available because sales reports are prepared to meet local office needs and are not summarized RTC-wide. Furthermore, the information in RTC's database includes most large sales completed by the National Sales Center but excludes many smaller sales completed by RTC field offices.

RTC headquarters maintains information on large loan portfolio sales of $50 million or greater. According to information in RTC's database, these major sales totaled about $1.4 billion from January to July 1992. Our compilation of sales reports from individual RTC offices showed that total loan portfolio sales completed in this period was about $2.8 billion. Therefore, RTC headquarters maintained information on only about half of the total loan portfolio sales for the 6-month period we reviewed.

In December 1992, RTC headquarters officials agreed with us that RTC did not maintain consistent and comprehensive information about loan portfolio sales results. They commented that it was difficult to capture information from past sales and to determine what data elements should be recorded to evaluate sales results.

In May 1993, the RTC Senior Vice President responded that starting in calendar year 1993, the Division of Asset Management and Sales implemented a database that collects and summarizes RTC-wide data on sealed bid loan sales. He said that this database includes closed sales performance from both the National Sales Center and the field. Among other things, the purpose of this database is to assist in the reporting and analysis of past and current loan sale performance.

Conclusions

RTC could not determine whether it was maximizing recoveries on many of its loan portfolio sales because certain field offices did not establish reserve prices based on loan portfolio characteristics. Their use of a standard reserve price of 85 percent of book value to obtain local approvals was contrary to the policy guidance in RTC's Asset Management and Disposition Manual.

Although the 60 investors we surveyed generally gave high marks to certain aspects of RTC's loan portfolio sales process, they also raised concerns and identified areas where the sales process could be improved. For some sales, announcement letters were vague or were not targeted to investors' interests, loan portfolio information in bid packages was inaccurate or incomplete, some bidders were not notified promptly of bidding results, and RTC was not responsive to problems after loan sales were closed. By addressing these problems in the sales process, RTC may be able to encourage more investor participation, increase competition among bidders, and improve its recoveries on loan portfolio sales.

Finally, RTC lacked the consistent and comprehensive information it needs to effectively analyze and evaluate its loan portfolio sales results. Without such information, RTC cannot measure the success of its loan portfolio sales effort or identify potential improvements in the loan portfolio sales process.

We recognize that RTC has made certain improvements in the loan portfolio sales process over the past year. These improvements, and other actions planned by RTC, should address the problems discussed in our report. However, we believe RTC will need to ensure that these changes are fully and consistently implemented. We have reported on numerous occasions that RTC's policies and directives have not achieved the desired results because they have not been properly implemented in the field. We have also reported on the inability of RTC's information systems to provide the information needed to assess program performance and the achievement of mandated objectives. Therefore, RTC will need to ensure that the changes in the loan portfolio sales process are properly implemented and the new loan sales database collects the critical data needed to assess program performance.

Agency Comments

RTC provided written comments on a draft of this report (see app. IV). In summary, the Senior Vice President for Asset Management and Sales said that RTC's current asset disposition procedures, as set forth by RTC Directives, have incorporated the changes that we proposed in the draft report into the loan portfolio sales process.

We made changes to the body of the report to recognize the actions that RTC has taken and we revised our conclusions and recommendations as appropriate. If effectively implemented, the changes made by RTC should accomplish the objectives of our original recommendations. However, we have reported on numerous occasions that RTC needs to give more attention to ensuring that its policies and procedures are consistently and properly implemented. Consequently, we are recommending that RTC ensure that the changes it has made are properly implemented to achieve the desired results.

Recommendations

To further improve the effectiveness of the loan portfolio sales effort, we recommend that RTC's President and Chief Executive Officer direct the Senior Vice President for Asset Management and Sales to schedule periodic management reviews of the loan portfolio sales process to ensure that

- National Sales Center and field office staff are setting reserve prices based on the characteristics of the loan portfolios offered for sale;
- bid packages contain accurate and complete information about the loan portfolios being sold;
- bidding results are being provided to all investors as quickly as possible after the closing of each individual transaction without placing the transaction in jeopardy;
- investors' postclosing problems are responded to promptly;
- loan portfolio sales data are collected, summarized, and analyzed consistently and comprehensively; and
- the loan portfolio sales database provides the information necessary to evaluate RTC's progress in achieving program goals.

As agreed with you, unless you publicly release its contents earlier, we plan no further distribution of this report until 21 days from the date of this letter. At that time, we will send copies of this report to other interested congressional members and committees, the Chairman of the Thrift Depositor Protection Oversight Board, and the President and Chief Executive Officer of RTC. We will also provide copies to others upon request.

The major contributors to this report are listed in appendix V. Please contact me on (202) 736-0479 if you or your staff have any questions concerning this report.

Sincerely yours,

Gaston L. Gianni

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

Contents

Characteristics of 31 RTC Loan Portfolio Sales From January to December 1991

Offices		Type of loan	Book value at offering date (in millions)	Reserve price percentage	Winning bid percentage	Number of bidders
National Sales Center	1	Commercial	$ 111.7	80.0	87.3	5
	2	Commercial	122.2	85.0	88.2	6
	3	Commercial	350.0	70.0	72.6	8
	4	Commercial	326.8	90.0	61.4 - 92.3	9
	5	Commercial	1,100.0	None	72.7	5
Atlanta	6	Consumer	27.0	85.0	103.0	6
	7	Consumer	42.0	85.0	77.0 - 98.0	23
	8	Residential	11.5	85.0	95.0 - 100.0	10
	9	Residential	160.0	85.0	97.8 - 98.6	19
	10	Residential	67.6	85.0	101.0 - 104.0	20
Kansas City	11	Consumer	22.4	71.0	100.5	5
	12	Consumer	42.9	85.0	102.0	7
	13	Consumer	31.2	85.0	94.0	7
	14	Residential	12.3	85.0	90.8	7
	15	Commercial	11.1	84.0	100.0	20
	16	Residential	37.3	77.5	91.3	31
	17	Commercial	118.6	72.0	78.5	28
	18	Consumer	14.0	85.0	90.7 - 101.4	2
Tampa	19	Commercial	8.2	85.0	61.1	3
	20	Commercial	1.7	85.0	40.9	9
	21	Residential	20.4	85.0	67.4	7
	22	Commercial	12.4	85.0	43.3	6
	23	Residential	3.2	85.0	65.0	5
	24	Residential	18.3	85.0	100.4	7
	25	Residential	27.3	85.0	99.3	18
	26	Consumer	30.7	85.0	72.5 - 82.5	3
	27	Consumer	35.7	85.0	13.2	4
	28	Consumer	125.1	85.0	96.1	3
	29	Consumer	12.5	5.0, 10.0, & 65.0	11.8 - 62.0	2
	30	Residential	15.6	85.0	99.4	7
	31	Residential	110.6	94.0	82.0	9

Methodology for RTC Investors Survey

We surveyed 60 investors through telephone interviews to obtain comments about their experiences with RTC's loan portfolio sales process. For purposes of the survey, we defined an RTC investor as any individual or firm that placed a bid in an RTC loan portfolio sale. Nearly all of the investors we interviewed were senior executives in investment banking firms or financial institutions. The investors had participated in 21 loan sales completed by 9 of the 16 RTC offices between January and June 1992. Forty-one of these investors had participated in 3 or more RTC loan sales, and 30 had actually purchased loans.

The following is a more detailed discussion of the questionnaire and investor selection methodologies for our telephone survey. The results from this survey cannot be projected to the universe of RTC investors.

Questionnaire Methodology

In an effort to obtain a broad spectrum of investor views, we developed a questionnaire covering four stages of RTC's loan portfolio sales process: marketing, bidding, closing, and postclosing. We pretested the questionnaire in July 1992 and conducted the telephone interviews in August 1992. To ensure consistency, interviewers read the questions verbatim and entered the investors' responses and comments directly on the questionnaire form. Our intent was to obtain investors' candid opinions and views on the RTC loan portfolio sales process. We told investors that their individual responses would be combined with those of other respondents for analysis and reporting.

Investors who did not purchase loans responded only to the questions related to the marketing and bidding of portfolios. Also, we did not include in our survey results those respondents who (1) answered "don't know," (2) chose not to respond to a question, (3) were not asked a particular question, or (4) skipped a question based on an answer to a prior question. Based on pretest results, we deleted three questions, revised three questions (22, 26, and 30), and added four questions (23, 24, 29, and 35) to the final version of the questionnaire.[1]

Investor Selection Methodology

To identify investors to be interviewed, we selected 21 loan portfolio sales with book values over $10 million that were completed between January and June 1992. We selected these sales from reports provided by the 15 RTC field offices and the National Sales Center. The 21 sales we

[1]Thirteen investors who were contacted during the pretest were not asked the four questions added or the three questions revised in the final version of the questionnaire.

selected totaled $1.1 billion in book value. RTC completed a total of 61 loan portfolio sales with a total book value of $2.8 billion from January to June 1992.

We then identified investors from lists of bidders that RTC offices provided for the 21 sales we selected. To draw our sample of investors, we divided the universe of 249 investors who placed bids in the 21 sales into 2 groups, those whose bids were not accepted and those whose bids were accepted. We randomly selected 26 investors from the group of investors whose bids were not accepted. We judgmentally selected one investor from each of the four sales with more than one purchaser, based on investor availability. Each of the remaining 17 sales had only 1 investor, and we selected all of them. We also included 13 investors that we had contacted during the pretest who had also placed bids in the 21 sales.

RTC Investors Survey - Loan Portfolio Sales

U.S. General Accounting Office

RTC Investors Survey --Loan Portfolio Sales

Name of Firm: ______________________ Telephone Number: (_____)__________

Representative: ______________________ Interviewer: ______________________

Title: ______________________ Date of Interview: ______________________

Location: ______________________ Time of Interview: ______________________

Introduction

"Hello, my name is ____________________. The U.S. General Accounting Office (GAO), an agency of Congress, is conducting a review of RTC's loan sales program. As a part of this effort we are interviewing investors who have participated in RTC's sales of loans. According to RTC, you participated in the sale of loans between January and July 1992. We would like to obtain your comments about the loan sale. Your answers will be combined with those of other respondents and only aggregate statistics and comments will be included in our report. This interview should take about 30 minutes to complete.

Can we conduct the interview now or should I make an appointment for a later time?"

If cannot conduct interview now, appointment for: ______________________

I. BACKGROUND - First, some background questions. ID# ___ ___ ___

1. How would you characterize yourself or your firm? *(Read categories. Check one.)*	1. ☐ Individual investor 2. ☐ Local firm 3. ☐ Regional firm 4. ☐ National firm	(4)
2. Which of the following best describes your yourself or your firm? *(Read categories. Check one.)*	1. ☐ Investor Group 2. ☐ Investment banking firm 3. ☐ Banking or financial institution 4. ☐ Other - Specify: ______________________	(5)

3. What is your firm's total asset value?	$________________.00	(6-15)
4. How frequently have you participated in RTC loan sales from January to July 1992?	1. ☐ Participated in 1 to 2 sales 2. ☐ Participated in 3 to 4 sales 3. ☐ Participated in 5 or more other sales	(16)
5. In general, what are your objectives for the purchase of loans? *(Read categories. Check one.)*	1. ☐ Hold for investment 2. ☐ Resell the loans 3. ☐ Combination of both objectives	(17)
6. Did you participate in loan sales from more than one RTC office?	1. ☐ Yes --> How many? ________ (19-20) 2. ☐ No	(18)

II. MARKETING - The following questions concern marketing activities for sales occurring between January and July 1992.

7. How did you learn about RTC loan sales? *(Read categories. Check all that apply.)*	1. ☐ Wall Street Journal 2. ☐ Local newspaper 3. ☐ RTC letters -> *Skip to Q. 12 if #3 blank.* 4. ☐ Other - Specify: ________________	(21-24)
8. In terms of providing basic information about the loans for sale, in general, how sufficient or insufficient is the information provided in RTC's announcement letter to decide whether to request a bid package? *(Read categories. Check one.)*	1. ☐ More than sufficient 2. ☐ Sufficient 3. ☐ Sometimes insufficient --> Please explain: 4. ☐ Not sufficient --> Please explain:	(25)
9. Have you completed the RTC investor profile form to identify your investment interests?	1. ☐ Yes 2. ☐ No 3. ☐ Do not know	(26)

10. Did the RTC announcement letters you received generally match your investment interests?	1. ☐ Yes 2. ☐ No --> Please explain:	(27)
11. For the most part, were RTC announcement letters received in sufficient time to participate in loan sales?	1. ☐ Yes 2. ☐ No --> Please explain:	(28)
12. Did you attend an RTC information session about loan sales?	1. ☐ No 2. ☐ Yes --> How helpful was the session(s)?	(29)
	1. ☐ Very helpful 2. ☐ Somewhat helpful 3. ☐ Not very helpful	(30)
13. In terms of providing more detailed information about loans for sale, did the bid package provide the information you needed, that is, would you say that it was sufficient or not? *(Read categories. Check one.)*	1. ☐ More than sufficient 2. ☐ Sufficient 3. ☐ Generally insufficient --> Please explain: 4. ☐ Not sufficient ---> Please explain:	(31)
14. In your opinion, was the information contained in the RTC bid package about the loans for sale accurate or not? *(Read categories. Check one.)*	1. ☐ Very accurate 2. ☐ Generally accurate --> Please explain: 3. ☐ Not accurate ---> Please explain:	(32)

15. For the most part, were the bid packages received in a timely manner?	1. ☐ Yes 2. ☐ No --> Please explain:	(33)
16. Did the structure of the loan pools generally match your investment needs?	1. ☐ Yes 2. ☐ No	(34)
17. Do you have any other comments about RTC's marketing process for loan sales?	1. ☐ No 2. ☐ Yes --> What are your comments?	(35)
18. How clear or unclear to you were the bid package instructions concerning the bidding procedures (i.e., bidding deadline/notification of winning bidder)? *Read categories.*	1. ☐ Very clear 2. ☐ Generally clear 3. ☐ Not very clear --> Please explain:	(36)

III. BIDDING - The following questions relate to bidding activities for the sales you participated in from January to July 1992.

19. Was the time allowed before bid deadlines sufficient for you to prepare your bid? *(Check one.)*	1. ☐ Yes 2. ☐ No --> Please explain:	(37)
20. In general, did RTC notify you in a timely manner of the bidding results?	1. ☐ Yes 2. ☐ No --> Please explain:	(38)
21. Do you have any other comments about the bidding process for loans?	1. ☐ No 2. ☐ Yes --> What are your comments?	(39)
22. What factors primarily influenced your decision(s) to bid on the loans?		

23. Did RTC remove loans form the sale prior to the bid deadline?	1. ☐ No 2. ☐ Yes --> How did this affect your bid?	(40)
24. Did you request other bid packages, but did not bid during January to July 1992?	1. ☐ Yes --> *Continue.* 2. ☐ No --> *Skip to question 26.*	(41)
25. What factors primarily influenced your decision not to bid? *(Read categories. Check all that apply.)*	1. ☐ Economic conditions 2. ☐ Quality of loan 3. ☐ Timing of sales 4. ☐ Financial constraints 5. ☐ Other - Specify: ______	(42-46)
26. Were you a successful bidder on any RTC loan sale of $10 million or more between January and July 1992?	1. ☐ Yes --> How many? ______ (48-49) 2. ☐ No	(47)

If Yes in question 26 ---> Continue with question 27.

If No in question 26 ---> Skip to question 39.

IV. CLOSING - The following questions concern closing activities for sales between January and July 1992.

27. In general, how clear or unclear were the instructions provided by RTC concerning how to transfer earnest money? *(Read categories. Check one.)*	1. ☐ Very clear 2. ☐ Generally clear 3. ☐ Not very clear --> Please explain:	(50)
28. In general, how sufficient or insufficient was the time allowed before closing the sale? *(Read categories. Check one.)*	1. ☐ More than sufficient 2. ☐ Generally sufficient 3. ☐ Generally insufficient --> Please explain: 4. ☐ Very insufficient --> Please explain:	(51)
29. Was the closing of the sale held as scheduled?	1. ☐ Yes 2. ☐ No --> Please explain:	(52)

30. Did the terms of RTC's closing agreement need to be amended?	1. ☐ No 2. ☐ Yes --> Please explain:	(53)
31. Were instructions concerning the closing process, for example, funding procedures, clear or not? *(Read categories. Check one.)*	1. ☐ Very clear 2. ☐ Generally clear --> Please explain: 3. ☐ Not very clear --> Please explain:	(54)
32. Do you have any other comments about the closing process?	1. ☐ No 2. ☐ Yes --> What are your comments?	(55)

V. POSTCLOSING

33. Were RTC's representations and warranties complete?	1. ☐ Yes 2. ☐ No --> please explain:	(56)
34. To what extent, if at all, did loan "fall out", that is, loans that did not meet representations and warranties, occur? *(Read categories. Check one.)*	1. ☐ To a great extent *(50% to 100%)* 2. ☐ To a moderate extent *(25% to 49%)* 3. ☐ To little or no extent *(0% to 24%)* If checked box 1 - Great extent --> Ask: Please describe the problem and how it was resolved.	(57)

Problem(s):

Resolution(s):

35. If loan fall-out occurred after closing, did you encounter any problems with the transfer of funds from RTC to you?	1. ☐ No 2. ☐ Yes --> Please describe the problems: 3. ☐ Not applicable - No loan fall-out.	(58)
36. Do you have any other comments about the post-closing process?	1. ☐ No 2. ☐ Yes --> What are your comments?	(59)
37. How would you rate RTC's overall performance for loan sales? *(Read categories. Check one.)*	1. ☐ Excellent 2. ☐ Good 3. ☐ Fair --> Please explain: 4. ☐ Poor --> Please explain:	(60)

(61)

38. Have you purchased similar assets from other sellers (e.g., FDIC, Wall Street Firms, Financial Institutions, etc.)?

1. ☐ Yes --> *(Continue.)*
2. ☐ No --> *(Skip to question 40.)*

39. How would you compare RTC's performance with respect to selling loans with other sellers of similar assets in the following areas. Would you say RTC's process is better, about the same, or worse? *(Check one box in each row.)* (62-65)

	Better (1)	About the same (2)	Worse (3)	Not applicable (4)
a. Marketing Process				
b. Bidding Process				
c. Closing Process				
d. Postclosing Process				

Please give examples of responses where column 1 (Better) or column 3 (Worse) were checked.

(66)

40. Do you have any other comments, positive or negative, about any aspect of RTC's loan sales program?

1. ☐ Yes
2. ☐ No

Thank you for participating in this interview.

Interviewer Notes:

Comments From the Resolution Trust Corporation

RTC
RESOLUTION TRUST CORPORATION
Resolving The Crisis
Restoring The Confidence

May 12, 1993

Gaston L. Gianni, Jr.
Associate Director
Government Business Operations Issues
U.S. Government Accounting Office
1717 H St., NW
Washington, DC 20006

SUBJECT: Comments on GAO Draft Report - "Loan Portfolio Pricing and Sales Process Could Be Improved"

Dear Mr. Gianni:

The referenced report was requested in April 1992. It covers early transactions by the RTC field offices and the first five transactions done by the National Sales Center (NSC).

See pp. 12 and 13.

At the inception of the loan sale initiative, the process may have lacked consistency in reserve parameters. However, current asset disposition procedures, as set forth by RTC Directives, have incorporated the GAO recommendations into the sales process. All of the GAO's recommendations have already been incorporated into the portfolio sales process as it has been refined over the past year.

See pp. 12 and 13.

RTC staff work actively with the financial advisor to establish reserve prices that are based on the characteristics of the assets in each individual pool. The reserve prices reflect both RTC's experience with sales of similar assets and the financial advisor's knowledge of other asset sales in the marketplace. It is important to bear in mind that, to a large extent, RTC has created the market for many of the asset types that we now regularly market. At the time RTC began marketing many categories of assets, there was no established market for these assets and few, if any, trades of comparable asset portfolios. Given our experience over the past year, RTC is better able to tailor reserve prices to the assets being sold in current and future initiatives.

See pp. 12 and 13.

See pp. 12 and 13.

The RTC's marketing process has been improved to provide more information both in advertising and in announcement letters to enable investors to determine their preliminary interest in pools being sold. Also, "The RTC Investor", our regularly scheduled ads in the Wall Street Journal, and the individual announcement letters have been redesigned to include more information than ever before on the assets being sold in our initiatives.

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

Gaston L. Gianni, Jr.
May 12, 1993
Page Two

See pp. 12 and 13.

The due diligence process is continually being refined, based on RTC's experience, to provide detailed and accurate information on the assets in each portfolio. The quality of information provided to investors in both the bid packages and the detailed information packages on the assets has improved significantly. Quality control checks are regularly performed to ensure that the information presented to investors is correct. Further, the RTC makes a due diligence library ("war room") available to potential bidders where they may review copies of loan files prior to bidding on portfolio sales.

See pp. 8 and 9.

The RTC, in its Directive 1020.4, dated November 14, 1991, established a uniform policy to provide bidding results to all investors through the RTC Reading Room. This directive was designed to provide the public with bid results as quickly as possible after the closing of each individual transaction, while not placing the transaction's closing in jeopardy. In early 1993, the NSC implemented its own detailed database, which records transactional bid information and generates timely reporting to the Reading Room.

See pp. 12 and 13.

Starting in calendar year 1993, the Division of Asset Management and Sales has implemented a database which collects and summarizes RTC-wide sealed bid loan sales as advertised weekly in The Wall Street Journal. The database includes closed sale performance from both the NSC and the field. Among other things, the purpose of this database is to assist in the reporting and analysis of past and current loan sale performance and track investors' bid performance.

Additionally, data is kept on loan auction results in a similar but less sophisticated format. Work is currently underway to study the needs requirements of the auction process and to develop a format which accurately and efficiently collects, summarizes, and assists in the analysis of loan auction initiatives.

See p. 9.

Since the period of time covered by the draft GAO report, the NSC has established its own Closing Department that is responsible for all closing procedures and, in conjunction with Asset Claims Administration, for handling post-closing claims from investors. The field offices have delegated the oversight of the closing procedures to the Sales Coordinator assigned to the initiative. This insures accountability for timely responsiveness to investor inquiries.

If you should need any further information, please contact me.

Sincerely,

Lamar Kelly

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

Major Contributors to This Report

General Government Division, Washington, D.C.

Ronald L. King, Assistant Director, Government Business Operations Issues
Philip J. Mistretta, Senior Evaluator
Stuart Kaufman, Senior Social Science Analyst

Atlanta Regional Office

Mario Artesiano, Regional Management Representative
Cynthia Scott, Evaluator-in-Charge
Fred Jimenez, Evaluator
Kenneth Davis, Evaluator
Sara Bingham, Reports Analyst

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