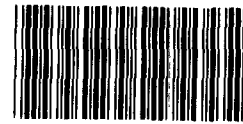


January 1993

RESOLUTION TRUST CORPORATION

Recoveries on Asset Sales Through September 1992



148412

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

General Government Division

B-251742

January 8, 1993

The Honorable Kent Conrad
United States Senate

Dear Senator Conrad:

On January 8, 1992, we issued a report to you on the costs of resolving failed thrifts.¹ That report contained information on the Resolution Trust Corporation's (RTC) recovery rates and an analysis of data from RTC's Real Estate Owned Management System (REOMS) as of October 5, 1991. As you requested, this report updates that information.

METHODOLOGY TO ESTIMATE ASSET RECOVERIES APPEARS REASONABLE

In our previous report, we discussed RTC's practices of recording assets on receiverships' books at book value and estimated losses for these assets on its corporate books. We reported that RTC computed losses on receivership assets by estimating recovery values based on appraisals or other standard valuation procedures. Since then, RTC has improved its methodology for sampling and valuing receivership assets by using (1) statistical techniques to select a sample of receivership assets and (2) a single, experienced contractor to estimate the expected recovery for all sampled assets.

During our 1991 financial audit of RTC, we found that RTC's methodology for producing recovery estimates appeared reasonable.² We determined that the sales information for individual sampled assets supported the recovery rate calculated for those assets before their sale. As a further test, we compared the estimated recovery rates for all unsold assets with aggregate sales information supplied by RTC for all 1991 asset sales. In this test, actual sales results indicated a higher recovery rate than RTC is applying to all receivership assets.

¹Resolution Trust Corporation: Recoveries on Asset Sales
(GAO/GGD-92-36FS, Jan. 8, 1992).

²Financial Audit: Resolution Trust Corporation's 1991 and 1990
Financial Statements (GAO/AFMD-92-74, June 30, 1992).

While sales data suggested that RTC's recovery rates may be higher than those calculated using its valuation methodology, it is important to remember that the better assets--those with the higher recovery rates--are being sold first and that the RTC's use of lower recovery rates to value the entire population of unsold assets takes into account the harder-to-sell assets remaining in receiverships.

In addition, significant uncertainties exist regarding general economic conditions, interest rates, and real estate markets. Therefore, future sales could result in recoveries even lower than current estimates for assets of both resolved and unresolved institutions.

RTC's latest available estimate, which was made in June 1992, showed an overall recovery value of about 53 cents per dollar of book value. In March 1992, RTC's overall recovery value was about 54 cents, and in June 1991 it was about 60 cents. Partly on the basis of these estimated recovery values, in December 1992 RTC projected that the total cost of its cleanup efforts will be in the range of \$110 billion to \$115 billion.

RTC'S SALES INFORMATION

Our 1992 report also discussed four systems that RTC was developing to maintain sales information: (1) Loans and Other Assets Inventory System (LOAIS); (2) Furniture, Fixtures, and Equipment System (FF&E); (3) Asset Manager System (AMS); and (4) REOMS. Two of these systems have since been abandoned while a third is still under development. RTC terminated the development of LOAIS due to an emphasis on securitization of loans as its preferred marketing strategy. According to RTC officials, the securitization database is to be expanded to track loans on a national basis. RTC also abandoned the FF&E nationwide inventory system because of persisting accuracy and reliability problems. Instead, local thrifts will maintain the FF&E inventory. As for AMS, RTC is in the process of implementing this system and expects that enhancements and related testing will continue in 1993.

Although REOMS has been implemented, it has not provided the benefits intended. RTC staff have found that the system has slow response times during data input and retrieval, cumbersome computer screen formats, and restrictive reporting options. Also, the data in the system were often inaccurate, incomplete, and outdated. RTC began modifying REOMS in March 1992 so that it will better meet the information and reporting needs of its corporate and field offices in the management and sale of real estate assets. As a first step, RTC is focusing on REOMS data for affordable housing assets and properties valued over \$10 million and estimated that this data will be significantly improved by January 1, 1993.

However, since REOMS is the only RTC-wide system that shows sales information by individual asset, we obtained and analyzed RTC's real estate sales information using REOMS data as of September 30, 1992. To minimize the data integrity problems noted with REOMS, we made an assessment of the completeness and accuracy of the data and excluded assets that had missing, invalid, or apparently erroneous data. In our 1992 report, we deleted 42 percent of the sold assets from the October 1991 data. For this fact sheet, we deleted 41 percent of the assets from the September 1992 data. Our analysis of RTC's remaining real estate sales results indicated the following:

- Cumulative sales increased more than 100 percent from October 1991 to September 1992. Since we compared the cumulative number of real estate assets sold and the net sales proceeds with the same categories as of October 1991, any sales would cause an increase in the numbers. Overall, compared with 1991 data, the September 30, 1992, data showed about a 124-percent increase in the number of assets sold and an increase in net proceeds of 177 percent. (See app. II.)
- RTC's sales recoveries (measured as a percentage of net proceeds to book value) have declined. Our analysis comparing average recoveries showed 74, 69, 61, and 57 cents on the dollar for sales in calendar years 1989, 1990, 1991, and the first 9 months of 1992, respectively. (See app. III.)
- The recovery data on a cumulative basis also indicated a decline. Cumulative data from August 1989 through September 30, 1992, showed the average recovery was about 60 cents on the dollar compared with the average recovery of 64 cents on the dollar for cumulative data through October 5, 1991. (See app. IV.)
- All three real estate property categories we reviewed, (single-family, land, and commercial) showed some reduction in recoveries compared with our October 5, 1991, analysis. Single-family property recoveries dropped 2 cents on the dollar (from 72 cents to 70 cents), while commercial property and land recoveries dropped 4 cents (from 61 cents to 57 cents) and 5 cents (from 59 cents to 54 cents), respectively. (See app. IV.)
- Recoveries for real estate assets sold in receivership were less than for assets sold in conservatorship. The difference was about 3 cents on the dollar as of September 30, 1992, versus about 1 cent on the dollar as of October 5, 1991. (See app. IV.)

- Overall, the gap between the sales price for real estate assets and their appraised value continued to widen. The September 30, 1992, data showed that the average sales price was about 17-percent less than appraised value, and the October 5, 1991, data showed an 11-percent difference. (See app. V.)
- RTC's closing costs, the difference between sales amount and net proceeds as recorded in REOMS, remained constant at about 10 percent of the sale price. However, all fees associated with the sale of assets are not recorded in REOMS; therefore, these closing costs do not reflect all RTC selling costs. For example, REOMS data do not reflect asset manager disposition fees. (See app. VI.)

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to (1) assess RTC's method for estimating losses on asset sales and (2) determine current information sources available on actual sales. To obtain our information, we analyzed data in RTC's REOMS as of September 30, 1992, to determine the percentage of book value being realized on sales. We did not verify the computerized data. However, we assessed the completeness and accuracy of the data and excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates. We excluded cases in which any of the four amount fields were missing, too low, or too high to appear reasonable. We considered any amount that was \$10 or less as too low and any amount over \$500 million as too high. We also excluded cases in which the amounts appeared to be erroneous based on their relationship to each other. Specifically, we excluded cases in which the appraised value was less than 25 percent, or more than 400 percent of the original book value. Using this criteria, we excluded 12,040 sold assets (42 percent) in the October 5, 1991, data and 25,648 assets (41 percent) in the September 30, 1992, data.

We did our work from October through December 1992 in accordance with generally accepted government auditing standards. Appropriate RTC officials reviewed a draft of this fact sheet, and they generally agreed with the facts presented. Their comments have been incorporated where appropriate.

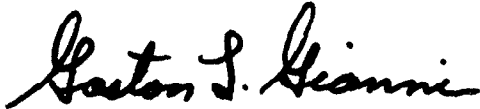
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We are sending this fact sheet to interested congressional committees, the President and Chief Executive Officer of RTC, and the Chairman of the Thrift Depositor Protection Oversight Board. We will also make copies available to others upon request.

B-251742

This fact sheet was prepared under the direction of Carolyn M. Taylor, Assistant Director, Federal Management Issues, who may be reached on (202) 736-0479 if you or your staff have any questions. Other major contributors are listed in appendix VII.

Sincerely yours,



Gaston L. Gianni, Jr.
Associate Director,
Federal Management Issues

RTC RECOVERY RATES

Asset category	Cents per \$ of book value			June 1992 Asset Balance (millions)	Percentage of total assets
	June 1991 Survey	March 1992 Survey	June 1992 Survey		
Other securities	102.0 ^a	102.0 ^a	89.0 ^a	\$1,940	2.5%
Mortgage-backed securities	102.0 ^a	102.0 ^a	100.0 ^a	1,371	1.7
Junk bonds	75.0 ^a	40.0 ^a	40.0 ^a	1,777	2.3
Performing 1-4 family mortgages	81.4	88.4	88.5	9,648	12.2
Nonperforming 1-4 family mortgages	64.3	65.8	60.7	2,107	2.7
Performing multifamily mortgages	74.4	78.1	73.6	3,695	4.7
Nonperforming multifamily mortgages	52.9	50.2	49.3	3,244	4.1
Performing construction mortgages	72.0	87.9	82.5	941	1.2
Nonperforming construction mortgages	28.0	47.0	45.3	2,277	2.9
Performing land mortgages	80.8	77.3	64.3	1,407	1.8
Nonperforming land mortgages	15.9	27.1	26.2	4,393	5.6
Performing commercial loans	^b	64.3	56.4	2,005	2.6
Nonperforming commercial loans	^b	35.0	48.9	1,799	2.3
Performing commercial mortgages	76.3	75.1	68.4	9,397	12.0
Nonperforming commercial mortgages	43.7	38.4	48.0	6,412	8.2
Performing consumer loans	79.2	83.3	85.8	1,543	2.0
Nonperforming consumer loans	46.5	57.9	43.0	365	0.5
Reo and other real estate	36.4	38.4	34.6	10,972	14.0
Fixed assets	19.3	18.0	12.3	540	0.7
Subsidiary equity	43.5	43.0	41.6	3,769	4.8
Subsidiary loans	47.9	15.7	16.0	2,909	3.7
Other assets	60.4	52.0	24.1	3,099	3.9
Judgments and charge-offs	0.0	0.0	0.0	2,925	3.7
Estimated recovery value	59.9	54.2	52.8	\$78,535	100.2% ^c

Note: Estimated national recovery rates based on June 30, 1991; March 31, 1992; and June 30, 1992, asset survey data net of indirect expenses.

^aThese recoveries were supplied by RTC's Capital Markets Group.

^bNot estimated in survey.

^cDoes not equal 100 percent due to rounding.

Source: RTC Office of Corporate Finance.

**COMPARISON OF RTC
SALES RESULTS**

Dollars in billions

	Number of assets sold		Percent increase 10/5/91 to 9/30/92	Sales proceeds ^a (millions)		Percent increase from 10/5/91 to 9/30/92
	10/05/91	09/30/92		10/05/91	09/30/92	
Conservatorship						
Single family	6,564	9,211	40%	\$0.397	\$0.610	54%
Land	876	1,670	91	0.118	0.211	79
Commercial	574	929	62	0.410	0.761	86
Total	8,014	11,810	47%	\$0.925	\$1.582	71%
Receivership						
Single family	6,986	18,416	164%	\$0.360	\$0.954	165%
Land	888	3,576	303	0.136	0.532	291
Commercial	709	3,367	375	0.471	2.170	361
Total	8,583	25,359	195%	\$0.967	\$3.656	278%
Combined						
Single family	13,550	27,627	104%	\$0.757	\$1.565	107%
Land	1,764	5,246	197	0.255	0.743	191
Commercial	1,283	4,296	235	0.882	2.930	232
Total	16,597	37,169	124%	\$1.894	\$5.238	177%

Note: Although REOMS indicated 28,637 and 62,817 assets had been sold as of October 5, 1991, and September 30, 1992, respectively, we excluded 12,040 and 25,648 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

^aNet Proceeds as recorded in REOMS.

Source: REOMS as of October 5, 1991, and September 30, 1992.

RTC REAL ESTATE
SALES RESULTS BY CALENDAR YEAR

Dollars in billions

	Number of assets	Book value	Net proceeds ^a	Percent recovered
1989 (Aug. 1989 - Dec. 1989)				
Single family	119	\$0.016	\$0.012	77%
Land	17	0.006	0.004	66
Commercial	14	0.036	0.026	73
Total	150	\$0.058	\$0.042	74%
1990 (Jan. 1990 - Dec. 1990)				
Single family	4,569	\$0.353	\$0.269	76%
Land	407	0.096	0.068	70
Commercial	378	0.456	0.291	64
Total	5,354	\$0.905	\$0.628	69%
1991 (Jan. 1991 - Dec 1991)				
Single family	16,415	\$1.254	\$0.865	69%
Land	2,544	0.704	0.381	54
Commercial	2,071	2.308	1.346	58
Total	21,030	\$4.266	\$2.592	61%
1992 (Jan. 1992 - Sept. 1992)				
Single family	6,524	\$0.601	\$0.419	70%
Land	2,278	0.574	0.290	51
Commercial	1,833	2.317	1.267	55
Total	10,635	\$3.492	\$1.976	57%

Note: Although REOMS indicated 62,817 assets had sold, we excluded 25,648 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

^aNet proceeds as recorded in REOMS.

Source: REOMS as of September 30, 1992.

**CONSERVATORSHIP AND RECEIVERSHIP REAL ESTATE SALES RESULTS
BY PROPERTY CATEGORY**

Dollars in billions

	Number of assets	Book value	Net proceeds ^a	Percent recovered (9/30/92)	Percent recovered (10/5/91) Previously reported	Percent increase (decrease) from 10/5/91 to 9/30/92
Conservatorship						
Single family	9,211	\$0.840	\$0.610	73%	73%	0%
Land	1,670	0.348	0.211	61	65	(4)
Commercial	929	1.348	0.761	56	57	(1)
Total	11,810	\$2.536	\$1.582	62%	64%	(2%)
Receivership						
Single family	18,416	\$1.383	\$0.954	69%	71%	(2%)
Land	3,576	1.033	0.532	52	55	(3)
Commercial	3,367	3.770	2.170	58	64	(6)
Total	25,359	\$6.186	\$3.656	59%	65%	(6%)
Combined						
Single family	27,627	\$2.224	\$1.565	70%	72%	(2%)
Land	5,246	1.381	0.743	54	59	(5)
Commercial	4,296	5.118	2.930	57	61	(4)
Total	37,169	\$8.722	\$5.238	60%	64%	(4%)

Note: Although REOMS indicated 62,817 assets had sold, we excluded 25,648 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

^aNet proceeds as recorded in REOMS.

Source: REOMS as of October 5, 1991, and September 30, 1992.

RTC APPRAISAL AMOUNT COMPARED
WITH SALE AMOUNT

Dollars in billions

	Number of assets	Appraisal amount	Sale amount	Percent difference (9/30/92)	Percent difference (10/5/91) previously reported	Percent increase (decrease) from 10/5/91 to 9/30/92
Conservatorship						
Single family	9,211	\$0.751	\$0.675	10%	8%	2%
Land	1,670	0.248	0.229	8	2	6
Commercial	929	0.980	0.864	12	13	(1)
Total	11,810	\$1.979	\$1.768	11%	9%	2%
Receivership						
Single family	18,416	\$1.295	\$1.082	16%	12%	4%
Land	3,576	0.735	0.588	20	12	8
Commercial	3,367	2.974	2.367	20	13	7
Total	25,359	\$5.004	\$4.037	19%	12%	7%
Combined						
Single family	27,627	\$2.046	\$1.756	14%	10%	4%
Land	5,246	0.983	0.817	17	8	9
Commercial	4,296	3.953	3.230	18	13	5
Total	37,169	\$6.982	\$5.803	17%	11%	6%

Note: Although REOMS indicated 62,817 assets had sold, we excluded 25,648 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991, and September 30, 1992.

RTC CLOSING COST

Dollars in billions

	Number of assets	Sale amount	Net proceeds ^a	Percent closing cost (9/30/92)	Percent closing cost (10/5/91) Previously reported	Percent increase (decrease) from 10/5/91 to 9/30/92
Conservatorship						
Single family	9,211	\$0.675	\$0.610	10%	10%	0%
Land	1,670	0.229	0.211	8	9	(1)
Commercial	929	0.864	0.761	12	11	1
Total	11,810	\$1.768	\$1.582	10%	10%	0%
Receivership						
Single family	18,416	\$1.082	\$0.954	12%	12%	0%
Land	3,576	0.588	0.532	10	9	1
Commercial	3,367	2.367	2.170	8	9	(1)
Total	25,359	\$4.037	\$3.656	9%	10%	(1)%
Combined						
Single family	27,627	\$1.756	\$1.565	11%	11%	0%
Land	5,246	0.817	0.743	9	9	0
Commercial	4,296	3.230	2.930	9	10	(1)
Total	37,169	\$5.803	\$5.238	10%	10%	0%

Note: Although REOMS indicated 62,817 assets had sold, we excluded 25,648 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

^aNet proceeds as reflected in REOMS.

Source: REOMS as of October 5, 1991, and September 30, 1992.

MAJOR CONTRIBUTORS TO THIS FACT SHEET

GENERAL GOVERNMENT DIVISION, WASHINGTON, D.C.

Eugene M. Smith, Program Review Analyst
Pamela Vines, Supervisory Reports Analyst

KANSAS CITY REGIONAL OFFICE

Jerry W. Pennington, Evaluator-in-Charge
Donald L. Ficklin, Computer Scientist

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