

GAO

Fact Sheet for the Chairman,
Subcommittee on General Oversight,
Investigations and the Resolution of
Failed Financial Institutions, House of
Representatives

March 1994

RESOLUTION TRUST CORPORATION

Real Estate Recoveries 1993



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General Government Division

B-256375

March 25, 1994

The Honorable Floyd H. Flake
Chairman, Subcommittee on General Oversight,
Investigations and the Resolution of
Failed Financial Institutions
Committee on Banking, Finance and
Urban Affairs
House of Representatives

Dear Mr. Chairman:

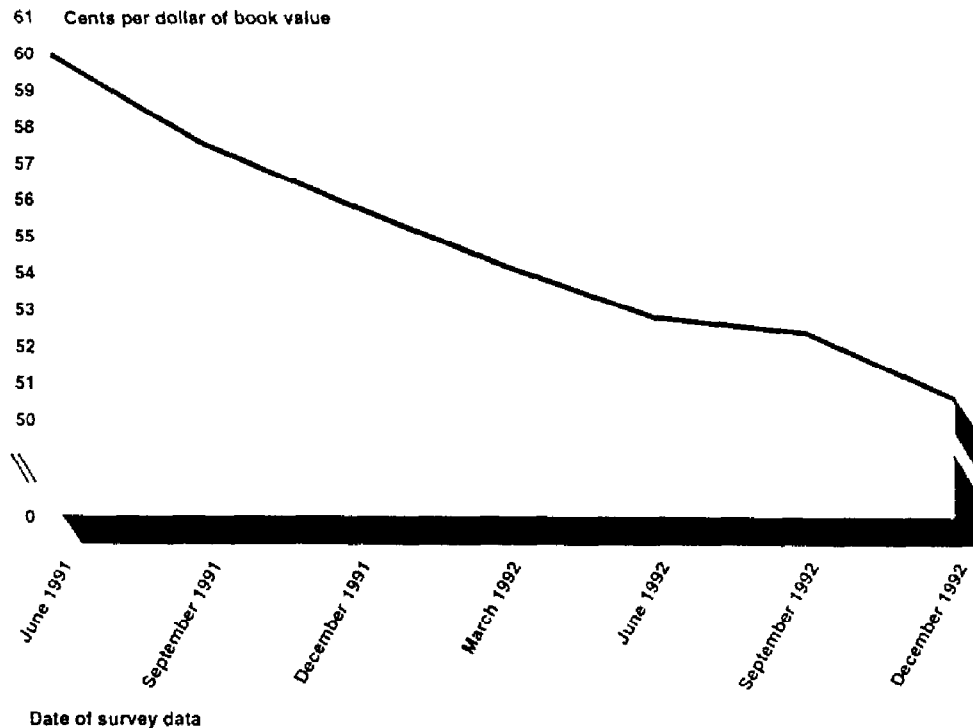
Resolution Trust Corporation's (RTC) asset recoveries are key to determining how much the savings and loan bailout will cost the government. In January 1992 and 1993, we reported on both RTC's overall estimated recovery rates and RTC's actual real estate recoveries as recorded in its Real Estate Owned Management System (REOMS).¹ This report updates that information. As agreed with you, we are providing this information to assist the Subcommittee in its oversight of RTC.

RTC's Estimated Recovery Rates

From June 1991 to December 1992, RTC's overall estimated recovery rates for its financial and real estate assets declined 9 cents per dollar of book value. In June 1991, RTC estimated a recovery of 60 cents on the dollar. In March 1992, the estimated recovery was about 54 cents, and the June 1992 estimated recovery was 53 cents. In December 1992, RTC's estimate showed an overall recovery rate of about 51 cents per dollar of book value. (See fig. 1 and table I.1.)

¹Resolution Trust Corporation: Recoveries on Asset Sales (GAO/GGD-92-36FS, Jan. 8, 1992) and Resolution Trust Corporation: Recoveries on Asset Sales Through September 1992 (GAO/GGD-93-51FS, Jan. 8, 1993).

Figure 1: RTC's Estimated Recovery Rates



Source: RTC Office of Research and Statistics.

On the basis of our 1992 financial audit of RTC, we reported that although its estimated recovery rates for receivership assets are based on the best available information, significant uncertainties still exist regarding general economic conditions, interest rates, and real estate markets that could affect the value of assets in resolved and unresolved institutions.² Due to improved economic conditions, RTC receiverships have realized higher rates of recovery on their asset sales than previously estimated. However, because RTC's remaining assets are considered hard to sell, it is difficult for RTC to predict the recovery rate and timing of sales.

²Financial Audit: Resolution Trust Corporation's 1992 and 1991 Financial Statements (GAO/AIMD-93-6, June 30, 1993).

RTC's Real Estate Sales Information

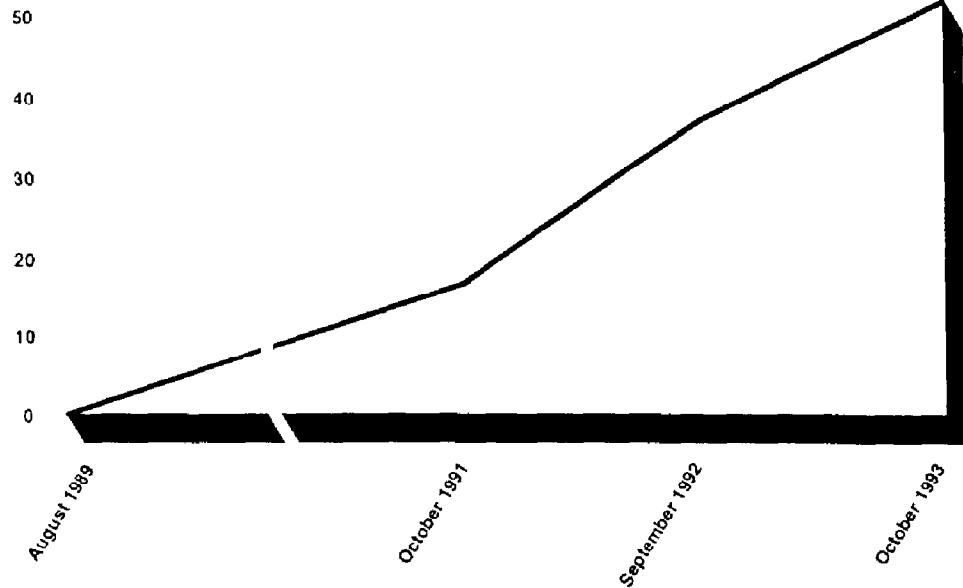
RTC's REOMS maintains information on its real estate assets. Previously, we reported on data integrity problems associated with REOMS.³ However, since REOMS is the only RTC-wide system that shows sales information by individual asset, we obtained and analyzed REOMS data as of October 21, 1993. To lessen the data integrity problems, we assessed the completeness and accuracy of the data and excluded 31,127 of the 83,990 sold assets (37 percent) because of missing, invalid, or apparently erroneous data. In our previous reports, we deleted 12,040 assets from the October 1991 REOMS data (42 percent of the total sold assets), and we deleted 25,648 assets from the September 1992 REOMS data (41 percent of the total). The objectives, scope, and methodology section of this report further describes our process for assessing the completeness and accuracy of the REOMS data.

In 1992, RTC started a REOMS data integrity cleanup program, and part of this effort made changes to the data that produced different recovery amounts and sales totals than we previously reported. Our analysis of the sales results, based on 52,863 real estate assets as of October 1993, indicated the following.

³Resolution Trust Corporation: Status of Real Estate Owned Management System (GAO/IMTEC-92-36BR, Mar., 5, 1992).

Figure 2: Cumulative Number Sold

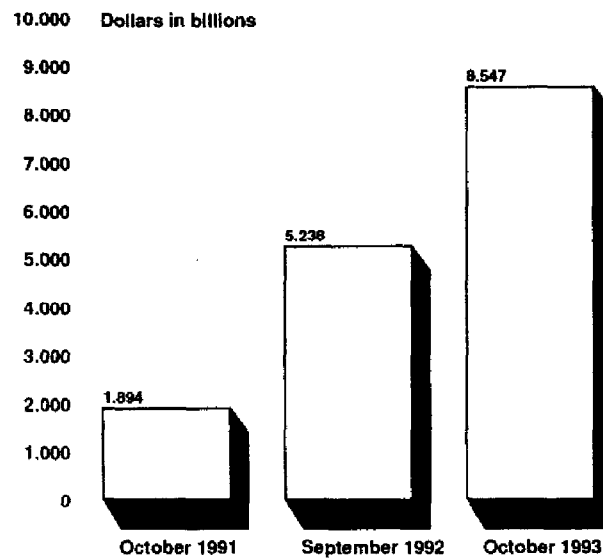
60 Number of real estate assets sold (in thousands)



Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

From 1992 to 1993, cumulative real estate sales increased less than in the previous year. As of October 1993, RTC had sold 52,863 real estate assets, an increase of 42 percent from the 37,169 assets sold as of September 1992. In comparison, the increase between 1991 cumulative sales and 1992 cumulative sales was 124 percent--16,597 assets sold as of October 1991 and 37,169 as of September 1992. (See fig. 2 and table I.2.)

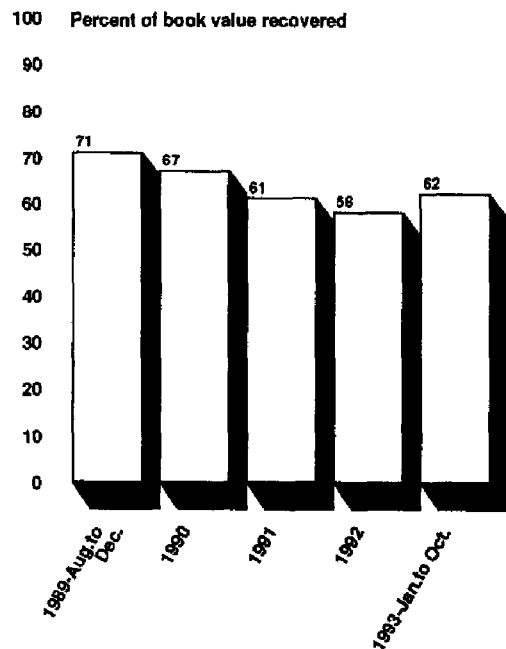
Figure 3: Cumulative Net Proceeds



Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

The increase in cumulative net proceeds was also less from 1992 to 1993 than in the previous year. The net proceeds amount equals the sales amount less closing costs for items such as brokers' commissions and title searches. Cumulative net proceeds were about \$5.2 billion in September 1992 and about \$8.5 billion in October 1993--an increase of 63 percent. From 1991 to 1992, cumulative net proceeds increased 177 percent. RTC's net proceeds were about \$1.9 billion in 1991 and about \$5.2 billion in 1992. (See fig. 3 and table I.3.)

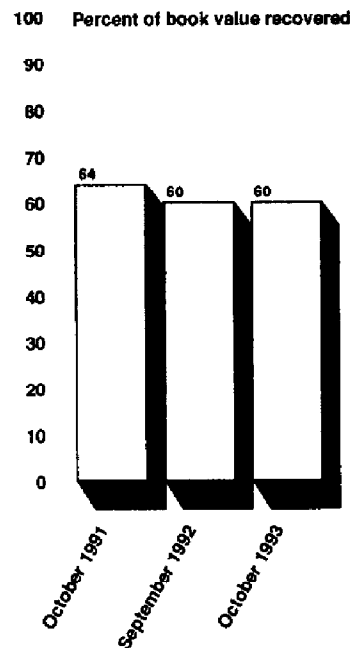
Figure 4: Actual Recovery Rates by Calendar Year



Source: REOMS as of October 21, 1993.

Data reflecting the first 10 months of calendar year 1993 revealed that RTC's actual recovery rates, measured as a percentage of the dollar of net proceeds to book value, increased from 58 percent for 1992 to 62 percent. However, from 1989 to 1992 actual recovery rates decreased. (See fig. 4 and table I.4.)

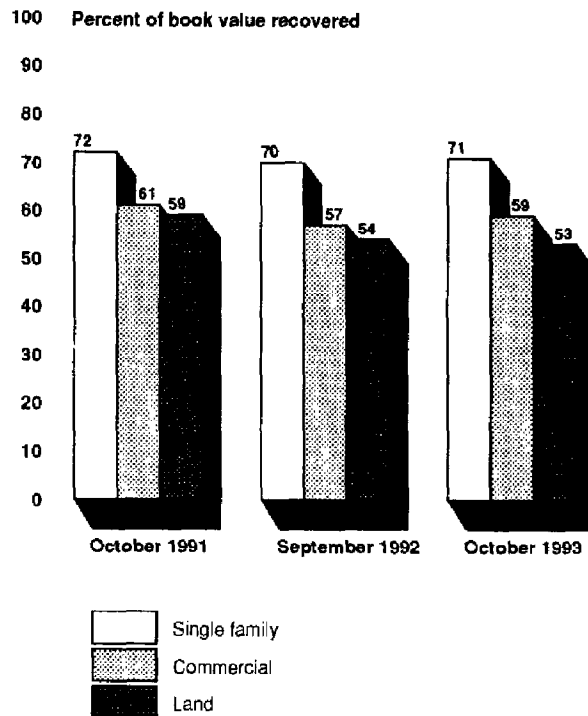
Figure 5: Cumulative Recovery Rates



Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

From 1992 to 1993, the cumulative recovery rate remained the same. Cumulative data from 1989 through 1993, and from 1989 to 1992, showed that the average recovery was about 60 percent of book value. However, this represents 4 percentage points less than the average recovery rate of 64 percent from RTC's inception in 1989 through 1991. (See fig. 5 and table I.4.)

Figure 6: Recovery Rates by Asset Type

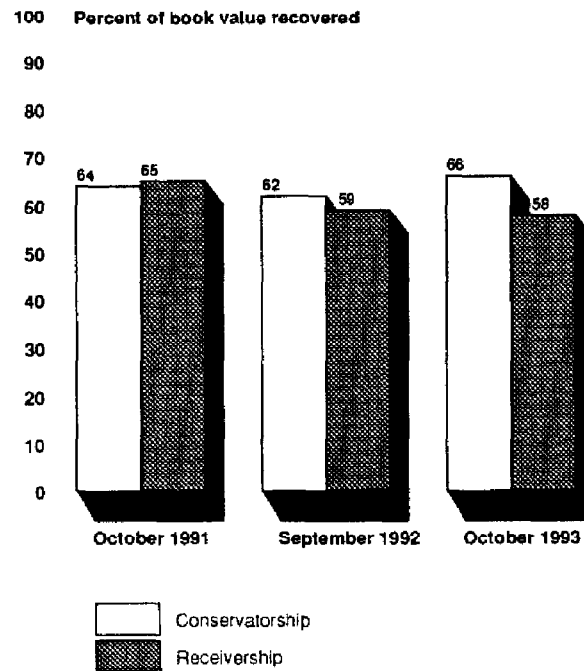


Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

Cumulative sales data showed that average recovery rates for single-family and commercial real estate assets decreased from 1991 to 1992 and then increased from 1992 to October 1993, while recoveries from land assets decreased. Average recoveries from single-family property sales decreased 2 percentage points from 1991 to 1992 and increased 1 percentage point from 1992 to October 1993. From 1991 to 1992, average recoveries from commercial property sales decreased 4 percentage points and increased 2 percentage points from 1992 to October 1993.

Average recoveries from land asset sales declined. From 1991 to 1992, average recoveries from land sales decreased from 59 to 54 percent of book value. As of October 1993, average recoveries from land asset sales had decreased 1 percentage point from 54 to 53 percent of book value. (See fig.6 and table I.4.)

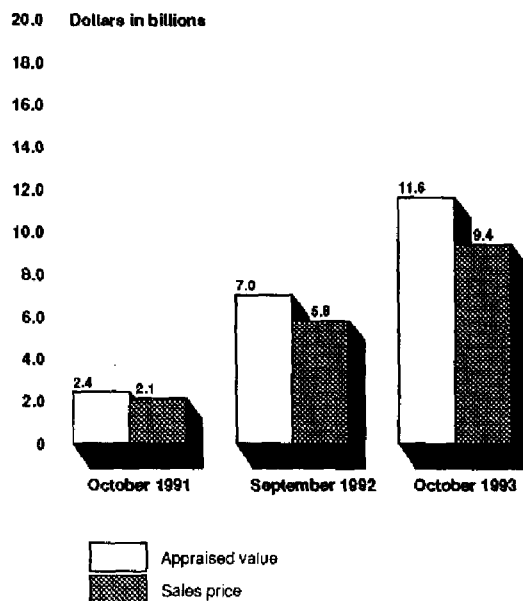
Figure 7: Conservatorship Versus Receivership Recovery Rates



Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

Cumulative data show that average recovery rates for real estate assets sold in receiverships were lower than for assets sold in conservatorships in 1992 and 1993. The difference was about 8 percentage points as of October 1993 and about 3 percentage points as of September 1992. (See fig. 7 and table I.4.)

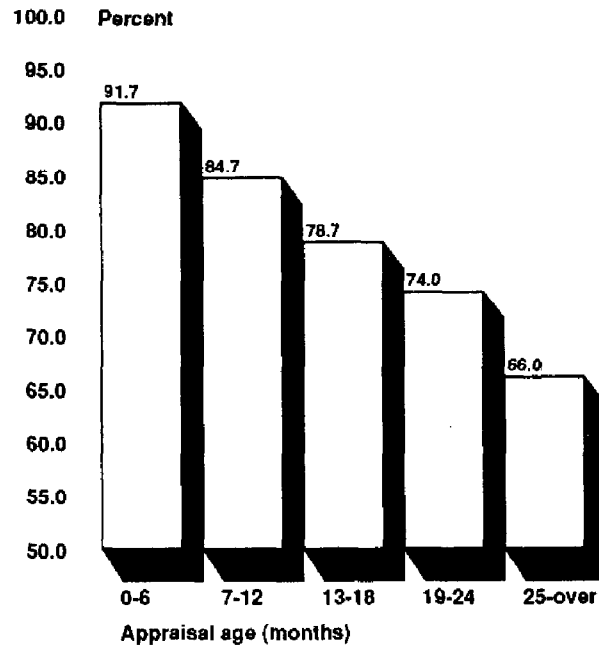
Figure 8: Gap Between Sales Price and Appraised Value



Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

Overall, the difference between the sales prices for real estate assets and their appraised values increased in 1993. The October 1993 data showed a cumulative sales amount of \$9.4 billion for assets appraised at \$11.6 billion, a difference of 19 percent. The September 1992 data showed a cumulative sales amount of \$5.8 billion for assets appraised at about \$7 billion, a 17-percent difference. The October 1991 data showed a difference of about 13 percent. (See fig. 8 and table I.5.)

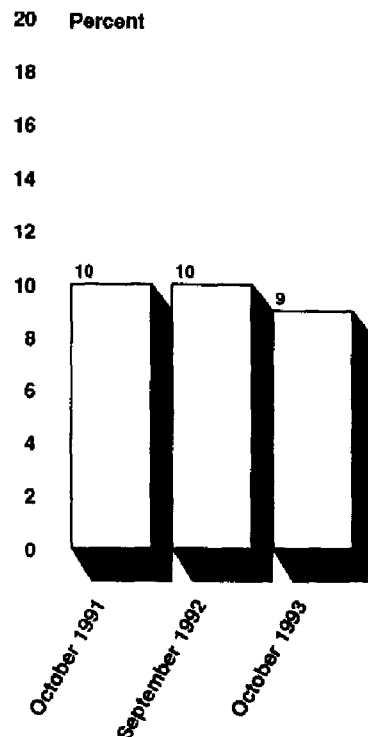
Figure 9: Sales Price as a Percentage of Appraised Value



Source: REOMS as of October 21, 1993.

Difference between the sales prices for real estate assets and their appraised values increased with the age of the appraisal. The sales price was about 92 percent of the appraisal amount for appraisals that were 6 months old or less. For appraisals that were more than 2 years old, about 8 percent of the total, the sales price was about 66 percent of the appraisal amount. (See fig. 9 and table I.6.)

Figure 10: Closing Costs as a Percentage of Sales Price



Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

RTC's cumulative closing costs, the difference between sales amount and net proceeds, decreased 1 percentage point from 1991 to 1993. Closing costs as a percentage of sales price were 10 percent in 1991 and 1992, and 9 percent as of October 1993. Closing costs, as recorded in REOMS, include charges for items such as brokers' commissions and title searches. However, all fees associated with the sale of assets are not recorded in REOMS. For example, REOMS data do not reflect asset manager disposition fees. Therefore, these closing costs do not reflect all RTC selling costs. We recently reported that RTC has not adequately focused on controlling costs to liquidate its assets.⁴ (See fig. 10 and table I.7.)

⁴Resolution Trust Corporation: Status of Management Efforts to Control Costs (GAO/GGD-94-19, Oct. 28, 1993).

Objectives, Scope, and Methodology

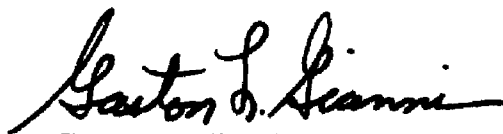
Our objectives were to (1) identify RTC's latest available estimated overall recovery rates and (2) assess RTC's sales results for real estate properties. To obtain our information, we analyzed data in RTC's REOMS as of October 21, 1993. We did not verify the computerized data; however, we assessed the completeness and accuracy of the data. We excluded cases with missing, invalid, or apparently erroneous book values, appraised values, sales amounts, net proceeds, appraisal dates, or sale dates. Specifically, 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 to original book value, sale amount to appraisal value, net proceeds to sale amount, or net proceeds to original book value was less than 25 percent or more than 400 percent. Using these criteria, we excluded 12,040 sold assets (42 percent) in the October 5, 1991, data; 25,648 assets (41 percent) in the September 30, 1992, data; and 31,127 assets (37 percent) in the October 21, 1993, data. We did our work from November through December 1993 in accordance with generally accepted government auditing standards.

In February 1994, we provided a draft of this fact sheet to RTC's Assistant Director, Office of National Sales and to RTC's Director of Systems Development. These officials generally agreed with the findings in this fact sheet. Also, the officials asked us to consider appraisal age in our analysis of the difference between the appraised values and the sales prices. The officials stated that they would expect to achieve a higher percentage of appraised value for a newer appraisal than an older one. We changed our fact sheet to include an analysis of sales prices relative to appraisal age. These comments have been incorporated where appropriate.

As agreed with you, unless you publicly release its contents earlier, we plan no further distribution of this fact sheet until 14 days from the date of this letter. At that time, we will send copies of this fact sheet to other interested congressional members and 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.

The major contributors to this fact sheet are listed in appendix II. If you have any questions about this fact sheet, please call me on (202) 736-0479.

Sincerely yours,

A handwritten signature in black ink, reading "Gaston L. Gianni, Jr." in a cursive script.

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

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Appendix I: RTC Recovery and Sales Data

Table I.1: RTC's Estimated Recovery Rates

Asset category	Percent of book value			December 1992 asset balance (millions)	Percent of total assets
	June 1991 survey	September 1992 survey	December 1992 survey		
Other securities	102.0 ^a	89.0 ^a	100.0 ^a	\$1,464	2.3%
Mortgage-backed securities	102.0 ^a	100.0 ^a	102.0 ^a	894	1.4
Junk bonds	75.0 ^a	40.0 ^a	89.0 ^a	1,136	1.8
Performing 1-4 family mortgages	81.4	90.4	89.6	5,229	8.2
Nonperforming 1-4 family mortgages	64.3	68.7	69.6	1,843	2.9
Performing multifamily mortgages	74.4	75.6	73.6	3,191	5.0
Nonperforming multifamily mortgages	52.9	51.9	53.1	2,361	3.7
Performing construction mortgages	72.0	85.8	87.0	1,047	1.7
Nonperforming construction mortgages	28.0	44.6	38.0	1,684	2.7
Performing land mortgages	80.8	81.7	63.6	1,366	2.2
Nonperforming land mortgages	15.9	26.1	23.6	3,508	5.5
Performing commercial loans	^b	52.1	84.8	1,964	3.1
Nonperforming commercial loans	^b	38.6	45.6	2,024	3.2
Performing commercial mortgages	76.3	73.6	71.1	6,364	10.0
Nonperforming commercial mortgages	43.7	42.9	42.0	5,453	8.6
Performing consumer loans	79.2	76.1	74.3	878	1.4
Nonperforming consumer loans	46.5	40.1	38.3	360	0.6
Real estate owned and other	36.4	35.9	35.3	9,932	15.7
Fixed assets	19.3	10.5	9.5	426	0.7
Subsidiary equity	43.5	44.5	36.5	2,998	4.7
Subsidiary loans	47.9	14.3	18.5	2,821	4.5
Other assets	60.4	73.4	41.1	2,156	3.4
Judgments and charge-offs	0.0	0.0	0.0	4,294	6.8
Estimated recovery value	59.9	52.4	50.6	\$63,393	100.1% ^c

Note: RTC also estimated recovery rates based on March 1992 and June 1992 data.

^aThese recoveries were not based on asset survey data. They were supplied by RTC's Capital Markets Group.

^bNot estimated in survey.

^cDoes not equal 100 percent due to rounding.

Source: RTC Office of Research and Statistics.

Table I.2: Comparison of RTC Real Estate Sales Results (Dollars in billions)

	Cumulative Number of assets sold		Percent increase from 9/30/92 to 10/21/93	Cumulative Net proceeds*		Percent increase from 9/30/92 to 10/21/93
	as of 09/30/92	as of 10/21/93		as of 09/30/92	as of 10/21/93	
Conservatorship						
Single family	9,211	12,243	33%	\$0.610	\$0.854	40%
Land	1,670	2,651	59	0.211	0.318	51
Commercial	929	1,559	68	0.761	1.563	105
Total	11,810	16,453	39%	\$1.582	\$2.735	73%
Receivership						
Single family	18,416	25,024	36%	\$0.954	\$1.287	35%
Land	3,576	5,914	65	0.532	1.081	103
Commercial	3,367	5,472	63	2.170	3.444	59
Total	25,359	36,410	44%	\$3.656	\$5.812	59%
Combined						
Single family	27,627	37,267	35%	\$1.565	\$2.141	37%
Land	5,246	8,565	63	0.743	1.399	88
Commercial	4,296	7,031	64	2.930	5.008	71
Total	37,169	52,863	42%	\$5.238	\$8.548	63%

Note: Although REOMS indicated that 62,817 and 83,990 assets had sold as of 9/30/92 and 10/21/93, respectively, we excluded 25,648 and 31,127 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, and appraisal or sale dates.

*Net proceeds as recorded in REOMS.

Source: REOMS as of September 30, 1992, and October 21, 1993.

Table I.3: RTC Real Estate Sales Results by Year (Dollars in billions)

	Number of assets	Book value	Net proceeds	Percent recovered
1989 (8/89-12/89)				
Single family	452	\$0.045	\$0.035	79%
Land	58	0.023	0.016	70
Commercial	55	0.083	0.056	67
Total	565	\$0.151	\$0.107	71%
1990 (1/90-12/90)				
Single family	5,830	\$0.438	\$0.336	77%
Land	524	0.188	0.112	59
Commercial	528	0.661	0.411	62
Total	6,882	\$1.287	\$0.859	67%
1991 (1/91-12/91)				
Single family	17,314	\$1.289	\$0.900	70%
Land	2,907	0.805	0.435	54
Commercial	2,282	2.446	1.421	58
Total	22,503	\$4.540	\$2.756	61%
1992 (1/92-12/92)				
Single family	9,842	\$0.900	\$0.623	69%
Land	3,532	1.044	0.537	51
Commercial	2,949	3.649	2.084	57
Total	16,323	\$5.593	\$3.244	58%
1993 (1/93-10/93)				
Single family	3,829	\$0.349	\$0.247	71%
Land	1,544	.603	0.299	50
Commercial	1,217	1.618	1.036	64
Total	6,590	\$2.570	\$1.582	62%

Note: Although REOMS indicated that 83,990 assets had sold, we excluded 31,127 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, and appraisal or sale dates. Figures in this table differ from what we previously reported because RTC, in 1992, began a REOMS data integrity cleanup program.

Source: REOMS as of October 21, 1993.

Table I.4: Cumulative RTC Real Estate Sales Results by Property Category (Dollars in billions)

	Number of assets	Book value	Net proceeds ^a	Percent recovered as of (10/21/93)	Percent recovered as of (9/30/92)	Increase (decrease) from 9/30/92 to 10/21/93
Conservatorship						
Single family	12,243	\$1.150	\$0.854	74%	73%	1%
Land	2,651	0.534	0.318	60	61	(1)
Commercial	1,559	2.487	1.563	63	56	7
Total	16,453	\$4.171	\$2.735	66%	62%	4%
Receivership						
Single family	25,024	\$1.871	\$1.287	69%	69%	0%
Land	5,914	2.129	1.081	51	52	(1)
Commercial	5,472	5.969	3.444	58	58	0
Total	36,410	\$9.969	\$5.812	58%	59%	(1)%
Combined						
Single family	37,267	\$3.021	\$2.141	71%	70%	1%
Land	8,565	2.663	1.399	53	54	(1)
Commercial	7,031	8.457	5.008	59	57	2
Total	52,863	\$14.141	\$8.548	60%	60%	0%

Note: Although REOMS indicated that 83,990 assets had sold, we excluded 31,127 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, and appraisal or sale dates.

^aNet proceeds as recorded in REOMS.

Source: REOMS as of September 30, 1992, and October 21, 1993.

Table I.5: RTC Cumulative Appraised Value Compared with Sale Amount (Dollars in billions)

	Number of assets	Appraised value	Sale amount	Percent difference as of (10/21/93)	Percent difference as of (9/30/92)	Increase (decrease) from 9/30/92 to 10/21/93
Conservatorship						
Single family	12,243	\$1.056	\$0.942	11%	10%	1%
Land	2,651	0.401	0.345	14	8	6
Commercial	1,559	1.961	1.708	13	12	1
Total	16,453	\$3.418	\$2.995	12%	11%	1%
Receivership						
Single family	25,024	\$1.757	\$1.461	17%	16%	1%
Land	5,914	1.570	1.198	24	20	4
Commercial	5,472	4.869	3.765	23	20	3
Total	36,410	\$8.196	\$6.424	22%	19%	3%
Combined						
Single family	37,267	\$2.813	\$2.403	15%	14%	1%
Land	8,565	1.971	1.543	22	17	5
Commercial	7,031	6.830	5.473	20	18	2
Total	52,863	\$11.614	\$9.419	19%	17%	2%

Note: Although REOMS indicated that 83,990 assets had sold, we excluded 31,127 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, and appraisal or sale dates.

Source: REOMS as of September 30, 1992, and October 21, 1993.

Table 1.6: Comparison of Sales Price and Appraised Value by Appraisal Age

Appraisal age (months)	Appraised value	Sales price	Percent sales price to appraised value
0-6	\$2,308,227,731	\$2,116,928,936	91.7%
7-12	3,521,864,257	2,981,400,992	84.7
13-18	2,907,041,605	2,287,447,548	78.7
19-24	1,678,427,414	1,241,809,253	74.0
25-Over	1,198,209,322	790,947,313	66.0

Source: REOMS as of October 21, 1993.

Table I.7: Cumulative RTC Closing Costs (Dollars in billions)

	Number of assets	Sale amount	Net proceeds*	Percent closing cost as of (10/21/93)	Percent closing cost as of (9/30/92)	Increase (decrease) from 9/30/92 to 10/21/93
Conservatorship						
Single family	12,243	\$0.942	\$0.854	9%	10%	(1)%
Land	2,651	0.345	0.318	8	8	0
Commercial	1,559	1.708	1.563	8	12	(4)
Total	16,453	\$2.995	\$2.735	9%	10%	(1)%
Receivership						
Single family	25,024	\$1.461	\$1.287	12%	12%	0%
Land	5,914	1.198	1.081	10	10	0
Commercial	5,472	3.765	3.444	9	8	1
Total	36,410	\$6.424	\$5.812	10%	9%	1 %
Combined						
Single family	37,267	\$2.403	\$2.141	11%	11%	0%
Land	8,565	1.543	1.399	9	9	0
Commercial	7,031	5.473	5.008	9	9	0
Total	52,863	\$9.419	\$8.548	9%	10%	(1)%

Note: Although REOMS indicated that 83,990 assets had sold, we excluded 31,127 cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, and appraisal or sale dates.

*Net proceeds as reflected in REOMS.

Source: REOMS as of October 5, 1991, September 30, 1992, and October 21, 1993.

Appendix II: Major Contributors to This Fact Sheet

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