

GAO

Report to the Chairman, Committee on
Banking, Housing and Urban Affairs,
U.S. Senate

February 1993

ASSET MANAGEMENT SYSTEM

Liquidation of Failed
Bank Assets Not
Adequately Supported
by FDIC System



148404

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**Information Management and
Technology Division**

B-250691

February 3, 1993

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing
and Urban Affairs
United States Senate

Dear Mr. Chairman:

As you know, the Federal Deposit Insurance Corporation (FDIC) was created as part of the Banking Act of 1933 to restore public confidence in banks. While the Corporation's primary role is to insure bank deposits, it also plays the increasingly critical role of making payments to depositors of failed banks and liquidating the assets of these failed institutions.

FDIC has established specific operating requirements within its Division of Liquidation to maximize cash recovery on failed bank assets through such activities as sending demand notices to delinquent borrowers, collecting income from loan collateral, and ensuring that accurate and complete information on assets is available. In August 1991 we reported that basic internal controls were not in place to ensure that records maintained on FDIC's Liquidation Asset Management Information System (LAMIS) and manual asset files were properly updated to reflect the actual status of loan assets at one of the Division of Liquidation's consolidated offices.¹ Because FDIC's operating requirements were established to maximize cash recovery on assets nationwide, we assessed (1) whether these requirements are being followed for assets being managed in three consolidated offices located in three of the four Division of Liquidation regional offices, and (2) whether records maintained in LAMIS and manual asset files are providing the information needed to carry out and oversee the Division of Liquidation's required activities. At your request, we are providing you with the results of our assessment. Details of our objectives, scope, and methodology appear in appendix I.

Results in Brief

FDIC's operating requirements to liquidate failed bank assets are not always being followed. As a result, FDIC is not maximizing cash recovery on all failed bank assets. Foreclosure requirements were not followed for 35 of 135 assets reviewed, income of about \$1.4 million being generated by collateral on 13 delinquent loans was not collected, and real estate

¹FDIC: Loan Sales Jeopardized by Systems and Other Internal Control Problems (GAO/IMTEC-91-61, Aug. 21, 1991).

collateral valued at \$79,000 for one loan was not adequately protected, resulting in its being sold by a local jurisdiction to recover unpaid taxes.

Information on asset values and status is supposed to be maintained in LAMIS and manual asset case files. However, this information is incomplete and not easy to retrieve. Because LAMIS was not designed to provide the information needed to support many of FDIC's operating requirements, the information—if available—is maintained in manual case files, which are kept on each of the Corporation's over 131,000 assets. Using these paper files to carry out and oversee the required liquidation activities is burdensome for account officers and managers responsible for maintaining this information.

These weaknesses exist because effective information systems have not been developed to satisfy the Division of Liquidation's operational requirements. FDIC has contracted with a consultant to strengthen FDIC's strategic business and information resources management (IRM) planning processes to better address corporatewide systems requirements. Although this effort may not specifically address the Division of Liquidation's requirements, it could be used as the basis for effective systems support.

Background

As of June 30, 1992, FDIC held approximately 245,000 assets, with a book value of about \$46 billion, an increase of nearly 200 percent from just 2 years earlier. Moreover, FDIC estimated in its 1991 annual report that 375 banks could fail by 1993. LAMIS data indicate that about 62 percent (\$28.3 billion) of the failed bank assets (i.e., about 131,000 assets) are being managed by account officers in FDIC's four regions, while the remaining 38 percent are being managed by contractors using their own systems. In 1991 account officers collected about \$7.7 billion from the management and sale of failed bank assets.

FDIC's Division of Liquidation is responsible for making payments to closed bank depositors, managing failed bank assets, and selling those assets. The Division's credit and operations manuals outline requirements for managing and liquidating failed bank assets. Account officers' responsibilities include sending demand notices to delinquent borrowers, collecting income from loan collateral, negotiating settlements with delinquent borrowers, selling assets, and ensuring that information on these activities (e.g., dates and status of actions) is accurately reflected in asset records. The credit manual notes that its procedures are strictly

guidelines and that alternative approaches may result in actions that are in the best interest of FDIC. However, these alternative approaches must be justified in writing and approved by at least regional management.

In January 1984 FDIC authorized the acquisition of LAMIS to support the Division of Liquidation's management and sale of failed bank assets. The system was intended to (1) support the servicing of loans including collateral processing and reporting on the status of loans; (2) provide information on debtors; (3) enhance loan collection activities by providing delinquency and collection information; (4) carry out disbursement processing to taxing authorities, insurance companies, and other payees; and (5) provide asset budget and cost information.

Operational Requirements Are Not Always Being Followed

Our review of the manual case files for 90 loan and 45 real estate assets managed in three of the four Division of Liquidation regions found that the Division's credit and operations requirements for managing failed bank assets are not always being followed.² These requirements were established to maximize cash recovery through such processes as foreclosures, collection of income from loan collateral, and sales.

Additionally, our computerized analysis of LAMIS records for about 131,000 failed bank assets in the system as of June 30, 1992, revealed that the information was incomplete.

Loan Assets

Our review of 90 loans (45 commercial loans and 45 real estate loans) found that requirements encompassing four critical areas are not always being followed. These areas involve (1) demanding payments from delinquent borrowers, (2) pursuing foreclosure of delinquent loans in a timely manner, (3) analyzing the financial condition of borrowers and value of collateral, and (4) protecting FDIC's interest in the collateral securing the loans. In addition, essential information needed to determine whether the Division of Liquidation's requirements were being followed to manage and liquidate commercial and mortgage loan assets is not maintained in LAMIS and is not always maintained in the manual asset files as required. Table 1 summarizes the number of loan assets that were not being managed as required for these areas.

²Not following operational requirements does not necessarily reflect on the current field staff responsible for the assets, because many of the assets were transferred from other offices and account officers.

Table 1: Management of 90 Loan Assets in Four Areas

Critical area	Requirements followed?		
	Yes	No	Not applicable
Demanding payments	2	57	31
Pursuing foreclosures ^a	16	35	39
Analyzing borrowers' financial conditions	21	36	33
Protecting collateral	33	40	17

^aAlso includes taking steps to seize assets.

Our review of manual records for the 90 loan assets indicates that borrowers are not always being contacted as required. For example, as table 2 shows, requirements for first and final demand notices are not always followed.

Table 2: Summary of Compliance With Demand Notice Requirements

Delay in meeting requirements	Number of loans	
	First demand notice	Final demand notice
1 month or less	5	5
Over 1 month to 3 months	2	3
Over 3 months to 6 months	3	3
Over 6 months to 1 year	1	5
Over 1 year to 2 years	1	4
Over 2 years	0	6
No record of notice	48	27
Not applicable	30	37
Total	90	90

Some account officers stated that demand notices may not always be sent as required because they manage hundreds of loan assets and LAMIS was not designed to help them address this requirement.

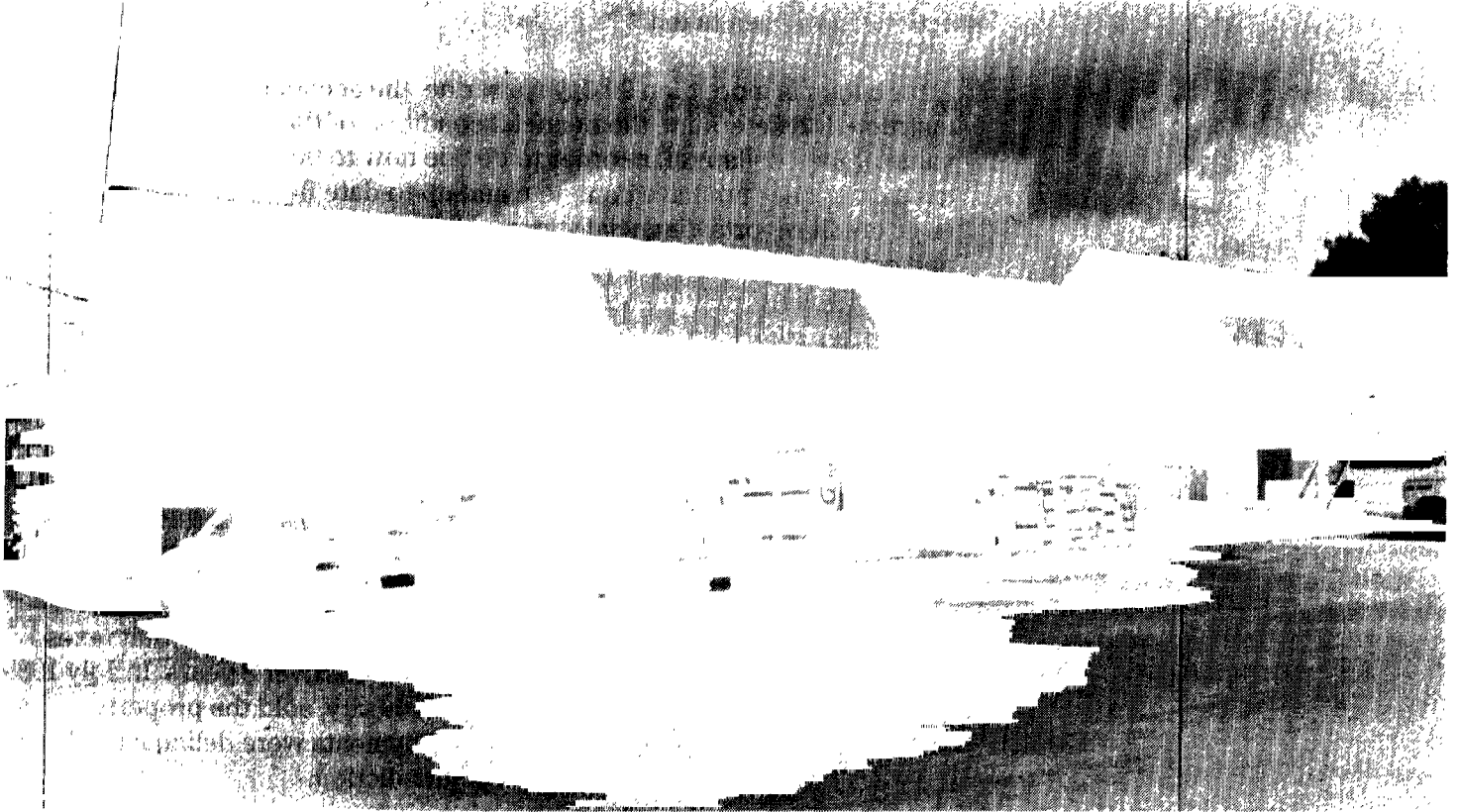
The Division of Liquidation requires that account officers consider foreclosure action when loans are more than 120 days past due, but again, information was not readily available to support this requirement. As of June 30, 1992, LAMIS contained information on about 14,000 loan assets, secured with about \$3 billion in real estate collateral, that met the criteria for foreclosure action. Because LAMIS was not designed to provide information on the status of these loan assets, account officers and

supervisors cannot use the system to determine if proper foreclosure actions have been taken.

After a loan is more than 90 days past due, the account officers are instructed to determine the financial condition of the borrower and the value of loan collateral, in order to decide how to best liquidate the loan asset. FDIC does not have complete and up-to-date financial information (e.g., credit reports, financial statements, and appraisals) on borrowers and collateral records, or data explaining the status of any action taken to obtain such information. Although LAMIS is designed to maintain records of this information, some account officers do not use LAMIS because the information is not updated in a timely manner.

Another of FDIC's responsibilities is protecting its interest in the collateral securing loan assets. Specifically, FDIC is required to ensure that taxes and insurance premiums for the loan collateral are paid and that income (e.g., rent) generated from the collateral is collected when loans are delinquent. FDIC had no information to show that taxes were being paid to protect its interest in 40 loans secured with collateral; LAMIS was not designed to provide this information. In one instance, FDIC did not ensure that taxes were paid on loan collateral valued at \$79,000 for over 3 years. In July 1989 the local jurisdiction, through its taxing authority, sold the property securing the loan for \$2,400 because tax payments were delinquent.³ Figure 1 shows the property sold by the local jurisdiction.

³As of August 9, 1989, the Financial Institutions, Reforms, Recovery, and Enforcement Act of 1989, Public Law 101-73, prohibits local jurisdictions from including FDIC properties in tax sales without FDIC's consent.

Figure 1: Commercial Property Collateral Lost by FDIC in a Tax Sale

In other instances, FDIC was not collecting the income being generated by loan collateral (e.g., rents for multifamily units, commercial office buildings, and strip malls). The collateral securing 13 of these loan assets generated income of over \$1.4 million, which could have been collected. For example, figure 2 shows a strip mall that was occupied by various tenants for over 2 years and produced about \$789,000 in rents for the delinquent borrower. During our review, FDIC took action to collect future rental income from this borrower, and the borrower contacted FDIC to negotiate a loan settlement.

Figure 2: Busy Strip Mall Where FDIC Could Have Collected Rental Income



LAMIS, again, was not designed to provide information on whether steps were taken to collect income from rental properties. Because this information was not available, account officers and supervisors currently responsible for these loan assets could not explain why no action was taken to collect this income. Further, because of staff rotations, account officers and managers previously responsible for the loan assets often were not available to provide the necessary explanations. As of June 30, 1992, LAMIS information indicated that at least 4,181 properties securing delinquent loans may be income-producing. However, no LAMIS information was available to determine whether action was being taken to collect the income from these properties.

Real Estate Assets

Our review of 45 real estate assets found that requirements encompassing three critical areas—property management, budget preparation and management, and marketing of properties—are likewise not always being

followed. Although LAMIS was not designed to provide all the information needed to carry out and oversee operational requirements for real estate (e.g., tracking expenses for individual assets), it was designed to provide some of the information to support real estate asset property management, budgets for assets, and marketing requirements. However, according to account officers and managers, LAMIS was not always used to support these areas. They said the system was too difficult to use and could not provide them with reports they needed to carry out their responsibilities. Consequently, to support their operations, they relied on manual case files and various other methods, such as personal computer spreadsheets. Table 3 summarizes the number of real estate assets that were not being managed as required for these areas.

Table 3: Management of 45 Real Estate Assets in Three Areas

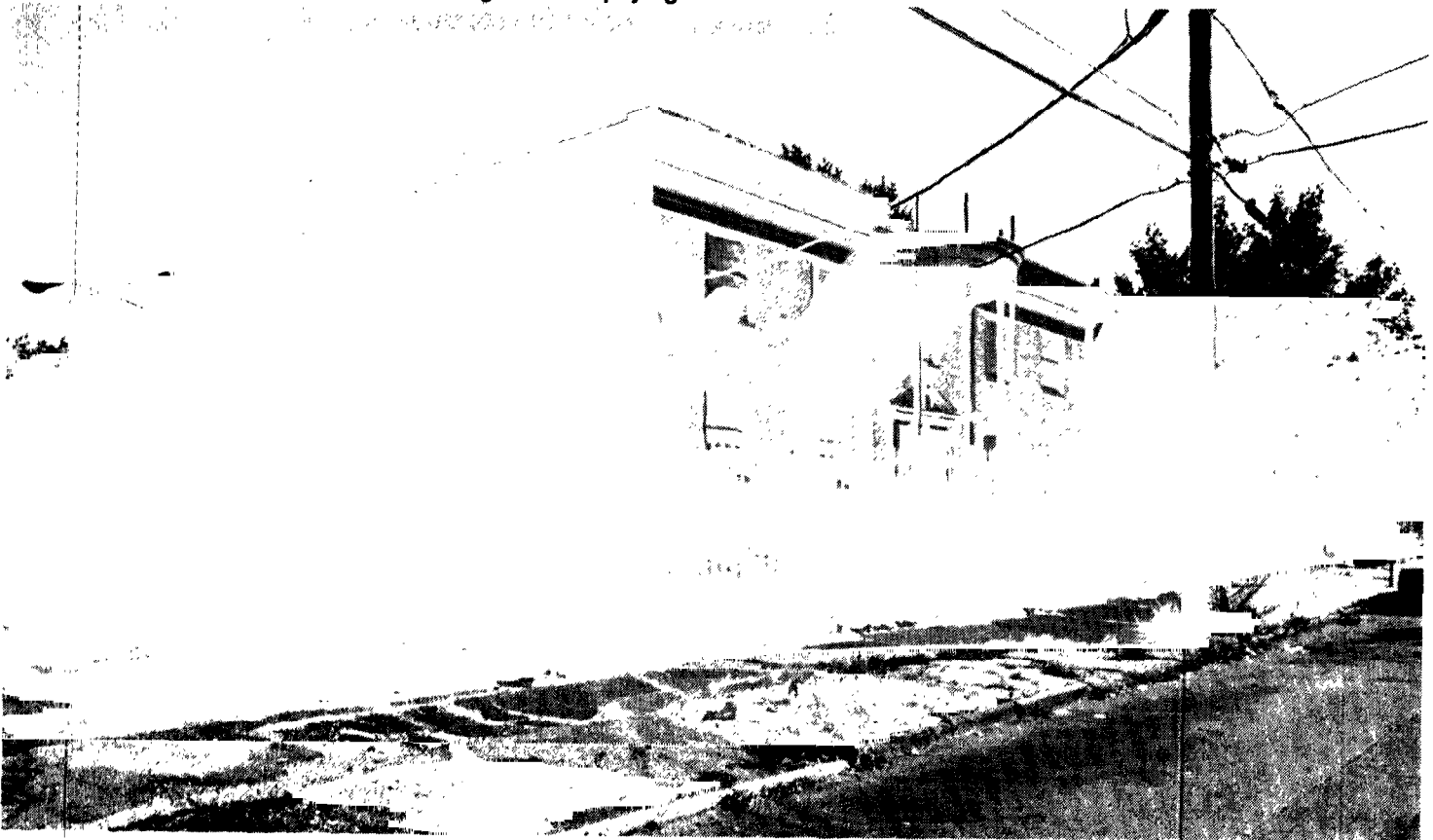
Critical area	Requirements followed?		
	Yes	No	Not applicable
Property management			
— inspections	17	21	7
— tax payments	14	27	4
— contractor oversight	11	9	25
Real estate budgets			
— preparation	21	16	8
— management	21	16	8
Real estate marketing			
— appraisals	30	15	0
— case preparation	4	36	5
— sales approaches	10	24	11

For property management, the Division of Liquidation requires account officers to physically inspect real estate assets every 6 months, pay taxes in a timely manner, and review contractor records on an annual basis. However, as shown in table 3, these requirements were not always followed. As a result, FDIC was assessed tax penalties and interest totalling about \$95,500 on 19 of the 45 real estate assets because taxes were either not paid on time or were not paid at all.⁴ As of June 30, 1992, LAMIS contained over 6,300 real estate asset records that did not have information on when taxes were due. Additionally, FDIC did not inspect 21 of the 45 real estate assets when required. For four of these properties, no evidence of inspections existed. In one of these four cases, an FDIC-owned

⁴FDIC is only liable for the interest on delinquent taxes. However, FDIC and purchasers of the real estate sometimes pay penalties to clear tax liens.

commercial building was occupied by unauthorized tenants in 1990 and 1991. (See fig. 3.)

Figure 3: FDIC-owned Commercial Building With Nonpaying Tenants



Division of Liquidation policies further require that account officers prepare annual real estate budgets and keep expenses within 10 percent of the authorized allocation or \$300,000, whichever is less. The real estate budgets were not always completed as required, and in 16 cases account officers exceeded these limits. LAMIS was not designed to track expenses for real estate assets. Accurate expense information is important because liquidation decisions are often based on the costs of maintaining real estate assets.

To sell real estate assets, the Division of Liquidation requires account officers to obtain annual appraisals, prepare marketing cases 45 days before acquiring properties, and use different marketing approaches when properties have been held for more than 9 months. Again, these requirements were not always being followed, and LAMIS was no help in providing information on the status of these activities.

LAMIS Information Is Inaccurate and Incomplete

Because LAMIS is FDIC's system of record for the failed bank assets being managed by the Division of Liquidation's account officers, other divisions, such as the Division of Accounting and Corporate Services, rely on its accuracy and completeness for their operations. Yet LAMIS' asset records contain inaccurate and incomplete information. Generally, LAMIS contains basic asset information (e.g., asset type and status), but this information is not always properly recorded or adequately updated. In addition, LAMIS asset records often do not contain information that could be used to help manage and sell assets.

Our comparison of manual asset files with LAMIS data for 90 loans and 45 real estate assets shows that about 37 percent (50 of the 135 LAMIS asset records) had an error in at least one of three basic data elements: asset type, asset status, or other asset owners. Although this high error rate cannot be projected to all LAMIS asset records, it indicates that data integrity problems for basic information exist. This is further supported by a March 1992 report by the FDIC Office of the Inspector General, reporting that 25 percent of the 230 LAMIS asset records it reviewed contained erroneous data.⁵

In another analysis of the about 131,000 assets on LAMIS as of June 30, 1992, we found that system records were incomplete. Some of these records were intended to support daily management activities, such as identifying upcoming events (e.g., future tax payments) or providing oversight information to managers on completed activities (e.g., lien verification dates). In addition, although one of the primary purposes of LAMIS is to maintain loan collateral records, about 29 percent of the almost 30,000 real estate loans listed on LAMIS do not have records of the loans' collateral. Moreover, there was no explanation in LAMIS as to why these real estate loans did not contain collateral information. Without this information, managers have no assurance that FDIC's operational requirements are being followed for all real estate loans.

⁵Information Systems Audit of LAMIS, FDIC Office of the Inspector General, Mar. 31, 1992.

Less than 15 percent of LAMIS' collateral records for commercial and real estate loans and for real estate assets contain information such as when taxes and insurance payments are due. This information is important in managing the assets and helping managers verify that specific activities have been performed. Appendix II provides more detailed information of our evaluation of LAMIS' records, and appendix III identifies the data elements we assessed.

The Division of Liquidation is aware of LAMIS' limitations and is taking action to improve systems support. For instance, in response to our August 1991 report,⁶ it established a data integrity task force to assess LAMIS. In February 1992, the task force found that

- many required data elements, especially those relating to collateral, are missing from LAMIS or not kept up to date;
- user frustration is widespread because of difficulties in using LAMIS, inadequate and poorly timed user training, incomplete and outdated system documentation, and a lack of timely response to requests to update software capabilities; and
- LAMIS cannot be used to adequately manage certain types of assets, such as real estate assets.

The Division of Liquidation is currently taking interim action to address the task force findings. This action includes (1) transferring about 40,000 assets, generally valued at \$50,000 or less, to contractors for managing, thereby giving the Division of Liquidation field staff more time to concentrate on managing and improving the data integrity for the larger valued assets; (2) initiating a project to reassess the number of required data elements in LAMIS; and (3) issuing a policy, which became effective July 1, 1992, requiring account officers to review and certify the accuracy of required data elements on all assets in their portfolio each month.

Causes for LAMIS' Limitations

LAMIS falls short in helping to meet FDIC's operating requirements because the Corporation has lacked effective processes to (1) translate its business needs into functional system requirements, (2) ensure that LAMIS' functionality requirements are implemented, and (3) ensure that LAMIS functional capabilities are used.

Some business needs in FDIC's credit and operations manuals, such as operational requirements for pursuing foreclosure action and protecting

⁶GAO/IMTEC-91-61, Aug. 21, 1991.

collateral, have not been identified as LAMIS system requirements. This is because FDIC does not have a strategic planning process to involve system users and FDIC management in identifying, prioritizing, and documenting business needs in LAMIS' functional requirements. Such a process should provide the vital link between the business strategy and information resources. In this regard, federal policy requires agencies to develop strategic IRM plans,⁷ and federal guidance suggests that such plans should identify an agency's mission, relate automation objectives to this mission, state these objectives in measurable terms, establish priorities for each automation effort, and describe how an agency will move from existing to planned systems. Instead, FDIC relies on a systems change control process to make enhancements to LAMIS. This process is used primarily to maintain the system's functionality rather than to identify, prioritize, and document functional requirements.

In addition, some identified LAMIS functionality requirements, such as issuing demand notices to delinquent loan borrowers, are not being implemented. Reasons provided by senior FDIC officials for not implementing these requirements include staffing constraints, a cumbersome system change control process, and time delays encountered when upgrading LAMIS software.

FDIC also does not have a mechanism to ensure that LAMIS functional capabilities are used. Account officers and managers rely on their manual records and personal computer records, such as spreadsheets, instead of using existing LAMIS capabilities. For example, although LAMIS was designed to provide some of the information needed to manage and liquidate assets, users say they do not use LAMIS because they lack confidence in the system and they are unaware of its capabilities. In March 1992 FDIC's Office of the Inspector General reported that LAMIS users did not receive adequate training and documentation of system capabilities.⁸

Recent Actions: First Steps Toward Providing Effective Systems Support

The Division of Liquidation is taking steps to improve the information it needs to support its current operations. These steps include further development of automated systems used by some of the consolidated offices to maintain asset information. These systems are intended to (1) standardize some of the information being maintained in the consolidated offices; (2) provide easier access to asset information; and

⁷Office and Management and Budget Circular A-130, Management of Federal Information Resources (Dec. 12, 1985).

⁸Information Systems Audit of LAMIS, FDIC Office of the Inspector General, Mar. 31, 1992.

(3) improve the accuracy and completeness of the information needed to carry out and oversee foreclosures, real estate management, and asset marketing. However, the Division of Liquidation is aware that further steps will be needed to better address its systems needs.

Strategic IRM planning and strong leadership to guide and implement a strategic plan are critical to identifying asset management needs and translating those needs into systems that support liquidation efforts. FDIC's IRM steering committee—largely composed of division directors—has recognized the need to provide this leadership. Because FDIC's divisions were unilaterally developing and maintaining systems to meet their individual automation needs, the IRM steering committee contracted with a consultant to develop a 5-year strategic IRM plan. This plan was completed in January 1993.

Conclusions

FDIC has established operational requirements to maximize cash recovery from the liquidation of assets, but these requirements are not always being followed. Although LAMIS was acquired to carry out and oversee liquidation activities, the system was not designed to provide all the information needed to support liquidation requirements. Additionally, information that is supposed to be maintained in manual asset files and LAMIS is incomplete, and both the manual files and LAMIS are burdensome to use. These problems exist because FDIC has not adequately designed systems to support the Division of Liquidation's operating and oversight requirements. FDIC's corporatewide strategic IRM plan may provide the guidance needed to better address systems requirements throughout the Corporation. However, more action will be needed to specifically address FDIC's asset liquidation requirements. This is particularly important in view of the expected increase in the number of assets from failed banks.

Recommendation to the Acting Chairman, FDIC

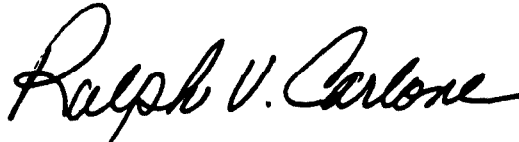
To ensure that automated systems adequately support the Division of Liquidation's operational requirements for managing loan and real estate assets, we recommend that as part of FDIC's effort to strengthen strategic business and IRM plans, the Acting Chairman, FDIC, establish a systems design process that will effectively address asset liquidation needs. Such a process must include identifying, prioritizing, and translating the Division of Liquidation's operational requirements into effective automated systems.

Agency Comments

In commenting on a draft of this report, FDIC noted that it was in general agreement with our findings and that corrective measures are being taken (app. IV). Because FDIC is still in the process of addressing these findings and developing its business plan and strategic IRM plan, it is unclear whether these actions will result in a systems development process to adequately support the Division of Liquidation's credit and operational requirements.

We are sending copies of this report to the Acting Chairman, Federal Deposit Insurance Corporation; interested members of Congress; and will make copies available to others upon request. We performed our work from August 1991 to December 1992, in accordance with generally accepted government accounting standards. This report was prepared under the direction of Howard G. Rhile, Director, General Government Information Systems, who can be reached at (202) 512-6418. Other major contributors are listed in appendix V.

Sincerely yours,



Ralph V. Carlone
Assistant Comptroller General

Contents

Letter		1
Appendix I Objectives, Scope, and Methodology		18
Appendix II Analysis of LAMIS Data as of June 30, 1992	Loan File Collateral File Borrower File	20 21 22 23
Appendix III Data Files, Functional Areas, and Data Elements Used in GAO Analysis	Loan (Asset) File Collateral File Borrower File	25 25 27 29
Appendix IV Comments From the Federal Deposit Insurance Corporation		31
Appendix V Major Contributors to This Report		34
Tables	Table 1: Management of 90 Loan Assets in Four Areas Table 2: Summary of Compliance With Demand Notice Requirements Table 3: Management of 45 Real Estate Assets in Three Areas Table II.1: Loan File Average Completeness Percentages Table II.2: Collateral File Average Completeness Percentages	4 4 8 22 23

Figures

Figure 1: Commercial Property Collateral Lost by FDIC in a Tax Sale	6
Figure 2: Busy Strip Mall Where FDIC Could Have Collected Rental Income	7
Figure 3: FDIC-owned Commercial Building With Nonpaying Tenants	9
Figure II.1: Asset Type Distribution	20

Abbreviations

FDIC	Federal Deposit Insurance Corporation
GAO	General Accounting Office
IMTEC	Information Management and Technology Division
IRM	information resources management
LAMIS	Liquidation Asset Management Information System

Objectives, Scope, and Methodology

The objectives of this review were to determine (1) whether the Division of Liquidation's operating requirements—which were established to maximize cash recovery on assets—had been carried out for assets being managed at three consolidated offices, and (2) whether records maintained on LAMIS and manual asset files are providing the information needed to carry out and oversee liquidation activities. We performed this review at FDIC's headquarters in Washington, D.C.; O'Hare Consolidated Office, Chicago, Ill., in the Chicago Region; South Brunswick Consolidated Office, South Brunswick, N.J., in the New York Region; and Denver Consolidated Office, Denver, Colo., in the San Francisco Region.

Our work included reviewing the Division of Liquidation's policies and procedures on managing and selling loan and real estate assets, determining whether FDIC field staff are complying with these policies and procedures, and assessing how effectively LAMIS is supporting the Division's operating requirements. We took a judgmental sample of 90 loan and 45 real estate assets with book values greater than \$25,000 to verify that the Division of Liquidation's operating requirements were implemented and that LAMIS contained accurate basic information about these assets. The Division of Liquidation acquired these assets from 97 failed financial institutions from 1976 through 1991. We examined both manual and automated records for these assets and interviewed 80 account officers and 45 managers responsible for the management and maintenance of these records. Audit discrepancies were discussed with these officials. We discussed accounting record problems with the field accountants in the Division of Accounting and Corporate Services at these locations. We examined legal information related to the assets obtained from attorneys in FDIC's Legal Division. This information was reviewed to determine if judgments or bankruptcies changed loan agreement terms or hindered liquidation efforts for account officers.

Additionally, we examined FDIC's systems development documentation for LAMIS, as well as other related documents. We discussed these documents and FDIC's systems development approach with corporate officials responsible for the development and implementation of systems used by the Division of Liquidation. Also, we examined the completeness of LAMIS data as of June 30, 1992, by determining the number of records containing data in each data element that had been extracted from the loan, collateral, and borrower files in LAMIS. We identified the data elements within each record type that provided basic information on loan and real estate assets for functional requirements that had been originally identified for LAMIS. We then grouped data elements into these general

areas to determine whether LAMIS contained the basic information to support functional area requirements. The LAMIS file containing data elements related to real estate property management and marketing activities was not reviewed because an FDIC representative told us he was having problems with this file and could not provide us with this information. The record types and associated data elements selected for review are listed in appendix III.

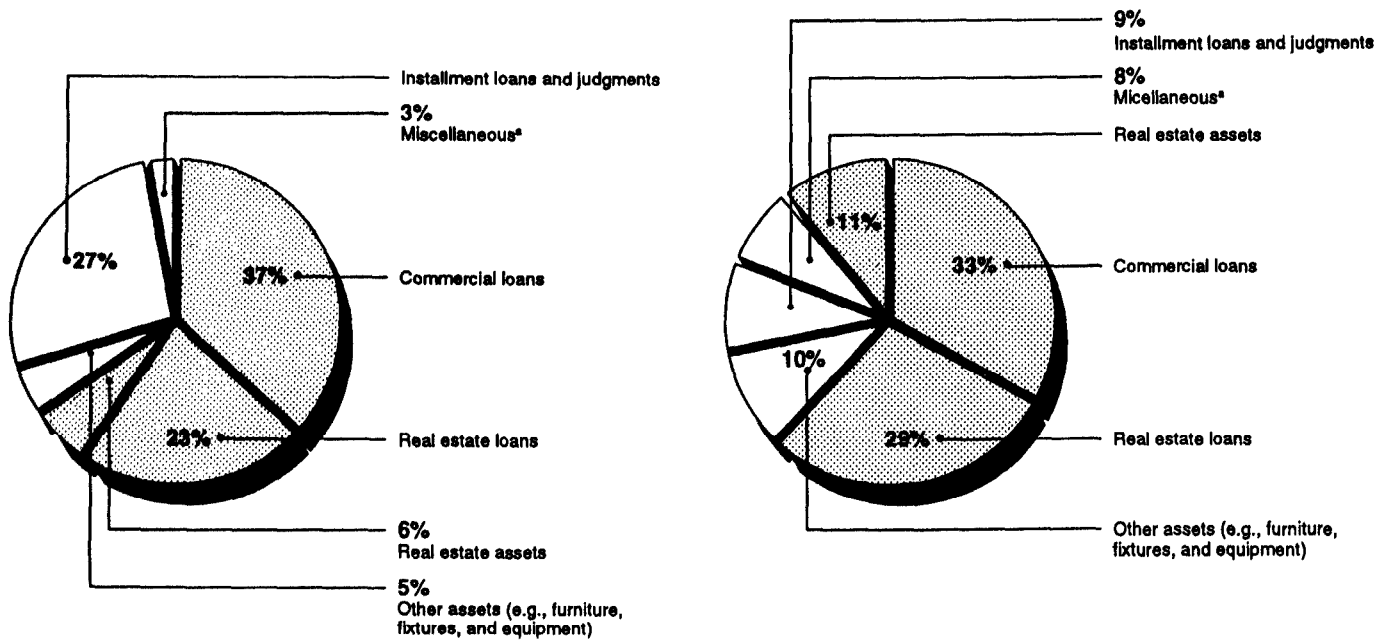
Analysis of LAMIS Data as of June 30, 1992


As of June 30, 1992, LAMIS contained 130,505 on-book assets with a book value of \$28.3 billion.¹ Commercial and real estate loan assets and real estate assets account for 84,763 of LAMIS' on-book assets with a book value of \$20.5 billion. Figure II.1 shows the percentages for asset types and the current book values that are in LAMIS.

Figure II.1: Asset Type Distribution

Total assets = 130,505

Total book value = \$28.3 billion



 Types of assets in review

*Student and international loans, subsidiaries, and other owned assets, such as mobile homes.

Note: Percentages do not equal 100 due to rounding.

We assessed the completeness of selected LAMIS data elements. These data were included in at least one of three LAMIS files obtained from FDIC: loans,

¹LAMIS contains computerized records for on-book and off-book assets from failed banks. On-book assets are included in FDIC's financial statements and are being actively managed by FDIC. Off-book assets include sold assets and assets for which FDIC does not expect to collect additional money.

collateral, or borrower. The selected data elements in these files were analyzed for completeness by determining the number of records containing each data element and computing the percentage. Next, we grouped the data elements into selected functional areas on the basis of LAMIS' 1984 functional requirements analysis. Finally, we calculated the average completeness percentage for data elements grouped under each specific functional area. We excluded data elements from our average completeness calculation that were not applicable to the majority of assets or were not essential to accomplishing the functional area objective. See appendix III for specific data elements used to determine the completeness for each functional area grouping.

Loan File

The loan file accounts for all assets in LAMIS regardless of asset type. Some of the basic functions available to the user through the loan file include obtaining general information about the loan (or asset); providing financial information such as current balance, interest rate, and billing information; and obtaining a historical recap of activities associated with the asset.

For the purposes of our analysis, the loan file functional areas contained eight groupings. As shown in table II.1, seven of the eight groupings had an average data completeness rate of better than 90 percent. Generally, these functional areas represented data groupings that provided basic information about the asset such as identifying the asset type, identifying the FDIC office responsible for the asset, providing information on the status of the asset, and identifying whether the asset has other owners. Other functional groupings included providing a cross reference to historical asset numbers that were used by the former bank, asset servicer, or FDIC; and providing financial information about the asset. Although these data groupings had high data completeness averages, some of the specific data elements had low data completeness rates. These included effective date of last payment, with a data completeness rate of 55 percent; data elements relating to interest charges such as interest accrued but not billed, at 87 percent, or interest billed but not paid, at 61 percent. In addition, our comparison of three specific data elements (asset type, asset status, and other asset owners) to manual files, along with discussions with specific account officers, found that basic information about an asset may not be correct. Specifically, our analysis of the 90 loan records found that 26 percent of the records had errors in asset type, 7 percent had errors in status, and 9 percent had errors in other owners of the asset. Similarly, for the 45 real estate assets, 9 percent of the records had errors

in asset type, 36 percent had errors in status, and 7 percent had errors in other owners of the asset.

One of the eight functional area groupings had a data completeness average of 90 percent or less. Specifically, the sales and marketing information functional area contained almost no information. According to an FDIC headquarters official, FDIC had been unable to get this information into LAMIS because of problems with an interface program that transmitted data from another system, the Secondary Marketing Asset Pricing System, to LAMIS.

Table II.1: Loan File Average Completeness Percentages

Functional area	Total asset records (N=130,505)	Commercial and real estate loan records (N=77,343)	Real estate asset records (N=7,420)
Describes the asset	100	100	100
Identifies responsibility for asset	97	97	98
Provides information on asset status	98	99	91
Provides descriptive and historical information on asset	98	99	94
Relates old asset number to current number	99	99	94
Provides information on balance, interest, charges, and related areas ^a	93	95	N/A
Provides information on other owners ^b	100	100	100
Sales and marketing information	0	0	0

^aData elements in this functional area generally are not applicable to real estate assets. The completeness average score for total records excludes real estate asset records.

^bIn LAMIS when the data element "other owners indicator" is blank, the asset is classified as not having any other owners. However, LAMIS users have also put an "N" in this data element to indicate that no other owner exists. For all assets, about 45 percent of the records were blank for this data element.

Collateral File

The collateral file provides basic information, including the type of collateral, the description, and its status, about the collateral associated with a loan or the real estate asset. Other information included in this file are the collateral or real asset location; appraisal information; and various data elements associated with the taxes, insurance, and lien verifications.

Table II.2 shows the functional area groupings and their average data element completeness percentages for the collateral file by total assets, commercial and real estate loans, and real estate assets. Records pertain to on-book assets only. LAMIS allows that none, one, or more than one collateral record may exist for an asset.

For all asset types, data elements in only one of the eight functional areas, collateral basic information, had an average completeness percentage greater than 90. However, a separate analysis of collateral records showed that 8,598 real estate loans and 506 FDIC-owned real estate assets had no records in the collateral file when such a record would be expected.

Seven of the eight functional area groupings had data completeness averages of less than 90 percent. These functional area groupings provided information about the collateral location or information that could be helpful in making decisions about the assets and helping to protect the collateral and manage real estate assets. These groupings are valuable in managing the assets and helping managers verify that specific activities had been performed. Few LAMIS records contained information in such functional area groupings as appraisals, taxes, insurance, and lien verifications.

Table II.2: Collateral File Average Completeness Percentages

Functional area	All asset records (N=94,125)	Commercial and real estate loan records (N=73,828)	Real estate asset records (N=7,270)
Collateral basic information	92	92	100
Collateral location	53	53	94
Appraisal and value data	45	43	81
Tax information	3	3	13
Insurance information	12	12	7
Legal location description	6	5	13
Lien verification information	0	0	0
Tickler (reminder) information for asset management	22	23	18

Borrower File

The borrower file contains information about the borrower, including the name and address, whether the borrower is a consumer or business, whether the borrower's liability is direct or indirect, and the borrower's social security or tax identification number. The borrower file is helpful in

assisting the user in resolving unidentified items during processing. Although both of the functional areas for this file had overall average completeness percentages of above 90, the borrower's social security or tax identification number information had a data completeness score of about 60 percent. Table II.3 shows the functional area groupings and their average data element completeness percentages for the borrower file by total on-book assets, commercial and real estate loans, and real estate assets. LAMIS recognizes that more than one borrower may exist for an asset. The borrower file is not applicable to real estate assets.

**Table II.3: Borrower File Average
Completeness Percentages**

Functional area	All assets records (N=191,599)	Commercial and real estate loan records (N=132,670)	Real estate asset records
Borrower information	93	93	N/A
Borrower address information	94	94	N/A

Data Files, Functional Areas, and Data Elements Used in GAO Analysis

Loan (Asset) File

Describes the Asset

- LAMIS loan number
- LAMIS loan bank number
- LAMIS loan sequence number
- LAMIS loan subsequence number
- LAMIS loan product code number
- Asset type code
- Loan type code
- Funding code

Identifies Responsibility for Asset

- Account officer's number
- Processing site's number
- Account officer's department
- Account officer's name
- Account officer's telephone number
- Account officer's start date
- Account officer's title
- Account officer's site
- Account officer's lending limit
- Account officer's section
- Account officer's department number
- Alternative account officer's number
- Account officer's department name (note 1)
- Referral or collection agency code
- Litigation attorney code
- Credit management location
- Service office location
- Second account officer number or user-defined data element
- Responsible region
- Responsible service branch

Identifies the Status of the Asset

- Loan substatus
- Purpose code for referring asset to attorney or collection agency
- Loan status code (note 2)
- Status set date
- Statute of limitations expiration date
- Judgment expiration date (note 3)

**Appendix III
Data Files, Functional Areas, and Data
Elements Used in GAO Analysis**

**Provides Descriptive and
Historical Information on
Asset**

- Code describing how asset was acquired
- LAMIS starting date for interest accrual
- Date loan (asset) was put on system
- Previous asset type (note 3)
- Original issue date of the asset
- Original maturity date of the asset
- Original loan amount of the asset

**Relates Old Asset Number
to Current Numbers**

- First historical loan number
- First historical loan type
- Second historical loan number (note 3)
- Second historical loan type (note 3)
- Third historical loan number (note 3)
- Third historical loan type (note 3)
- Fourth historical loan number (note 3)
- Fourth historical loan type (note 3)

**Provides Financial
Information on Balance,
Interest, Charges, and
Related Data**

- Code for calculating late charges
- Asset payoff amount (note 4)
- Total rebate due (note 3)
- Unapplied funds balance (note 3)
- Daily interest accrual (note 3)
- Interest rate
- Variable rate indicator (note 3)
- Current balance
- Payment amount due
- Date of next accrual
- Rate indicator (note 3)
- Date of next rate change (note 3)
- Change rate frequency (note 3)
- Code for calculating accruals
- Billing type
- Oldest due date
- Current maturity date
- Date of last activity
- Billing frequency
- Effective date of last payment
- Outstanding late charges (note 3)
- Escrow reserve balance (note 3)
- Escrow reserve payment amount (note 3)

**Appendix III
Data Files, Functional Areas, and Data
Elements Used in GAO Analysis**

- Interest points over or under the prime rate index (note 3)
- Date of last rate change (note 3)
- Interest accrued but not billed
- Interest billed but not paid
- Paid to date of an asset

**Provides Participation
Information**

- Participation (other owners) indicator (note 5)
- Participation sold amount (note 3)

**Provides Sales and
Marketing Information**

- Bulk sales package ID
- Package buyer ID
- Package price
- Available for sale indicator

Collateral File

**Provides Basic Collateral
Information**

- Collateral number assigned to the asset
- Collateral type or class (e.g., real property, securities, deposits, other)
- Collateral status (e.g., pledged to an asset, in foreclosure, released, etc.)
- Collateral code number relating to the description of the collateral
- Text description of the collateral
- Number of units (note 3)

**Provides Collateral
Location Information**

- First address line of the collateral
- Second address line of the collateral (note 3)
- City where collateral is located
- State where collateral is located
- Zip code where collateral is located

**Provides Appraisal and
Value Data**

- Next appraisal date
- Date of the most recent appraisal
- Appraised value (note 6)
- Land value of collateral (note 6)

**Appendix III
Data Files, Functional Areas, and Data
Elements Used in GAO Analysis**

Provides Tax Information

- Code for who pays next taxes due (borrower or reserve account)
- Next tax due date
- Payee number of next tax due
- Code for who pays second tax due (note 3)
- Second tax due date (note 3)
- Payee number of second tax due (note 3)

Provides Insurance Information

- Date next insurance expires
- Code for who pays next insurance (borrower or reserve account)
- Next insurance payment due date
- Payee number for next insurance due
- Date second insurance expires (note 3)
- Code for who pays second insurance (note 3)
- Second insurance payment due date (note 3)
- Payee number of second insurance due (note 3)
- Policy effective date
- Policy coverage code
- Policy type code
- Master policy
- Insurance premium amount
- Policy effective date for second policy (note 3)
- Policy coverage for second policy (note 3)
- Policy type for second insurance (note 3)
- Master policy for second policy (note 3)
- Premium amount for second policy (note 3)

Provides Location Legal Description Information

- Official lot designation
- Official block designation
- Official track designation
- Official subdivision name
- Official division where property is located
- Official section where property is located

Provides Lien Verification Information

- First lien verification date
- Second lien verification date (note 3)
- Third lien verification date (note 3)

Provides Tickler
Information for Asset
Management (Note 7)

- Next appraisal date
 - Next insurance payment due date
 - Date next insurance expires
 - Policy effective date
 - Next tax due date
 - Code for who pays next taxes due (borrower or reserve account)
 - Next Uniform Commercial Code to expire filing date
 - Expiration date of next Uniform Commercial Code
-

Borrower File

Provides Borrower
Information

- Full name of borrower or guarantor
 - Short name of borrower
 - Number assigned to borrower
 - Type of borrower (consumer or business)
 - Type of liability for borrower (primary or indirect)
 - Borrower's social security or tax identification number
-

Provides Borrower
Address Information

- First address line
 - Second address line (note 3)
 - City where borrower resides
 - State where borrower resides
 - Zip code where borrower resides
 - Country where borrower resides (note 1)
-

Notes

Note 1: Data element was excluded from average data completeness calculation because FDIC usually does not use this data element and it is not considered important for meeting functional area objectives.

Note 2: When the data element loan status is blank, the asset is classified as active. Therefore, the completeness for this data element was calculated at 100 percent, even though only about 6 percent of the records actually contained a code.

Note 3: Data element was excluded from average completeness calculation because the data element may not be applicable to the majority of the assets.

**Appendix III
Data Files, Functional Areas, and Data
Elements Used in GAO Analysis**

Note 4: Data element was excluded from average data completeness calculation because data were not recorded on the loan file tape.

Note 5: When the data element participation indicator (other owners) is blank, the asset is classified as not having any other owners. Therefore, this category is treated as being 100 percent complete, although about 45 percent of the total records were blank.

Note 6: Data element was 100 percent complete; however, only values over \$100 were counted as being complete and reasonable.

Note 7: Data elements in this functional area have been included in prior areas. These data elements have been grouped together because they identify when specific actions by account officers may be needed.

Comments From the Federal Deposit Insurance Corporation

FDIC

Federal Deposit Insurance Corporation
3601 Fairfax Drive, Arlington, VA 22226

Division of Information Resources Management

January 5, 1993

Mr. Ralph V. Carlone
Assistant Comptroller General
United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Carlone:

Following Mr. Ronald Pferchy's informal comments to your draft report entitled Asset Management System: Liquidation of Failed Bank Assets Not Adequately Supported By FDIC System dated December 4, 1992, the FDIC has reviewed and is in general agreement with the report findings. All findings have been and are continuing to be addressed.

The operation of LAMIS is a joint effort of the Division of Liquidation (DOL) and the Division of Information Resources Management (DIRM) based upon an ongoing partnership between the two divisions. DIRM provides a technical environment in which the Hogan software as the core application for LAMIS can be used effectively. DOL manages the day to day operations of LAMIS to process and manage assets in liquidation. This working agreement was achieved by mutual consent and based on shared goals and objectives.

In this regard, the following corrective measures were initiated in 1991, continuing in 1992 and ongoing in 1993:

- DIRM has implemented enhancements to FDIC telecommunications facilities (WAN) and to LAMIS batch processing functions. These enhancements have dramatically improved system on-line response nationwide (averaging twice as fast as OIG's recommended minimum performance parameters) and have increased LAMIS application availability to very near DIRM's target of 100% of scheduled hours of operation. The cooperative effort of DIRM and DOL to archive and remove records also has improved noticeably LAMIS performance.
- During the same period both the number of LAMIS users and transaction volume (peaking at over 199,000 transactions daily in September) have increased. We infer from this trend that our efforts to improve the utility of the system to the end-users are becoming successful.

Appendix IV
Comments From the Federal Deposit
Insurance Corporation

Mr. Ralph V. Carlone
January 5, 1993
Page 2.

- DIRM and DOL are working cooperatively to eliminate the backlog of requests for LAMIS fixes and enhancements. DIRM in-house staff has been augmented with contractor support where feasible and a reduction in outstanding requests has been achieved. FDIC has also obtained the services of a Hogan technical consultant. This resource is assisting DOL in functional analysis of reported system problems and providing DIRM staff with help obtaining corrections for known Hogan deficiencies and in identifying sources of other problems.
- Establishment of a more "user-friendly" data processing environment through the use of P.C. Systems.
- Improvement of DOL's IRM support in the field.
- Assurance of the integrity of data contained in both the system of record and supporting microcomputer systems.
- Development of User Groups to identify user business requirements and make recommendations for system enhancements.
- Establishment of Bi-weekly meetings with DOL Operations, DOL Credit, Division of Information Resources Management, Hogan Systems, and IBM to coordinate the resolution of LAMIS problems and monitor system problems that adversely affect data accuracy.
- Development of nationwide asset servicing and conversion standards to ensure consistent booking and processing of assets.
- Establishment of the Denver Automation Group in April of 1992 to oversee the development and standardization of P.C. Systems developed within the Division.
- Issuance of Directive 4360.10 on June 8, 1992 to assure the on-going accuracy of data contained in the official system of record and to establish accountability at all supervisory levels for this data.
- Development of procedures in April 1992 for the establishment of a system design process to effectively address asset liquidation needs.


LAMIS and other system-related training is being addressed through the DOL's training needs assessment process. Training needs assessments are conducted annually in each Regional and Consolidated Office and training schedules are developed for each office according to identified business needs.

**Appendix IV
Comments From the Federal Deposit
Insurance Corporation**

Mr. Ralph V. Carlone
January 5, 1993
Page 3.

Refinements continue to be made to both the P.C. Systems and to LAMIS to further strengthen our automation support of FDIC's liquidation activities. The goal is to strengthen the relationship between business and IRM planning in recognition of DIRM's critical responsibility to provide effective automated systems that support the business functions of the operating divisions. This, coupled with internal and external reviews and audits, will aid in further improving operational efficiency within the Division of Liquidation and throughout the FDIC.

Sincerely,


Carmen Sullivan
Director

Major Contributors to This Report

**Information
Management and
Technology Division,
Washington, D.C.**

Leonard Baptiste, Jr., Assistant Director
Paul Silverman, Technical Adviser
Brenda E. Anderson, Senior Evaluator
John T. McIlwaine, Senior Evaluator
Shane D. Hartzler, Writer-Editor

**Denver Regional
Office**

Yvonne J. Rodriguez, Evaluator-in-Charge
Jamelyn Smith, Staff Evaluator
Gina M. Guarascio, Staff Evaluator

**Chicago Regional
Office**

Jimmie Gilbert, Senior Evaluator
Marcelline W. Kilpatrick, Senior Evaluator
Barry A. Kirby, Staff Evaluator

**New York Regional
Office**

Garry Roemer, Senior Evaluator
Francis K. Hopp, Staff Evaluator

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