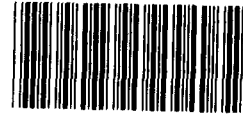


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Asset Management:
Resolution Trust Corporation
Needs to Build a Strong
Foundation to Support its
Asset Disposition Efforts

Statement of
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Before the
RTC Oversight Task Force
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance
Committee on Banking, Finance and
Urban Affairs
House of Representatives



SUMMARY OF STATEMENT BY
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The asset disposition job facing the RTC is unprecedented in both magnitude and complexity. To do this job well, the RTC needs an appropriate management structure, well trained staff, and effective contracting procedures. While RTC is making progress in these areas it is not yet ready to aggressively dispose of assets. For example, GAO believes the following critical elements should be in place before RTC embarks on an aggressive asset marketing and sales effort:

- contractor incentive strategies and performance standards;
- alternative methods for estimating market value;
- management information systems needed to help monitor compliance with laws, regulations, policies and procedures.

In addition, GAO believes that guidance and training is needed for RTC staff who handle the contracting and monitoring functions.

RTC is using the flexibility provided by the strategic plan to develop a variety of marketing strategies for asset disposition. These include securitization of loans, real estate auctions, and a national marketing program. GAO supports these efforts and believes such strategies should be tested and evaluated before they are used nationwide.

As the RTC gets more involved with the actual business of asset management and disposition, it will need to focus its attention on at least three other items: environmental issues, monitoring contracts, and keeping the strategic plan up-to-date.

Mr. Chairman and Members of the Task Force

We are pleased to be here today to discuss the progress being made by the Resolution Trust Corporation (RTC) in disposing of assets and to suggest some steps it might take to improve that process. My testimony will cover three topics: the asset disposition process, marketing and disposal strategies being tested by RTC, and certain operational issues needing attention.

ASSET DISPOSITION PROCESS

The asset disposition task facing the RTC is unprecedented in both magnitude and complexity. To do this job well, RTC must have an effective management structure in place to manage the assets under its control, a cadre of well-trained staff, and sound contracting procedures.

Structure

The RTC has organized its asset management activities into three major functions--marketing, asset and contract management, and disposition. A field structure has been set up to do much of the work, but it is not fully staffed yet. Overall, RTC has about 36 percent of its planned 5,400 staff. As of April 30, the staffing levels at the consolidated sites, where most of the asset contracting and monitoring work will take place, varied

greatly from about 55 percent of full capacity in Kansas City to 14 percent in Phoenix, which was the last site to be set up.

While RTC is not yet ready to aggressively dispose of assets, as of March 31, it has reported liquidations through sale, loan collections, and debt retirements, of about \$40 billion in assets. Of this total, about \$33 billion, or 83 percent, had been liquidated by the thrifts in the conservatorship program. Further, about 90 percent of the assets sold out of conservatorships have been loans and securities. However, there have been some fairly substantial real estate sales. For example, the Hyatt Grand Champion Hotel in California was sold in March for \$66.5 million, which was 104 percent of its appraised value. Also, a garden apartment complex in Houston was sold for \$13.6 million, or 117.5 percent of its appraised value.

Asset dispositions have occurred primarily in conservatorships because those thrifts usually had a structure in place to market assets. We believe that liquidating certain assets while a thrift awaits resolution is expedient and, because it is being done sooner, can reduce ultimate resolution costs.

Training

RTC recently established a Training Task Force which is responsible for assessing the overall training needs and

identifying where training should be strengthened. We believe this is a necessary step in the contracting area because (1) RTC's mandate is to contract out as much work as possible, and (2) much of RTC's staff is either new to the government or from FDIC where the normal practice was to do its own asset management and disposition rather than working through contractors. As RTC intensifies contracting efforts, it becomes more important that field personnel are adequately trained to handle the contracting and monitoring functions and to develop information systems which will permit them to adequately oversee and monitor contractor performance.

Procedures

The strategic plan called for the RTC to submit to the Oversight Board most of its procedures for implementing the policies in the plan by March 30. The target dates were met for many implementing procedures. But some important implementing procedures in the asset disposition area related to contractor incentive strategies, contractor performance standards, and alternative methods for estimating market values are still being developed. As mentioned earlier, we believe these critical procedures need to be in place before RTC embarks on an aggressive asset management and disposition program.

Other related areas where RTC is still finalizing implementing procedures include:

- a national sales program for financial assets held in conservatorship,
- conveyance of assets to state and local governments participating in certain HUD programs,
- determining the use of assets where no reasonable recovery is anticipated, and
- management information systems needed to help monitor compliance with laws, regulations, policies and procedures.

ASSET DISPOSITION STRATEGIES

Recognizing the magnitude and complexity of the asset disposition task, the strategic plan directs RTC to try alternative approaches, learning from experience what works and what does not work. It further emphasizes that nothing in the plan is intended to preclude such flexibility.

RTC has been using the plan's flexibility to identify and test several marketing strategies. These include the securitization

of loans, real estate auctions, a national sales center, and alternatives for estimating market value. We think these are positive steps and we endorse the concept of testing and evaluating them before nationwide implementation. Such action will better equip RTC for the asset disposition task that lies ahead.

Securitization Projects

RTC has retained the services of an investment banking specialist and dealers in asset-backed securities and mortgages to assist in developing an asset securitization program. This program will cover the sale of both performing and nonperforming mortgages, and commercial and consumer loans. RTC expects to announce a securitization demonstration project in about 3 months. This project will pool and securitize one-to four-family mortgages from thrifts located in each of the four RTC regions.

In addition, RTC's Eastern Region is also testing a program to securitize mortgage loans to make them more marketable. The region is currently working through a due diligence process with a goal of removing much of the uncertainty over the quality of the loans to be sold.

Auction Project

In March 1990, the RTC announced it was soliciting proposals to auction real estate properties. This solicitation has closed and RTC officials say the award should be announced shortly. RTC expects to hold a real estate auction sometime this summer. About \$250 million worth of real estate from around the country will be offered for sale.

National Marketing Project

RTC is also working on a solicitation for services to retain a firm to help develop a national marketing strategy. It expects to have this firm under contract by mid-summer. Other related planned actions include a national sales center, and a nationwide advertising campaign.

Further, RTC is exploring alternatives to appraisals for establishing the market value of assets. In our opinion, having such alternatives readily available could be valuable to RTC if either the ability to get timely appraisals or the appraisal results, become a bottleneck in the asset disposition process.

We further believe RTC also needs to work with other government agencies such as GSA, VA, and FHA to identify and pursue asset disposition approaches or strategies that are in the best

interest of the government as a whole. Indeed, a number of federal agencies have large inventories of similar assets for disposal in the same markets, and it is important that these agencies avoid undue competition with one another. It is also important that they work together to see if the assets they are managing could be used for public purposes that would otherwise have to be met in whole or in part with federal appropriations.

OPERATIONAL ISSUES

NEEDING ATTENTION

As RTC gets more involved with the actual business of asset management and disposition, we see three important items it will need to focus on: environmental issues, monitoring contracts, and keeping the strategic plan and implementing procedures up-to-date. We plan to review or monitor each of these areas to assess what RTC is doing.

Environmental Issues

An emerging issue RTC will face relates to what effect environmental substances such as toxic wastes, asbestos, and PCBs may have on its ability to dispose of real estate. Environmental Protection Agency regulations may require RTC, as receiver, to remedy environmental problems before property can be used or sold. RTC will need to determine the extent to which

properties in its inventory are contaminated and will require corrective actions. We were told that RTC has begun the process of identifying affected properties. Once this has been done, RTC will need to develop action plans for any contaminated properties. The removal or containment of contaminating substances could be very expensive, greatly increasing the RTC's disposition costs for the affected properties.

Contract Monitoring

With respect to contracting, it will not be good enough just to have well written contracts. RTC will have to adequately monitor the performance of these contracts to be sure the interests of the government are adequately protected. Given the expected magnitude of the assets to be liquidated, the Comptroller General has identified RTC as one of 14 high risk areas vulnerable to fraud, waste, and mismanagement. We will therefore pay close attention to the contracting area.

Updating Policies and Procedures

Finally, the Oversight Board has said that the strategic plan will be revisited and revised over time as the Board and RTC gain greater experience regarding the scope and nature of the challenges they face. We endorse this concept. We would also emphasize that the Oversight Board and RTC should periodically

update the strategic plan to reflect current policies and procedures, especially during the initial start up period when changes tend to occur more frequently. This updating is very important because the plan (1) serves as a basic tool for managing RTC and for informing the general public and contractors how RTC operates. (2) provides the Board and RTC with criteria for evaluating progress and (3) enables the Congress to exercise its responsibility to monitor the progress of both the Oversight Board and RTC.

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That concludes my statement. We would be pleased to answer any questions you may have.