United States General Accounting Office

# GAO

Report to the President and Chief Executive Officer, Resolution Trust Corporation

December 1993

# RESOLUTION TRUST CORPORATION

## Better Information Could Enhance Controls Over Loan Servicing Costs

GAO

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

**General Government Division**

B-254282

December 22, 1993

The Honorable Roger C. Altman
President and Chief Executive Officer
Resolution Trust Corporation

Dear Mr. Altman:

The Resolution Trust Corporation (RTC) makes extensive use of contractors to service the mortgages and loans placed under its control. As of April 1993, loan servicing contractors were servicing about 193,000 mortgages and loans with over $18 billion in total book value. This report discusses RTC's loan servicing contracting and makes recommendations for improvements in planning future loan servicing contracts and establishing appropriate fee structures for these types of contracts.

## Results in Brief

RTC was obligated to pay a wide range of loan servicing fees because it did not adequately plan and oversee its regional offices' contracting activities. At the time we did our work, RTC was not requiring its regional offices, which had entered into 34 loan servicing contracts over the past 3 years, to coordinate their loan servicing contracting. Instead, each of these offices operated independently in competitively bidding and awarding their own loan servicing contracts. These independent operations resulted in wide variations in the types and amounts of loan servicing fees to be paid by the regional offices. In RTC's 34 existing loan servicing contracts, fees were considerably higher under some offices' contracts than under similar contracts entered into by other offices. One office was contractually liable for about $9 million in loan disposition fees, even though all of the loans subject to these fees were withdrawn from the servicer between June 1991 and March 1992 and sold by RTC.

Furthermore, RTC did not have information on all of the fees and expenses the regional offices were paying their loan servicing contractors. As a result, RTC was unable to effectively manage its active contracts and lacked the information needed to establish the most cost-effective fee structures for future contracts.

Finally, when we began our work, RTC was not coordinating its oversight of loan servicers. As a result, several regional offices were routinely conducting on-site performance reviews of the same loan servicers. We brought this situation to the attention of RTC officials, and several actions were taken to improve the oversight of loan servicing contractors. For example, in January 1993 RTC set up a national loan servicer oversight program that has increased coordination among regional offices in overseeing these contractors.

We believe that the steps taken to improve loan servicing oversight, if they are properly implemented, should enable RTC to adequately oversee and assess contractor performance. However, further improvements are needed in planning future contracts and coordinating among regional offices that competitively bid and award loan servicing contracts.

## Background

RTC acquires many types of mortgages and loans from failed thrifts throughout the country. Its loan inventory includes residential mortgages, consumer loans such as automobile and student loans, and commercial real estate loans. When RTC takes control of failed thrifts, it must continue to collect payments on thousands of active mortgages and loans from thousands of borrowers until it disposes of these assets. Although RTC has disposed of a large number of loans, it still had over 490,000 loans with a total book value of $32.6 billion in its inventory of receivership assets as of April 1993.

RTC contracts with servicers to collect and remit loan payments from borrowers, maintain escrow accounts for real estate taxes and hazard insurance, and, in some cases, foreclose on or repossess the collateral on defaulted loans. As of April 1993, 23 commercial, consumer, and residential loan servicing contractors, under 34 separate contracts,[1] were servicing for RTC about 193,000 mortgages and loans with a total book value of $18 billion. These contracts covered over 39 percent of the total mortgages and loans held by RTC's receiverships and about 57 percent of their book value.

RTC uses a variety of arrangements for loan servicing. In addition to loan servicing contractors, RTC arranges with thrift acquirers and asset management companies to manage various assets, including loans. Loan servicing is also done under existing agreements with financial institutions and mortgage companies that RTC inherited from failed thrifts.[2] Finally, loan servicing is also done by RTC staff. Table 1 shows the number and book value of loans under the various arrangements RTC uses for loan servicing.

[1]Thirteen servicers had one contract, nine had two contracts, and one had three contracts.

[2]See Resolution Trust Corporation: Oversight of Certain Loan Servicers Needs Improvement (GAO/GGD-92-76, Apr. 24, 1992).

**Table 1: RTC's Receivership Loan Servicing Arrangements as of April 1993**

Dollars in billions

| Loan servicers | Number of loans[a] | Total book value | Percent of loans | Percent of book value |
|---|---|---|---|---|
| Inherited servicers | 222,192 | $9.1 | 45.2 | 27.8 |
| Loan servicing contractors | 193,517 | 18.7 | 39.3 | 57.5 |
| RTC staff | 50,721 | 2.5 | 10.3 | 7.7 |
| Thrift acquirers | 23,910 | 1.8 | 4.9 | 5.6 |
| Asset management contractors | 1,605 | .5 | .3 | 1.4 |
| **Total** | **491,945** | **$32.6** | **100.0** | **100.0** |

[a]Includes mortgages and other loans.

Source: GAO analysis of RTC data.

RTC headquarters delegated the authority for competitively bidding and awarding loan servicing contracts to its regional offices. Operating independently, each regional office established its own fee structures for paying the servicers that it hired.

The regional offices generally pay their loan servicing contractors two types of fees—a monthly servicing fee and a conversion fee for each loan transferred to them. Both of these fees are paid on a per loan basis. Also, these offices sometimes pay servicers a transfer-out fee on each loan RTC withdraws from them during the first 2 years of the contracts. The servicers may also be paid additional fees of various types for nonperforming loans, including foreclosure fees, management fees, and collection fees. Under some of the commercial loan servicing contracts, servicers are paid disposition fees on loans they sell and on loans that are withdrawn from them for sale by RTC. In addition to the above fees, loan servicers are reimbursed for some types of direct expenses, including legal fees and certain computer costs.

## Objectives, Scope, and Methodology

Our objectives were to (1) evaluate RTC's loan servicing contract requirements, fee structures, and costs and (2) determine the adequacy of RTC's oversight of loan servicing contractors.

To accomplish our first objective, we reviewed and compared contract requirements and the types and amounts of fees to be paid under RTC's loan servicing contracts that were active as of December 1992. We also visited two RTC loan servicing contractors to review their operations for servicing RTC's mortgages and loans. In addition, we analyzed data compiled by RTC to determine the number and book value of mortgages and loans serviced by each contractor and RTC's costs for loan servicing. Since RTC did not collect information on all of its loan servicing costs, we could not determine the total costs of specific contracts. Therefore, we used the conversion, monthly servicing, and transfer-out fees for performing loans under each of the 34 contracts to determine whether, when these fees were added together, loan servicing costs among the contracts varied widely within and among the contracting offices. Our analysis is provided in table 3.

This limited analysis does not identify the least costly contracts, and it should not be used for that purpose because all costs were not considered. We did not verify data provided by RTC on the number and book value of its mortgages and loans. We also did not analyze the characteristics of individual loans or loan portfolios to determine whether the servicing requirements of specific contracts were appropriate.

To accomplish our second objective, we assessed RTC's policies and procedures for monitoring the servicers' performance and interviewed responsible RTC headquarters and regional office officials. We also visited RTC's offices in Atlanta; Dallas; Kansas City, MO; and Newport Beach, CA, to review and document their procedures for awarding and overseeing loan servicing contracts.[3] In January 1993, near the end of our fieldwork, RTC implemented a new loan servicer oversight program, which responds to recommendations we made in our April 1992 report on inherited loan servicers.[4] We did not assess the adequacy of these new procedures as part of this review.

In October 1993, RTC provided written comments on a draft of this report. These comments have been addressed in the body of the report and are reprinted in appendix I.

We did our work from May 1992 through April 1993 in accordance with generally accepted government auditing standards.

[3]Until May 1992 RTC's Newport Beach, CA, office was under the jurisdiction of the Denver regional office. The Newport Beach office uses the loan servicing contracts awarded by the Denver office.

[4]GAO/GGD-92-76.

## RTC Offices Operated Independently in Competitively Bidding and Awarding Loan Servicing Contracts

RTC headquarters did not develop standard loan servicing contracts that could be used by all of its regional offices. Instead, RTC gave these offices authority to competitively bid and award contracts to service loans acquired from thrifts in their respective regions. At different times over the past 3 years, RTC offices in Atlanta; Dallas; Denver; Kansas City, MO; and Valley Forge, PA, each competitively bid and awarded their own loan servicing contracts. Despite common loan servicing needs, RTC did not require the regional offices to coordinate with each other in their loan servicing contracting. The offices were not required to share pertinent contracting information such as loan servicing requirements, servicers under contract, compensation schedules, and contractor performance evaluations.

## Loan Servicing Costs Varied Considerably Within and Among RTC Offices

RTC did not centrally manage its loan servicing contracting or require the regional offices to coordinate with each other. Instead, each regional office operated independently to establish its loan servicing arrangements. As a result, the loan servicing contracts varied considerably in the types and amounts of fees to be paid for servicing similar types of loans both within and among the regional offices.

RTC entered into 34 contracts with 23 commercial, consumer, and residential loan servicers. The types and amounts of fees under these contracts varied widely within each of these three major servicing categories. For example, monthly fees for servicing performing loans ranged from $5.62 to $150 per loan for commercial loans, from $4.25 to $13.50 for consumer loans, and from $2.98 to $7.50 for residential loans.

Similarly, conversion fees to be paid on each loan RTC transferred to servicers ranged from $15 to $285 for commercial loans, from $9.75 to $35 for consumer loans, and from $5 to $97.50 for residential loans. In addition, under 24 contracts, servicers were to be paid transfer-out fees for loans RTC withdrew from them during the first 2 years of the contracts. Fees for loans withdrawn during the first year under these contracts ranged from $119 to $900 per loan for commercial loans, from $5 to $35 for consumer loans, and from $.50 to $50 for residential loans. Table 2 shows the fees RTC's offices were obligated to pay their contractors to service performing commercial, consumer, and residential mortgages and loans.

**Table 2: RTC's Loan Servicing Fees for Performing Commercial, Consumer, and Residential Mortgages and Loans**

| Type/office | Contract | Conversion fee | Monthly fee | Transfer-out fee, 1st year | Transfer-out fee, 2nd year |
|---|---|---|---|---|---|
| **Commercial** | | | | | |
| Atlanta | A | $162.50 | $143.25 | $450.00 | $200.00 |
| | B | 285.00 | 119.00 | 119.00 | 75.00 |
| | C | 200.00 | 75.00 | 500.00 | 300.00 |
| | D | 140.00 | 99.00 | 900.00 | 750.00 |
| | E | 250.00 | 150.00 | 325.00 | 250.00 |
| | F | 115.00 | 43.00 | 225.00 | 110.00 |
| | G | 135.00 | 59.75 | 195.00 | 95.00 |
| | H | 35.00 | 110.00 | 200.00 | 100.00 |
| Dallas | A | $25.00 | $5.62 | $0 | $0 |
| | B | 25.00 | 7.00 | 0 | 0 |
| | C | 97.50 | 7.50 | 0 | 0 |
| Denver | A | $15.00 | $105.00 | $0 | $0 |
| | B | 100.00 | 58.00 | 0 | 0 |
| | C | 200.00 | 150.00 | 0 | 0 |
| Kansas City | A | $175.00 | [a] | $0 | $0 |
| Valley Forge | A | $50.15 | $24.20 | $115.00 | $65.00 |
| **Consumer** | | | | | |
| Atlanta | A | $14.85 | $13.50 | $16.00 | $12.00 |
| | B | 15.00 | 12.00 | 16.00 | 5.00 |
| | C | 10.00 | 10.00 | 35.00 | 30.00 |
| | D | 9.75 | 9.75 | 25.00 | 12.50 |
| Denver | A | $10.85 | $7.55 | $0 | $0 |
| | B | 18.00 | 4.25 | 0 | 0 |
| | C | 18.50 | 9.00 | 0 | 0 |
| Kansas City | A | $35.00 | [a] | $5.00 | $3.00 |
| **Residential** | | | | | |
| Atlanta | A | $25.00 | $6.88 | $25.00 | $25.00 |
| | B | 10.00 | 6.00 | 8.00 | 5.00 |
| | C | 15.00 | 6.00 | 50.00 | 30.00 |
| | D | 6.25 | 2.98 | 50.00 | 25.00 |
| | E | 5.00[b] | 6.85 | 30.00 | 15.00 |
| Dallas | A | $25.00 | $5.62 | $0 | $0 |
| | B | 25.00 | 7.00 | 0 | 0 |
| | C | 97.50 | 7.50 | 0 | 0 |
| Denver[b] | A | $5.00 | $5.95 | $.50 | $.50 |
| | B | 15.00 | 2.98 | 35.00 | 25.00 |
| | C | 6.00 | 6.85 | 30.00 | 20.00 |
| Kansas City | A | $91.00 | $7.50 | $25.00 | $25.00 |
| Valley Forge | A | $8.50 | $5.50 | $26.00 | $13.00 |

[a] Fee varies depending on loan balances.

[b] Fee amounts shown are for 1,000 or more loans.

Source: GAO compilation of RTC data.

We also noted differences among the contracts in the types and amounts of fees to be paid for servicing nonperforming loans in each servicing category. For example, foreclosure fees, to be paid under all of RTC's residential loan servicing contracts, ranged from $12 to $50 per loan. Furthermore, we observed differences in fees to be paid to the same loan servicer under similar types of contracts with different RTC offices. For example, two offices were obligated to pay conversion fees of $25 and $91, respectively, for each loan transferred to the same residential loan servicer. Finally, fees varied among similar types of contracts awarded by the same office. Under one office's commercial loan servicing contracts, monthly fees for servicing delinquent loans ranged from $4.50 to $215 per loan.

## Fee Structures in Some Contracts Conflicted With RTC's Disposition Strategies

Since its inception in 1989, RTC's asset disposition strategies have evolved. RTC has used various sizes and structures for loan sales transactions. Earlier sales strategies concentrated on smaller transactions by RTC staff and asset management contractors. Then RTC began to sell larger loan portfolios through its sales centers. In 1991, RTC began assembling loans into still larger packages and using them as collateral for new issues of marketable securities, a process known as securitization. Securitization has become RTC's preferred method for the quick disposition of large numbers of loans at one time. Through securitization, RTC had disposed of residential and commercial mortgages and other loans totaling about $35 billion by April 1993.

Although RTC was developing its own disposition strategies and methods, its Denver office, in June 1991, entered into two commercial loan servicing contracts that included provisions allowing servicers to sell the loans they were servicing. Under these enhanced servicing contracts, the servicers were to be paid disposition fees on loans they sold. In addition, the servicers were to be paid disposition fees on loans withdrawn from them for sale by RTC. Between June 1991 and February 1992, RTC paid one of these servicers about $1.8 million in disposition fees. RTC was obligated under the contract to pay these fees, even though all of the loans were withdrawn from this servicer for securitizations done by RTC.

Four months after its Denver office awarded these two contracts, RTC determined that the disposition fee provisions conflicted with its strategy to quickly dispose of loans through securitization. In October 1991, RTC asked these two servicers to agree to contract modifications that would eliminate disposition fees in the future. One servicer agreed to the modifications, but the other declined.

In March 1992, RTC and the servicer who declined to modify its contract mutually agreed to terminate the contract early. RTC withdrew all remaining loans from this servicer and, in consideration for this termination agreement, paid the servicer $7.2 million in disposition fees on about 1,600 loans. In total, RTC paid this servicer about $9 million in disposition fees and $4.4 million in other fees and expenses during the 8 months that the contract was in effect.

## RTC Lacks Information on Loan Servicing Costs

RTC did not have information on all of its costs under the loan servicing contracts. In October 1992, we asked RTC the amount it had paid in fees, expenses, and other costs for loan servicing. When RTC responded to our request in March 1993, it was not able to provide information on how many loans were charged each type of fee or how long each loan was serviced. In addition, RTC did not have information on the types and amounts of reimbursable expenses it paid the servicers or on the costs for loans subject to management, disposition, and collection fees.

This information is important because the contractors are servicing for RTC more than 193,000 loans with a total book value of $18 billion. RTC could be paying hundreds of thousands of dollars more under some offices' contracts than under similar contracts entered into by other offices. To the extent they are used by RTC, these higher cost contracts increase RTC's total loan servicing costs and the total cost of RTC's asset disposition efforts.[5]

Because RTC did not collect information on all of its loan servicing contract costs, we could not determine the total costs of specific contracts. Therefore, we used the fees for performing loans shown in table 2 (conversion fees, monthly servicing fees, and fees for loans withdrawn from servicers) to estimate RTC's costs per loan under each of the 34 contracts. Our analysis illustrates that when these fees are added together, loan servicing costs still vary considerably among the contracts within each of the three servicing categories. Table 3 shows the results of our limited analysis of the annual commercial, consumer, and residential loan servicing costs for 3 years after the effective date of each contract.

[5]At the time of our review, certain commercial loan servicing contracts were inactive, and no outstanding loans were assigned to them. RTC officials explained that these contracts provided additional servicing capacity, which could be used if needed.

**Table 3: Estimated Fixed-Fee for Each Performing Loan Under 34 RTC Loan Servicing Contracts**

Costs in rounded dollars

| | | Estimated fixed-fee costs per loan | | |
|---|---|---|---|---|
| Type/office | Contract | After 1 year | After 2 years | After 3 years |
| **Commercial** | | | | |
| Atlanta | A | $2,331 | $3,800 | $5,319 |
| | B | 1,832 | 3,216 | 4,569 |
| | C | 1,600 | 2,300 | 2,900 |
| | D | 2,228 | 3,266 | 3,704 |
| | E | 2,375 | 4,100 | 5,650 |
| | F | 856 | 1,257 | 1,663 |
| | G | 1,047 | 1,664 | 2,287 |
| | H | 1,555 | 2,775 | 3,995 |
| Dallas | A | $92 | $160 | $227 |
| | B | 109 | 193 | 277 |
| | C | 187 | 277 | 367 |
| Denver | A | $1,275 | $2,535 | $3,795 |
| | B | 796 | 1,492 | 2,188 |
| | C | 2,000 | 3,800 | 5,600 |
| Kansas City | A | [a] | [a] | [a] |
| Valley Forge | A | $456 | $696 | $921 |
| **Consumer** | | | | |
| Atlanta | A | $193 | $351 | $501 |
| | B | 175 | 308 | 447 |
| | C | 165 | 280 | 370 |
| | D | 150 | 254 | 359 |
| Denver | A | $101 | $192 | $283 |
| | B | 69 | 120 | 171 |
| | C | 126 | 234 | 342 |
| Kansas City | A | NA | NA | NA |
| **Residential** | | | | |
| Atlanta | A | $133 | $215 | $273 |
| | B | 90 | 159 | 226 |
| | C | 137 | 189 | 231 |
| | D | 92 | 103 | 113 |
| | E | 117 | 184 | 252 |
| Dallas[b] | A | $92 | $160 | $227 |
| | B | 109 | 193 | 277 |
| | C | 187 | 277 | 367 |
| Denver | A | $77 | $148 | $219 |
| | B | 86 | 111 | 122 |
| | C | 118 | 190 | 253 |
| Kansas City | A | $206 | $296 | $361 |
| Valley Forge[b] | A | $100 | $153 | $206 |

(Table notes on next page)

[a]We could not calculate costs because fees vary depending on loan balances.

[b]Dallas and Valley Forge had not awarded consumer loan contracts as of December 1992.

Source: GAO analysis of RTC data.

Our analysis indicated that loan servicing costs could range from $92 to $2,331 per loan transferred to and withdrawn from a commercial loan servicer after 1 year of servicing. If 100 loans were serviced under each contract, the difference in costs between the high and low contracts would be $223,900 in the first year of the contracts. After 2 years, the difference would be $364,000. We recognize that an analysis of loan servicing costs to identify the least costly contracts would require all costs to be included; however, RTC did not collect sufficient data to perform this analysis. Also, other factors in addition to cost should be considered when identifying the most efficient servicers.[6]

RTC could have avoided paying higher fees under some contracts by assigning loans to servicers with lower costs. However, because RTC did not collect information on all of its costs under the various contracts, it could not determine which contracts offered the best value. In addition, better information on loan servicing costs could help RTC determine the most cost-effective fee structures for future loan servicing contracts.

In March 1993, in responding to a series of questions about RTC's loan servicing contracting, RTC's Senior Vice President and Chief Financial Officer stated that RTC agreed that its servicers should be shared among its offices. However, he pointed out that a preliminary review of the solicitation and statement of work for each contract must be completed by a contracting officer and legal counsel to ensure that there are no restrictions that would prevent additional offices from using the servicer.

## RTC Has Improved Its Oversight of Loan Servicing Contractors

RTC has taken several actions to coordinate its regional offices' oversight of loan servicing contractors. When we started our work, several RTC offices were routinely conducting on-site performance reviews of the same loan servicers. In one instance, RTC staff from 6 offices visited the same loan servicer a total of 15 times in 1 year. In addition, RTC did not have standard criteria for evaluating loan servicers or a system to share the results of the performance reviews among offices that contracted with the same servicers.

[6]In some cases, higher initial costs could be justified by superior contractor performance or the availability of additional servicing capacity.

We discussed these practices with RTC regional office and headquarters officials several times during our fieldwork. In each case, they agreed that it was important to have a nationwide program for overseeing loan servicers and sharing information on servicers' performance.

In January 1993, RTC initiated a national loan servicer oversight program that has increased coordination among offices in overseeing contractors. The oversight program defines the roles and responsibilities of RTC's program offices, Office of Inspector General, and Office of Contractor Oversight and Surveillance in assessing the performance of loan servicers. It includes a coordinated schedule for contractor visitations and audits and criteria for evaluating the servicers' performance. This program should facilitate information-sharing among contract oversight managers, asset operations staff, and asset management specialists.

## Conclusions

Because mortgages and loans represent a significant portion of the assets under its control, RTC makes extensive use of loan servicing contractors to collect and remit borrowers' loan payments. Allowing each regional office to operate independently in competitively bidding and awarding its own loan servicing contracts has increased RTC's total loan servicing costs. Fees for services under some offices' loan servicing contracts were considerably higher than in similar contracts entered into by other offices. Furthermore, fee structures in some contracts conflicted with RTC's asset disposition strategies. One loan servicer was paid about $9 million in disposition fees on loans RTC had disposed of through securitization. These added costs increase the total cost of RTC's asset disposition efforts.

In addition, RTC needs to improve its information on loan servicing costs. Without information on all of the costs under its contracts, RTC cannot identify its least costly contracts. Also, RTC cannot effectively monitor the fees charged by contractors or establish cost-effective fee structures in future contracts. We believe that RTC needs to improve the coordination and sharing of information among its headquarters and regional offices to adequately plan future loan servicing contracts and establish appropriate fee structures.

RTC has improved its oversight of loan servicing contractors by establishing a coordinated national oversight program involving headquarters and regional office staff. We believe that, if they are properly implemented, the steps taken under this program should enable RTC to adequately oversee and assess contractor performance. However, we did not assess whether the procedures issued in January 1993 have achieved this objective.

## Recommendations

To improve loan servicing contracting practices, we recommend that you direct the Chief Financial Officer and the Senior Vice President for Asset Management and Sales to routinely collect the information needed to monitor loan servicing fees and expenses and use this information to develop cost-effective compensation structures in future contracts.

We also recommend that you require the Office of Contracts, under the Vice President, Division of Administration and Corporate Relations, to direct and coordinate all loan servicing contract solicitations and to ensure that the contracts include standard provisions allowing their use by all RTC offices.

## Agency Comments

In August 1993, we discussed the contents of this report with RTC officials responsible for asset management, asset operations, contracting, and contractor oversight. In summary, they stated that more emphasis should be placed on loan servicing contract requirements, the availability and use of specific contracts, RTC's assessment of contractor performance, and the competitive bidding process for loan servicing contracts. Their comments and suggestions have been incorporated into this report where appropriate.

In October 1993, the RTC Chief Financial Officer provided written comments on a draft of this report. In its written comments, RTC stated that it fully supports the recommendations contained in the report and that it has taken or is taking steps to implement the recommendations. These actions should accomplish the objectives of our recommendations if they are properly implemented. RTC's written comments are presented in appendix I.

Since RTC was created as a mixed-ownership government corporation, it is not required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the House and Senate Committees on Appropriations. However, we would appreciate receiving such a statement within 60 days of the date of this letter to assist our follow-up actions and allow us to keep the appropriate congressional committees informed of RTC activities.

We will provide copies of this report to interested congressional members and committees and the Chairman of the Thrift Depositor Protection Oversight Board. We will also provide copies to others upon request.

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

Sincerely yours,

Gaston L. Gianni

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

# Comments From the Resolution Trust Corporation

RTC
RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

Chief Financial Officer

October 19, 1993

Mr. Gaston L. Gianni Jr.
Associate Director, Government
Business Operations Issues
General Accounting Office
1717 H Street, N. W.
Washington, D. C. 20434

Dear Mr. Gianni:

Mr. Altman has requested that I respond to your August 12, 1993, draft report entitled Resolution Trust Corporation: Better Information Could Enhance Controls Over Loan Servicing Costs. The Corporation fully supports both recommendations contained in the draft report.

With respect to the two recommendations, the following information is provided to update you on the current status of the Corporation's efforts to address the issues contained in the draft report.

The first recommendation suggests that the Corporation identify critical information needed to monitor loan servicing fees and expenses and collect and use this information to develop cost-effective compensation structures in future contracts. Under the direction of the Chief Financial Officer and the Senior Vice President for Asset Management and Sales, the Corporation has taken the following steps to improve its information on loan servicing costs. The specific information and programs developed or in the process of being developed include the following:

1. Monthly servicer monitoring reports for use by oversight managers.
2. An inventory of all loan servicers.
3. A loan servicing fee comparison schedule.
4. A loan servicing cost comparison schedule.
5. A loan servicer oversight manager list.
6. A loan servicer oversight program.
7. A program to compare private sector costs and fees with costs and fees incurred by the RTC.

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- 2 -

The second recommendation suggests that the Office of Contracts review and coordinate all loan servicing contract solicitations and their compensation structures and to ensure that they include standard provisions allowing their use by other RTC offices.

The Office of Contract Operations and the Asset Management Program Office are developing a standard loan servicing statement of work for each of several basic asset types. This statement of work will be incorporated in the latest standard RTC contract document for use by RTC offices. Compensation structures and solicitations will be reviewed by the Office of Contracts to ensure that they include standard provisions and that they conform to the RTC Contract Policies and Procedures Manual.

We appreciate the opportunity to have worked with your staff during this review. If you have any questions concerning our comments or would like to discuss them further, please contact me directly or Jim Wigand at (202) 416-7133.

Sincerely,

Donna H. Cunningham

Donna H. Cunninghame

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