United States General Accounting Office

GAO

Report to the Deputy and Acting Chief Executive Officer, Resolution Trust Corporation

April 1995

RESOLUTION TRUST CORPORATION

Evaluations Needed to Identify the Most Effective Land Sales Methods

GAO/GGD-95-43

GAO

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

General Government Division

B-259496

April 13, 1995

Mr. John E. Ryan
Deputy and Acting
Chief Executive Officer
Resolution Trust Corporation

Dear Mr. Ryan:

As you know, the Resolution Trust Corporation (RTC) classifies land as a hard-to-sell asset because of certain barriers to disposition, such as weak demand for undeveloped land, lack of financing sources, and negative cash flow generated by many of these assets. Also, compared to real estate that has been developed and has buildings on it, there is less market demand for undeveloped land. In many cases, brokers are more inclined to include developed real estate in multiple listings because they have more confidence that such real estate sells more easily and quickly than undeveloped land. As a result, not as many brokers get involved with trying to sell undeveloped land compared with those selling developed real estate.

In January 1993, RTC had about $17.5 billion, in book value, in land and loans secured by land under its control. At about that time, RTC began to intensify its efforts to sell these assets. As part of our continuing oversight of RTC, we reviewed its land disposition activities to find out how it was dealing with the challenges posed by these assets. We wanted to determine whether RTC had developed and implemented a strategy for disposing of its land assets and if it had assessed the results of its land sales initiatives to identify the most cost-effective disposition methods and best practices.

Results in Brief

RTC adopted a land disposition strategy in May 1992. To develop this strategy, it formed a land task force to analyze its land inventory and propose a strategy for disposing of the remaining land assets. During the 18-month period between January 1993 and June 1994, using a variety of disposition methods included in this strategy, RTC disposed of about $16 billion (book value) in land and loans secured by land. As of February 1995, RTC had about $850 million in these types of assets remaining in its unsold inventory.

RTC's directive implementing its land sales strategy stated that each sales initiative would be evaluated by the land task force to identify the most effective methods of land disposition. However, even though RTC prepared budgets for the individual land sales initiatives and had the mechanism in place to capture the actual expense data, it did not (1) develop a formal procedure to collect all the actual expense data related to each sales initiative and (2) establish a standard methodology for evaluating the results of individual land sales initiatives. Consequently, RTC could neither compute net recoveries nor identify the most cost-effective sales initiatives and best practices, nor could it analyze expense variations and use the results of such analyses to better manage future land sales initiatives. Without analyzing variations in expenses, RTC could not determine which marketing techniques yielded the best return for the lowest expense given the characteristics of the assets being offered for sale.

The required evaluations were not done to analyze results of each land sales initiative or to compare results between or among initiatives. Furthermore, RTC did not use its annual program compliance review process, through which it normally assesses compliance with policies and procedural requirements, to determine whether the required evaluations were being prepared. Had this been done, RTC would likely have recognized that there were procedural deficiencies that were preventing the implementation of the evaluation requirement.

In June 1994, we briefed RTC management on the results of our review of their land sales activities. In August 1994, in response to this briefing and our prior recommendation,[1] RTC issued a directive requiring that the budgeted and actual sales expenses for each multiasset sales initiative be documented. The directive requires (1) a sales budget to be prepared for each multiasset sales initiative, including initiatives to sell land assets, and that this budget be included in the case memorandum requesting authority to proceed with the sales initiative; and (2) actual sales expenses to be compiled and entered onto a copy of the original budget no later than 90 days after the sale closing. These procedures, if properly implemented, should capture the data RTC needs to evaluate the cost effectiveness of different sales methods and monitor sales expenses to identify the most effective marketing and sales techniques and best practices.

Background

RTC's sales centers planned and carried out land sales initiatives. Asset marketing specialists at the National Sales Center and in regional sales centers developed disposition plans, identified the assets to be offered for

[1]In Resolution Trust Corporation: Data Limitations Impaired Analysis of Sales Methods (GAO/GGD-93-139, Sept. 27, 1993), we recommended that RTC improve its methods for collecting and summarizing sales and financial data.

sale in the initiatives, and obtained approval from RTC management to carry out the sales initiatives. Initiatives offering assets with a combined book value in excess of $250 million required RTC headquarters approval. Field offices were permitted to approve their own sales initiatives when the book value of the assets being offered totaled $250 million or less.

In December 1993, RTC issued its business plan. In developing the plan, RTC used a standard methodology to comparatively evaluate the net recoveries from similar asset types sold through different disposition methods. Similar expense data, but not all expense data, were gathered for relevant transactions and, according to RTC, standard methodologies were used to evaluate all types of equity partnerships, large sealed bids/portfolio sales, and auctions, respectively. However, at the time these evaluations were done, the most significant land sales initiatives using alternative disposition methods, such as the Multiple Investor Fund and equity partnership structures, had not yet closed. Therefore, land was not included in the business plan analysis as a separate asset type. In 1993, RTC decided to test the equity partnership structure for land (Land Fund I). It then became more important for RTC to assess relative recoveries of distinct disposition methods.

Also, in December 1993, the RTC Completion Act of 1993 established various requirements for the disposition of real property, including land and nonperforming loans secured by real estate. The act required that before such assets are offered in a bulk transaction, RTC must determine in writing that a bulk transfer would maximize the net recovery to RTC while providing an opportunity for broad participation by qualified bidders, including minority- and women-owned businesses.[2] The required written justifications are to be included in the case submitted to RTC management to obtain approval for each land sales initiative.

Objectives, Scope, and Methodology

We reviewed RTC's land disposition activities to determine how RTC was dealing with its land assets inventory. Our objectives were to determine whether RTC had (1) developed and implemented a strategy for disposing of its land assets and (2) assessed the results of its land sales initiatives to identify the most cost-effective disposition methods and best practices.

To accomplish our first objective, we reviewed the November 1991 Land Task Force strategy paper and RTC's directive implementing the land

[2]The RTC Completion Act specifically exempted the following assets from this requirement: (1) real property with a book value of not more than $400,000, (2) nonperforming real estate loans with a book value of not more than $1 million, and (3) assets included in certain thrift resolution transactions.

disposition strategy. We interviewed the head of the task force to discuss the (1) basis for RTC's strategy, (2) results of the land inventory evaluations done by the task force, and (3) land sales initiatives RTC planned to implement in 1993. We also interviewed RTC headquarters officials in Washington, D.C.; and contacted field office officials in Atlanta; Dallas; Denver; Kansas City; Newport Beach, CA; and Valley Forge, PA. We obtained information on the implementation of RTC's land disposition policy and related policies and procedures, inventories of land and loans secured by land, land sales initiatives and their results, and land sales initiatives in the planning stage.

To accomplish our second objective, we reviewed 6 of the 13 land sales initiatives RTC's National Sales Center planned to implement in 1993. These initiatives were judgmentally selected to represent a cross-section of the types of land sales strategies used by RTC, the ways RTC pooled assets for land sales initiatives, and size of initiatives in terms of number of assets offered for sale. The selected initiatives included five different sales strategies and five different ways to pool the assets. The size of the initiatives ranged from 35 to 410 assets. (App. I lists the 1993 National Sales Center initiatives and identifies those we reviewed.) We also reviewed an auction—the Pride of Texas—planned by the Dallas field office. We selected this initiative because it provided an example of a field office initiative involving land assets located in a local area with national advertising.

For each of the seven land sales initiatives we selected for review, we interviewed the RTC asset marketing specialists in Washington, D.C., and one in Dallas who planned and executed the selected initiatives. These individuals provided documents relating to each initiative, including case approvals and listings of assets reserved for the initiatives. In these interviews, we also discussed the availability and sources of sales expense data for the initiatives we reviewed and obtained copies of all expense data that these asset marketing specialists had in their files.

We focused on direct costs associated with the initiatives and not on other costs incurred by RTC, such as indirect overhead and asset management and disposition fees, because RTC would have incurred these costs even if the bulk sales had not been implemented. The costs we attempted to determine are listed in appendix II.

We also attempted to obtain cost data that RTC could not provide from the contractors it had hired to carry out the initiatives we reviewed. We contacted 11 RTC contractors providing financial advisory, due diligence, and auctioneer services for the selected land sales initiatives to get information about the services they provided and the fees they billed to RTC for these services. We also contacted RTC's Office of Inspector General to discuss work done on contractor billings for services provided on two of the initiatives we reviewed.

Finally, we interviewed RTC headquarters officials from the National Sales Center, Office of Contract Operations, Management Information Division, and Department of Corporate Finance, as well as field office officials in Dallas, to determine whether the results of individual land sale initiatives were evaluated.

We also reviewed reports on the results of 1992, 1993, and 1994 program compliance reviews to determine whether reviewing officials were assessing compliance with the land sales initiative policy directive.

On February 6, 1995, we met with RTC's Vice President for Asset Marketing, RTC officials representing the National Sales Center, the Office of Contracts, and the Chief Financial Officer to discuss a draft of this report. Their comments were considered and have been incorporated into the report where appropriate. On March 3, 1995, RTC provided written comments on a draft of this report, which are evaluated in the agency comments section and elsewhere in the report where appropriate. RTC's written comments are reprinted in appendix IV.

We did our work between January 1993 and December 1994 in accordance with generally accepted government auditing standards.

Land Sales Strategy Development and Implementation

Until the summer of 1991, RTC did not place a high priority on the disposition of land assets. Instead, priority was given to other asset categories that could be disposed of quickly, such as securities and residential mortgages—of which RTC had a large inventory—and commercial and residential real estate that had greater holding costs. The experience RTC gained through the disposition of other types of hard-to-sell assets, such as nonperforming commercial real estate loans, paved the way for structuring of land sales.

Recognizing the challenge posed by land assets, RTC formed a land task force in the summer of 1991 to analyze its land inventory and develop a strategy for disposing of these assets.[3] The task force estimated that, continuing at RTC's then average annual rate of land sales, it would take RTC over 16 years to dispose of its remaining land assets. Initially, land was offered on a sealed bid or auction basis, and later in various forms of equity partnerships. RTC had not yet tested the market for equity partnerships when the Land Task Force issued its strategy paper.

In its November 1991 strategy paper, the task force recommended that RTC use specific types of sales methods to dispose of land assets and select assets for initiatives that were similar in size, type, and location to respond to investor preferences. The specific sales methods recommended by the task force included (1) auctions for land assets with book values under $1 million, (2) local promotional campaigns for land assets with book values ranging from $1 million to $5 million, (3) sealed bid offerings for land assets with book values over $5 million, and (4) solicited proposals from qualified investors for portfolios of large land assets with an aggregate book value in excess of $100 million.[4]

In May 1992, RTC issued its land sales directive, Circular 10300.23 entitled Land Sales Strategies and Programs. This directive incorporated the task force's recommendations into RTC's guidelines for establishing and implementing land sales strategies. In implementing the task force's recommendation to solicit proposals from investors, the directive specified two possible initiatives: (1) multiple investor funds for pools of land assets ranging from $1 billion to $2 billion in total book value and (2) competitive solicitations of qualified individual investors for large portfolios of land assets with an aggregate book value of less than $1 billion.

The directive required RTC field offices to identify available land assets and develop plans for their disposition. These plans were to include (1) an analysis of available land assets, (2) a list of the land sale initiatives planned or in process and their sales goals, and (3) a separate marketing plan for each individual land asset with a book value of $5 million or more. The directive emphasized the importance of ensuring that land assets be carefully evaluated before being included in a specific sales initiative to ensure that the proper sales method is selected.

[3]This analysis did not include loans secured by land because RTC lacked a reliable consolidated inventory.

[4]Qualified investors are those that have the financial resources, knowledge, and ability to handle these large transactions.

In choosing a sales method for an initiative, the offices were to select the one that was most appropriate for the types of land assets to be offered for sale. The directive also required that the sales method selected satisfy RTC's mandate to achieve the highest net recovery on the sale of assets while avoiding disruptions in local real estate markets. Finally, the directive required the land task force to (1) review field office initiative plans for consistency and compliance with recommended land policies and sales methods and (2) evaluate the results of land sales initiatives at the completion of each initiative and identify which sales methods are most effective.

Using the various sales methods set forth in the land sales strategy directive, RTC disposed of about $16 billion (book value) in land and loans secured by land during 1993 and the first half of 1994. RTC figures showed that it had about $4.6 billion (book value) in land and nonperforming loans secured by land remaining in its asset inventory as of April 30, 1994.[5] By the end of February 1995, RTC indicated that it had reduced its inventory of these types of assets to about $850 million.

RTC has until December 31, 1995, to complete any land sales initiatives it undertakes. The RTC Completion Act of 1993 set this date for RTC to cease its operations. Any assets remaining in RTC's inventory at that time will be transferred to the Federal Deposit Insurance Corporation (FDIC) for disposition. As part of the planning process for transitioning to FDIC, RTC is to identify its best practices, which should be considered for use by FDIC. RTC believes that the recovery analysis it is doing on the various disposition methods it uses will help it accomplish this task. In addition, RTC believes this analysis should help FDIC as it considers alternate disposition methods for its own inventory of land and other assets and for similar assets it inherits from RTC in December 1995.

Results of Land Sales Initiatives Were Not Evaluated

RTC policy required the results of land sales initiatives to be evaluated. However, RTC did not (1) establish a standard methodology for making the required evaluations, (2) perform the evaluations, or (3) take adequate steps to ensure that these evaluations were done. Also, RTC did not develop a formal procedure to capture the expense data needed to calculate the net recoveries on the sale of land assets. As a result, RTC could not assess the relative cost effectiveness of the various sales methods it used. Relative cost effectiveness was a key component to be used in the required

[5]The $4.6 billion figure, which was the latest available at the time we finished our fieldwork, included unsold assets of these types that were placed under RTC's control during 1993 and the first 4 months of 1994, in addition to those that were in the inventory before the beginning of 1993.

evaluations since they were meant to identify the most effective methods. RTC also did not have the data needed to analyze expense variations and thus could not use this information to better manage future land sales initiatives.

Evaluation Methodology Was Not Developed

In its May 1992 directive on land sales strategies, RTC underscored the importance of sales initiative evaluations in satisfying its mandate to maximize net recoveries on the sale of assets under its control. It required that the results of land sales initiatives be evaluated at the completion of each initiative to identify the most effective sales methods. Nevertheless, a standard methodology to evaluate initiative results was not developed by either the land task force, which was to do the required evaluations, or other units within RTC. A standard methodology is necessary to ensure that RTC collects and considers similar data for each initiative to consistently assess the results of the initiatives to identify the most cost-effective sales techniques and best practices. Furthermore, no evaluations were done by RTC staff to comply with the land sales directive requirement.

RTC normally uses its program compliance reviews to evaluate the various RTC offices' compliance with RTC policies and procedural requirements in executing the Corporation's various business functions. One of the purposes of the program compliance review process is to identify procedural deficiencies that hamper or prevent the implementation of policy requirement. However, our review of the program compliance reports showed that these reviews, which have been done at least annually since RTC's inception, were not used to determine whether the land sales initiative evaluation requirement was being implemented throughout RTC.

Actual Expense Data Were Not Being Collected

Expense data are needed, by definition, to compute net recoveries from the land sales initiatives and evaluate the results of these initiatives compared to other disposition methods. While RTC management acknowledged the importance of evaluating sales initiative results, they did not establish adequate policies and procedures to ensure that all essential actual expense data needed to make the net recovery calculations were collected.[6] As a result, RTC did not compute the net recoveries for the land sales initiatives, identify the most cost-effective

[6]In February 1994, RTC issued policies and procedures requiring data on marketing expenses and commissions for auctions to be collected. However, these policies and procedures (1) did not require data on other auctions' expenses to be collected and (2) were not applicable to other types of sales initiatives.

initiatives and best practices, refine its land disposition strategies, or analyze expense variations to better manage future land sales initiatives.

Because RTC procedures did not require them to do so, asset marketing specialists generally did not monitor total sales initiative expenses or use the land sales initiative budgets to control costs and identify costly practices. Also, RTC's systems could not generate expense reports on the individual land sales initiatives. RTC's Financial Management System (FMS), except for auctions, lacked codes needed to sort expense data by sales initiative. RTC expanded the list of FMS codes in 1994; however, codes were not set up for all sales initiatives planned for 1994 and 1995. The lack of (1) FMS codes and (2) formal compilation of actual sales initiative expenses prevented RTC and us from getting data by sales initiative to evaluate and compare the results between and among sales initiatives.

Two of the five asset marketing specialists who managed the National Sales Center initiatives we reviewed provided partial expense data obtained from a portfolio sales adviser and other contractors hired to help carry out the initiatives. However, the three other specialists were not able to provide similar data. The National Sales Center maintained a system with some expense data, including contracted financial sales advisory and due diligence services and some marketing expenses. However, this system did not capture data for other expenses, such as legal services and advertising.

Because RTC did not collect complete data for all the expenses incurred to implement individual land sales initiatives, we attempted to obtain the missing data from other sources for the land sales initiatives we reviewed. We identified, primarily from contractor records, almost $49 million in expenses incurred on the seven land sales initiatives we reviewed. However, we were unable to locate complete data for all of the expenses for each of the initiatives. Mainly, we located data on contracting fees incurred to carry out the initiatives as well as certain other sales initiative expenses incurred for legal services, advertising, and the facilities used to conduct the sale.

We included all amounts invoiced by RTC's contractors that we located. Some of the due diligence fees, totaling millions of dollars, for several initiatives were being disputed by RTC at the time of our review; and we were not certain how the fees dispute would be resolved. For the East Coast Land Sale, we were unable to break out invoiced expenses for due diligence services between that initiative and other initiatives commingled in the billing. For three of the seven initiatives, data we located lacked the detail needed to identify amounts for several expense categories, such as marketing brochures, asset information packages, the due diligence library, and travel, due to commingling of expenses.

We identified expense data for most of the expense categories for five of the seven land sale initiatives we reviewed. For these five initiatives, there were large variations in the amounts spent within the various expense categories as well as in the total expenses RTC incurred. Some of the variation within the expense categories and among sales initiatives can be attributed to differences in the numbers, locations, and quality of assets included in the initiatives. However, because RTC did not do comparative analyses, explicit reasons for most of the variations were not determined.

We Previously Reported a Lack of Adequate Program Evaluations

In September 1993, we reported on RTC's lack of adequate evaluation of sales program results and its failure to collect essential cost data needed to measure program effectiveness.[7] We said that if RTC had accurate information on asset characteristics, revenues, expenses, holding periods, gross and net proceeds, and sales methods by asset type, it could more effectively manage its disposition program and evaluate the results of its various sales methods. We concluded that data limitations impaired RTC's analysis of the sales methods it used and recommended that RTC improve its methods for collecting and summarizing asset sales and financial data to maximize recoveries on its hard-to-sell assets.

We also reported, in December 1993, that there were substantial variations in fees paid for similar loan servicing services.[8] We concluded that without information on all the costs under its loan servicing contracts, RTC could not effectively monitor the fees charged by contractors or establish cost-effective fee structures. We recommended that RTC 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. RTC has implemented the recommendations we made in that report. It is monitoring its loan servicing fees and expenses and using this information in awarding new contracts.

[7]GAO/GGD-93-139, Sept. 27, 1993.

[8]Resolution Trust Corporation: Better Information Could Enhance Controls Over Loan Servicing Costs (GAO/GGD-94-41, Dec. 22, 1993).

RTC Has Taken Actions to Collect Data Needed to Evaluate Sales Initiatives

On June 28, 1994, we briefed RTC management on the results of our work on land sales initiatives. In response to this briefing and our September 1993 data limitations report recommendation that RTC improve its methods for collecting and summarizing asset sales and financial data, RTC took actions to address the concerns we raised. RTC acknowledged that although information regarding the amount of gross sales proceeds from past multiasset sales transactions was readily available, the amount of corresponding sales expenses can only be determined after substantial research. It also acknowledged that documentation of estimated and actual sales expenses for each multiasset sale would be useful in determining the effectiveness of different sales methods and for monitoring sales expense data.

On August 15, 1994, RTC issued a directive, Circular 10300.39 entitled Multi-Asset Sales Transactions Budgets, to establish procedures for tracking multiasset sales expenses. This directive applies to all multiasset sales initiatives, regardless of type, developed by RTC or any of its contractors for the disposition of loans, real estate, or other assets.

The procedures in the new directive, which became effective for all relevant sales cases approved after July 31, 1994, require (1) a sales budget to be prepared for each multiasset sales initiative that must be submitted with the case memorandum requesting authority to proceed with the initiative and (2) actual sales expenses to be compiled and entered onto a copy of the original budget no later than 90 days after the sale closing (transfer of title). To ensure consistency, a standard multiasset sales transaction budget format (see app. III) was developed that must be used to record budget and expense information.

The directive assigns responsibility for ensuring that the sales budget is completed and updated to the individual responsible for managing the initiative. This individual is to coordinate with legal, contracting, and other parties as needed to obtain estimated and final sales-related expense data.

Conclusions

RTC has developed a strategy for disposing of its remaining land assets, and during 1993 it implemented a variety of land sales initiatives to dispose of these assets. Although RTC required each land sales initiative to be evaluated, it did not develop a standard methodology for these evaluations, nor were the required evaluations done. Consequently, RTC could not assess the relative cost effectiveness of the various land sales methods it used. Furthermore, RTC did not assess the implementation of the evaluation requirement through its program compliance reviews to ensure that policies and procedural requirements were being executed properly and consistently. Had RTC used these reviews, it likely would have recognized that there were procedural deficiencies that were preventing the implementation of the land sales initiative evaluation requirement.

Until August 1994, RTC did not have adequate policies and procedures to collect the essential expense data needed to compute the net recoveries from individual land sales initiatives. As a result, RTC could not identify the most cost-effective initiatives, refine its land disposition strategies based on results, or analyze expense variations to better manage future land sales initiatives. We believe it is important that RTC evaluate its land sales initiatives because they would provide valuable best practices information that would be of interest to FDIC as it decides which, if any, RTC asset disposition strategies it may want to adopt as RTC's operations transition into FDIC.

In August 1994, RTC issued procedures requiring sales budgets to be prepared and data to be collected on actual sales expenses. These procedures, if properly implemented, should provide the data RTC needs to evaluate the results of land sales initiatives, including those focused specifically on land and nonperforming loans secured by land. The original sales budget should enable RTC to better determine the appropriate delegated authority approval level for the sales initiatives. The actual sales expense data, along with other relevant information, should enable RTC to evaluate the effectiveness of different sales initiatives and monitor sales-related expenses to identify the most effective marketing and sales techniques. However, RTC still needs to develop a standard evaluation methodology to consistently assess the results of land sales initiatives at the completion of each land sales initiative to identify the most cost-effective sales techniques and best practices.

Recommendations

We recommend that RTC's Deputy and Acting Chief Executive Officer direct the Vice President of Asset Sales and Management to

- develop an appropriate standard methodology for evaluating the results of land sales initiatives, and
- ensure that required evaluations are done at the completion of each land sales initiative to identify the best sales methods, most effective marketing techniques, and promote their use on future land sale initiatives.

Agency Comments

On February 6, 1995, we met with RTC's Vice President for Asset Marketing, RTC officials representing the National Sales Center, the Office of Contracts, and the Chief Financial Officer to discuss a draft of this report. In summary, they said that they generally concurred with the findings and conclusions as presented in the report. They offered various suggestions to clarify the discussion of their use of sales initiative budgets and their inability to compile all the actual expense data needed to do the required evaluations of individual land sales initiatives. Their comments were considered and have been incorporated into the report where appropriate.

On March 3, 1995, RTC provided written comments (see app. IV) on the draft of this report. In this response, RTC agreed with our recommendations, described the actions being taken to implement them, and offered some general comments on RTC's land disposition methods. RTC said that it has implemented (1) a standard methodology, which is being updated, for evaluating the results of all major sales initiatives and (2) a system in which the results of sales are being captured for a quarterly formal comparative recovery rate analysis report. If the sales data are not submitted after the sale, RTC said a follow-up request is sent to the staff conducting the sale. In addition, RTC said that it will evaluate enhancing its internal control review process to test for compliance with the evaluation requirement. If effectively implemented, we believe that the actions taken and planned by RTC should address the issues discussed in this report.

In its general comments, RTC said that while the actual results of equity partnership structures will not be known with accuracy for years, its estimates made after transaction closings suggest that equity partnerships generally will exceed recoveries from other disposition methods. We are not in a position to comment on whether, in the long term, using equity partnerships will maximize the recoveries from asset sales.

Because 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 in our follow-up actions and to enable us to keep the appropriate congressional committees informed of RTC activities.

We are sending copies of this report to interested congressional members and committees and the Chairmen of the Thrift Depositor Protection Oversight Board and the Federal Deposit Insurance Corporation. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix V. If you or your staff have any questions concerning this report, please call me on (202) 736-0479.

Sincerely yours,

Gaston L. Gianni

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

Contents

Abbreviations

FDIC	Federal Deposit Insurance Corporation
FMS	Financial Management System
RTC	Resolution Trust Corporation

RTC National Sales Center 1993 Land Sales Initiatives

Name	Type
Bell Federal Savings	Sealed bid for asset portfolios
California land loan sale	Sealed bid for land loan portfolios
East coast land sale[a]	Sealed bid for asset portfolios
Enviro II	Sealed bid for asset portfolios
Great American Land II	Sealed bid for asset portfolios
Land Fund I[a]	Joint venture partnership
Landmark I[a]	Auction of individual assets
Local featured sale[a]	Negotiated sale of individual assets using financial advisors and asset management contractors
Maco III	Joint venture partnership
National sealed bid sale[a]	Sealed bid for individual assets
San Jacinto II-A	Sealed bid for asset portfolios of land loans and other real estate secured loans
Southwest I and II[a]	Sealed bid for asset portfolios
Texas land competitive solicitation	Sealed bid for asset portfolios

[a]Initiatives we selected for review.

Source: RTC National Sales Center.

Expenses GAO Attempted to Determine

Marketing

Financial advisory services fees and commissions
Portfolio advisory services fees and commissions
Auctioneers' fees and commissions
Advertising (e.g., newsprint, radio) expenses
Marketing brochure expenses

Asset Preparation

Due diligence services fees
Due diligence quality assurance services fees
Legal due diligence (land use) fees
Asset information package expenses

Miscellaneous

Auction facilities
Due diligence library facilities
Future servicing
Other legal services
Seminar facilities
Travel
Miscellaneous

RTC Data Collection Form for Sales Initiative Budget and Expense Data

Attachment

MULTI–ASSET SALES TRANSACTION BUDGET

Budget Prepared by:__________
Date Prepared:__________
Type of Sale:__________
Type of Assets:__________
Est. Asset Count:__________
Est. Asset Book Value:__________
Est. Mkt Value:__________
Est. Closing Date:__________

To Be Completed After Closing
No. of Assets Closing:__________
Book Value at Closing:__________
Date of Closing:__________
Gross Sales Price:__________
Actual Expenses__________
Expenses/Sales Price__________

Date:	Original Budget	Actual Expenses*	Dollar Variance	Percentage Variance [+ or −]
Preparation of Assets for Sale:				
Loan Sale Advisor				
Due Diligence Fees				
Title Commitment/Title Updates				
Surveys				
Appraisals/Appraisal Review				
Environmental–Phase I Reports/Review				
Environmental–Phase II Reports/Review				
Environmental Remediation				
Legal – Title Issues Clean–up				
Legal – Sale Documents/Other				
Other:__________				
Other:__________				
Marketing the Portfolio for Sale:				
Financial Advisory Fees				
Brokerage Fees				
War Room: The space, the man hours, the furniture and copy charges				
Advertising -- The Wall Street Journal				
Advertising – Other				
Information Packages–Printing and Mailing				
Brochure/Catalogs–Printing and Mailing				
Bidder Conferences–Travel, Facilities, etc.				
Detailed Information Package (DIPS)				
Bidder Packages–Printing and Mailing				
Auction Fees				
Other Auction Expenses				
Other__________				
Other:__________				
Other:__________				
Closing Costs:				
Title insurance costs paid by the seller				
Pre & Post–closing Due Diligence Advisory fee work (Preparation of Asset Allocation Statement)				
Underwriting Fees				
Title company escrow fees				
Recording costs (RTC share)				
Legal Fees				
Other				
Other				
TOTAL TRANSACTION EXPENSES:				

**To be completed no later than 90 days AFTER closing.*

Comments From the Resolution Trust Corporation

RTC
RESOLUTION TRUST CORPORATION
Resolving The Crisis
Restoring The Confidence

March 3, 1995

Mr. Gaston L. Gianni, Jr.
Associate Director
Government Business Operations Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Gianni:

This is in response to your January 25, 1995 draft report entitled "Resolution Trust Corporation: Evaluations Needed to Identify the Most Effective Land Sales Methods." We have reviewed the report and agree with the recommendations. This response describes the actions we have undertaken in response to your recommendations and some general observations.

Comments on Recommendations

1. **"...develop an appropriate standard methodology for evaluating the results of land sales initiatives."**

The RTC has implemented a standard methodology for evaluating the results of all major sales initiatives. Additionally, in August 1994, the RTC issued a directive (RTC Circular 10300.39) entitled "Multi-Asset Sales Transactions Budgets" to establish standard procedures for tracking multi-asset sales expenses.

2. **"...ensure that required evaluations are done at the completion of each land sales initiative to identify the best sales methods, most effective marketing techniques, and promote their use on future land sale initiatives."**

The results of the sale, including a cash equivalent price, are now being captured in a paradox system and a formal comparative recovery rate analysis is performed quarterly. If the proper data is not submitted after the sale, a follow up request is sent to the staff conducting the sale. Additionally, the RTC will evaluate enhancing its future Internal Control Review (ICR) program to test for compliance.

801 17th Street, N.W. Washington, D.C. 20434

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General Comments

First, some general comments on the evolution of the RTC's land disposition methods. Experience through the disposition of other types of hard-to-sell assets, such as non-performing commercial real estate loans, paved the way for structuring of land sales. Initially, assets were offered on a sealed bid or auction basis, then in various forms of equity partnerships. The RTC had not yet tested the market for equity partnerships when the Land Task Force issued its strategy paper in 1991 and when the RTC issued its directive entitled Land Sales Strategies and Programs in May 1992. In late 1992, the RTC tested both Multiple Investor Fund (MIF) and N-Series equity partnerships for non-performing commercial real estate loans and decided to test the equity partnership structure for land in 1993 (Land Fund I). It then became more important for the RTC to assess relative recoveries of distinct disposition methods.

While the actual results of such partnership structures will not be known with accuracy for years, estimates made after closing suggest that equity partnerships generally will exceed recoveries for other disposition methods. (See RTC Business Plan, December 1993, Exhibit XI-7).

At the time of the 1993 Business Plan, the most significant land sale initiatives using alternative disposition methods had not yet closed, and, therefore, land was not included in the analysis as a separate asset type. The December 1993 RTC Business Plan used a standard methodology to evaluate the net recoveries for similar asset types sold through different disposition methods. Similar expense data were gathered for relevant transactions and standard methodologies were used to evaluate all types of equity partnerships, all types of large sealed bids/portfolio sales, and all types of auctions, respectively. Comparisons among disposition methods generally are made based on the appraised or derived investment value, which have the effect of creating a level base of comparison. The analysis presents gross sales price and net sales price as a percentage of market value and book value.

After the Business Plan recovery rate analysis was completed, the "Recovery Rate Quarterly Report" was implemented by the Management and Reporting Unit. A copy of the December 31, 1994 report is included for reference. We recognized some flaws in the standard quarterly report and the analysis and methodology are currently being updated.

Further, the RTC Completion Act of 1993, required, among other things, that the RTC "determine in writing that a bulk transfer of the loans or real properties would maximize the net recovery to the RTC while providing an opportunity for broad participation by minority and women-owned businesses." Such analysis is part of the case to market and sell the assets.

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At the time the GAO initiated this review, the RTC's land inventory stood at $4.6 billion. Today, approximately $200 million in land and construction loans and $650 million in land REO are currently available for new sales initiatives. The RTC will continue to meet its Completion Act mandate to "determine in writing that a bulk transfer of the loans or real properties would maximize the net recovery to the RTC..." for all future land sale initiatives. We also believe that the recovery analysis currently underway will help the FDIC as it considers alternate disposition methods for its inventory and for inventory it inherits from the RTC at sunset.

Sincerely,

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