

**GAO**

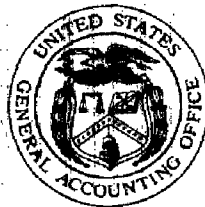
Report to the President and Chief  
Executive Officer, Resolution Trust  
Corporation

---

February 1994

# RESOLUTION TRUST CORPORATION

## Analysis of Selected Asset Sales and Financial Data



---

---



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

General Government Division

B-254433

February 1, 1994

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

Dear Mr. Altman:

This report presents the results of our analysis of the costs and revenues as of March 31, 1992, associated with about 1,700 Resolution Trust Corporation (RTC) assets under 9 Standard Asset Management and Disposition Agreement (SAMDA) contracts. We analyzed this data to show how, as we discussed in our testimony in March 1993, key financial information can be used to help plan asset disposition strategies that maximize recoveries.<sup>1</sup> The objectives of this review were to collect and analyze data on holding costs/revenues, holding times, and net recovery rates for various RTC assets and to demonstrate how this information could be used by RTC. Additional data from our analyses and our sample selection process appear in appendixes I through III.

## Results in Brief

For most of the 5,156 assets included under the 9 SAMDA contracts reviewed, we were unable to determine holding costs/revenues, holding times, or net recovery rates for disposed assets because the data were either not readily available or were unreliable. Further, we determined that (1) RTC had not established uniform reporting requirements for the financial data; and (2) for the assets sold by RTC, final sales information was not always provided to SAMDA contractors in a timely manner. Without this sales information, neither the sales proceeds nor the recovery rates could be determined. After we completed our review, RTC established uniform requirements for reporting asset sales and financial data as part of the process to improve its corporatwide system to manage asset management contractors, called its Asset Manager System (AMS).

Out of the 5,156 assets, we analyzed the financial data for 1,654 assets for which complete revenue and expense data were available. We grouped the assets into nine types<sup>2</sup> and then divided them on the basis of whether they were disposed or remained in the inventory. We calculated the net holding

<sup>1</sup>Resolution Trust Corporation: Funding, Organization, and Performance (GAO/T-GGD-93-13, Mar. 18, 1993).

<sup>2</sup>The nine asset types are (1) loans-commercial/consumer nonperforming (LCNP), (2) loans-other nonperforming (LONP), (3) loans-other performing (LOP), (4) loans-other (LO), (5) real estate owned office/retail (REOOR), (6) real estate owned multifamily (REOMF), (7) real estate owned single-family (REOSF), (8) real estate owned land (REOL), and (9) real estate owned other (REOO).

---

amounts on an annual basis in order to allow for a more consistent analysis. Our analysis found the following:

- For assets remaining in inventory, six of the nine asset types incurred average annualized net holding costs, ranging from 0.38 to 2.68 percent of book value. The remaining three asset types incurred average annualized net holding revenues.
- For disposed assets, five asset types incurred average annualized net holding costs, ranging from 0.61 to 4.99 percent of book value. The remaining four asset types incurred average annualized net holding revenues.
- Average annualized net holding costs for real estate assets, both disposed and those still in inventory, tended to vary according to the asset's book value; generally, higher value assets were less costly, as a percentage of book value, than lower value assets.
- Average holding times were longest for nonperforming commercial/consumer loans and other performing loans, and overall average holding time was 232 days for disposed assets and 389 days for assets still in the inventory.
- Net recovery rates for disposed assets averaged about 51 percent of book value and 78 percent of RTC's Estimated Recovery Value (ERV).<sup>3</sup>

Our analyses identified those asset types with the highest holding costs, those types that remained in the inventory for the longest time, and those types that produced the lowest recovery rates. If RTC had completed such an analysis, it could have used the results to help make more informed decisions about managing its portfolio. Taken together, these factors—net holding costs and revenues, holding times, and net recoveries—along with other factors such as availability of buyers and market outlook, can help managers determine whether and when it is economically prudent to dispose of various asset types and help RTC maximize net recoveries.

---

## Background

RTC is responsible for managing and disposing of assets from failed thrifts and for maximizing net recoveries from the sale of these assets. RTC relies heavily on private sector contractors—principally SAMDA contractors—to manage and dispose of its assets. As of January 1993, RTC had awarded 236 SAMDA contracts to manage and dispose of assets with total book value of \$37.2 billion.

---

<sup>3</sup>The estimated recovery value (ERV) is an amount assigned by RTC and adjusted based on changes to the condition of the asset. This value is the basis for some fee payments made to the SAMDA contractor, but it is not the value used to estimate recoveries for RTC's financial statements. We have not assessed the reliability of these values.

SAMDA contractors manage and dispose of both loan and real estate assets. The loan assets are often secured by single-family homes, multifamily units, commercial buildings, land, or other assets, such as automobiles, mobile homes, and construction projects. Loan assets are either performing, meaning that payments are being made on a timely basis, or nonperforming, meaning that payments have not been kept current. Real estate assets in SAMDA contract portfolios largely consist of office/retail properties, multifamily units, single-family homes, land, and other assets, such as storage facilities, airports, and daycare centers.

SAMDA contractors are paid management, disposition, and incentive<sup>4</sup> fees to manage and dispose of these assets. The fees are based on the assets' ERV, which RTC assigns when the asset is first transferred to the SAMDA contractor. RTC can adjust the ERV on the basis of changes to the condition of the asset. For example, the ERV could be reduced due to casualty losses. ERV is not the value RTC uses to estimate overall recoveries for its annual financial statements.

While the assets are in the SAMDA contractors' inventory, RTC may incur holding costs. These costs consist of management fees paid to the contractor and expenses associated with the assets, such as taxes, maintenance costs, and utility charges. Holding costs also include disposition and incentive fees paid to the contractor when an asset is removed from the inventory as well as fees associated with selling the assets, such as legal expenses. Any money RTC receives from the asset, such as loan payments, interest payments, or rental fees, is considered a holding revenue. The net holding amount for an asset is calculated by subtracting the holding costs from the holding revenues.

The net holding amount is one of the key factors in determining net recovery values for RTC assets. Sales price minus the net holding amount yields the net recovery amount. The ratio of the net recovery amount to either the assets' book value or ERV produces the net recovery rate.

## Objectives, Scope, and Methodology

The objectives of this assignment were to determine holding times, holding costs, holding revenues, and net recovery rates for various RTC asset types and to analyze the results in order to demonstrate the usefulness of such an analysis in managing RTC assets. We judgmentally selected nine SAMDA contracts awarded between October 1, 1990, and January 1, 1991. We used January 1, 1991, as a cut-off date to ensure that

<sup>4</sup>Incentive fees are amounts paid to the SAMDA contractor if assets are sold within 2 years.

sufficient time had passed to allow the contractors to dispose of some of the assets.

These nine contracts were managed by four different field offices, including two from the Atlanta Field Office, two from the Baton Rouge Field Office, three from the Dallas Field Office, and two from the Houston Field Office. We chose these contracts because they had a relatively small number of assets with a relatively high value in comparison to the other contracts at those offices. The contracts involved a total of 5,156 assets with a book value of \$1.473 billion. We attempted to determine average direct holding costs and revenues and average holding periods for all these assets. We also attempted to determine net recovery rates for all disposed assets. Appendix I provides additional information on the numbers and types of assets we examined.

To collect information, we contacted officials at RTC headquarters, officials in RTC field offices, and SAMDA contractors. We gathered information on asset type, book value, estimated recovery value, and effective date of the contract or when the asset was added to the contract. We attempted to find out the revenues earned and the expenses and management fees incurred for each asset from the time the asset was added to the inventory through March 31, 1992. For disposed assets, we also tried to obtain the disposal date, sales price, contractors' fees, and sales proceeds.

We grouped the assets by asset type, disposal status—disposed or remaining in inventory—and book value. For the 1,654 assets with a book value of about \$721 million for which the revenue and expenses data were available, we subtracted the holding expenses and fees from the holding revenues to calculate net holding costs or net holding revenues. Since assets had varying holding times, we annualized the net holding amounts in order to equalize the differing holding times and allow for a more consistent analysis. We calculated the net holding amounts by dividing the actual net holding amount by the proportion of the year that the asset was actually held. For the disposed assets, we also added in the disposition, incentive, and other fees associated with selling the assets.

In addition, we calculated the net recovery rates for 590 of the disposed assets for which complete data were available. We determined the net recovery amount by subtracting the net holding amount from the sales proceeds data. Then we divided this amount by the assets' book value and ERV to determine the recovery rate. The results from our analysis are based on the data available on the 1,654 assets and cannot be projected to all RTC

assets. However, we believe the results show the benefits of analyzing such financial data.

We gathered the data for this report between October 1991 and April 1992, in conjunction with our efforts to monitor other aspects of the SAMDA program. We completed our analysis of the data between August 1992 and July 1993. This work was done in accordance with generally accepted government auditing standards.

## Complete Financial Data Were Not Available

We found that for 3,502 assets, 68 percent of the 5,156 assets we reviewed, neither RTC nor the SAMDA contractor could provide all of the key financial data—expenses, revenues, disposition dates, sales prices, and contractor fees—needed to determine the holding costs or holding revenues. These financial data reflect the actual cash flow—money paid out for expenses and money received as income from rents and other sources. Without important financial data, including revenues, expenses, and recovery values, RTC is unable to monitor costs. With such asset sales and financial data, trends could be identified to help RTC maximize recoveries, better manage its portfolio, and target its disposition methods.

Data on expenses and revenues could not be analyzed because they were not readily available or were unreliable. For one contract with more than 1,700 assets, the contractor told us that revenue and expense receipts for each asset were maintained within manual files and would not be totaled until the asset was disposed. For another contract with more than 900 assets, RTC had not provided the contractor with all of the needed information. The contractor did not have data on all loan payments, loan terms, or sale amounts. Both of these contracts were managed by the same RTC field office. Further, for another contract with over 800 assets, although the contractor provided sales and other financial data for the assets, we found numerous errors and inconsistencies with the information and therefore deemed it unreliable. These three contracts accounted for nearly all of the assets for which we could not complete our analyses.

Although the SAMDA contract required the contractor to report income and expense data for each asset, at the time of our review RTC had not established agencywide requirements for reporting expenses and revenues for each asset. According to RTC officials, each field office determined the reporting requirements, and contractors were generally required to report on their total portfolio of assets. Two of the four RTC offices we visited

---

required their contractors to report whether the total expenses exceeded the budgeted amounts. Reports on revenues and expenses for individual assets were not required by two of the four offices until the asset was disposed while the other two offices required their contractors to report this information on a regular basis.

In addition to having inconsistent reporting requirements, RTC did not always provide final sales information to the SAMDA contractors in a timely manner for those assets it sold in portfolio sales or auctions. SAMDA contractors need the final sales information in order to compute the sales proceeds amount. Furthermore, the sales proceeds amount is needed to determine recovery rates. Over 200 assets from the 806 disposed assets in our sample did not have the sales proceeds data needed to determine recovery rates. Although the sales were completed several months prior to our review, RTC had not provided sales information. For example, 1 contractor told us that about 200 assets had been sold through an RTC portfolio sale 8 months before our visit. However, because RTC had not provided confirmation of the sales and the sales prices, the contractor had not summarized the expenses and revenues for these assets and could not calculate the net proceeds.

According to RTC officials, its procedures changed in 1993 and contractors began reporting asset sales and financial data uniformly via AMS. In addition, RTC plans to record the results from the auction and portfolio sales in AMS shortly following these events. RTC established a September 1993 date for completion of the data input and plans to begin verifying the data in January 1994. When fully implemented, this uniform reporting system should provide RTC with the sales and financial data needed to help manage its assets. However, we did not determine whether RTC addressed previously reported problems with AMS.<sup>5</sup>

---

### Most Asset Types Incurred Net Holding Costs

For each of the 1,654 assets for which we had data, we determined the total direct holding revenues and expenses. When expenses and fees exceeded revenues, the result was a net holding cost. If revenues were greater than expenses and fees, the result was a net holding revenue.

---

<sup>5</sup>In March and October 1992, we reported that AMS had (1) inadequate system interfaces between RTC and the asset managers to account for the contractors' income and expenses and (2) insufficient security controls and reconciliation reports to ensure proper funds transfers (Resolution Trust Corporation: Status of Asset Manager System, GAO/IMTEC-92-34BR, Mar. 5, 1992; and Resolution Trust Corporation: Asset Management System, GAO/IMTEC-93-9R, Oct. 28, 1992).



We found that overall, for 848 assets remaining in RTC's inventory as of March 31, 1992, the average annual net holding cost was 0.42 percent of book value. Six asset types incurred net holding costs and three types earned net holding revenues. The six asset types incurring net holding costs were (1) commercial/consumer nonperforming loans, (2) other loans, (3) office/retail real estate, (4) single-family real estate, (5) real estate owned land, and (6) other real estate. For the group of 194 commercial/consumer nonperforming loans—whose average book value was \$237,057—the average net annual holding cost was \$905 per loan. Similarly, for the group of 40 assets classified as other real estate—whose average book value was \$350,231—the average annual net holding cost was \$9,382. Holding costs varied from 0.38 percent of book value for commercial/consumer nonperforming loans to 2.68 percent of book value for other real estate. Our analysis shows that two asset types—real estate owned land and real estate owned other—had average annualized net holding costs as a percent of book value at least two times greater than other asset types. RTC could consider this type of information when making decisions about managing its portfolio. Three types of assets remaining in inventory produced net revenues. Average annual net holding revenue was 1.29 percent of book value for other nonperforming loans, 2.32 percent for multifamily real estate, and 3.21 percent for other performing loans. Table 1 shows the average annual revenues, expenses, and net holding amounts by type for assets remaining in inventory.

**Table 1: Average Annualized Revenues, Expenses, and Net Holding Amounts for Assets Remaining in Inventory, as of March 31, 1992**

Asset type	No. of cases	Average book value	Average annualized			Average annualized net holding amount as percent of book value
			Revenues	Expenses	Total direct net holding amount	
Nonperforming commercial/consumer loans	194	\$237,057	\$3,845	\$4,750	\$(905)	(0.38)
Other nonperforming loans	322	361,338	9,279	4,628	4,651	1.29
Other performing loans	9	1,076,156	41,126	6,607	34,518	3.21
Other loans	21	666,613	0	5,081	(5,081)	(0.76)
Real estate owned office/retail	61	1,946,951	163,378	181,934	(18,556)	(0.95)
Real estate owned multifamily	28	1,644,798	227,643	189,442	38,201	2.32
Real estate owned single-family	65	72,739	2,786	3,219	(433)	(0.59)
Real estate owned land	108	1,294,863	3,350	32,953	(29,602)	(2.29)
Real estate owned other	40	350,231	23,315	32,697	(9,382)	(2.68)
<b>Total</b>	<b>848</b>	<b>\$600,737<sup>a</sup></b>	<b>\$25,848<sup>a</sup></b>	<b>\$28,368<sup>a</sup></b>	<b>\$(2,520)<sup>a</sup></b>	<b>(0.42)<sup>a</sup></b>

Note: Numbers in parentheses ( ) represent holding costs. The data are as of March 31, 1992.

<sup>a</sup> = Weighted averages

Source: SAMDA contractor asset files.

Among disposed assets, we found that five asset types incurred average annual net holding costs—(1) other loans, (2) office/retail real estate, (3) multifamily real estate, (4) real estate owned land, and (5) other real estate. The average annual net holding cost for disposed assets was 1.77 percent of book value, but three asset types had average net holding costs greater than 4 percent. These included 4.09 percent for office/retail real estate, 4.57 percent for land, and 4.99 percent for other real estate. In contrast, the figures were 0.61 percent for the other loans category and 1.45 percent for multifamily real estate.

Four disposed asset types yielded average annual net holding revenues—(1) commercial/consumer nonperforming loans, (2) other nonperforming loans, (3) other performing loans, and (4) single-family real estate. These average annual net holding revenues ranged from 1.72 percent of book value for commercial/consumer nonperforming loans to 25.48 percent for other performing loans. Table 2 shows the average

annual revenues, expenses, and net holding amounts by type for disposed assets.

**Table 2: Average Annualized Revenues, Expenses, and Net Holding Amounts for Disposed Assets**

Asset type	No. of cases	Average book value	Average annualized			Average annualized net holding amount as percent of book value
			Revenues	Expenses	Total direct net holding amount	
Nonperforming commercial consumer loans	109	\$168,565	\$8,113	\$5,181	\$2,932	1.72
Other nonperforming loans	28	234,078	23,682	8,607	15,075	6.21
Other performing loans	12	113,368	30,347	1,466	28,882	25.48
Other loans	2	926,133	0	5,631	(5,631)	(0.61)
Real estate owned office/retail	18	890,867	34,520	70,995	(36,475)	(4.09)
Real estate owned multifamily	38	1,598,646	216,234	239,469	(23,235)	(1.45)
Real estate owned single-family	241	73,762	17,399	13,415	3,985	5.27
Real estate owned land	316	166,730	4,775	12,388	(7,613)	(4.57)
Real estate owned other	42	859,413	47,063	89,918	(42,856)	(4.99)
<b>Total</b>	<b>806</b>	<b>\$262,386<sup>a</sup></b>	<b>\$22,923<sup>a</sup></b>	<b>\$27,622<sup>a</sup></b>	<b>\$(4,699)<sup>a</sup></b>	<b>(1.77)<sup>a</sup></b>

Note: Numbers in parentheses ( ) represent holding costs. The data are as of March 31, 1992.

<sup>a</sup> = Weighted average

Source: SAMDA contractor asset files.

For both disposed assets and assets still in inventory, we found that net holding costs for real estate assets tended to vary according to the asset's book value; generally, higher value assets were less costly to hold, as a percentage of book value, than lower value assets. For example, real estate owned multifamily assets remaining in inventory with book values between \$1 million and \$10 million had average annual net holding revenues of about 3.05 percent of book value, while those with book values of \$250,000 to \$1 million incurred net holding costs of 5.15 percent of book value. However, no consistent pattern emerged among loan asset types. For example, commercial nonperforming loan assets remaining in inventory with book values between \$50,000 and \$250,000 had average annual net holding costs of 0.97 percent of book value, while those with book values of \$250,000 to \$1 million had average annual net holding costs of 1.48 percent. The results of this analysis suggest that RTC could decide to develop specific disposition programs for real estate assets with lower

book values in an effort to minimize expenses associated with these assets, relative to their book value. Additional information on holding costs by book value for each asset type appears in appendix II.

### Average Holding Time Longest for Two Asset Types

For both disposed assets and assets remaining in inventory, the average holding times were longest for two of the asset types: commercial/consumer nonperforming loans and other performing loans. For example, the average holding time for disposed nonperforming commercial/consumer loans was 331 days; for those remaining in the inventory as of March 31, 1992, the average was 452 days. For those assets remaining in the inventory, six of the nine asset types had average holding times that exceeded 1 year. Table 3 summarizes these holding times.

**Table 3: Summary of Holding Times (in Days)**

Asset type	Disposed assets			Assets remaining in inventory		
	Number of assets	Range of holding times	Average holding times	Number of assets	Range of holding times	Average holding times
Nonperforming commercial/consumer loans	109	0-547	331	194	134-547	452
Other nonperforming loans	28	0-547	204	322	19-547	386
Other performing loans	12	153-364	346	9	365-547	507
Other loans	2	40-44	42	21	19-76	68
Real estate owned office/retail	18	88-448	286	61	19-473	375
Real estate owned multifamily	38	115-460	293	28	76-473	421
Real estate owned single-family	241	0-418	141	65	62-365	347
Real estate owned land	316	3-474	251	108	361-473	431
Real estate owned other	42	2-485	265	40	19-473	206
<b>Total</b>	<b>806</b>	<b>0-547</b>	<b>232<sup>a</sup></b>	<b>848</b>	<b>19-547</b>	<b>389<sup>a</sup></b>

Note: The data is as of March 31, 1992.

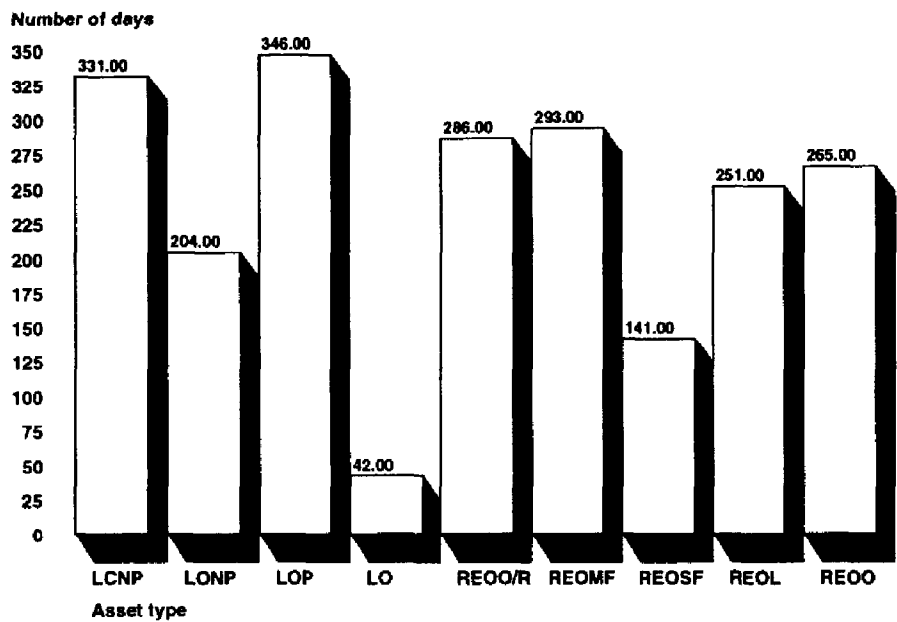
<sup>a</sup> = Weighted average

Source: SAMDA contractor asset files.

For the 806 disposed assets, the average holding time was 232 days, and the holding times ranged from a low of 0 days to a high of 547 days. Two asset types, other loans and real estate owned single family, had the shortest average holding times. Five asset types had average holding times of about 300 days—commercial/consumer nonperforming loans, other performing loans, real estate owned office/retail, real estate owned

multifamily, and real estate owned other. Figure 1 summarizes the average holding times for disposed assets by type.

**Figure 1: Summary of Average Holding Times for Disposed Assets by Type**



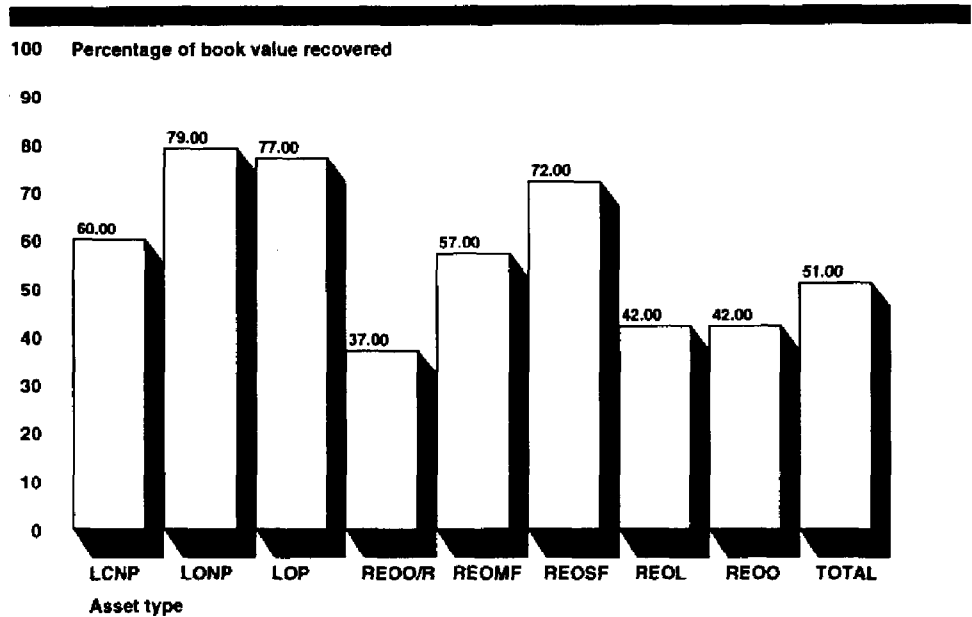
Note: Nonperforming commercial/consumer loans (LCNP), other nonperforming loans (LONP), other performing loans (LOP), other loans (LO), real estate owned office/retail (REOO/R), real estate owned multifamily (REOMF), real estate owned single-family (REOSF), real estate owned land (REOL), real estate owned other (REOO).

By analyzing holding times, RTC could establish appropriate benchmarks for the various asset types. Using these benchmarks, RTC could then target those asset types exceeding that limit. For example, RTC could establish its benchmark at 400 days and review those assets that have been held for more than 400 days and then plan to expedite their disposal. Further, RTC could couple the results from the analysis of holding times with the holding costs data in order to determine if certain asset types were both costly and old. For example, RTC could decide to focus attention on its real estate owned land assets because this asset type incurred one of the highest average annual net holding costs as a percent of book value—at 2.29 percent—and had an average holding time of 431 days.

**Net Recoveries Averaged About 51 Percent of Book Value and 78 Percent of RTC's ERV**

SAMDA contractors had computed the net proceeds amount for 590 of the 806 disposed assets in our sample. Using this net proceeds information, we determined that RTC's net recoveries averaged about 51 percent of book value and 78 percent of RTC's ERV. Average recoveries by asset type ranged from nearly 37 percent of book value for office/retail real estate to 79 percent of book value for other nonperforming loans. Figure 2 shows the percent of book value recovered by asset type as well as the total for the 590 assets.

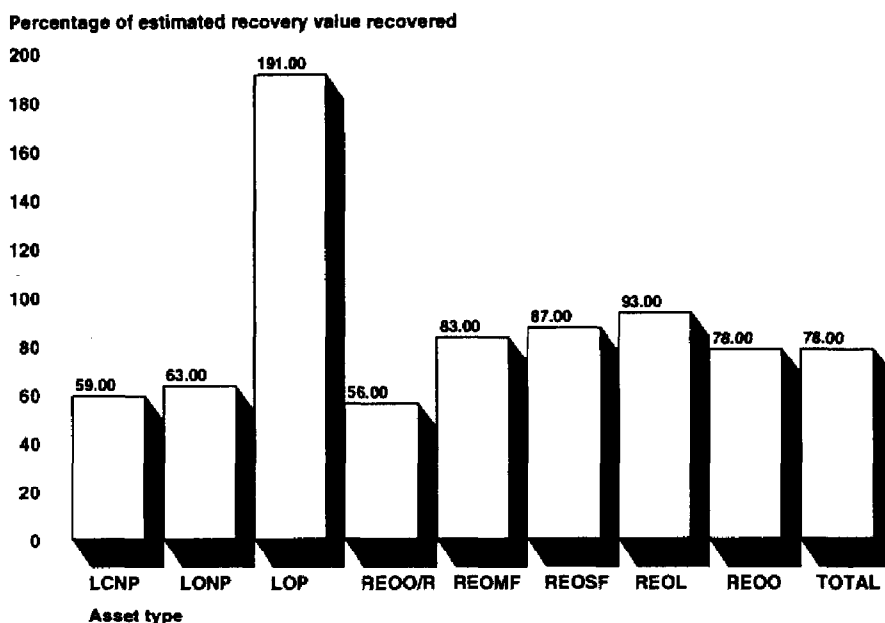
**Figure 2: Recovery Rate as a Percentage of Book Value by Asset Type**



Note: Nonperforming commercial/consumer loans (LCNP), other nonperforming loans (LONP), other performing loans (LOP), real estate owned office/retail (REOO/R), real estate owned multifamily (REOMF), real estate owned single-family (REOSF), real estate owned land (REOL), real estate owned other (REOO).

Average recovery rates as a percent of RTC's ERV ranged from about 56 percent for office/retail real estate to about 191 percent for other performing loans. Figure 3 shows the percent of ERV recovered by asset type as well as the total for all assets. Appendix III provides additional information on our analysis of the recovery rates.

**Figure 3: Recovery Rate as a Percentage of Estimated Recovery Value by Asset Type**



Note: Nonperforming commercial/consumer loans (LCNP), other nonperforming loans (LONP), other performing loans (LOP), real estate owned office/retail (REOO/R), real estate owned multifamily (REOMF), real estate owned single-family (REOSF), real estate owned land (REOL), real estate owned other (REOO).

Using similar analyses of recovery rates, RTC could determine whether additional steps are needed to improve recoveries. While recovery rates depend somewhat on economic factors outside RTC's control, an assessment of the recovery rates in connection with other factors could be useful. For example, our analysis of selected assets showed that real estate owned office/retail assets produced the lowest recoveries, were in the inventory for an average of 286 days, and incurred average annualized net holding costs of 4.09 percent of book value, which for the nine asset types was the third highest holding cost as a percent of book value. Since RTC's recoveries from these assets have been relatively low, and holding costs relatively high, the analysis suggests that RTC could take steps to limit the holding times and the related holding costs for these assets.

## Conclusions

Information on net holding costs and revenues, holding times, and net recovery rates are some of the factors RTC can use to help manage its

portfolio and determine disposition strategies for its assets. These data would show RTC which asset types have higher holding costs, longer holding times, and lower recovery rates. RTC could then plan disposition strategies that considered these factors and helped maximize recoveries by reducing costs.

Although the contractors were required to report on the income and expenses for their assets, these data were not readily available or were unreliable for 3,502 of the 5,156 assets reviewed. As a result, we could not determine the net holding costs and revenues, holding periods, and net recovery rates for these assets. These data limitations occurred because RTC did not (1) establish uniform requirements for reporting financial information on an asset-by-asset basis, and (2) provide its contractors information in a timely manner from portfolio or auction sales that it conducted. Without this information, neither the sales proceeds nor the recovery rates could be calculated.

In 1993, as part of its efforts to improve AMS, RTC established uniform reporting requirements. RTC's SAMDA contractors began reporting asset sales and financial data via AMS for each asset. When these efforts are completed, and if previously identified problems with AMS have been addressed, RTC should have asset sales and financial data readily available in a timely manner to help manage its portfolio.

We believe RTC should use these data to analyze the holding costs/revenues, holding times, and net recovery rates of its assets in order to more effectively plan its disposition strategies. Our analyses identified those asset types that incurred the highest net holding costs and had the longest holding times and lowest recovery rates. The results of our analyses suggest that RTC could target its disposition programs toward certain asset types in order to reduce holding costs, limit holding times, and increase net recoveries.

---

## Recommendation

To help RTC manage its assets, we recommend that the RTC President and Chief Executive Officer use the asset sales and financial data being collected in its AMS to analyze holding costs/revenues, holding times, and recovery rates of its assets. Also, RTC should use the results of these analyses as one of many factors to better manage its assets and direct its disposition efforts in order to increase net recoveries.



---

## Agency Comments

We received written comments from RTC on a draft of this report, and on the basis of these comments we made changes to the report. Specifically, we added information that (1) recognizes that the SAMDA contract requires reporting of income and expense data, and (2) clarifies when we visited the field offices as well as when we completed our analyses. A copy of these comments and our evaluation are included in appendix IV.

RTC took exception with our finding that the SAMDA contractors did not have income and expense information, pointing out that the SAMDA contractors have been contractually bound to provide income and expense information. We agree that the SAMDA contract required the contractors to report on income and expenses of their assets. However, our work found that for three of the nine contracts, income and expenses data for each asset were either not readily available or were unreliable. In each of these instances the RTC oversight managers and the SAMDA contractors were given at least 3 months to provide the data.

Further, RTC offered two possible reasons why we did not find the information: (1) two of the offices may have been in the process of closing and (2) we may not have interviewed the appropriate persons. We do not believe these reasons affected our results. We visited the contractors and RTC field offices between October 1991 and April 1992 and collected or requested the data. Between August 1992 and July 1993, we completed our data gathering and analyzed the data. RTC's decision to close some field offices was not made until March 1992. Two of the offices included in our review were later closed—Houston and Baton Rouge. We visited the Houston Field Office in December 1991 and the Baton Rouge Office in April 1992. Although our visit to the Baton Rouge office was after the announced closing, we were able to obtain the information for one of the two contracts managed there. Therefore, the office closing was not a critical factor in determining the availability of information.

As for the appropriateness of the persons interviewed, we contacted each of the responsible RTC oversight managers to whom RTC's contracting manual gives oversight responsibility. Specifically, the manual states that the oversight manager is to perform several functions, including maintaining files and analyzing the contractors' technical and financial reports. In addition, we asked the SAMDA contractors for any information the oversight managers could not provide. Overall, the oversight managers or the contractors were the source of information for the six contracts we used in our analyses.

---

In addition, RTC officials noted that they had made improvements and changes after our work was done. They said that asset information has been available through AMS since late 1992. We reported in March 1992<sup>6</sup> that AMS had (1) inadequate system interfaces between RTC and the asset managers to account for the contractors' income and expenses, and (2) insufficient security controls and reconciliations reports to ensure proper electronic funds transfers. In October and December 1992 we reported that although RTC had taken steps to improve AMS, the system's ability to track information on contractors remained a concern.<sup>7</sup> We also noted that until needed modifications are completed and tested, AMS will likely continue to experience these problems.

Further, RTC has provided conflicting statements about the capabilities of AMS. On August 25, 1993, in response to another draft GAO report, RTC's Senior Vice President for Asset Management and Sales wrote "RTC's information and reporting systems still do not readily provide information on holding costs and holding periods." However, on September 22, 1993, in response to this report, the same official wrote "The information provided in AMS allows for analysis with respect to holding costs and revenues, holding periods and net recovery values."

RTC did not directly address our recommendation to analyze its sales and financial data to help manage and direct its disposition efforts. RTC said it uses information from AMS and REOMS to evaluate its inventory and identify disposition techniques and provided us copies of reports from these systems. However, our review did not identify any agencywide data or reports on holding costs and revenues or net recovery values.

---

<sup>6</sup>RTC: Performance Assessment for 1991 (GAO/T-GGD-92-18, Mar. 5, 1992).

<sup>7</sup>RTC: Asset Management System (GAO/IMTEC-93-9R, Oct. 28, 1992); and High-Risk Series: Resolution Trust Corporation (GAO/HR-93-4, Dec. 1992).

---

We are sending this report to interested congressional committees and the Chairman of the Thrift Depositor Protection Oversight Board. 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 questions regarding this report, please call me on (202) 736-0479.

Sincerely yours,

A handwritten signature in cursive script that reads "Gaston L. Gianni, Jr.".

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

---

# Contents

---

Letter	1
Appendix I Number and Types of Assets	20
Appendix II Net Holding Amounts and Holding Periods by Asset Type and Book Value	22
Appendix III Summary of Average Recovery Amounts and Rates for Disposed Assets	26
Appendix IV Comments From the Resolution Trust Corporation	27
Appendix V Major Contributors to This Report	30
Tables	
Table 1: Average Annualized Revenues, Expenses, and Net Holding Amounts for Assets Remaining in Inventory, as of March 31, 1992	8
Table 2: Average Annualized Revenues, Expenses, and Net Holding Amounts for Disposed Assets	9
Table 3: Summary of Holding Times	10
Table I.1: Assets Sampled and Analyzed	20

---

**Contents**

---

Table I.2: Number of Assets Analyzed by Type and Disposal Status	21
Table II.1: Average Annualized Net Holding Amounts and Periods for Assets Remaining in Inventory by Type and Book Value Range	22
Table II.2: Average Annualized Net Holding Amounts and Periods for Disposed Assets by Type and Book Value Range	24
Table III.1: Summary of Average Recovery Amounts and Rates for Disposed Assets	26

---

**Figures**

Figure 1: Summary of Average Holding Times for Disposed Assets by Type	11
Figure 2: Recovery Rate as a Percentage of Book Value by Asset Type	12
Figure 3: Recovery Rate as a Percentage of Estimated Recovery Value by Asset Type	13

---

**Abbreviations**

AMS	Asset Manager System
ERV	estimated recovery value
REOMS	Real Estate Owned Management System
RTC	Resolution Trust Corporation
SAMDA	Standard Asset Management and Disposition Agreement

# Number and Types of Assets

The total book value of our original sample of 5,156 assets was about \$1.473 billion. Because complete information was not available for all assets, we analyzed 1,654 assets representing a book value of about \$721 million. We did not analyze assets that were missing revenues or expenses when we calculated the total direct holding costs. Also, we could not use assets without net proceeds in our calculations of recovery rates. Table I.1 shows the number and value of the assets we used for our sample as well as the number and value of those used for our analysis.

**Table I.1: Assets Sampled and Analyzed**

<b>Contract</b>	<b>Number of assets sampled</b>	<b>Book value (in thousands)</b>	<b>Number of assets used for analysis</b>	<b>Book value (in thousands)</b>
A	448	\$122,528	421	\$120,581
B	485	120,572	424	112,150
C	833	84,902	0	0
D	345	32,817	323	32,518
E	81	178,087	81	178,087
F	1,777	426,912	221	34,161
H	137	185,827	129	184,010
I	95	89,377	55	59,401
J	955	227,608	0	0
<b>Total</b>	<b>5,156</b>	<b>\$1,472,631</b>	<b>1,654</b>	<b>\$720,908</b>

Note: Some totals may not add due to rounding.

We also segregated our analysis by whether the asset was disposed or still in inventory as of March 31, 1992. We used this cut-off date to determine the average holding time. The recovery values are also as of March 31, 1992. Table I.2 shows the number of disposed assets and assets in inventory.

**Appendix I  
Number and Types of Assets**

**Table I.2: Number of Assets Analyzed  
by Type and Disposal Status**

<b>Asset type</b>	<b>Number of disposed assets analyzed</b>	<b>Number of assets remaining in inventory analyzed</b>
Nonperforming commercial/consumer loans	109	194
Other nonperforming loans	28	322
Other performing loans	12	9
Other loans	2	21
Real estate owned office/retail	18	61
Real estate owned multifamily	38	28
Real estate owned single-family	241	65
Real estate owned land	316	108
Real estate owned other	42	40
<b>Total</b>	<b>806</b>	<b>848</b>

# Net Holding Amounts and Holding Periods by Asset Type and Book Value

For our analysis, we stratified the asset types by book value ranges. Generally, we found that for most of the real estate categories, higher value assets had lower holding costs, as a percentage of book value, than lower value assets.

The asset types, book value ranges, average holding amounts, and average holding periods are presented in table II.1 for assets remaining in inventory. Table II.2 presents the data for disposed assets.

**Table II.1: Average Annualized Net Holding Amounts and Periods for Assets Remaining in Inventory by Type and Book Value Range**

Asset type	Book value range	Number of cases reviewed by GAO	Average annualized net book value	Average annualized net holding amount	Average annual net holding amount as a percent of book value	Average holding period (in days)
Nonperforming commercial/ consumer loans	Under \$50,000	87	\$23,706	\$(155)	(0.65)	451
	50,000-250,000	66	93,003	(905)	(0.97)	487
	250,000-1M	30	543,977	(8,062)	(1.48)	400
	1M-10M	11	1.952M	12,680	0.65	394
	<b>Total</b>	<b>194</b>	<b>237,057</b>	<b>(905)</b>	<b>(0.38)</b>	<b>452</b>
Other nonperforming loans	Under 50,000	49	29,605	432	1.46	346
	50,000-250,000	208	108,230	2,717	2.51	427
	250,000-1M	37	479,561	5,644	1.18	276
	1M-10M	28	2.666M	25,087	0.94	293
	<b>Total</b>	<b>322</b>	<b>361,338</b>	<b>4,628</b>	<b>1.29</b>	<b>386</b>
Other performing loans	Under 50,000	1	43,221	2,188	5.06	547
	50,000-250,000	6	101,937	8,783	8.62	547
	1M-10M	2	4.515M	127,889	2.83	365
	<b>Total</b>	<b>9</b>	<b>\$1.076M</b>	<b>\$34,518</b>	<b>3.21</b>	<b>507</b>
Other loans	\$50,000-250,000	10	\$106,035	\$(3,014)	(2.84)	65
	250,000-1 M	6	528,818	(2,664)	(0.50)	76
	1M-10M	5	1.953M	(12,115)	(0.62)	65
	<b>Total</b>	<b>21</b>	<b>666,613</b>	<b>(5,081)</b>	<b>(0.76)</b>	<b>68</b>

(continued)



**Appendix II  
Net Holding Amounts and Holding Periods  
by Asset Type and Book Value**

<b>Asset type</b>	<b>Book value range</b>	<b>Number of cases reviewed by GAO</b>	<b>Average annualized net book value</b>	<b>Average annualized net holding amount</b>	<b>Average annual net holding amount as a percent of book value</b>	<b>Average holding period (in days)</b>
Real estate owned office/retail	50,000-250,000	10	193,815	(13,659)	(9.77)	254
	250,000-1M	24	536,960	(5,068)	(0.94)	336
	1M-10M	26	3.245M	(54,495)	(1.68)	455
	> 10M	1	20.110M	543,172	2.70	455
	<b>Total</b>	<b>61</b>	<b>1.947M</b>	<b>(18,556)</b>	<b>(0.95)</b>	<b>375</b>
Real estate owned multifamily	Under 50,000	1	1,755	(1,345)	(76.63)	473
	50,000-250,000	6	122,672	798	0.65	269
	250,000-1 M	8	484,015	(24,930)	(5.15)	469
	1M-10M	13	3.188M	97,357	3.05	458
	<b>Total</b>	<b>28</b>	<b>\$1.645M</b>	<b>\$38,201</b>	<b>2.32</b>	<b>421</b>
Real estate owned single-family	Under \$50,000	22	\$28,827	36	0.12	353
	50,000-250,000	42	81,025	(876)	(1.08)	344
	250,000-1M	1	690,781	7,890	1.14	365
	<b>Total</b>	<b>65</b>	<b>72,739</b>	<b>(432)</b>	<b>(0.59)</b>	<b>347</b>
	Real estate owned land	Under 50,000	12	24,610	(1,227)	(4.99)
50,000-250,000		21	121,485	(4,792)	(3.94)	416
250,000-1M		40	552,474	(16,186)	(2.93)	431
1M-10M		34	2.979M	(63,211)	(2.12)	449
Over 10M		1	13.601M	(285,109)	(2.10)	473
<b>Total</b>		<b>108</b>	<b>1.295M</b>	<b>(29,602)</b>	<b>(2.29)</b>	<b>431</b>
Real estate owned other	Under 50,000	19	36,407	(3,652)	(10.03)	63
	50,000-250,000	10	169,840	(5,028)	(2.96)	323
	250,000-1M	7	496,488	(17,739)	(3.57)	390
	1M-10M	4	2.036M	(32,858)	(1.61)	266
	<b>Total</b>	<b>40</b>	<b>\$350,231</b>	<b>(9,382)</b>	<b>(2.68)</b>	<b>206</b>

Note: Numbers in parentheses ( ) represent holding costs. The data are as of March 31, 1992.

**Appendix II  
Net Holding Amounts and Holding Periods  
by Asset Type and Book Value**

**Table II.2: Average Annualized Net Holding Amounts and Periods for Disposed Assets by Type and Book Value Range**

<b>Asset type</b>	<b>Book value range</b>	<b>Number of cases reviewed by GAO</b>	<b>Average annualized net book value</b>	<b>Average annualized net holding amount</b>	<b>Average annualized net holding amount as a percent of book value</b>	<b>Average holding period (in days)</b>
Nonperforming commercial/ consumer loans	Under \$50,000	69	\$21,145	\$(82)	(0.39)	271
	50,000-250,000	29	82,376	1,789	2.10	448
	250,000-1M	8	653,969	(4,730)	(0.72)	418
	1M-10M	3	3.098M	103,351	3.34	364
	<b>Total</b>	<b>109</b>	<b>168,565</b>	<b>2,932</b>	<b>1.72</b>	<b>331</b>
Other nonperforming loans	Under 50,000	7	37,682	5,086	13.50	329
	50,000-250,000	17	125,985	24,460	18.27	144
	250,000-1M	2	847,205	3,990	0.47	183
	1M-10M	2	1.227M	(13,958)	(1.14)	298
	<b>Total</b>	<b>28</b>	<b>234,078</b>	<b>15,075</b>	<b>6.21</b>	<b>204</b>
Other performing loans	Under 50,000	2	31,765	4,710	14.83	364
	50,000-250,000	10	129,689	33,716	26.00	343
	<b>Total</b>	<b>12</b>	<b>113,368</b>	<b>28,882</b>	<b>25.48</b>	<b>346</b>
Other loans	50,000-250,000	1	51,000	(356)	(0.70)	44
	1M-10M	1	1.801M	(10,905)	(0.61)	40
	<b>Total</b>	<b>2</b>	<b>\$926,133</b>	<b>\$(5,630)</b>	<b>(0.61)</b>	<b>42</b>
Real estate owned office/retail	\$50,000-250,000	7	\$117,036	\$(19,195)	(16.40)	286
	250,000-1M	5	587,105	(18,178)	(310)	245
	1M-10M	6	2.047M	(71,882)	(3.51)	340
	<b>Total</b>	<b>18</b>	<b>890,867</b>	<b>(36,475)</b>	<b>(4.09)</b>	<b>286</b>
Real estate owned multifamily	50,000-250,000	12	162,759	(26,424)	(16.23)	245
	250,000-1M	11	474,370	(83,074)	(17.51)	317
	1M-10M	15	3.572M	23,197	0.65	313
	<b>Total</b>	<b>38</b>	<b>1.599M</b>	<b>(23,235)</b>	<b>(1.45)</b>	<b>293</b>
Real estate owned single-family	Under 50,000	100	34,986	(2,257)	(6.45)	162

(continued)

**Appendix II  
Net Holding Amounts and Holding Periods  
by Asset Type and Book Value**

<b>Asset type</b>	<b>Book value range</b>	<b>Number of cases reviewed by GAO</b>	<b>Average annualized net book value</b>	<b>Average annualized net holding amount</b>	<b>Average annualized net holding amount as a percent of book value</b>	<b>Average holding period (in days)</b>
	50,000-250,000	134	88,333	9,224	10.05	129
	250,000-1M	7	348,782	(4,639)	(1.14)	67
	<b>Total</b>	<b>241</b>	<b>73,762</b>	<b>3,985</b>	<b>5.27</b>	<b>141</b>
Real estate owned land	Under 50,000	246	12,396	(2,111)	(17.03)	244
	50,000-250,000	41	121,306	(8,520)	(7.02)	262
	250,000-1M	20	653,150	(37,237)	(5.70)	292
	1M-10M	9	3,511M	(88,037)	(2.51)	301
	<b>Total</b>	<b>316</b>	<b>\$166,730</b>	<b>(7,613)</b>	<b>(4.57)</b>	<b>251</b>
Real estate owned other	Under \$50,000	5	\$37,577	(4,972)	(13.23)	223
	50,000-250,000	16	130,475	(15,554)	(11.92)	244
	250,000-1M	9	494,987	(41,574)	(8.40)	268
	1M-10M	12	2,447M	(96,005)	(3.92)	310
	<b>Total</b>	<b>42</b>	<b>\$859,413</b>	<b>(42,856)</b>	<b>(4.99)</b>	<b>265</b>

Note: Numbers in parentheses ( ) represents holding costs. The data are as of March 31, 1992.

# Summary of Average Recovery Amounts and Rates for Disposed Assets

We computed a disposed asset's recovery amount by subtracting the disposition and incentive fees from the sales proceeds. The sales proceeds amount is derived by subtracting from the sales price the holding costs, such as the contractors' management fees, legal expenses, and other sales costs, and then adding in any holding revenues. Although our sample of 5,156 assets included a total of 806 disposed assets, we could compute recovery amounts only for the 590 assets for which we were able to obtain net proceeds and fee data. For one category of assets—other performing loans—net proceeds information was not available. Therefore, we could not calculate the recovery amounts for any of these assets and removed this category from our recovery analysis. The following table summarizes the recovery amount and rate information.

**Table III.1: Summary of Average Recovery Amounts and Rates for Disposed Assets**

Asset type	Number of cases	Average recovery value	Recovery rate as a percent of book value	Recovery rate as a percent of RTC's estimated recovery value
Nonperforming commercial/consumer loans	69	\$119,017	59.6	59.0
Other nonperforming loans	18	233,585	78.9	63.3
Other performing loans	11	87,610	76.6	191.4
Real estate owned office/retail	18	324,960	36.5	55.9
Real estate owned multifamily	36	809,207	56.9	82.7
Real estate owned single-family	155	57,006	71.5	86.9
Real estate owned land	247	75,566	42.4	92.5
Real estate owned other	36	344,757	42.1	77.7
<b>Total</b>	<b>590</b>	<b>\$149,616<sup>a</sup></b>	<b>50.9<sup>a</sup></b>	<b>78.1<sup>a</sup></b>

<sup>a</sup> = Weighted Average

Note: For more information on RTC recovery values see Resolution Trust Corporation: Recoveries on Asset Sales Through Sept. 1992 (GAO/GGD-93-51FS, Jan. 8, 1993).

# Comments From the Resolution Trust Corporation



September 22, 1993

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

Dear Mr. Gianni:

This letter is in response to your August 25, 1993, submission of the draft GAO report entitled *Resolution Trust Corporation: Analysis of Selected Asset Sales and Financial Data* relating to RTC's use of information on net holding costs and revenues, holding periods, and net recovery values to assist in determining the best strategies for disposition.

Regarding your findings with respect to the lack of uniform reporting requirements, since the inception of the SAMDA program, SAMDA contractors have been contractually bound to provide income and expense information for each individual asset, by FIN, on a monthly basis pursuant to Attachment 3 of the SAMDA contract. A sample of this monthly reporting information, for one contract, is enclosed. It should also be mentioned, with regard to the comment that this reporting information was not available for all assets, that two of the four offices surveyed for this report were offices which were in the process of closing. It is quite possible that manual SAMDA reports had already been placed in storage since this information is now available through automated systems. In addition, it is unclear as to whether the appropriate persons were interviewed for this information.

Automated income and expense information for assets placed with SAMDA contractors has been available through the Asset Management System (AMS) since late 1992. The information provided in AMS allows for analysis with respect to holding costs and revenues, holding periods, and net recovery values. In addition, quarterly REOMS reports are prepared which provide a breakdown of the types of REO assets remaining in RTC's inventory. RTC continues to utilize this information to evaluate the types of assets remaining in inventory and to consider the most responsive way of disposing

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

See GAO comment 1.

Appendix IV  
Comments From the Resolution Trust  
Corporation

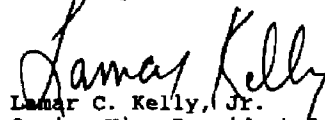
Mr. Gaston L. Gianni, Jr.  
Page 2  
September 22, 1993

of these assets. Specifically, RTC responded to lengthy holding periods for nonperforming commercial and consumer loans and other performing loans by launching securitized transactions for these types of assets, such as the N-series, C-series, S-series, Land Fund, and MIF. In addition, the RTC has had three national non-performing loan auctions, with a fourth scheduled in March 1994. Through these types of events, RTC has been successful in disposing of performing and non-performing loans.

Concerning the comments regarding lack of timely posting of sales information, RTC has established a Documents Control Unit in each of the RTC Field Offices. This unit is responsible for ensuring that all parties involved in the closing transaction receive the appropriate documentation so that sales can be recorded on the systems in a timely manner. The procedures followed by the Documents Control Unit are outlined in the "Business Events Documentation Guide" which was published and distributed in March 1993. The implementation of these procedures has already reduced time delays for posting sales information.

Thank you for the opportunity to provide a response to the draft report. Should you have any questions, please contact James R. Wigand, Acting Director, Office of SAMDA Program Management, at (202) 416-7133.

Sincerely,

  
Lamar C. Kelly, Jr.  
Senior Vice President for  
Asset Management and Sales

Enclosure

cc: Donna Cunninghame  
Thomas P. Horton  
John Lynn  
James R. Wigand

See GAO comment 2.

---

The following are GAO's comments on the Resolution Trust Corporation's letter dated September 22, 1993.

---

## **GAO Comments**

1. We have expressed concerns in the past, particularly about the accuracy of the REOMS data.<sup>8</sup> RTC initiated a program in 1992 to improve the quality of the REOMS data. We have not assessed RTC's progress in this area.
2. The document control units and the related business events documentation guide were established after we completed our work; therefore, we did not review the effectiveness of these units or the guide.

---

<sup>8</sup>RTC: Status of Real Estate Owned Management System (GAO/IMTEC-92-36BR, Mar. 5, 1992).

---

# Major Contributors to This Report

---

## General Government Division, Washington, D.C.

Carolyn M. Taylor, Assistant Director, Government Business  
Operation Issues  
Eugene M. Smith, Program Review Analyst  
Carolyn S. Ikeda, Senior Evaluator  
Abraham L. Logan, Evaluator  
Donna Leiss, Report Analyst

---

## Dallas Regional Office

Jeanne M. Barger, Evaluator-In-Charge  
Ellen Thompson, Evaluator  
Shannon Cross, Technical Assistance



---

---

### Ordering Information

**The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.**

**Orders by mail:**

**U.S. General Accounting Office  
P.O. Box 6015  
Gaithersburg, MD 20884-6015**

**or visit:**

**Room 1000  
700 4th St. NW (corner of 4th and G Sts. NW)  
U.S. General Accounting Office  
Washington, DC**

**Orders may also be placed by calling (202) 512-6000  
or by using fax number (301) 258-4066.**

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



**Address Correction Requested**

---

