

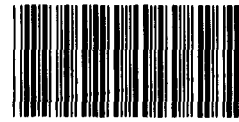
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Fact Sheet for the Honorable
Kent Conrad, U.S. Senate

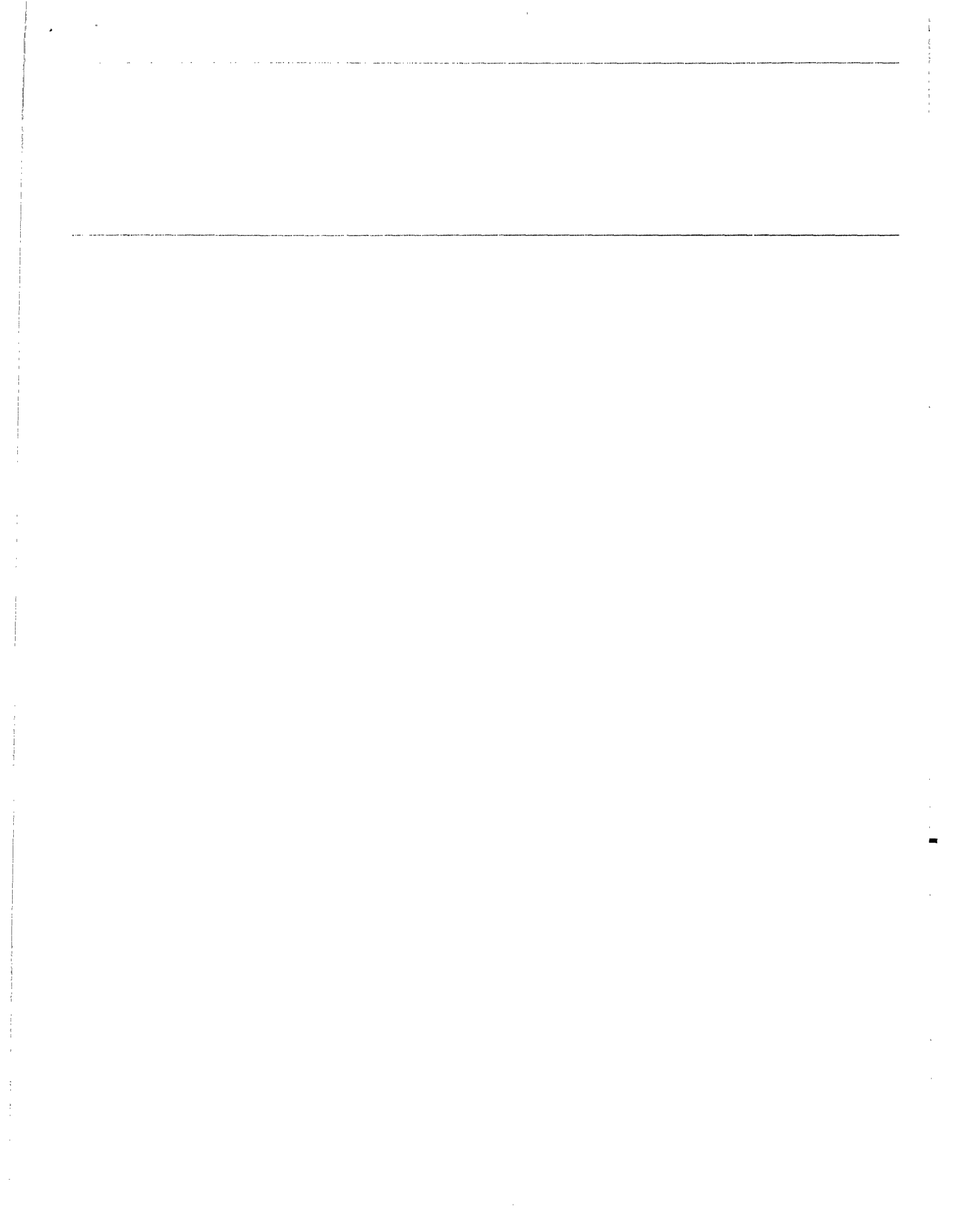
January 1992

RESOLUTION TRUST CORPORATION

Recoveries on Asset Sales



145650





General Government Division

B-247165

January 8, 1992

The Honorable Kent Conrad
United States Senate

Dear Senator Conrad:

On September 10, 1991, you requested specific information related to the costs of resolving failed thrifts. Specifically, you asked us to (1) assess a recent Los Angeles Times article's conclusion that the Resolution Trust Corporation (RTC) will lose 40 cents per dollar on asset sales, (2) determine whether RTC has sufficient information on actual sales values to date, and (3) assess whether RTC needs additional funds because of the estimated recoveries. This fact sheet responds to your request.

You also requested information on the types of litigation generated by the thrift industry crisis. We will provide this information in a separate report.

ESTIMATED LOSSES ON ASSET SALES

A July 14, 1991, Los Angeles Times article concluded that the variance between the book value of failed thrifts' assets and their actual sales price could add billions of dollars to the cost of resolving the thrift industry crisis. The Times' study, which compared book value to estimated recovery value in asset management contracts, indicated that RTC may lose 40 cents per dollar of book value. This study also showed that RTC estimated the assets under contract would bring about \$25 billion when sold--\$15 billion less than the \$40 billion listed on the thrifts' books. The article stated that projecting the 60-percent recovery rate to another \$124 billion in assets that are not yet under contract suggested that losses were likely to grow another \$49 billion.

Because of time constraints, we did not validate the Times' figures, which the article said were based on an analysis of more than 20,000 contracts. However, we did determine RTC's practices for recording receivership asset values and estimated losses for conservatorships, receiverships, and certain institutions not yet under RTC control. We also analyzed RTC's automated real estate data to determine actual sales experience. Generally, we found that RTC's recovery rates approximated the rate cited in the article.

RTC Practices for Recording Book
Value and Estimated Losses

Receiverships are separate legal entities created to windup the affairs of failed thrifts. This includes managing and selling the assets of these thrifts and paying off their creditors. RTC records remaining assets on the receiverships' books at the book value used by the failed thrifts. RTC also accounts for the probability of not selling the receiverships' assets at book value. Accordingly, RTC records an estimated loss on receivership assets on the corporate books.

RTC records an additional estimated loss for assets of thrifts that are in conservatorship or that are identified by the Office of Thrift Supervision as "watch list" institutions. Conservatorships are thrifts that are controlled by RTC and operated as going concerns. Watch list institutions are thrifts that will probably require government assistance and that are expected to be transferred to RTC. As of December 31, 1990, RTC recorded a total of about \$100 billion as the estimated loss for all receiverships, conservatorships, and institutions on the watch list. RTC also noted in its 1990 financial statements the possibility that another group of "troubled" thrifts might require government assistance and could result in additional losses to RTC of as much as \$60 billion.

RTC computes losses on receivership assets by estimating asset recovery values that are based on appraisals or other standard valuation procedures. In calculating losses on conservatorships and watch list institutions, RTC assumes that it will recover approximately the same percentage of book value on sales from these thrifts as from those already closed. RTC also adjusts the recovery values periodically. RTC plans to value assets quarterly in order to provide the most current estimates of market value. As of December 31, 1990, RTC used an overall estimated recovery value of about 65 cents per dollar. RTC revised this value to about 60 cents on June 30, 1991. (See app. I for RTC's recovery rates.)

RTC'S SALES INFORMATION

RTC does not have sufficient historical sales experience to evaluate the reasonableness of asset recovery estimates. It is in the process of developing the following systems, which RTC officials said will have the capability to provide the needed valuation information:

- The Real Estate Owned Management System (REOMS) is to maintain an inventory of RTC-owned real estate.
- The Loans and Other Assets Inventory System is to consolidate RTC assets data from numerous loan processing record systems.
- The Asset Manager System (AMS) is to maintain receipt and disbursement information on assets under asset management agreements.
- The Control Totals Module of the AMS is to provide asset balances and a means to reconcile accounting information.
- The Furniture, Fixtures, and Equipment System is to maintain a nationwide inventory of furniture, fixtures, equipment, and other personal property maintained by RTC.

These systems are in various stages of completion. In connection with our 1991 RTC financial audit, we plan to monitor whether RTC will be able to provide sufficient sales and other valuation information.

Although RTC has not completed automation of sales information on all asset types, we obtained and analyzed data as of October 5, 1991, from REOMS. Our analysis showed that RTC realized an average of 64 cents per dollar of real estate owned (REO) that was sold. Residential property yielded the highest return, 72 cents per dollar, and commercial property and land yielded 61 cents and 59 cents per dollar, respectively. Overall, assets that were sold in conservatorship yielded about the same amounts as assets sold in receivership. (See app. II.)

In addition to the actual sales results for real estate assets, our analysis showed the following:

- Real estate values have declined substantially from the original book values recorded by former thrifts. Single family residences have declined the least, a 13-percent difference from book value to appraised value. Land has declined the most, a 29-percent difference from book value to appraised value. Commercial property has declined 22 percent. However, about 44 percent of the appraised values came from appraisals that were over 1 year old. Therefore, the appraised values may not accurately reflect current market conditions. (See apps. III and IV.)
- Overall, the sale amount of real estate assets yielded 11 percent less than the appraised value. (See app. V.)

-- RTC's selling costs (the difference between the sale amount and the net proceeds) equalled about 10 percent of the sale price. (See app. VI.)

FUNDING REQUIREMENTS

As we stated in our October 1991 RTC financial audit report, the amount of additional funding that RTC will require depends on a number of factors.¹ They include the outcome of economic uncertainties, the recovery value of assets, and the number and timing of additional thrift failures. Faced with these uncertainties, no one can say how much money will eventually be needed to cover the cost of the thrift industry cleanup.

OBJECTIVES, SCOPE, AND METHODOLOGY

To respond to your request, our objectives were to (1) assess the Times article's conclusion that RTC will lose 40 cents per dollar on asset sales, (2) determine whether RTC has sufficient information on actual sales results to date, and (3) assess whether RTC needs additional funds because of the estimated recoveries. To obtain the needed information, we analyzed data in RTC's REOMS as of October 5, 1991 to determine the percentage of book value being realized on sales. We did not verify the computerized data. However, we made some assessment of completeness and accuracy. Accordingly, we excluded cases that had missing, invalid, or apparently erroneous data. We also obtained information on RTC's practices for recording asset values and estimated losses from our financial audit reports.

We discussed the results of our work with appropriate RTC officials who agreed with the facts presented in this fact sheet. Their comments have been incorporated into the fact sheet where appropriate. We did our work from November through December 1991 in accordance with generally accepted government auditing standards.

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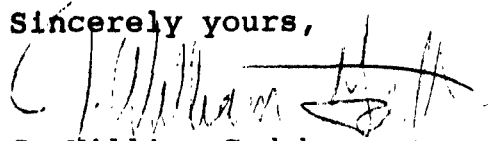
We are also sending this fact sheet to RTC's Chief Executive Officer, the Chairman of the RTC Oversight Board, and interested congressional committees. We will also make copies available to others upon request.

¹Financial Audit: Resolution Trust Corporation's 1990 Financial Statements (GAO/AFMD-92-20, Oct. 25, 1991).

B-247165

This fact sheet was prepared under the direction of Gaston L. Gianni, Associate Director, Federal Management Issues, who may be reached on (202) 736-0479 if you or your staff have any questions. Other major contributors are listed in appendix VII.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. William Gadsby", with a horizontal line drawn across the middle of the signature.

J. William Gadsby
Director, Federal
Management Issues

RTC RECOVERY RATES

Asset category	December survey recovery rate (Cents per Dollar of Value)	June survey recovery rate (Cents per Dollar of Value)	June asset balances (Dollars in Millions)	Percentage of total assets
Other securities	77.0	100.0 ^a	\$ 1,589	2.2%
Mortgage-backed securities	91.4	100.0 ^a	1,215	1.7
Junk bonds	47.5 ^a	73.4 ^a	1,092	1.5
Performing 1-4 family mortgages	85.4	81.4	14,295	20.1
Nonperforming 1-4 family mortgages	58.9	54.6	2,395	3.2
Performing multifamily mortgages	77.0	74.4	3,597	5.1
Nonperforming multifamily mortgages	51.3	52.9	2,476	3.5
Performing construction mortgages	90.6	72.0	3,087	4.3
Nonperforming construction mortgages	60.5	28.0	3,298	4.6
Performing land mortgages	65.4	80.8	566	0.8
Nonperforming land mortgages	36.3	15.9	2,915	4.1
Performing commercial loans	80.7	76.3	8,614	12.1
Nonperforming commercial loans	36.5	43.7	4,150	5.8
Performing consumer loans	82.7	79.2	2,372	3.3
Nonperforming consumer loans	9.3	46.8	391	0.6
REO and other real estate	36.5	36.4	10,200	14.4
Fixed assets	30.5	19.3	731	1.0
Subsidiary equity	62.9	43.5	3,033	4.3
Subsidiary loans	62.9	47.9	1,624	2.3
Other assets	55.4	53.3	2,302	3.2
Judgments and charge-offs	0.0	0.0	1,163	1.6
Estimated recovery value	64.5 ^b	59.7	\$71,015	100.0%

Note: Estimated national recovery rates based on December 31, 1990, and June 30 1991, asset survey data net of indirect expenses.

^a These recoveries were not based on asset survey data. They were supplied by the Capital Markets Group.

^b Based on the distribution of assets on December 31, 1990.

Source: RTC Office of Corporate Finance.

RTC ACTUAL REAL ESTATE
SALES RESULTS AS OF
OCTOBER 5, 1991
(Dollars in Billions)

	Number of assets	Book value	Net proceeds	Percent reduction
Conservatorship				
Single family	6,564	\$0.545	\$0.397	27%
Land	876	0.182	0.118	35
Commercial	574	0.719	0.410	43
Total	8,014	\$1.446	\$0.925	36%
Receivership				
Single family	6,986	\$0.509	\$0.360	29%
Land	888	0.247	0.136	45
Commercial	709	0.735	0.471	36
Total	8,583	\$1.491	\$0.967	35%
Combined				
Single family	13,550	\$1.054	\$0.757	28%
Land	1,764	0.429	0.255	41
Commercial	1,283	1.455	0.882	39
Total	16,597	\$2.938	\$1.894	36%

Note: Although REOMS indicated 28,637 assets had sold, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

**RTC BOOK VALUE COMPARED WITH
LATEST APPRAISED VALUE
(Dollars in Billions)**

	Number of assets	Book value	Appraised value	Percent reduction
Conservatorship				
Single family	10,190	\$1.5	\$1.3	13%
Land	2,069	1.2	1.0	17
Commercial	1,477	2.8	2.3	18
Total	13,736	\$5.5	\$4.6	16%
Receivership				
Single family	21,299	\$1.6	\$1.4	13%
Land	7,049	5.1	3.5	31
Commercial	5,031	7.2	5.5	24
Total	33,379	\$13.9	\$10.4	25%
Combined				
Single family	31,489	\$3.1	\$2.7	13%
Land	9,118	6.3	4.5	29
Commercial	6,508	10.0	7.8	22
Total	47,115	\$19.4	\$15.0	23%

Note: Although REOMS shows 69,332 assets, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

AGE OF RTC APPRAISALS
(Age in Months)

	Total Assets	0-6	7-12	13-18	19-24	Over 24
All REO						
Conservatorship	13,736	5,201	5,002	2,267	678	588
Receivership	33,379	5,022	10,971	9,903	4,729	2,754
Total	47,115	10,223	15,973	12,170	5,407	3,342
Percent under/over 1 yr		56 %		44 %		
REO sold						
Conservatorship	8,014	3,897	2,858	951	166	142
Receivership	8,583	2,636	3,429	1,855	460	203
Total	16,597	6,533	6,287	2,806	626	345
Percent under/over 1 yr		77 %		23 %		
Unsold REO						
Conservatorship	5,722	1,304	2,144	1,316	512	446
Receivership	24,796	2,386	7,542	8,048	4,269	2,551
Total	30,518	3,690	9,686	9,364	4,781	2,997
Percent under/over 1 yr		44 %		56 %		

Note: We excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

RTC APPRAISAL COMPARED WITH SALE AMOUNT
(Dollars in Billions)

	Number of assets	Appraisal amount	Sale amount	Percent reduction
Conservatorship				
Single family	6,564	\$0.477	\$0.440	8%
Land	876	0.132	0.130	2
Commercial	574	0.527	0.461	13
Total	8,014	\$1.136	\$1.031	9%
Receivership				
Single family	6,986	\$0.462	\$0.407	12%
Land	888	0.170	0.150	12
Commercial	709	0.594	0.518	13
Total	8,583	\$1.226	\$1.075	12%
Combined				
Single family	13,550	\$0.939	\$0.847	10%
Land	1,764	0.302	0.279	8
Commercial	1,283	1.121	0.978	13
Total	16,597	\$2.362	\$2.104	11%

Note: Although REOMS indicated that 28,637 assets had sold, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

RTC SALE AMOUNT COMPARED WITH NET PROCEEDS
(Dollars in Billions)

	Number of assets	Sale amount	Net proceeds	Percent reduction
Conservatorship				
Single family	6,564	\$0.440	\$0.397	10%
Land	876	0.130	0.118	9
Commercial	574	0.461	0.410	11
Total	8,014	\$1.031	\$0.925	10%
Receivership				
Single family	6,986	\$0.407	\$0.360	12%
Land	888	0.150	0.136	9
Commercial	709	0.518	0.471	9
Total	8,583	\$1.075	\$0.967	10%
Combined				
Single family	13,550	\$0.847	\$0.757	11%
Land	1,764	0.279	0.255	9
Commercial	1,283	0.978	0.882	10
Total	16,597	\$2.104	\$1.894	10%

Note: Although REOMS indicated 28,637 assets had sold, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

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