Statement No. 58

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Statement of the Shadow Financial Regulatory Committee
on
Provision of Seller Financing by RTC in Asset Sales

September 24, 1990

Chairman William Seidman has proposed to the
Resolution Trust Corporation Oversight Board that RTC
adopt a new policy of being prepared to provide
financing to purchasers of assets that RTC has
acquired from failed thrift institutions. The stated
reason is that, under current economic conditions,
buyers cannot finance such purchases from normal
commercial sources.

The Shadow Financial Regulatory Committee
believes that there are grounds for skepticism about
the proposition that real estate purchase finance has
become unavailable. Substantial funds continue to
flow through normal channels for mortgage originations
and in the secondary market for real estate mortgages
and mortgage-backed securities. It is possible
nonetheless that buyers for some kinds of properties
are having difficulty in obtaining financing in
amounts and on terms that they find attractive.

RTC is currently experiencing a shortage of
funds, which can create pressure to avoid recognizing
losses. If RTC should undertake to provide more
attractive financing, there is a danger that the
transaction would evolve in substance into a sale at a
nominally higher price but with the buyer having the
right to put the asset back to RTC. If, for example, RTC offers loans with concessional terms, such as artificially low interest rates (which in effect offset any small down payment), on a non-recourse basis or to buyers with little or no net worth at stake, the buyer is really acquiring an option -- to keep the asset if market prices go up, or to let RTC foreclose if the market goes down. In such a transaction, RTC would retain most if not all of the downside risk, while forgoing any upside gains.

The Committee recommends, therefore, that in any financing program designed to speed resolutions, the RTC should offer interest rate and down payment terms that correspond to prevailing market levels, and let potential purchasers compete on the basis of the purchase price they bid. Otherwise, the financing program could create the illusion of progress by RTC in disposing of its troubled assets, whereas in reality it had not reduced the risks entailed in asset ownership.