Statement No. 60

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Statement of the Shadow Financial Regulatory Committee
on
RTC Property Disposition Policies

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The Resolution Trust Corporation (RTC) continues
to be unable to dispose of the properties it has
acquired from scores of closed thrifts. The recent
cancellation of the RTC's widely-publicized property
auction illustrates its continuing difficulties in
disposing of properties, even while its inventory
mounts by hundreds of millions of dollars monthly.
The Committee feels compelled, given the prospect of
the FDIC's rapidly growing property acquisitions from
the weakening commercial banking industry, to restate
its concerns on property disposition policies set
forth in Statement 55 of May 1990. That statement
concluded:
The taxpayers' interest would be better served by outright sales of institutions ("final bank" deals) and assets, under terms designed to maximize the transfer of investment risk.

The Committee recognizes that the primary difficulty in effecting final sales of problem assets is uncertainty of valuation. When uncertainty is so great that "final bank" deals do not seem feasible, the RTC should use thrift and asset management agreements. The acquirors of thrifts would thus carry the properties and dispose of them (without risk of loss), with the "workout" compensation established by a widely competitive auction process.

The details of yield-maintenance and loan-guarantee agreements must be structured to maintain optimal incentives for property disposition. In structuring management contracts, the RTC should examine in a more constructive manner the performance history of agreements used in the past by FSLIC and the FDIC.

If the RTC does not immediately accelerate its efforts to dispose of property, the losses to taxpayers will continue to increase.