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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

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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.