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

September 24, 1990

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:

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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.