the future -- what the FDIC and RTC are going to be doing in Texas

Remarks by

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Good afternoon, ladies and gentlemen. It's a pleasure to be with you today.

You know, seeing this big crowd reminds me of the time that Winston Churchill was asked if he didn't get impressed with himself because the crowds were so large for his speeches. Churchill said, "No, every time it starts going to my head, I remind myself that, if instead of making a speech I was being hanged, the crowd would be twice as big!"

That story has a certain ring of truth for me here in Dallas. You see, I get a lot of fan mail from Texas.

Some of it I wouldn't read in polite company, but the general gist of it goes something like this---Keep Your Cotton Picking Paws Off Our Financial Institutions, Expletive Deleted -- Expletive Deleted!

We are aware that the Texas economy has had its troubles, and as bank liquidators, things sometimes get tense when the situation is bad. How bad has it been?

During my 4 year "watch" at the FDIC:

-- 348 Texas banks failed representing 45 percent of all failed banks in the country during this period. But that still leaves you with almost 1400 more or less viable banks. The good news is that's still more than the rest of the free world combined!

-- Failed Texas banks had $73 billion in assets representing 81 percent of failed bank assets handled during this period.

-- FDIC outlays totalled $12 billion for Texas failures or 56.6 percent of all outlays.

-- FDIC cost for failed banks in Texas over the four year period is $9.3 billion, or 67 percent of all cost the Corporation incurred.

In Texas we sort of feel like we've been playing leap frog with a unicorn!

But I didn't come here today to talk about problems of the past. I want to talk about the future -- what the FDIC and RTC are going to be doing in Texas in the next few years.

our job over the next few years in this fine state will not be easy. Here's a glimpse of what we will be up to:

1. We'll be supervising your state nonmember banks -- with increasing reliance on your outstanding Commissioner Ken Littlefield and his excellent staff.

2. We'll be supervising and selling our inventory of FDIC assets, with over $3 billion from banks that failed right here in Texas.

Add to that assets being handled by NCNB out of the old First Republic, you get another $5 billion in assets for sale. We also estimate that another $6 billion of assets at book value, and perhaps 3 billion at market value, will be for sale as a result of the MCorp, TAB, and NBC transactions.

3. We'll be supervising and selling Old FSLIC assets in Texas -- real estate asset from failed thrifts total <u>$1 billion in Texas</u>.

4. We'll be policing $57 billion of income maintenance contracts covering real estate with 3-7 year contracts. $26 billion of those covered assets came from failed Texas thrifts. Some of these assets may be reclaimed for sale soon, but all will eventually have to be sold.

5. We'll provide backup regulation for Texas's 127 thrifts in coordination with the Office of Thrift Supervision.

6. We'll be running the RTC, which has 75 Texas thrifts in its conservatorship program, with over $33 billion in liabilities. Over the next three years we'll be handling as many as another 110 to 120 thrifts in Texas. Out of the $100 billion in problem real estate the RTC may eventually have to handle, as much as $25-30 billion will be in Texas.

That gives a grand total in Texas of over $60 billion in assets.

By the way, included in the assets is the FDIC's 12 percent interest in the Dallas Cowboys. I'm sure we'll do well with this asset since, like the Cowboys, the FDIC always seems to attract the <u>best in Monday morning quarterbacks</u>. Come to think of it, maybe we will give the RTC Oversight Board this one to handle! Jack Kemp used to have a pretty good throwing arm!

In addition, we are mandated by Congress to liquidate the Federal Asset Disposition Association, or FADA. As you may of heard, recently we put FADA up on the auction block, and have already received over 250 inquiries. I am pleased to announce that we are now offering for separate sale a package of $428 million in real estate that was managed by FADA. It is half located in Texas, with the rest in California, Colorado, Arizona, and Florida.

This block is composed of 150 pieces of property. In fact, in Texas alone 82 pieces are for sale. If we can we want this to be a bulk sale, so get a partner for the assets in other states if you want to bid only for Texas properties at this time. This is the first time we have tried to use a block of real estate as a package, and we hope to attract new capital to the real estate market. So please get out your check books, but be clear -- as always -- the FDIC will not accept bids below current appraisals.

As you can see, the FDIC is very much involved in the real estate business -- as they say, we are now neck deep and sinking.

The new legislation provides some sales guidelines. It requires the RTC to sell property in distressed areas -- such as Texas -- at or above 95 percent of market value. In all geographic areas, the RTC will employ orderly marketing strategies, and will avoid techniques that dispose of assets at any price. That is, "no dumping."

Thus, we plan to continue our policy that everything is for sale, but not at any price, at least until the RTC Oversight Board decides another approach is more appropriate. Whether to sell or hold these properties has been one of the most politically charged issues of this entire debate. Sell or dump that's the question -- and it reminds me of what Woody Allen once said to a commencement class:

"More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other lead to total extinction. Let's pray we have the wisdom to choose correctly!"

My bet is that the RTC will take Woody's advice and make the correct choice.

For those of you who are particularly concerned about the supply available, I would like to put your minds at ease ---- at least temporarily. I've told you about what we will have for sale over $60 billion in Texas alone. But the RTC won't be adding billions of dollars worth of Texas real estate to the market place tomorrow or next month or even much next year.

That's because the RTC doesn't have billions of dollars worth of Texas real estate ready for sale now. The majority of the property we are talking about today is tied up as collateral on loans, or it's tied up in income maintenance contracts -- which provide owners several years income before it can be sold.

Even in cases where theoretically we could sell, it may take upward to a year just to gain clear titles.

So, of the $60 billion I mentioned, over $40 billion is not available at the present time. All you people who think RTC sales are going to depress property values further -- rest easy! It's going to be awhile.

As a matter of fact, one of our toughest short-term tasks is coming up with an asset inventory for the new RTC by years-end.

We are working hard right now so the market will know what is for sale.

One thing is abundantly clear so far -- running the RTC will not prove the most popular or easiest job in town. And people are already lining up to look over our shoulders. The RTC -- or, as I sometimes call it, "The House of 1000 auditors" -- will be, I believe, the most heavily audited agency ever created.

GAO, 2 Inspector Generals, the RTC Oversight Board, OMB, and the House and Senate Banking Committees will all be looking over the RTC's shoulders.

We'll be busy -- and we'll keep the auditors busy too.

Take the review of the 1988 FSLIC deals -- the so-called "December" transactions. The RTC is required to evaluate the cost of these 94 agreements and document its analysis and findings for the public. Where necessary, it will review each bidding process to insure that it was sufficiently competitive.

Another primary goal will be to look for ways to reduce agreement costs where possible, including restructuring the agreements when necessary.

We plan to hire private sector groups to help facilitate a more timely and impartial review. We hope to have these reviews completed within nine to 12 months. Since many of these are in Texas, we'll need lots of private sector help. If you want more details on this review, let us know.

One of our most pressing problems right now is how to fund our resolutions -- by fund I mean obtain working capital in business school terms.

The new legislation provides the RTC with $50 billion.

We estimate it will take at least that much to cover the insolvent thrifts' net loss when we are all finished.

$50 billion won't provide enough to cover the funds needed for working capital. We'll have to borrow that.

The question is -- Who do we borrow from to provide the working capital?

The problem is one of short-term costs needs, not long-term cost. Cash is needed while assets are being disposed of. The additional working capital will be repaid as assets are sold.

We and the RTC Oversight Board will develop policies on how such working capital will be raised. In doing so, the Oversight Board will have to address legitimate concerns in Congress and elsewhere over whether the financing will be on- or off-budget, and whether adequate safeguards are in place to ensure that such financing cannot be used to increase the costs to taxpayers. However, policies on financing working capital must be put in place soon if the RTC is to be able to continue to restructure insolvent S&Ls.

As you can see, the FDIC-RTC will be very much a part of the Texas financial system for some time to come. We really must work together on the problems at hand -- for, as Ben Franklin said of the American revolution: "We must hang together or we'll all hang separately."

We look forward to participating with you in the new and improved Texas of tomorrow.

Thank you.