FDIC
Speeches

The Resolution Trust Corporation:

Remarks by

L. William Seidman
Chairman
Federal Deposit Insurance Corporation

Before

National Press Club
Washington, DC
March 21, 1990

Good afternoon ladies and gentlemen. Thank you for inviting me back to the National Press Club.

This is the third time in as many years that I've been invited to talk to this group. You members of the press ought to consider whether there may be a fine line between the search for truth and masochism.

This is especially true since my subject for today is the Resolution Trust Corporation, the institution charged with the clean up of the S&L debacle.

Actually as chair of the RTC, I'd like to change the name to the King Solomon Trust Corporation as a warning to all future generations. It was the wise King Solomon who said in the Book of Proverbs, chapter 11, verse 15:

> "He who gives surety for a stranger will surely <u>suffer for it</u>, but he who hates surety is safe."

As you know, certain critics of the RTC management have questioned the job being done and my management skills. They are probably unaware I received early training aboard the destroyer, U.S.S. Richard P. Leary.

At this session I'd like to try to decode the message you've been receiving on the King Solomon Trust Corporation, usually called the RTC.

After nearly seven months of existence I'd like to report -- what the RTC has done, what it expects to do in the future and how we hope to make it the last of its breed.

Let me say it is not surprising that the RTC has its critics. The pain caused by disastrous mistakes in the S&L industry is not behind us simply because of the recent S&L legislation. Since the signing of that legislation we have begun to feel the real pain: the closing of institutions; the sale of distressed assets; the start-up problems of a new government bureaucracy; and, the real estate market dislocation caused by this at least $160 billion dollar disaster.

The good news is that we are off to a better start than most people think. But the bad news is that we've seen just the tip of the iceberg.

So, unfortunately, the message is -- Stand by! The worst is yet to come. But this is all the more reason to move swiftly and efficiently in dealing with the task before us.

For S&Ls in RTC conservatorship, the savings have been even more dramatic. Prior to FIRREA, conservatorship yields on one-year CDs were .85 percentage points higher than bank CDs. As of last week, that difference had shrunk to .17 percentage points. This means an annual reduction of $166 million in cost to the taxpayer. We believe that savings for the entire deposit base at conservatorships could exceed $250 million annually.

Reduced interest rates paid by the industry translate into lower interest rates on loans to customers than would otherwise be available.

Reducing the cost of deposits is one sure way to cut RTC costs and save taxpayers money.

We've sold or liquidated 52 S&Ls in 19 states. It took the FDIC from 1945 until 1982 -- 37 years -- to handle that many institutions.

We've inventoried over 30 thousand real estate properties and published a listing of their key investment characteristics in a four-volume, 1700-page book. So far, we've filled orders for nearly 175,000 volumes -- about $2.2 million worth.

Above all, we've worked out a more efficient and cooperative operation with our Oversight Board........and the Treasury. We also are working well with HUD, the Fed, OMB, Justice, the FHLB, and the FHFB, to name a few others involved.

I'm sorry to report our relationship with the Fish and Wildlife Commission is still in flux.

But that's the past. The important thing right now is --- how are we going to improve our performance. We believe we haven't done too badly but we fully recognize the need to do better.

Before I give you the RTC's new plans, I want to make a fundamental point.

RTC losses can only be stemmed by the swift sale of all its property to private-sector buyers. And just like most other merchandise, the longer S&L's assets sit on the shelf, the more they deteriorate.

Simply closing down an institution, selling the deposits and, if possible, some of the more easily saleable assets does not stop losses. The only way we can stop the losses is to put all assets, good or impaired, in private hands -- in other words, we must sell them all.

We will handle failing thrifts in three ways.

The first, and most important method is the NEW RTC Accelerated Resolution Program. Since we know that putting institutions under RTC conservatorship lowers their franchise value, we plan to sell as many as possible before this happens. Just like a car on the road has a better re-sale value than a car in the junkyard, we believe we can get a better deal for problem thrifts by keeping them off the junk heap. Except in cases of fraud, instability, or total lack of buyer interest, we will not place institutions in conservatorship until they are pre-sold.

Thus, under this plan we will market the institutions before they are placed in the RTC. When we are ready to finalize the sales, the institutions will be closed by the Office of Thrift Supervision, placed in the RTC, and then immediately reopened in the hands of the waiting buyer. This, in fact, is the expedited resolution policy that has worked so well for the FDIC over the past few years.

Selling will be done both by the management in place, by RTC, and by OTS personnel. Close coordination with the Office of Thrift Supervision will be the hallmark of this effort.

Our "Operation Clean Sweep" will close down about 50 of these institutions without attempting to sell them, because closing them will be less costly than the likely results of a sale.

With respect to institutions not subject to "Operation Clean Sweep", we will bid them out just as we have been doing. However, those with known buyer interest will be moved to the top of the list. This should speed sales and maximize values.

Having done all we can to deal with the sale of the S&Ls, we are left with the hardest part of our job --- the sale of our illiquid "opportunity" assets. The management and sale of all the assets taken over from closed thrifts is where our game will ultimately be won or lost.

Remember, selling these left over "opportunity assets" is the only way we can stop our continuing losses. While we hold them, they create costs, but very little income.

Let me tell you some of our plans to get buyers for our "opportunity" inventory.

By the end of April we will make available a revised inventory of all our properties. This time it will be in data-disk format so that it can be updated with ease.

All the property we have will be for sale at a market price. If a property doesn't sell, it probably will be because we're asking too much and we'll have to reduce our price. We're hiring some of the best sales advice we can find in the private sector to help us get the job done.

If you want to learn more about how to purchase assets nation-wide from the RTC, you should attend one of our seminars. We are holding 10 of them in different cities across the country. The first two will be in Texas next month. If you are interested, call 1-800-431-0600. Visa or Master Card charges accepted.

Surely this discussion of the RTC must convince one and all that we cannot take a chance on this happening again. As President Bush said, "Never again." The recent legislation was a sound start. But we must find additional ways to prevent high-flyers from borrowing unchecked on the credit of the United States Government.

So, while we are busy at the RTC doing our very best to clean up the S&L mess, we are also busy at the FDIC trying to limit the possibility of ever needing another RTC. In summary ----- <u>we're busy</u> -- <u>and we mean business</u>!!

We don't expect to be popular or perfect. But we do expect to take every option possible to cut every dollar possible from the cost of the RTC to the taxpayer.

Thank you.