A "sales talk" to a gathering of potential customers and business partners:

Remarks by

L. William Seidman
Chairman

Federal Deposit Insurance Corporation

Before

Urban Land Institute
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Good morning, ladies and gentlemen. It's a pleasure to talk with this meeting of the Urban Land Institute, and to make what could be considered a "sales talk" to this gathering of potential customers and business partners.

As you know, there's been a great deal of change in Washington over the past year with respect to our financial system. Just the other day I heard one Congressman say to another that he wished the Washington Scene would get back to normal. Shaking his head, he observed that all this "kindlier and gentler" stuff was really getting brutal!

Is it any wonder that many describe Washington as 67 square miles surrounded by reality? ...(Pause) and the only place in the universe where sound travels faster than light!...

They say its an ill wind that blows no good. I'd like to illustrate that maxim with the thrift industry's problems. While this problem will cost the taxpayers billions, I'm going to tell you about the silver lining -- how you can help solve the problems and make some money to boot.

To help set up the discussion, let me spend a moment on the organization of the Resolution Trust Corporation -- one of the main vehicles for handling the thrift problem -- and then briefly look at what will be keeping us busy in the "dirt" business over the next few years.

There are two primary divisions of the RTC: operations and resolutions -- and property management and sales.

The FDIC will be the day-to-day manager of the RTC. However, it is the RTC Oversight Board that will set the RTC's policies in consultation with the FDIC. That includes the RTC's policies on selling real estate.

The RTC will also have 4 regional sales offices: in Atlanta, Kansas City, Dallas and Denver -- and 12 to 18 more local consolidated offices within those regions. After my talk you are welcome to a sheet I brought with me containing the names and numbers of the key people in the RTC's and FDIC's real estate business.

The RTC will handle plenty of real estate -- and that is only part of the total available if you also include the real estate being handled directly by the FDIC.

Let me give you an idea of the volume of real estate involved in the FDIC's operations today, and what we estimate the RTC will have to handle over the next several years. These assets range from raw land, to commercial properties, to one-to-four family properties, to shopping centers -- that is, just about any type of property that a financial institution lends on or takes as security.

First, an overview of the assets the FDIC has now:

-- The FDIC, through its Division of Liquidation under Steve Seelig, is supervising and selling a $10 billion inventory of FDIC assets.

-- We are also supervising and selling $12 billion in assets held by the Old FSLIC, with a net realizable value of $9.3 billion. Stan Poling is in-charge of this operation at this point.

-- And we are policing $57 billion of income maintenance contracts covering real estate. Some of these assets may be reclaimed for sale soon, and eventually all will be for sale.

I would also like to mention the FDIC's liquidation of the Federal Asset Disposition Association, or FADA. As you may have heard, recently we put FADA itself up on the auction block, and have already received over 350 inquiries. Last week we announced that we are now offering for sale as a package of 150 parcels with an asking price of $430 million that was managed by FADA. This real estate is located in Texas, California, Colorado, Arizona, and Florida.

Well, those are the assets we are handling outside the RTC, totalling almost $80 billion. But as the RTC moves into high gear, it will need to dispose of many -- many -- billions of dollars more in assets.

Over the next three years we expect that the RTC will be handling almost $300 billion in assets from failed thrifts across the country. Out of that, we estimate that $175 billion in assets will be managed by the RTC, with the remainder being sold almost immediately to the private sector, often to the purchaser of a recapitalized thrift. Of the $175 billion, $100 billion is expected to consist of illiquid assets that will take time to sell. Most of these assets are either real estate owned or real estate-related.

If you add these assets to those already in hand, the FDIC and RTC will eventually handle as much as $255 billion in real estate-related assets over time.

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

So how do we plan to approach this sizable challenge?

In the case of the RTC, the new legislation will be a guide. It requires the RTC to sell property in distressed areas at or above 95 percent of market values. In all geographic areas, the RTC will employ systematic and orderly marketing strategies, and will avoid techniques that dispose of assets at any price.

Thus, we plan to continue the standard FDIC policy that everything is for sale at current fair market value, 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. To sell or to dump is 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!"

Our view is that selling at current values is the best way to insure market recoveries. Holding property off the market only builds up inventories and uncertainty in the market as to true property values.

For those of you who are concerned that there will be an oversupply available, I would like to put your minds at ease -- at least temporarily. Although the RTC will eventually be handling billions of dollars worth of real estate, those properties won't be added to the market place tomorrow or even much next year.

That's because the RTC doesn't have billions of dollars worth of 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, all you people who think RTC sales are going to depress property values further -- rest easy! It's going to be awhile.

Of course, that doesn't mean that you should just sit and wait. As Abraham Lincoln said: "Things may come to those who wait, but only those things left by those who hustled."

Here's a few tips that might prove helpful to those of you interested in purchasing assets or thrifts from us:

(1) If you are interested in buying property or recapitalized S&Ls, get organized to act rapidly.

(2) It is likely that some S&L units will be sold with all the assets and liabilities in a package -- we call that a "whole" bank deal. It is a reverse auction. The winner is the qualified bidder who will take the least money from us to take the institution and the <u>assets</u> off our hands. As they say -- "make us an offer."

If you're not interested in an entire institution, look for individual pieces of property. As I mentioned earlier, we already have plenty of those, and the RTC will be handling billions of dollars more.

Of course, there are plenty of other areas where the private sector can get involved in these efforts. One area is our review of the 1988 FSLIC transactions, where we will look for ways to reduce costs through restructuring and asset sales.

Now that I am on the subject of the employment of private sector help, I'd like to make an appeal directly to that segment of this audience that is ready and waiting.

Plain and simple: Uncle Sam -- meaning the RTC -- needs you!

Most of the RTC's responsibilities will have to be carried out by independent contractors -- "deputized," if you will -- to handle portions of this enormous asset disposition program. No one knows exactly how many contractors will be necessary but the number will certainly be in the thousands.

In this process, the RTC will doubtless become the largest utilizer of appraisers, real estate brokers and asset managers in the world. These asset managers will include property managers, leasing agents, and various other firms and individuals specializing in such areas as hotel management and land development. Moreover, thousands of lawyers will be involved in this effort, and I hasten to add that we will unquestionably have the largest outside legal budget around -- and by a mile!

The RTC's plan for contracting with the private sector will basically occur in three phases.

The first phase will involve the review of the adherence of firms and individuals to RTC-approved ethical standards. It seems obvious to me that both the use of independent contractors, and the establishment of reasonable and proper standards for their work, are the solid cornerstones of a successful program.

The RTC Board has already adopted an interim statement of principles regarding ethical standards for independent contractors. These principles are designed to preclude the usual gamut of objectionable financial behaviors, including:

-- Performing services which could affect one's own financial interest, or those to whom one has ties.

-- Profiting from both sides of a transaction.

-- Using non-public information improperly.

-- Using RTC property for personal use.

-- And accepting gifts and favors from those whose financial interests might be affected by the performance or nonperformance of duties.

I should also mention that the FIRREA legislation prohibits the RTC from contracting with parties that have caused the insurance funds a substantial loss because of loan defaults.

The second phase of the asset contracting process will be the development of procedures to effectively evaluate the competency of prospective contractors.

The third and final phase will be the implementation of competitive bidding procedures, a process that would also give consideration to involvement of minority and women-owned or controlled firms.

So send a letter to Washington establishing your interest in this program, and include your qualifications, your areas of expertise, geographical region or regions of interest, and references for prior work performed.

You will receive a qualifying package to complete so that a formal review can then be conducted of your qualifications to meet our guidelines and to make you a part of the RTC's nationwide database.

I should mention that the rules are slightly different for attorneys. Firms should send resumes to our Deputy General Counsel, Tom Rose, in Washington. Tom will forward these inquires to the appropriate regional counsel. Along with your resume you should attach a letter stating where you have offices, the type of work you handle, and your record as an equal opportunity employer.

Finally, I'd like to leave you this morning with the hope that many of you will be put to work on this most important and challenging project -- to the mutual benefit of you, the FDIC and RTC, and your country.

I wish you all the luck in this endeavor. As I've said before -- there is a great deal of opportunity here for all.

And, frankly, we need all the good help we can get.

I hope to see you all on the approved list!

Thank you, and I would be glad to hear your questions and comments.