

The Enormous Success of the RTC

By Patrick J. Keogh

A couple of years ago I wrote an article for the publication *Military Engineer*. It was entitled "Beyond BRAC: They're Assets Not Problems." BRAC stands for Base Realignment And Closure, the term to describe the military's process for disposing of its excess installations. In that article, I cited the Resolution Trust Corporation as "the most successful relationship between the public and private sectors since the advent of the space program." I went on to suggest that the perspective and approaches employed by the RTC should be considered by the Department of Defense as it approached the challenges posed by BRAC.

On April 12, 1961, Russian astronaut Yuri Gagarin took his infamous orbital space ride. And on May 25, 1961, President Kennedy spoke before a humbled joint session of Congress and promised that the country would send an American to the moon by the end of the decade. On February 9, 1989, President George H.W. Bush signed into law the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) creating the RTC and promising that the nation's financial crisis would be resolved by December, 1995.

The enormity of both enterprises required extraordinary cooperation between our public and private sectors. Both efforts started with an important first step in a national commitment to a goal and schedule. And both were enormous successes.

For public real estate and financial practitioners the RTC experience represents a record of huge accomplishment. Even now it is hard to believe that \$400 billion in assets and 750 failed financial institutions could be sold in so short a period of time by a new federal organization. It is important to remember that it happened in an environment where real estate values had plummeted and equities in financial institutions were seriously depressed.

Until the present day the RTC effort represented the largest privatization of public assets in history. For that reason, the RTC experience has been very much in recent news as a precedent for what has to be done to weather our current real estate and banking crisis. Now that we know the problems in the U.S. exist on a broader global scale it may be helpful to consider that other countries employed RTC-like solutions to the privatization of their public assets. Most notable in that regard was the almost contemporaneous (1990-1994) experience of the Federal Republic of Germany's Treuhandanstalt (translated as "Trustee Agency" and referred to as "THA") in privatizing the public assets of East Germany upon the country's reunification. The THA successfully accomplished the privatization of 13,000 East German industrial firms in only four years. Taken together these two agencies in a relatively short period of time fulfilled their legislative mandates and divested what amounted to history's greatest transfer of wealth from the public to the private sector.

FIRREA created a complex mandate for the RTC. The new organization was to quickly privatize failing thrifts and their assets. The RTC was to minimize the impact of its resolutions on local real estate and financial markets and maximize the availability of housing for low- and moderate-income individuals. Finally, the agency was to maximize the opportunity for minority- and women-owned businesses to participate as contractors and purchasers of assets. So there was the compelling business mission of disposing of the assets for top dollar, but that was to be accomplished in the context of some important social goals.

The record of the RTC seems to indicate that success was a function of a number of key factors:

1. As mentioned before, the legislative sunset date served as a Kennedyesque going-to-the-moon goal. It became the objective of everyone in the organization. Unlike the standard perception of a bureaucracy where the goal is to perpetuate its own existence, the employees at RTC measured their success by their progress toward their going-out-of-business date.
2. They created a decentralized structure. Although RTC had a Washington headquarters, operations and responsibility were mostly managed in the field. Local personnel were charged with selling and making decisions based on local circumstances.
3. RTC had an entrepreneurial culture. There was a strong sense of mission and reliance on individual initiative rather than a reliance of prescribed processes and procedures.
4. The social objectives were initially subordinated. In the beginning, the goals of mitigating local market impact, advancing home ownership and promoting MWOB interests were subordinated to the mission of moving assets. As RTC matured and honed its tools those objectives became more manageable and achievable.
5. Very significant private sector involvement. Although the original staff of the RTC came from the FDIC and elsewhere in government, those individuals were quickly replaced with private, contract employees. Similarly, the transaction structures, like securitization of assets, represented the best tools then available in the private markets.

We soon forgot how bad the real estate and financial asset crisis was in 1989. Our short memory may be the result of how smoothly and smartly the RTC conducted its business. Based on its record of accomplishment the RTC seems to be an important model for our current asset resolution problems.

One final thing. If you ever get the opportunity to talk with alumni of the RTC experience I would encourage you to take it. It's a bit like talking with a combination of a proud Marine and a Kennedy era NASA employee. If I were involved in the current plans for economic recovery I think I would hunt down some of those folks starting with the former Chairman of the RTC, Bill Seidman. He can be found today as a regular commentator on CNBC.