

SJR

447

# HOUSE COMMITTEE REPORT

(7)

Date Referred: February 5, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/5/90

The LABOR & COMMERCE Committee considered:

SJR 47

SENATE JOINT RES. NO. 47

FDIC LIQUIDATION POLICIES

Urging the Federal Deposit Insurance Corporation to reconsider its liquidation policies for the real property that it controls in the state.

**RECOMMENDATIONS:**

- [ ] be replaced with \_\_\_\_\_ [ ] the same title
- [ ] be replaced with \_\_\_\_\_ [ ] a new title
- [ ] have attached amendment(s)
- [  ] do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(S):  
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- [ ] fiscal impact \_\_\_\_\_
- [ ] zero fiscal note \_\_\_\_\_
- [ ] zero with analysis \_\_\_\_\_

- [ ] fiscal note(s) \_\_\_\_\_
- [  ] zero fiscal note(s) Spec. Committee on Banking + Economics
- [ ] zero fn/analysis \_\_\_\_\_

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not Pass  
No Rec  
Amend

<u>Richard Donley</u>				
<u>Frank Boyer</u>				
<u>David H. Finkelstein</u>				
<u>Loren A. Lerman</u>				
<u>William Collins</u>				
<u>William Greenberg</u>				

Richard Donley  
Chairman's Signature

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
 Title: Urging the FDIC to reconsider its liquidating policies . . . .  
 Sponsor: Senator Rodey, et al.  
 Requestor: House Labor & Commerce

Agency Affected: Commerce & Economic Dev.  
 BRU: Banking, Securities & Corporations  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0	0	0	0	0	0

<b>CAPITAL</b>	0	0	0	0	0	0
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<b>REVENUE</b>	0	0	0	0	0	0
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**FUNDING:** (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	0	0	0	0	0	0

**POSITIONS:**

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

**ANALYSIS :** (Attach a separate page if necessary)

No fiscal impact for FY 90.

Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521  
 Division: Banking, Securities & Corporations Date: 4/6/90  
 Approved by Commissioner: *Larry Mercurieff* Date: 4/6/90  
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)  
 LW/dg16691D/040690a

Patrick M. Rodey  
Senator

# Alaska State Legislature



3111 C. St., Suite 510  
Anchorage, Alaska 99503  
(907) 561-7618

During Session:  
P.O. Box V  
Juneau, Alaska 99811  
(907) 465-3793

April 5, 1990

Senate

## MEMORANDUM

To: Rep. Donley

From: Senator Rodey *PR*

Subject: SJR-47 FDIC property liquidation policies

This resolution urges the Federal Depositors Insurance Corporation (FDIC) to be mindful of Anchorage and Alaska's economic downturn which has resulted in a severely depressed real estate market.

As FDIC assumed ownership of more and more buildings and structures in Anchorage, FDIC frequently will look to dispose of these properties quickly and at prices well under their potential value. Such action can further undermine property values for those struggling to hold on to their property in a depressed economy or real estate market.

The resolution asks FDIC to stagger its real property liquidation sales so as to help prevent any further property value decline.

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_  
 Title:  urging the FDIC to reconsider  
 its liquidation policies for  
 the real property they control  
 Sponsor: Rodev, Halford, Faiks  
 Requestor: Fischer, Kelly

Agency Affected: \_\_\_\_\_  
 BRU: Special Comm on Banking  
and Economic Development  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS : (Attach a separate page if necessary)**

Prepared by: Senator Pat Rodev, Chair Phone: \_\_\_\_\_  
 Division: Special Comm. on Banking and Date: 5/4/89  
Economic Development  
 Approved by Commissioner: Pat Rodev, Chair Date: 5/4/89  
 Agency: \_\_\_\_\_

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

**ECONOMY**

# Property-Dumping Specter Haunts Texas

## FDIC Must Quell Fears and Plan Real-Estate Sales

By HAL LANCASTER

Staff Reporter of THE WALL STREET JOURNAL

The specter of dumping has returned to the Texas real-estate market, courtesy of William Seidman and his Federal Deposit Insurance Corp. shock troops.

Having inherited the savings-and-loan mess from the Federal Savings and Loan Insurance Corp., Mr. Seidman is embarking on the task of peddling \$10 billion of thrift-held property during the next five years. Those funds have been earmarked by the Bush administration to repay interest on borrowings needed to finance its elaborate thrift-rescue plan.

Even without that impetus, Mr. Seidman has clearly stated he prefers returning properties to the market quickly, rather than warehousing them in institutions until the market rebounds, as FSLIC did last year in its Southwest Plan mergers of troubled thrifts.

"Everything we have is for sale," Mr. Seidman said at a meeting with reporters in Dallas recently. "If we can get appraised value, we'll sell it."

### Wishful Thinking

That may be wishful thinking, considering the moribund state of the Texas real-estate economy and the politically charged fishbowl in which the FDIC will operate, but the proclamation has nevertheless sent shivers up the spines of investors here.

The increasing role of regulators in asset disposal is "changing the way we're looking at property," says Deborah S. Kops, a consultant with HSM/Grubb & Ellis Advisors Inc. in Dallas. "We have to look at whether it's a Southwest Plan institution, a merged institution, a bought institution or a conservatorship. We're factoring in who owns the property and the potential for liquidation and how that would affect the ultimate use and value."

Already, some people are heading for the exits. One investor is selling development land in San Antonio, fearful because the FDIC has seized a rash of institutions there. "If we hit the market in six months, there could be a substantial drop in value," says a person familiar with the transaction. "In some areas, the S&L ownership of properties is overwhelming."

Michael Vick, senior consulting manager with Kenneth Leventhal & Co., says one of the real-estate accounting firm's clients recently sold some Dallas development property just because it was in the area of some FSLIC-owned properties. "He would have fared better had he held on,"

Mr. Vick says. "He decided he didn't want to take the risk."

A Dallas banker insists he has it "on good authority" that Prudential Insurance Co. of America and Travelers Corp. have ordered a purge of their Texas real-estate portfolios during the next six months. A Prudential spokesman flatly denies it; a Travelers spokesman said the company has an "active sales program," but hasn't recently ordered sales to be accelerated.

### Dodging the Bullet

Until the Bush administration's plan was unveiled, Texas thought it had dodged the dumping bullet. In the mergers engineered by FSLIC last year before its authority was narrowed, guaranteed income on real estate generally discouraged the dumping of distressed properties left from the industry's wild—and nearly fatal—binge of commercial real-estate lending.

Mr. Seidman argues—and some economists agree—that the Texas economy won't fully recover until the market absorbs bank and thrift inventories. Savvy investors know those properties are there and factor that into their valuations anyway, he explains. To hold them off the market only creates uncertainty and could harm the market and local economy more, he told independent bankers recently.

Still, there is growing concern that the interim costs of pushing so much supply into the marketplace will prove too high. In Texas' worst-case scenario, the FDIC would flood the market with properties that would fetch fire-sale prices, further depressing real-estate values statewide and triggering another wave of foreclosures and bankruptcies. Financial institutions still clinging precariously to solvency would be driven over the brink by more write-downs of property loans. The result: added bailout costs for taxpayers and a delay in Texas' budding economic revival.

Mr. Seidman's avowed intention to sell at currently appraised values could also leave considerable money on the table, says Ronald Witten, president of M/PF Research Inc., of Dallas, a real-estate market-research firm. He points out that appraisers, still stinging from criticism that they contributed to the state's real-estate collapse through negligence and, in some cases, outright fraud, are being "extraordinarily conservative" these days. Abnormally low appraisals also could force lenders to put out capital calls that many investors couldn't meet, thus adding to the state's mountain of nonperforming loans.

Adds a Dallas banker: "The appraisers killed us on the way up and they're killing us on the way down."

Mr. Seidman assured a congressional panel during recent hearings in San Antonio that "no sales will be made on a 'whatever we can get' basis and we do not engage in dumping."

Regardless, he may find it impossible to dump property, anyway. Many properties are so poorly located or poorly built they simply can't be sold quickly, if at all. Demand for some types of properties, such as shopping centers or raw land, is negligible in a hugely overdeveloped market. The regulators may not get enough cash from Congress to liquidate billions of dollars of thrift assets. Moreover, if market values start dropping, political pressure to reverse course will be heavy.

"The FDIC is going to learn some quick lessons on the liquidation of troubled assets," says Dallas thrift-consultant William Ferguson. "The loans here are bigger and the problems more complex than they have dealt with. The market is so saturated, a fire sale is not appropriate."

Real-estate consultants and economists also place great faith in the inefficiency of the federal bureaucracy. For example, it will take months for the FDIC to wade through the paperwork needed to formally acquire thrift-held properties, let alone market them. "If you'll recall, this is the same thing everyone expressed concern about with the Federal Asset Disposition Association," says David Gleeson, executive vice president of Dallas-based Lincoln Properties, referring to the liquidating group set up by thrift regulators. "Except about six to nine months into the existence of FADA, people were raising hell because it wasn't selling anything."

The outcry from Texas has prompted the administration to tone down the rhetoric of late. "We understand the potential destructive effects on the local economies of wholesale dumping," Treasury Secretary Nicholas Brady told the Chamber of Commerce in Dallas yesterday. "Let me assure that we intend to proceed very carefully with real-estate sales."

### Fears of Quick Sales

But the FDIC's history of quick sales fills Texans with dread. Many fear that a recent auction of FDIC holdings conducted by Christie's, known primarily for its art sales, is a harbinger of the state's future. That has prompted a call for anti-dumping provisions in the rescue legislation.

"If further damage to the Texas real-estate market takes place," James Pledger, Texas savings and loan commissioner, cautioned in testimony before the House panel in San Antonio, "the overall costs of this program will be higher and most of those costs will ultimately be borne by the taxpayers."

But others cling to the hope that such concerns are overblown. "I have very positive feelings about the approach as I have heard it," says Richard Behrens, the Dallas-based national-real-estate director for Price Waterhouse. "I hope I will have equally positive feelings six months from now when I see some of the actions."