

# BUSINESS

## After Closing Many Doors, RTC Shuts Its Own

Six Years After Its Creation, Agency Finishes Thrift Cleanup Amid Praise From Some Former Critics

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**T**he biggest financial bailout in U.S. history comes to an end today with the closing of the Resolution Trust Corp., the government agency created six years ago to sort out the debris from the collapse of the savings and loan industry.

The final cost was about \$145 billion, according to L. William Seidman, former chairman of the Federal Deposit Insurance Corp., with the RTC's share totaling about \$90 billion. Seidman and others note the true cost actually may be closer to \$400 billion if you count 30 years of interest on the money borrowed to finance the cleanup. That's enough to fund the food stamp program, say, for 15 years.

Still, the bill is less than what some analysts had once feared.

When the RTC opened its doors in 1989, savings and loans were swooning by the dozens, victims of real estate speculation run amok. The agency closed or merged 747 thrifts, protected 25 million depositor accounts and sold off more than \$465 billion in assets, including 120,000 real estate properties.

The meltdown hurt many thousands of innocent victims whose property lost value. But it benefited several groups of investors—a first set who profited from the expansion of the S&L bubble, and a second who profited after the bubble burst, by buying properties at fire sale prices. Local real estate lawyer C. Daniel Clemente called it the "greatest transfer of wealth outside of armed rebellion in the history of this country."

The S&L binge was triggered in part by actions in Washington. Politicians from both parties agreed in the 1980s on the wisdom of deregulating the thrift industry. But that created a tidal wave of real estate speculation that eventually swamped the thrifts.

Before the '80s, S&Ls had served mainly to finance home purchases. But the industry was teetering financially because increased competition from banks and interest rate fluctuations had left thrifts paying more to depositors than they were earning on loans.

The answer to their problems appeared to be deregulation, which would allow them to venture into new, and potentially more profitable, areas, particularly commercial real estate.

At the same time, the thrifts were given expanded powers to raise money through "brokered deposits," in which middlemen funneled money to S&Ls that offered the highest interest rate. Often, the thrifts that offered the highest interest rates were the ones that used the deposit to finance the riskiest investments.

Savings and loan institutions surged into commercial real estate investment, buying land and financing the construction of many thousands of apartment buildings, shopping centers and office complexes. Their projects competed in a market that was already glutted—thanks to generous real estate tax incentives enacted in 1981. Bidding wars broke out as real estate brokers, develop-

ers, investors and lenders competed to make deals, with real estate prices skyrocketing.

Projects were built all over the nation on the flimsiest of justifications, and vacancy rates soared as empty structures, which came to be known as "see-through" buildings, littered the landscape. Rents plummeted. First Texas and Oklahoma, then Massachusetts and New York, then Washington, D.C., and finally California, saw real estate values tumble.

Crime—loan fraud and insider dealing—was rampant in some institutions. Last month, the Justice Department reported that more than 3,700 senior executives and owners of failed thrifts have served time in prison for their misdeeds.

The federal government was left holding the bag. People had placed their money in savings and loan institutions because of their faith that federal deposit insurance would protect their nest eggs, and when the thrift institutions faltered, the federal government was forced to step in, shutting down the thrifts, paying off the depositors and taking responsibility for the loans and foreclosed real estate.

In 1980, there were about 4,000 S&Ls. Today there are about 2,000.

Most of what the RTC took under its control was mortgages. Actual real estate made up less than 10 percent of the holdings—about \$35 billion of the total \$465 billion in assets. Yet it is the tale of the real estate that best illustrates what happened.

Take, for example, the RTC's largest single holding, the 25,000-acre Banning-Lewis ranch in Colorado Springs. In 1981, it was a high plains ranch, best suited for grazing cattle. Mobil Land Development Corp., now based in Northern Virginia, bought the ranch that year for \$23 million as a real estate investment.

But along came Frank Aries, a high-rolling, 6-foot-4-inch Tucson real estate investor backed by Western Savings & Loan Association of Phoenix. Aries bought the site from Mobil Land for \$98 million. He then undertook to turn the site into a 170,000-person planned community, and Western Savings ultimately gave him a \$240 million loan.

The project was never built, the loan fell delinquent, Western Savings collapsed and the RTC took it over. In 1993, the site was sold to a branch of the Saudi royal family—for \$18.5 million, or a loss of more than \$200 million.

Cattle grazed on the land in 1981.

Cattle graze on it today.

"It was a no-win situation for everybody, except for Mobil," said Ira Joseph, a Colorado Springs city planner. "They had great timing."

Innocent bystanders were sometimes trapped in the middle when developments failed and were taken over by regulators. Gulf Island Resort & Racket Club, an oceanfront condominium in Florida, must have seemed like an ideal retirement haven for Dayton, Ohio, orthopedic surgeon Richard Jenkins and his wife, Joyce, who bought a unit there in 1985 for \$145,000.

Instead, the scenic complex, which was financed by a consortium of seven out-of-state savings and loan associations, fell into legal limbo when six of the institutions were seized by federal regulators. While many officials of the S&Ls were packed off to jail, dozens of attorneys fought over who owned the development.

The property deteriorated over the years, littered with construction debris and speckled with bird droppings, until it became virtually unlivable. At one point in 1991, Ted Williams, the local property assessor, said the best use of the site would be to bulldoze it and push the debris into the water to create a fishing reef.

The federal government finally sold it in 1993 for \$7.2 million—the original mortgage had been \$28 million—to real estate investors from Beverly Hills, Calif. Jenkins, who declined to comment for this story, finally sold his unit to a newcomer for \$128,000, 10 years after he had purchased it.

The well-heeled Californians who bought the complex for about \$22,000 a unit invested \$3 million in improvements, and are now successfully selling condominium units there for \$69,900 to \$150,000. Two-thirds of the complex has been sold.

Assessor Williams is still gnashing his teeth over what happened. "Can we start this all over again, please?" he asked with a dark chuckle. "Let's start it all over so a couple more of us can get rich."

Real estate lawyer Clemente shares that view, and he believes that many small investors were hurt as the nation's most affluent benefited. He was able to buy the office building he occupies in Tysons Corner, which had been assessed at \$26 million in 1989, for \$6 million in 1993, after it passed through the hands of the RTC and was sold in a bulk sale to a local investment company backed by Wall Street money. Because he bought it for a low price, Clemente was able to offer lower rents, enticing tenants out of other people's buildings.

"That's gone on over and over

again," said Clemente, who has himself been identified as one of the richest people in Virginia.

In Washington, there was a marked reluctance to address the issue. "Without question, [President] Reagan dumped it on [President] Bush," said Seidman, ex-chairman of the FDIC. "I've learned government agencies don't want problems on their watch. They will do almost anything to defer problems to the next fellow's regime."

Finally, the Bush administration moved to resolve the problem. In 1989, Congress passed the Financial Institution Reform, Recovery and Enforcement Act, or FIRREA, which created the RTC. The agency held auctions all over the country, selling off mortgages and real estate to the highest bidders. It also made housing available to some low-income people, although critics argued that it could have done more.

Most long-time RTC observers now agree that, despite whatever criticism they may have leveled at the RTC in the past, in general it did what it was supposed to do.

"I frankly think the RTC ended up performing about as well as could be expected," said Alexandria bank consultant Bert Ely.

"The people in the RTC discharged their task relatively well," said real estate expert Anthony Downs, a fellow at the Brookings Institution. "They demonstrated that government can do a lot of stuff reasonably well."

Today, the six-year-old agency will shut down. Its 4,000 workers will be dispersed: Some will return to the jobs at the FDIC that they held before joining the RTC; many others will leave government service.

Only about \$8 billion in assets, mainly real estate and mortgages still mired in litigation or particularly difficult to deal with, will remain. They will be passed on to the FDIC for handling.

Some observers had thought the RTC would live on, perhaps for decades, demonstrating the finely honed survival instincts of many other government agencies. Instead, however, it did its job and will now close.

Government may have helped create the S&L mess, but Seidman sees the end of the tale as a government success story. "We learned that a government agency can take a big project, come in on time and under budget, if it is given a free hand," he said.