EXAMINING DECISION MAKING ON OREO PROPERTIES
WITHIN COMMERCIAL BANKS

by

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Submitted to the Department of Architecture
in partial fulfillment of the requirements of the Degree
of Master of Science in Real Estate Development at the
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Abstract

This paper examines the decision making process of two local banking institutions, Fleet Bank and Bank of Boston, that are attempting to manage and dispose of bank owned real estate assets. The organizational units responsible for the disposition of the property are studied to determine the important factors affecting their ability to dispose of assets in a stagnant marketplace. The hiring of real estate professionals by the banks to help dispose of the assets is documented and discussed.

A significant portion of the work for this thesis involved interviewing the management and staff of the banking units and other real estate brokerage and property management firms in order to determine the key factors affecting each step of the disposition process.

These factors are compared against three decision making models from the literature with the use of a Decision Analysis Matrix. The intent of this exercise is to identify the important issues at each step of the disposition process. Consideration is given to the constraints and opportunities facing each firm.

The decision making strategies used by banks are most influenced by environmental factors including the role of the regulatory agency, activity in the marketplace and financial condition of the institution. The success of asset disposition will depend on utilizing creative and innovative selling techniques. Receivership companies employing real estate professionals have an advantage over bank OREO departments in this regard.

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TF
# TABLE OF CONTENTS

Abstract.................................................................2  
Acknowledgements......................................................3  
Table of Contents...........................................................4  
List of Figures..............................................................5  
Introduction.................................................................6  
Chapter 1.................................................................9  
   Historical Changes in Real Estate Lending  
   Reform Attempts  
   OREO Management Issues  
Chapter 2.............................................................27  
   Literature review  
   Decision-making models and analytical framework  
Chapter 3.............................................................44  
   Maine Credit Holdings, Inc.  
   Bank of Boston / OREO Dept.  
   Comparison Analysis  
Chapter 4.............................................................86  
   Conclusion  
Appendix.................................................................90  
Bibliography.............................................................91
LIST OF FIGURES

Figure 1: Moody Decision-making Loop..................p. 35
Figure 2: Harrison Decision-making Process...........p. 37
Figure 3: Moody Optimum Decision Point Curve........p. 38
Figure 4: Decision Analysis Matrix.....................p. 42
Figure 5: Maine Credit Holdings Matrix...............p. 67
Figure 6: Bank of Boston Matrix.........................p. 82
INTRODUCTION

"The essence of ultimate decision remains impenetrable to the observer - often, indeed, to the decider himself.... There will always be the dark and tangled stretches in the decision-making process - mysterious to those who may be most intimately involved."

(John Fitzgerald Kennedy, 1963)

The depressed real estate industry in the northeastern United States is the end result of a complex series of changes in the capital markets and banking regulations, lax regulatory oversight, and aggressive overbuilding even in the face of declining market indicators. Fueled by an economic recession, the resulting drop in real estate values has caused many real estate loans to be undercollateralized. Therefore, the banks have accepted deeds in lieu of foreclosure or have foreclosed on the loaned property in an attempt to salvage value.

Because of additional pressure put on banking institutions by federal regulators to fairly value their assets, the banks have written off loan losses and increased loan foreclosure proceedings in order to improve their capital to
assets ratio. The result of this process has led to a tremendous increase in the number of Other Real Estate Owned (OREO) properties held by banks. Ranging from single family homes to resort complexes, these properties are being proferred by the banks in an illiquid and saturated marketplace.

The effort to manage and market these assets has forced many banks to retain, hire or train real estate professionals without prior banking experience. Although the larger banks have used real estate brokers, architects, and construction management professionals to evaluate complex development proposals, the current situation has made necessary the formation of organizational units, subsidiaries or receiverships to handle the large numbers of properties.

This thesis will explore the factors affecting the decision making process within these organizations. Also, the role of the real estate professionals will be analyzed to determine how they are being used to make effective property disposition decisions. The major questions are:

1. According to the academic literature, what are the important steps in the decision making process and what models have been created to analyze this process?

2. How have the banks structured their real estate disposition departments? What are the critical factors affecting their managerial decision making?

3. Is the organization's disposition decision process appropriate for the task at hand? How are real estate
professionals being utilized by banking institutions?

Maine Credit Holdings, Inc., a subsidiary of Fleet Bank based in Portland, Maine and the Bank of Boston OREO Department were chosen to be studied. These organizations have portfolios of OREO properties over $100 million and are employing real estate professionals in different capacities in an effort to liquidate their real estate assets.

The study begins in Chapter One with a historical review of the conditions which precipitated the current glut in bank owned property and ends with a description of the current market conditions. Chapter Two will present the literature review on managerial decision making models and a Decision Analysis Matrix used to analyze the organizational decision making. Chapter Three will present the research methodology, background material and data gathered on Maine Credit Holdings, Inc. and the Bank of Boston OREO Department. The data will be analyzed using the Decision Analysis Matrix, contrasting and comparing the field research gathered from each firm with the decision making models. The thesis will conclude, in Chapter Four, by commenting on the implications of the research and the larger issues affecting OREO disposition decision making.
CHAPTER ONE

Historical Influences and Current Issues

The proliferation of bank owned property for sale in the Northeast is the latest evidence that a regional real estate industry recession is in a mature stage. According to Sheshunoff Information Services Inc. of Austin, Texas, which compiles data from the federal government, New England banks held $2.9 billion in OREO properties at year end 1990 (Suskind, 1991, p. A1). The increasing number of savings and loan failures in New England mirrors the decimation of S&Ls across the country during the last five years, but only during the last two years have the commercial banks had problems of the same magnitude with nonperforming assets. (Loans are classified as nonperforming when they are at least 90 days past due, nonaccruing, or renegotiated. Nonperforming assets are defined as nonperforming loans plus "other real estate owned" (OREO), which consists of foreclosed real estate (Simons, 1990, p.55)). Though these banking problems are not confined to the Northeast (Texas has had far more failures), the Northeast has recently had the most publicized incidents, including the Bank of New

The Federal Deposit Insurance Corporation, in its baseline forecast, predicted that 180 banks would fail nationwide in 1991 mostly due to real estate loans or commercial and consumer loans secured with real estate. By April of 1991, 53 banks had failed (Wall Street Journal, 1991, p. A7). Of these 53, 16 were located in New England (Heymann, 1991, p. 11). At year end 1990, banks nationwide held $77.6 billion in nonperforming assets of which half are direct real estate loans or commercial or consumer loans secured by real estate. Federal regulators expect that $40 billion of the $78 billion will eventually find its way to OREO status (Suskind, 1991, p. A1).

The conditions which caused the current phenomena were created over the last fifteen years and are the result of unanticipated and historic forces of change. The broad scope of the changes has fundamentally altered the process of real estate lending and directly affected the savings and loans institutions and the commercial banks by increasing default and foreclosure risks. Changes in banking and savings and loan regulation, tax codes, capital markets, and structural demand changes for real estate products have all contributed
to an upheaval in real estate lending patterns and led to the current crisis for the banks.

Regulatory Changes
The most important legislation affecting real estate lending passed during the last fifteen years were the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Garn-St Germain Depository Institutions Act of 1982. In order to counter "disintermediation" in the financial markets (shifting of deposits from banks and S&Ls to money market funds in times of high inflation), the Depository Institutions Act accelerated the deregulation of deposit pricing so banks and S&Ls could offer high interest accounts to remain competitive with money market funds. The Garn-St. Germain Act granted the S&Ls the additional power to participate in commercial real estate lending and development (Bryan, 1991, p.77). Deposit growth, for the savings and loans institutions, increased astronomically after 1980.

Unfortunately, though the banks and S&Ls were given new powers to offer higher rates on deposits and engage in risker activities, the federal government still insured the deposits. By the 1985, the insurance coverage was up to $100,000 per account. Exposed to little risk, the institutions conducted unprecedented real estate lending

11
activity during the early 1980s as they sought greater revenues to offset their increased cost of funds. In the banking industry, real estate loans doubled from 1980 to 1989 totaling $760 billion dollars (Hill, 1990, p. R5). Due to the huge volume of lending, underwriting standards were less strict at the banks and the oversight by federal and state regulators was lacking. As a result, the quality of the real estate loan portfolios suffered.

Other important changes in the real estate lending patterns of banks and S&Ls led to a greater number of riskier loans being processed. For example, insurance companies, under pressure to show higher returns to investors, opted more frequently for shorter real estate lending commitments than the traditional 20 or 30 year take out mortgages. All lenders, because of the interest rate shocks of the early 1980s, reevaluated loan underwriting standards. As this permanent lending slowed, banks started to offer "uncovered" construction loans (loans without permanent financing arranged prior to construction) and three to five year "mini-perms". The competition between banks, mutual savings banks, and thrifts to place funds in the more profitable, yet more risky, real estate lending business increased (Wyman, 1988).

Tax Law Changes
The interest in real estate as an investment product was greatly affected by two important pieces of tax law legislation passed during the 1980s. In 1981, the Economic Recovery Act provided tax incentives for individuals to invest in real estate by allowing accelerated cost recovery of an asset through a 15 year depreciation schedule. Also, because of the pressure to shelter income from taxes, a class of syndicators was formed which acquired property based on tax benefits rather than rental streams. The deals were highly leveraged, with financing obtained through banks and S&LS, in order to create losses for the syndication participants. Once Congress learned of the tax avoiding nature of these investments they quickly changed the rules.

In 1986, the Tax Reform Act sought to limit any activity, such as the aforementioned tax shelters, that resulted in an unintended tax advantage (Schwartz, 1987, p. 29). Rental real estate and real estate activities, that previously enjoyed unrestricted benefits in the form of tax credits, were the most severely hit. Unable to utilize the losses generated by the highly leveraged deal structures to offset income, syndication participants were forced to invest more equity into questionable projects as markets softened. From 1986 until the present, increasing numbers of these syndications have gone bankrupt and turned the keys to the real estate over to the lenders.
Capital Market Changes
The most significant effect of changes in the capital markets was to drive business away from the banking institutions and cause them to look to for more profitable, thus riskier, loans. Corporations, instead of borrowing from banks for working capital, started issuing commercial paper. The use of commercial paper by corporations increased by four times during the 1980s (Byran, 1991, p.76). Also, securitization of other assets, including residential mortgages, drew huge volumes of business away from banks. Disaggregation of lending activities led to the startup of large numbers of specialized firms, such as mortgage companies, that could outperform larger banking enterprises that had more costly overhead.

Banking firms were unable to respond to these fundamental changes because of existing laws regulating their fundamental business. The McFadden Act of 1927 and the Bank Holding Act of 1970 made it impossible for banks to consolidate their activities. Although some states passed enabling legislation in the early 1980s that allowed out of state banks to compete within their borders, the existing federal regulations were still significant impediments to competitiveness.
Structural Demand Changes

The two most important changes in demand during the 1980s for real estate product, especially office buildings, were the aging of the baby boom generation and the slowing rate of women participation in the labor force. Thus, the two largest users of space were decreasing as the decade drew to a close.

To illustrate this point, contracting for commercial building (offices, stores/shopping centers, hotels and apartments) had fallen by 50 percent, from 1500 million square feet in 1985 to 750 million square feet in 1990. Yet there was still a surplus of commercial space. For offices alone, estimates of the principal sources of demand (growth of the white collar work force, space per worker, replacement of space, relocation, etc.) indicated that an average of about 250 million square feet per year would have been appropriate for the mid 1980s. However, in 1985 and 1986, supply peaked at 350 million square feet per year, exceeding demand by 30 percent (Christie, 1990, p. 33).

Reform Attempts

When the oil industry went into recession in 1983-1984 in the Southwest, the banks and savings and loans started facing enormous losses due to their real estate related
assets. By 1989, nonperforming real estate assets in Texas banks stood at $7 billion and accounted for 76 percent of all nonperforming assets. As a result of these loan losses, from 1986 to 1989, Texas banks lost over $6 billion (Simons, 1990, p.56). When the Northeast economic boom started to fade in the late 1980s institutions in the region started feeling the same heavy weight of nonperforming assets. Nationwide, the savings and loan and banking system was headed toward collapse.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) was designed to overhaul the regulatory structure of the U.S. thrift industry and to provide funding to close hundreds of insolvent thrifts. FIRREA has strengthened the capital requirements of institutions, increased supervisory oversight and allowed consolidation of the S&L industry (Sczudio, 1990, p.13). S&Ls can now be acquired by bank holding companies under the regulatory oversight of the FDIC. In New England, larger bank holding companies such as the Bank of Boston and Fleet Bank are purchasing many insolvent thrifts and banks.

Banking system reform discussions are focused on making several changes: recapitalizing the deposit insurance system through increased premiums; creating so called "narrow banks" under which the insured depository bank's portfolio
would be limited to safe, liquid assets; allowing banks to engage in a broader range of financial services activities and; allowing nationwide banking (Sczudio, 1990, pp. 14-15).

The reform proposals being discussed in Congress during the spring of 1991 have become a top priority because of the poor condition of the banking system. The historical changes in real estate lending practices during the 1980s and the current recession affecting the market have made OREO management and disposition the most important issue for many lending firms. Nonperforming assets and OREO properties are compounding the financial dilemma faced by undercapitalized banks.

Issues in the Management of OREO Properties
Many of the issues raised in the beginning of this chapter affect how banks manage and market OREO properties. Current and pending legislation, political pressures, tax implications, market demand, and restructuring of the real estate industry are issues which directly affect bank decision making on nonperforming real estate assets and owned property.

Banks may take direct title to a property or form a separate subsidiary to own and operate their real estate portfolios. By using a separate entity to take title to a property,
banks can often avoid adverse publicity associated with the ownership of foreclosed property, and, at the same time, centralize management responsibility for the operation and disposal of such property. Most important, by forming a separate entity, banks may be able to reduce their exposure to potential liability associated with owning and operating a foreclosed property (Pappone, 1990, p.50). For institutions (or a subsidiary entity) that has gained title to a property by foreclosure, deed in lieu of foreclosure or forfeiture on a contract, a number of steps are usually followed to manage and market the property effectively. The institution is keen on disposing of the property because OREO is included in the accounting category of "scheduled items", whether it is held in a separate entity or not. Therefore, they must maintain specific loan loss reserves (usually totaling 20% of scheduled items), that are unavailable for lending on mortgages or other business. The opportunity cost of this idle capital is significant for the firm.

When title passes to a lender, the lender must assume all the maintenance and management tasks of a property owner. Generally, the lender reviews the local real estate market conditions and its own financial picture in order to decide whether to sell the property "as is", even at a large loss; to repair and refurbish first, then sell quickly; or to
retain the property until sales conditions are more favorable.

The ideal situation for a firm would be to sell at a price equal to the loan balance plus administrative and legal costs plus a profit. However, dreams rarely come true, especially in depressed markets. Typically, the sales price is lower than the outstanding debt on the property so a loss is realized which is deducted from reserves. If there is no market for the property, the firm can resort to the concept of "salvage powers" in order to justify additional capital expenditures on the property in order to create enough value to interest buyers (American Savings and Loan Institute, 1971, p. 404).

Because of regulations and accounting principles, lending institutions are not interested in buying or selling real estate or holding real estate for investment purposes. Federal regulations limit bank ownership of OREO properties to five years. However, the unwritten concept of salvage powers states that a corporation has not only the power but the duty to salvage as best it can any asset of the corporation which cannot be liquidated by ordinary means. Therefore, banks can invest capital into a property if they can justify the action.
There are strict accounting principles which must be followed by the banks when handling OREO properties. The most important, relating directly to the sale of OREO, is the Financial Accounting Standards Board Number 66. FASB 66 stipulates that a bank cannot recognize a sale if the institution retains certain indications of ownership or continuing involvement with a property. When a bank makes a loan to a purchaser of a repossessed asset to facilitate a sale there are specific rules that prevent banks from recognizing gain unless they do not have any continuing involvement with the property. They also cannot sell assets at a inflated prices by offering favorable financing terms.

The administration of OREO property depends in large part on the size and diversity of the portfolio and the size of the institution holding the portfolio. Until recently, most institutions had a few individuals in-house to manage and sell a small number of properties. Today, the largest banks are employing many workout officers, asset managers and marketing managers to handle hundreds of millions of dollars of assets.

An OREO manager should become involved with a property before the title actually passes to the firm. State foreclosure laws vary on issues from occupation of the property, lease contracts and collection of rents while a
property is being foreclosed upon, and the process may take up to eighteen months to complete. Also, there is a period of time called the "twilight zone" at the end of a foreclosure when a mortgagor has the right to redemption of the property (Mortgage Bankers Association, 1989, p. 27). For instance, if a debtor files Chapter 11 under the U.S. bankruptcy code, they can receive an automatic stay of foreclosure on mortgaged assets. The foreclosure can be postponed indefinitely while the debtor drafts a plan to reorganize and pay creditors. While these proceedings are ongoing, an appraisal and market analysis can be done on the property and the property can be pre-listed with a local broker.

Once clear title is in hand, the goal is to plan the best way to recapture the largest possible share of the investment in the property, taking into consideration the total sum invested to date and the administrative costs of disposing or holding the property. Immediate steps that are taken include setting up accounting records to reflect the transfer to OREO status; changing all necessary insurance over to the firm's name and checking the amount of the coverage; inspecting the property for repairs and setting up a maintenance schedule and; ensuring the property is secure (American Savings and Loan Institute, 1971, pp. 405-406). Budgets and business plans are created for each property.
The complexity of these plans is linked to the value of the asset. For instance, for a single family home, a business plan might entail a single appraisal and a listing with a local broker. For a half-built office building, it might cover a comprehensive construction budget and a sophisticated marketing campaign.

The evaluation of a sell versus hold decision should be made after gathering all relevant data on the real estate investment. The quality of the local market is determined by checking selling prices, length of time on the market, and financing terms, or, if its commercial property, the rental rates, vacancy levels, and lease lengths. The analysis of the selling prices for various properties is made using data collected from independent registered appraisers, brokers, and in-house analysts. Because appraisers use past sales to calculate value and brokers tend to look at current value, in-house analysts often are used to rectify discrepancies (Mortgage Bankers Association, 1989, pp. 42-44).

Before a reliable decision can be made with regard to the ultimate disposition of a problem asset, a thorough analysis of the project's current and projected operations should be undertaken. The net present value (NPV) for each alternative disposition scenario should be computed. Computations should be based on the analyst's realistic assessment as to the
trend of future income and expenses. The economic performance of the project must be analyzed in terms of cash flow, capitalized expenditures, accruals, debt service, and return to the owners. Any discrepancies between the asset manager's analysis and the appraisal should be examined. Assumptions as to comparables, sales, leases, and holding costs should be scrutinized vigorously. A realistic assessment of the various market assumptions, as well as other economic factors, allows the analyst to compute an NPV for each of the project alternatives. For projects held for a period of time pending market turnaround, sales proceeds must be projected utilizing a realistic capitalization rate deemed appropriate for the end of the period. An analysis of future sales proceeds should enable the asset manager to make a recommendation as to whether a project should be promptly liquidated on an "as is" basis or be held pending a projected turnaround of the marketplace (Myers, 1989, p. 58).

Some local firms have capitalized on the demand for asset management services by creating Special Asset Groups. The goal is to fully support an institution through the restructure, foreclosure, and disposition of an asset. Asset Management Disposition Plans are created for each of the bank's properties and are designed to provide a comparison of the returns from various alternative disposition
scenarios (Hunneman Real Estate Corporation, 1991).

The disposition of OREO can be made with the use of inside brokers, independent brokers, and auctions. Independent brokers are typically given three to four month exclusive listings for each property but are required to document their activity on the properties on a weekly or biweekly basis. Also, though the exclusive listing precludes other independent brokers from working on the property, brokers working at the lending institution can actively pursue leads and negotiate sales on OREO properties. OREO managers can use other types of selling techniques such as bulk sales of assets, tenant sales, and retail project sales (for condominium projects when a large number of units are unsold).

The use of auctions by OREO departments is becoming an increasingly popular method of property disposition by the FDIC, RTC and the banks. They are selecting auctions, rather than a conventional sale, because their carrying costs are so high, they need quick sales, and the market is "thin" (without many buyers). Auctions can be conducted as "absolute" or "reserve". Absolute auction refers to an auction at which the property is sold to the highest bidder, regardless of price. Reserve auction refers to an auction at which the seller establishes a minimum bid or target price
below which the property will not be sold. Auctioning is easier than extended retail marketing, but it still requires a lot of work by the lender to get from a bid to a closing.

There are a tremendous number of issues for the banks to consider when they become owners instead of creditors of real estate. Even in a strong market, they must make decisions on OREO management and disposition that are unfamiliar and unconventional. In a weak market, the banks' situation is further complicated by the severe negative impact on earnings. The ability to make decisions that reduce expenses on and recapture value from the nonperforming assets is crucial.

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Non-performing to OREO; Who Does What." May 17, 1991


CHAPTER TWO

Literature Review and Analytical Framework

Banks are in the real estate business. This phenomenon is generating tremendous interest among real estate brokers and consultants, buyers and sellers, and regulators and researchers. Everyone has their own opinion on how the banks got into this situation and what strategies they are using to manage and sell property. All agree that banks must get rid of their OREO property in order to improve their balance sheets and return to their primary business of lending money. This chapter will introduce a Decision Analysis Matrix which will be used to compare and contrast the decision making of Maine Credit Holdings, Inc. and the Bank of Boston/OREO Department. The intent is to identify the important factors which impact or influence the banks as they acquire, market and sell property.

Decision making on the management and disposition of property is highly complex, even on the smallest of assets. Organizations pursue those actions and utilize those strategies that will maximize benefits to the firm and meet
stated goals and objectives. By analyzing the decision making within two OREO organizations, one can better understand the complexity of issues which face the banks that have possession of properties. It is not always clear to an outside observer what influences the bank's setting of objectives, evaluation of alternatives, and choice making strategies.

For each firm, I will evaluate the data against the three decision making models. Each model provides a different "lens" with which to view the organization's process of OREO management and disposition. Graham Allison (1971) in "Essence of Decision: Explaining the Cuban Missile Crisis", used this method to examine the famous international incident which occurred in 1962. The three models used by Allison were the Rational Model, the Organizational Model, and the Political Model. The relative influence or impact of various issues affecting or implementing decision making can be weighed in a systematic manner as the data is compared and contrasted, step by step, with each model's attributes.

The following three sections of this chapter provide information to the reader from the decision making literature. The first section, Models, will introduce the three decision making models used by Allison in his work and summarize the key assumptions and conditions. The second
The Decision Process, will review additional literature on decision making and define the basic steps of the decision process—setting of objectives, search and evaluation of alternatives, choice making, and implementation and evaluation of decisions. The last section, Analytical Framework, will review the Decision Analysis Matrix and describe how it will be used to study the organizations.

MODELS

Researchers create models to help explain or identify real world phenomena. Three common models are used in this paper to analyze the bank's decision making on OREO management and disposition. Before the models are introduced the following general aspects of models deserve emphasis:

1. A model is a simple version of a more complex reality.
2. The purpose of a model is to illuminate a real life phenomenon; some simplification is required for ease of understanding and for clarity.
3. Although simplified, the view of reality presented by a model does include its main elements and often their relationships; only the nonessentials are omitted.
4. The model depicts reality for a particular purpose and a particular audience.
5. A model is an intellectual tool, a device that assists in the thought process. Its value therefore is to be assessed primarily by the validity of the conclusions or decisions to which it leads.
6. A model can be expressed in a wide variety of media. (Oxenfeldt, 1978, p. 32)
The models presented below are some of the most frequently discussed in the literature. Many other highly technical models have been constructed, including detailed probability and risk/reward flowcharts, but I am taking a qualitative approach to this thesis, to find out how and why decisions are made. The models chosen are tools to assist the thought process, not to draw absolute conclusions.

The Rational Model is called the classical approach to decision making. It provides the foundation for the quantitative disciplines of economics, mathematics, and statistics. Rationality refers to consistent, value maximizing choice within specified constraints. (Allison, 1971, pg.30) The Rational Model is especially useful to analyze routine, computational decisions. The objectives are fixed, short term and utility maximizing. It is assumed in this model that a decision maker is aware of all options and costs of information. There are no constraints from the time required and cost to obtain information. A truly rational choice therefore requires the generation of all possible alternatives, assessment of the probabilities of each, and the evaluation of each set of consequences for all relevant goals. Non numerical variables are totally disregarded. The choice to be made is based on the net evaluation of the consequences of each set of alternatives. The alternative with the highest payoff or utility is chosen.
Since the choice is based on the highest assigned value, there is no post evaluation of the decision. Also, the decision making environment is disregarded because of the assumption that all choices and consequences are known. It is essentially a closed system. As Simon (1957, p. 71) said, "(The Rational Model) requires powers of prescience and capacities for computation resembling those we usually attribute to God."

The Organizational Model is a combination of the behavioral disciplines with quantitative analysis. In contrast to the Rational Model, this model acknowledges the constraints of limited information, cognitive limitations, and time and cost limitations. As such, the Organizational Model introduces the disciplines of philosophy, psychology, and sociology into the decision making situation. (Harrison, 1981, p. 58) The model is useful in analyzing decisions that are more complex and require more creative solutions.

The objectives of decision makers operating under this model are typically to seek attainable or satisficing decisions. Satisficing behavior occurs when decision makers do not have all the alternatives related to a given choice. Therefore, they seek a course of action that is "good enough" to attain their objectives. Because the problems they face are often
complex and involve large numbers of people, organizations often resort to standard operating procedures to determine decision choices. The first satisfactory alternative evoked in the search activity is accepted. The strategy of choice making is characterized by judgement or the use of rules of thumb. The firm seeks to avoid uncertainty by solving pressing problems rather than developing long range strategies. Implementation occurs via policy and procedure.

The decision choices are influenced by and sensitive to constraints from the external environment. The model is open to environmental influences and accepts outcomes on their qualitative as well as quantitative merits. The firm is qualitatively and quantitatively evaluating decisions and replacing the first choice with another if the first is unacceptable.

The Political Model is based on the disciplines of political science, philosophy, psychology, and sociology. The objectives of a Political Model decision are to have the choice be acceptable to a large number of external constituencies. Only a small number of alternatives and evaluation of a limited number of consequences occurs, but the problem itself is constantly redefined (Harrison, 1981, p. 60). Countless ends-means and means-ends adjustments are made. The strategy used is one of compromise and bargaining
in order to satisfy the external constituencies. Consequently, the environment is the dominant issue affecting decision making under this model especially during the consideration of alternatives and choice making strategy. The Political Model recognizes also that there is power shared by all the actors within the system. Differences in the focus, responsibilities, perceptions, and priorities among players focusing on slightly different factors of a complex issue permits each player to be involved (Allison, 1971, p. 154).

The principal differences between the Rational and Organizational models, and Political model are: (1) objective setting and alternative search is accomplished concurrently in the Rational and Organizational models, rather than sequentially as in the Political model, (2) ends and means in the Political model are not distinct, (3) a good Political model decision is when most of the players agree on the outcome, (4) there is a minimal amount of analysis of alternatives in the political model, (5) uncertainty in a political model is minimized by proceeding incrementally and comparing outcomes with established policies. (Allison, 1971, p. 154)

THE DECISION MAKING PROCESS
This section will provide more information on the typical
decision making steps listed previously - setting of objectives, search and evaluation of alternatives, choice making, and implementation and evaluation of decisions. Each step is separate but it is also part of the generic decision process. The same general skills and principles are used by all decision makers. Oxenfelt (1978, p.3), in *A Basic Approach to Executive Decision Making* says:

"The performance of most executives as decision makers can be substantially upgraded if they master a systematic approach to decision - one that permits them to make better use of what they know and to use the assistance of others effectively."

Most of the literature I reviewed stated that a systematic approach is best in any decision making. Assuming this is true, some questions could be posed about banks selling real estate; Are banking institutions in the Northeast, struggling to rid themselves of OREO property in an illiquid marketplace, utilizing an effective, systematic approach to property disposition? Are they effectively using what they, and others, know? Are they following a decision making process that will allow them to meet their objectives of economical property management and disposition? Do they recognize those critical factors which influence the process? To help answer these questions, it is helpful to look at how decisions are made.
Decisions are a sequence of steps. Each step is a function, one of a group of related actions contributing to a larger action. The functions of decision making are 1) setting of objectives - the process starts with this step and ends when the objectives have been reached, 2) search for and evaluation of alternatives - this involves scanning the internal and external environments for relevant information and using the information most likely to fulfill the objectives, 3) choice making - the moment when the decision maker chooses a given course of action, 4) implementation - when the choice is transformed into an operational reality, and 5) post evaluation of decisions - ensuring that implemented decisions result in a outcome consistent with the objective. Several researchers have created diagrams to show the interrelationships of these functions. Moody (1983, p.1) has created the following closed loop process:

![Decision-making Loop Diagram](image)

*Figure 1: Decision-making Loop*

Moody, 1983, p. 1
His general framework emphasizes the important steps needed to reach optimal choices in organizational decision making. Though the figure shows a sequential process with definite boundaries at each step, there is often overlapping activity between functions. Rarely are problems so clear cut that each step is isolated from the others.

Harrison (1981, p.25) has created a similar closed loop process shown in Figure 2 on page 37. He has drawn his diagram as a dynamic process with the same general steps as Moody's and has attempted to simulate decision making as a continuous activity taking place over a period of time. He also suggests that a decision making process can be used to direct and control problem solving activities within the organization. For instance, once a problem is studied, the original objectives can be modified utilizing new information which has been gathered during the alternative search or evaluation steps:
Figure 2: The Decision-Making Process  
Harrison, 1981, p. 25

Some of the decision steps are particularly important. The search for and evaluation of alternatives is a critical phase of the decision process. At some point in any search, the cost of acquiring additional information outweighs the benefits derived from the information. Firms must recognize that a decision is an action that must be taken when there is no more time for gathering information. Therefore, if they evaluate the relative magnitude of a problem they can decide how much information is needed to reduce uncertainty. At some point, the costs outweigh the benefits. In Figure 3, Moody (1983, p.6) graphically represents this search for an optimal decision:
Probably the most significant influence on the decision process steps is the environment. Moody and Harrison recognize that decision making takes place in an interdisciplinary environment. The environment includes all the conditions and circumstances that affect the organization or any of its internal systems. It exerts a pervasive influence on the managerial decision making process in formal organizations. It affects the selection of objectives, bounds the search for alternatives, constrains the evaluation of alternatives, determines strategy, and directly prejudices the acceptance of an implemented choice. Various environmental forces including the economic system, political system, social system and technology, cause decision makers to act or react in certain ways. Thus, the

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Figure 3: Optimum Decision Point Curve  
Moody, 1983, p. 6
environment of a given organization is a significant determinant in managerial decision making.

A hypothetical example may help explain the decision making steps and the role of the environment. For a private individual or company in possession of an office building that they desire to sell, the objective is to obtain maximum value for the property. The search for alternatives may entail a thorough analysis of the costs of selling immediately, improving the property and selling, or holding and selling at a later date. The choice making strategy may depend solely on a net present value analysis of the alternative choices or they may consider other issues in their analysis. Possibly, the individual or company would take be willing to offer attractive subordinate financing to the buyer or contemplate a "like kind exchange" because of tax reasons. The implementation of the choice is to sell the building through local brokers with a Purchase and Sale agreement drawn up by the company, or improve the property as desired. Finally, there would be an evaluation of decision choice at some future date to see if the process achieved the desired objective. The environment of the decision making would comprise those external factors influencing the choice making including local market conditions, financing issues, or tax implications.
Other researchers, including Simon (1960, p.1), Witte (1972, pp.156-182) and Frederickson (1971, pp.25-52), have proposed decision making processes similar to those described above. In contrast, other researchers believe that decision making by a rational method does not fully replicate reality. For instance, instead of a controlled sequential process that relies on a careful analysis of all the important information, decision making is often the result of an arbitrary process influenced by personalities or environmental actions. Boulding (1978) states that certainty of data, especially numerical data, is an illusion, therefore rationalized models of decision making must be flawed. Rowe (1974) believes that carefully controlled decision making by executives is a myth, the personal preferences of the executive usually determining the choice to be made. For example, when Avis moved its headquarters from Boston to Long Island in the 1970s they did so because the executives did not want to move to Boston or commute into Manhattan. Publically, they said they wanted to be near the airports and a good labor pool.

James March (1976) studied organizational and managerial decision making and found that ambiguity of intention and understanding was common. The observations in his work were; (1) organizations do nothing to implement a decision after having devoted much time, energy and enthusiasm to making
it, (2) major decisions are made with minor participation by key administrators and significant constituents, (3) managers struggle over participation rights in decision making with an indifference to exercising them, and (4) arguments are often made over ideology without effective action.

While acknowledging the validity of this other research, for the purposes of this paper, Allison's decision analysis method will be used.

ANALYTICAL FRAMEWORK

The decision making processes at Maine Credit Holdings, Inc. and the Bank of Boston OREO department will be evaluated using the Decision Analysis Matrix shown in Figure 4 on page 42. The previous sections identified 1) the attributes of three decision making models and 2) a five step generic decision process. The Matrix lists the models across the top of the page and the decision steps down the left hand column.

The attributes of each model are listed across from the appropriate decision making step. The data from each company will compared and contrasted to each model at each step. For instance, I will document whether the firm's objective
The format in Chapter Three will be as follows: presentation of the data collected on each firm; analysis of the data
using the matrix; summarizing the findings on each firm; and comparing and contrasting the two organizations.

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WORKS CITED IN CHAPTER TWO


CHAPTER THREE
Data and Analysis

This chapter will present the data and analysis of Maine Credit Holdings, Inc. and the Bank of Boston/OREO Department. The first section will give a description of the site selection and methodology used for the field research. The following two sections will give company background information, data presentation, analysis and summary. The format of the data presentation and analysis section will be consistent with the six steps of the decision making process - Objectives, Alternatives, Choice, Implementation, Evaluation, and Environment as shown in Figure 4, the Decision Analysis Matrix.

Site Selection
The organizations selected for study are similar in the following respects-

* The organizations are connected with the two largest banking institutions in the New England.

* They are in possession of a significant amount ($>100 million) of property.
* The organizations are actively managing and marketing their real estate.
* Both have hired real estate professionals (without prior banking experience) to help them manage and market their portfolio of properties. MCH has 17 professionals on staff. The Bank of Boston has 4.
* They are closely scrutinized by federal regulatory agencies as they sell off assets.

The organizations differ in the following respects-
* Maine Credit Holdings, Inc. is a Fleet Bank receivership subsidiary under contract to the FDIC. Therefore, the FDIC has authority to review any sell decision.
* The Bank of Boston, while under pressure to dispose of assets by the OCC, can make sell or improve decisions with full autonomy.
* Most of the Maine Credit Holdings, Inc. properties are located in Maine while the majority of the Bank of Boston properties are located in Massachusetts. However, both institutions have other assets scattered around the country.
* MCH employs 180 people and has been in existence since February 2, 1991. The Bank of Boston/OREO department has been a separate department of the bank since 1988. It employs about 100 people, the majority having moved
Methodology

It was my intent to conduct personal interviews with several OREO executives at three local banks, Fleet Bank (Maine Credit Holdings), The Bank of New England, and The Bank of Boston. The Bank of New England was unable to fulfill my request for interviews because they had recently been purchased by Fleet Bank and were in the process of consolidating their operations. I was only able to visit Maine Credit Holdings, Inc. and the Bank of Boston. At MCH I spoke with four individuals, the CEO, the Marketing Vice President, one of the Marketing Managers, and the Asset Management Vice President. At The Bank of Boston, I spoke with the OREO Managing Director. I also spoke with two real estate brokerage firms and two property management firms in Portland and two each in Boston that have done business with each company to gain additional insight into the decision making processes.

Interviewing at both sites was difficult because of the workloads of the interviewees, and the reluctance to offer detailed information on organization business plans, property selling prices, and allocation of funds. These conditions exist because of what I believe are the two most important factors guiding the management and disposition of
OREO property: the tight scrutiny of the federal regulators, and the immediate focus of the banks to improve their financial condition as quickly as possible.

The same questions were asked each interviewee. They were designed to elicit responses concerning the steps taken in the decision making process within the firm. Although it was the desire of the interviewer to tape each interview, all of the participants requested they not be taped. Therefore, handwritten notes were taken at each meeting.

Maine Credit Holdings, Inc. (MCH)

Background
In the winter of 1990, Portland, Maine-based Fleet Bank of Maine, a subsidiary of Fleet/Norstar Financial Group, Inc. of Providence, Rhode Island, entered into negotiations with the Federal Deposit Insurance Corporation to acquire Maine Savings Bank (MSB). MSB was the last major independent bank in Maine with $1.3 billion in assets; it had been one of the major sources of construction financing and mortgage lending in the Portland area for many years. Their loan portfolio consisted primarily of residential and condominium construction financing and mortgages, but they also were lent money on commercial projects ranging from shopping centers to hotels. The bank had suffered large loan losses.
from 1987 to 1989 because of its exposure to nonperforming real estate loans during an economic slowdown due to the regional and national recession. The current CEO of MCH, who worked at MSB on asset recovery for two years, gave a graphic example of the scope of the former bank's troubles:

"In December of 1988, Maine Savings Bank held $188 million of performing condominium loans. By December of 1990, $171 million out of the $188 million worth of loans were nonperforming. The bank had to take a $91 million charge-off against those loans."

The FDIC, acting in its role as the regulator of state banks, intervened in 1991 to try to limit the hemorrhaging resulting from the losses. Their strategy, ultimately, was to entice a better capitalized bank to take over the institution.

Fleet Bank of Maine acquired Maine Savings Bank on February 2, 1991. The FDIC paid Fleet Bank $19 million to assume about $1.2 billion in Maine Savings Bank deposits. The payment by the FDIC was, in effect, a subsidy to get Fleet to take over the bank. As part of the agreement, Fleet agreed to handle approximately $400 million in troubled assets from Maine Savings Bank. In the agreement, there are incentives for Fleet to successfully work out the assets and the FDIC will pay all of the administrative expenses for the work-outs. David Barr, spokesperson for the FDIC explained their reasoning:

"From the FDIC standpoint, this is a better agreement because there is no interruption in the work-out. We
would have to familiarize ourselves with the assets whereas Fleet is likely to keep some of the Maine Savings employees on board. Those employees already are familiar with the assets." (Heymann, 1991, p. 11)

MCH was created as the vehicle to work with the nonperforming assets and OREO properties. Technically, they are a "receivership" company. While they are owned and funded by Fleet Bank there is a contract between MCH and the FDIC for a term of five years.

The literature explaining the role and function of FDIC receiverships is extremely complicated, full of many references to state and federal banking legislation and recent court decisions affecting these regulations. Much of the information is beyond the scope of this thesis, however, there are a few points worth mentioning. First, upon the inability of an insured institution to meet its depositors demands, the FDIC must immediately pay insured accounts in cash or make available to each depositor equivalent accounts in another bank. Second, if they liquidate a institution, the FDIC is motivated as a receiver to maximize the failed institution's assets in order to reimburse the insurance fund as subrogee of the depositors (Myers, 1990, p. 227). This is basis for the purchase of Maine Savings Bank by Fleet Bank. Fleet Bank got the "good" deposits of the failed bank and is working on the "bad" deposits through its newly formed subsidiary, MCH, which is charged with trying to
maximize those asset values. The CEO explained the
difference between MCH and a typical OREO department;

"MCH is a servicer to liquidate assets for the FDIC and
Fleet. It is different from the OREO departments of
banking institutions because it is not concerned with
preserving capital or ensuring adequate reserves. I see
MCH as a real estate management and liquidating company."

MCH employs approximately one hundred and eighty people (See
Appendix A for Organizational Chart). Under the Chief
Operating Officer, the three main departments are Loan
Recovery, Asset Management and Marketing. The majority of
the personnel are banking support staff and workout officers
located in the Loan Recovery area. These employees have a
traditional banking background and many were formerly
employed by Maine Savings Bank. The Asset Management
Department has fifteen employees of which nine are real
estate professionals without prior banking experience. The
Marketing Department employees six real estate professionals
without prior banking experience. MCH is currently
contemplating hiring additional experienced real estate
staff because it will soon be servicing the "bad" assets
from a second local bank, Maine National, acquired by Fleet
when it purchased the Bank of New England in April of 1991.

Data Presentation
The overall objective of the firm is, as stated above, to
maximize the value of the assets which it has acquired
through the FDIC. The FDIC plays an important part in
determining the intermediate objectives (sales by quarter,
by year, etc.) through its review of the yearly and
quarterly business plans created by MCH. The plans detail
the process of management and disposition of the assets and
give target goals for property disposition. For the
reporting quarter ending March 31, 1991, MCH sold $5.2
million worth of real estate which was 102% of their goal.

The movement of an asset from loan recovery to asset
management to marketing is called a "disposition continuum"
by the CEO. The search for alternatives in the decision
process begins when the property is in loan recovery. The
Asset Managers are assigned responsibility for a project
based on their expertise and workload. The Asset Management
department tracks properties in the Loan Recovery area so
they are aware what properties will soon leave foreclosure
and become OREO. They start preparing a management plan with
a budget for each property to limit liability exposure,
preserve value, and gather information useful to the
marketing department. The complexity of the plan is highly
dependent on the type and value of the property. Commercial
properties with tenants and vacancies require intensive
management more so than a single family residence. The
managers are given relative autonomy to create plans which
are then reviewed by the Vice President of Asset Management
in weekly meetings. The department contracts with outside property managers to oversee day to day maintenance operations at the properties. The property managers are asked to submit reports on suggested improvements to the property which are reviewed by the Asset Managers.

The bank's marketing department search for alternatives is conducted with the traditional marketing techniques of real estate brokerage and advertising. They are interested in finding legitimate buyers who will pay prices as close to the appraised value as possible. The use of appraisals differs depending upon the value of the property. Properties under $50,000 are sold without appraisals. Properties under $5,000,000 must have at least one appraisal completed by an independent MAI appraiser, and properties over $5,000,000 must have at least two appraisals completed by separate MAI appraisers.

Outside brokers are given exclusive four month listings for each property. They are required to detail their activities weekly to the marketing agent at MCH. As one broker said:

"Generally, there is no difference working with MCH or an individual seller except for two important points— one, they can and do negotiate with buyers on their own and two, you cannot bring them a buyer who has 'done (the FDIC) harm' in the past."

The pricing of the property is contingent upon the appraisals received and an internal net present value
analysis. However, brokers do bring buyers whose offers vary significantly from the listed price because of a problem with perceived value. Simply put, the market does not believe the property is worth the listing price assigned by the bank.

If a property does not sell within a listing period, the Marketing Manager can recommend to relist the property at the same price; offer it at a lower price; or market it through a "reserve" auction (the selling price must greater than a minimum price set by the auctioneer) or through an "absolute" auction (an auction with no minimum price). The FDIC reviews all repricing or auction recommendations of properties through an Oversight Committee (presently consisting of one person) at Fleet Bank in Portland. MCH meets with the FDIC committee once every two weeks.

The decision to sell a property is made by the Asset Review Committee on all properties less than $1 million. The Committee consists of the Marketing VP, Asset Management VP, and the head of Valuation. For properties between $1-8 million the decision is reviewed by the CEO. All sales over $8 million must have prior approval of the Case Review Committee which consists of the CEO, VP of Asset Management, VP of Marketing, Valuation, and the FDIC Oversight officer. They meet bimonthly to review past sales activity, large
pending sales and to anticipate upcoming deals. The review is usually a formality because the effort required to negotiate a deal has been completed by Marketing prior to the meeting.

Delays on sales have occurred because the FDIC has changed the appraisal process or sales justification procedure. Because it takes up to six weeks to get an appraisal, any change in the process can result in a legitimate buyer dropping out. These uncertainties have caused some consternation within the company;

"The problem with the FDIC is the bureaucracy. It seems they are more interested in the means than the end. They need to publish a set of rules so we know what to expect."

Another interesting choice is available to the bank rather than a straight yes or no. As part of the agreement between MCH/Fleet Bank and the FDIC there is also a "put option" available to the bank for certain assets. Fleet Bank has the right to "put back" to the FDIC any asset which it does not want or does not think it can market within two years of acquisition. However, MCH has an incentive not to put back properties because part of their earnings are tied to the amount of value they are able to recoup for the FDIC.

The bank uses a typical purchase and sale agreement drawn up by its corporate lawyers. Maine Credit does not provide
financing of properties nor does it agree to fix up or want to fix up properties before sale. The buyers are ready with their own financial resources to assume ownership so the closings are relatively straightforward. Given that the purchase has been reviewed at the senior level or by the regulatory agency, if appropriate, the marketing department moves quickly to close the deal.

The evaluation and followup of the sell decision is done by the FDIC through its oversight role and regulatory responsibility to maximize value on the assets. The FDIC must account for all funds realized from the sale of the properties marketed by MCH. They may take a more active role in evaluating sell decisions if the obtained values are significantly less than the appraised value. They may want to ensure that the actions taken by MCH to obtain maximum value are appropriate. Communication between the FDIC and MCH is critical to ensure that decisions on properties can be made by the lowest responsible employees. This avoids costly interruptions in the disposition continuum.

The critical interaction between Maine Credit Holdings and the environment occurs at two levels. The first interaction is the important roles of the Asset Managers and the Marketing Managers. Asset Managers must maintain contacts with outside property managers, tenants, construction
managers, and city and town officials. Marketing Managers are actively involved in representing the company in purchase negotiations. The company has hired real estate professionals who are comfortable dealing in these roles. For instance, of the five Marketing Managers, two have had experience as residential brokers, one as a commercial broker, one as an asset manager, and the last has corporate real estate experience and has earned a Corporate Commercial Investment Manager (CCIM) designation. The second level of interaction with the environment occurs internally between MCH and the FDIC.

The overall roles of MCH and the FDIC are being constantly redefined because adjustments are made to improve the disposition process, maximize value and maintain accountability. The local real estate environment in which MCH must deal is relatively straightforward. While the market conditions are changing over time, the rules of engagement are no different than the normal buyer/seller activity between private concerns. The uncertainty over determining value maximization, necessary for appeasing the FDIC, is created by MCH's uncertainty over future market behavior. The firm is motivated, through regulation, to sell based on today's market conditions, and is not attempting a hold and sell strategy. The important external forces influencing MCH's decisions include the local real estate
market activity, the local economies at each location, the
inundated appraisal system and the political pressure
applied by the FDIC.

Analysis
Objectives
The Rational Model objective is value maximization.
Publically, MCH states that they desire to sell the
properties they hold at the highest net value possible and
to reduce liability exposure for themselves and the FDIC.
However, they do not have fixed or highly structured
objectives placed upon them. The contract with the FDIC, the
most important factor influencing their goal setting, does
not state specific goals that must be met by MCH. This model
does not fully describe MCH's goal setting.

The Organizational Model objective is to seek attainable
goals. Analyzing MCH's objectives setting while assuming
they are operating under an Organizational Model framework
presents an interesting scenario. The incentive for MCH to
maximize value is based on a contract with the FDIC. Because
the FDIC is paying the operating bills for MCH, the interest
of the company may be to simply follow policy and procedure
rather than attempt to proactively manage the assets. As an
organization, they may seek a course of action that is "good
enough" to satisfy the FDIC so they will get paid. In other
words, they are looking to meet the interests of the FDIC which may be more than just value maximization. However, this model alone does not accurately match MCH's objectives setting function.

The Political Model objective is to seek goals which will be acceptable to external constituences. The "acceptable" assumption of objective setting is, arguably, the strongest match to MCH's activities. The contract between the FDIC and MCH does not set specific goals for MCH to reach by quarter or year. The parties are able to negotiate disposition objectives for each quarter, etc. MCH is also seeking more business, "bad assets", from other failed institutions taken over by the FDIC in the near future. As only one of four or five receivership companies in operation, the rest being in Texas, MCH is in an advantageous position in the Northeast as long as they perform adequately for the FDIC.

The employees at MCH seem most concerned with satisfying the FDIC's wishes.

Alternatives
The Rational Model assumes there are no cost and time constraints and the amount of information is unlimited; the search for and evaluation of alternatives is precise, exhaustive and quantifiable. This is not the situation with MCH. Their search is limited because they are obtaining and
comparing only as many buy proposals as is acceptable to the FDIC. Because of the contract, MCH's search also has limits since they cannot consider hold and improve or hold and sell scenarios. They are faced with a time constraint, the contract length, but little cost constraint, all bills being paid by the FDIC. The "put" option is also not covered by Rational Model assumptions about alternative search. This information cannot be matched to the Rational Model.

The Organizational Model search for information and evaluation of alternatives is limited with constraints. This matches the data best. MCH has constraints imposed upon it by the FDIC. They cannot improve a property to capture value. They have a limited amount of time to seek a buyer for a property before they have to keep it or "put" it back to the FDIC. The FDIC actively reviews most buy proposals so MCH does not have full autonomy to evaluate all alternatives. MCH has little risk in not maximizing the return on an asset. To get the FDIC to accept an alternative is a benefit to MCH. They are reimbursed for all expenses, earn money based on assets sold, and gain goodwill with the FDIC for future disposition contracts of assets from other failed banks.

The Political Model assumes that evaluation of alternatives is constantly redefined as more information is gathered.
There are limits to investigating and soliciting offers from prospective buyers that meet the desires of the FDIC. However, MCH always has an "out", the ability to give back an undesired asset. This allows them some bargaining power because the FDIC does not want any assets returned. MCH knows this and can ask for greater flexibility to dispose of properties. The FDIC can modify its criteria for accepting an offer. Information gathered by MCH is used by the FDIC to make changes in policy or procedure as necessary, e.g., the number of appraisals needed before marketing high valued assets has been changed. These conditions that redefine the search for alternatives happen infrequently, therefore, the Political Model does not match the data.

Choice Making
The Rational Model choice making is based on a computational strategy, whereby, the property disposition choice comes down to the rational decision of accepting the highest legitimate offer for the property. However, this strategy is not being considered in this case. MCH is not considering all offers because they are restricted from two activities that could secure higher net value for a property - improving an asset by committing additional funds and/or offering financing to prospective buyers. These incentives could reduce the risk to a buyer such that they would be willing to pay more for a property. The price could be high
enough to offset the extra cost to the FDIC. The managers at MCH are limited in making value maximizing decisions by regulations and restrictions, so their choices are not based solely on a quantitative analysis. Another "nonrational" restriction is the FDIC decision not to sell to people who have "done harm" to them. What if these people have access to money now and are willing to buy at the highest price? These limitations are contrary to a utility maximizing decision, so the Rational Model is not consistent with the data.

The Organizational Model choice making is based on a judgemental strategy. At MCH, there is an extensive judgemental review process prior to making a choice on a buy proposal. For higher valued assets the judgement of the CEO and Marketing VP are critical in accepting offers. The FDIC exercises judgement when it recommends that additional information be gathered before approving deals. On lesser value assets, the judgement of the Marketing Managers and Marketing VP become more important. They do not rely just on a NPV analysis. They were hired to make independent decisions (depending on asset threshold values) in order to expedite the disposition process. The Organizational Model does not fully account for the bargaining and compromise strategies used by MCH and the FDIC. This model does not fully represent the data.
The Political Model choice making is based on a compromise and bargaining strategy. There is a strong tendency for some decision choices at MCH to end up being negotiated. There is no "right" decision to be made on a property that has been through foreclosure and is trying to be sold in a shaky marketplace. The FDIC is willing to negotiate with MCH or a buyer because they would rather have MCH handle the asset and dispose of it at an acceptable value than continue to fund it. The cost of maintaining an asset is so prohibitive that the tendency is to work out a solution that will allow the disposition to proceed. MCH's employees do not want sales to fall through on which they have expended time and effort. The bargaining to finalize a deal is more important a factor than obtaining the highest value. The Political Model criteria is consistent with MCH's choice making.

Implementation and Evaluation
The Rational Model standards for implementation and evaluation are predetermined. A computational choice making approach to decision making explicitly values the timing, cost and acceptance of risk during implementation. It is assumed there are no other issues other than selling the property to the highest bidder. No evaluation is needed because all alternatives have been reviewed and the decision is based on a financial analysis. Because the data suggests
that MCH is making choices using a Political Model strategy, it does not appear that the Rational Model applies to these decision steps. In most real estate sales transactions the implementation and evaluation are relatively straightforward. The fact that MCH does not offer financing does simplify implementation for the bank. The property either goes to a closing quickly or does not depending on the ability of the buyer to secure their financing. Typically, once a property is sold no post sale evaluation is needed. MCH faces a more complicated situation. Closing a sale in today's market is very difficult because perception of values is inconsistent among different parties. There is also uncertainty over the availability of financing.

The Organizational Model implementation and evaluation steps follow policy and procedure. The qualitative and quantitative aspects of the decision are equally important. As would be expected in an arrangement with the FDIC, these steps are based on policies and procedures described in the contract. Deals must meet the requirements of the regulators. The justification of the deal is almost as important as the deal itself.

The FDIC review of high value deals prior to sale and post evaluation of deals at periodic visits allows them to change the process of disposition if they are not satisfied with the results. The FDIC does have a say in implementation
of a sale through the post-sale review process. They make an effort to analyze the sales of properties over certain threshold values. They are also required to document the success of their efforts for Congress. Therefore, the FDIC continuously evaluates the performance of MCH's sales results to see if expenses versus revenues are justified. These steps are used to ensure that properties are sold for an acceptable price with proper justification. The Organizational Model matches this data.

To illustrate the importance of justification of decisions, the FDIC, after a recent evaluation, requested that all properties over $5 million have two independent appraisals completed on them before sale. This effectively slowed down the disposition of these properties by eight weeks because of the backlog in the appraisal system.

The Political Model assumes that implementation is an open process subject to discussion and all decisions are to be continually evaluated until all constituences are satisfied. MCH's and the FDIC's roles in this process have been detailed above. MCH is responsible for implementing decisions according to the rules of the FDIC. MCH does not evaluate decisions for their own purposes. Therefore, the Political Model does not match the data.
Environment

The Rational Model assumes that the environment is disregarded during the decision process. MCH makes decisions in an environment dominated by its contractual and regulatory relationship with the FDIC and the activity in the marketplace. It must adapt its decision making to outside forces as often as necessary to meet the general goals imposed upon it by the FDIC. For instance, if the FDIC issued a proclamation to auction all properties within two months MCH would be obliged to do so. The Rational Model does not fit the situation at MCH.

The Organizational Model assumes the process is sensitive to environmental influences. As stated above, the most critical factors are the market activity and the FDIC contract. Increase sales activity at high relative prices and all other issues become moot. Other important environmental factors are the FDIC oversight role, the appraisal system, and the brokerage network. Sensitive is not a strong enough word. The Organizational Model assumptions do not match the data.

The Political Model assumption of a dominant environment matches the data. The regulatory oversight of the FDIC and market activity control the day to day operations of MCH. They are forced by contract to follow the procedures of the
FDIC. MCH does have a bargaining position with the FDIC which they use to try and gain control in some instances, but, generally, decisions are made at the FDIC's discretion.

In summary, after analyzing the decision making process against these three models it is clear that no one model is adequate for understanding the issues affecting MCH. Instead of simply taking the properties under their control and selling them to the highest bidder, MCH is constrained by contractual obligations, and motivated by riskless profit.

The Decision Matrix for Maine Credit Holdings, Figure 5 on page 67, highlights the most significant model at each step of the decision making process. MCH's decision making reflects all three models at different stages of the process. MCH's disposition objectives are influenced by the political arrangement with the FDIC. Their alternative search is conducted for finding the highest value though some constraints limit their activity. Choice making is based on compromise and bargaining in order to obtain the "best" deal to satisfy the interests of the FDIC. Implementation and Evaluation is modeled on policies and procedures by both the bank and the FDIC because of regulatory guidelines. The environment's influence on their decision making is dominant. MCH works for the federal government and reacts to the market. Three out of the
five steps are matched to the Political Model. The close contractural relationship with the FDIC significantly influences their decision making process.

**FIGURE 5:**

**MAINE CREDIT HOLDINGS, INC.**

**DECISION MATRIX**

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<td>procedural,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>qualitative and quantitative</td>
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<tr>
<td></td>
<td></td>
<td>criteria</td>
</tr>
<tr>
<td></td>
<td>Environment</td>
<td>sensitive</td>
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<td></td>
<td>disregarded</td>
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**Bank of Boston/OREO Department**

**Background**

The Bank of Boston is a New England based superregional bank
holding company with assets of $31 billion at March 31, 1991. The corporation and its subsidiaries provide a broad range of financial services to individual, corporate, institutional, and government clients as well as other banks. As a national bank they are under the regulatory purview of the Office of the Comptroller of the Currency (OCC) while the FDIC provides insurance coverage on deposit accounts.

The bank has been significantly affected by the regional recession. The Corporation's 1990 Annual Report described the situation this way:

"The Corporation has been a real estate lender for over forty years. While it has had experience with the cyclical nature of real estate markets, the simultaneous deterioration in New England and several other markets nationwide has had a significant effect on the quality of the Corporation's domestic commercial real estate portfolio. In 1990 and 1989, the common denominator in many of these markets has been overbuilding and high vacancy rates which have triggered a shortfall of revenues. This effect has been experienced with respect to all types of properties and many borrowers have been unable to service their debt. As a result, domestic commercial real estate nonaccrual loans and OREO have increased substantially since 1988. At December 31, 1990 they were $1,180 million, compared with $1,104 million at the end of 1989 and $615 million at the end of 1988."

(Bank of Boston, 1991)

Of the $1,180 million of nonperforming assets on December 31, 1990, $652 million were OREO property. The bank goes on to acknowledge that they may experience additional deterioration in its real estate portfolio in the future.
including substantial increases in OREO properties.

The bank is actively managing the nonaccrual loans and OREO in an effort to minimize their losses. They have created a new department called The Restructured Real Estate Department, commonly called the OREO/Real Estate Department, which is staffed by over 100 experienced real estate lenders and workout specialists. They have hired several real estate professionals to fill top management positions within the department. The Managing Director of OREO/Real Estate commented:

"I hired these people to provide an overall management function. They comprise the top two layers of my staff to oversee the outside contractors we use to manage and dispose of property."

In contrast with Maine Credit Holdings, Inc., Bank of Boston utilizes their existing banking staff to a much greater extent during the disposition process. They are utilizing their existing resources because they believe the problem is much more sensitive to the market conditions than to the type of internal management. In fact, the Director feels that real estate professionals are not needed at his department except in top management positions to review proposals.
Data Presentation

Nonperforming assets, especially OREO, are a tremendous drag on corporate earnings. In 1990, Bank of Boston spent $30 million on expenses for OREO properties. Their ultimate goal is to maximize the value of the portfolio. The bank has already written down the value of the portfolio, so they are able to wait for improvement in the market as long as they are willing to absorb the carrying costs. The Managing Director said that the OREO department does not have goals for disposition of the property. He believes that the ability to dispose of properties is so sensitive to the market that unless one can predict the future the goals become meaningless.

Their search for and analysis of alternatives is concentrated in house. They start the search for alternatives in the loan workout area as does MCH. Once a property reaches OREO the Director rely's on the upper level staff to handle all decision making concerning necessary maintenance and repairs. They screen information from the outside property management companies hired to oversee the properties. If a property needs extensive work to make it more marketable the bank is willing to spend the funds. The Director feels that the bank has a greater range of possibilities to maximizing value than a receivership company does;
"I believe the bank has an easier time of disposing of properties than a receivership company would. Essentially (MCH) is working directly for the FDIC and must follow their rules which are designed to dispose of property as quickly as possible. We look at each property and make decisions based on the interests of the bank."

The bank does not have staff or marketing personnel directly contacting buyers. They are using independent real estate brokers to market the properties at each location. They believe the brokers are the most efficient mechanism for reaching qualified buyers. The support staff are assigned properties to oversee and are asked to actively manage the outside brokers on a weekly basis. The brokers are given 90 day exclusive listings.

The criteria for establishing the range of choices is made using an internally generated net present value analysis. The bank does consider improvements to existing buildings and land if the analysis indicates they can capture greater value for an asset. In one instance, the Bank of Boston was left with 90 acres of undeveloped land from a foreclosed subdivision. Analysis had indicated there was no market for land but there was a demand for the houses. They chose to invest $1 million to build 10 more homes on the land in order increase the attractiveness of the project to investors.

Some of the decisions making is influenced by accounting
principles guiding the disposition or improvement of assets held by banks. Capital expenditures depress corporate earnings so they are avoided unless the justification is strong. The bank will provide financing to qualified buyers because they want to continue to earn interest on the loans. If property can be sold at near current market value they believe that lending money to buyers is justified. As explained in Chapter One, there are accounting issues, specifically FASB 66, that dictate the conditions of lending on foreclosed properties.

The choice to sell an asset or improve a property is made by the Managing Director using information from the brokers, a net present value analysis, and the upper level staff recommendations. The OCC has the authority to review past sales data to check on the documentation of the disposition process. The bank is required to justify each sale or asset improvement. The Director indicated that the justification documentation is one area that needed improvement.

Because the Bank of Boston provides financing on many of the properties it sells, implementing a sell decision can be time consuming. The buyer must go to a separate department within the bank to start the loan review procedure. Once funds are disbursed through the bank and the new owner takes possession of the property, the asset is removed from the
OREO department.

A decision to improve a property requires expenditure of additional bank funds so this must be justified with a financial analysis and market data in order to proceed.

As previously stated, the OCC, in its regulatory role, does post evaluation of sales and improvement decisions. Internally, the department decision making is also evaluated on a quarterly basis for reporting purposes.

There is a big difference between the Bank of Boston and MCH, and the interaction with the environment. The bank does not use its own staff to market and manage properties. The real estate brokers and property managers have the majority of the contact with the marketplace. This insulating effect may or may not impact the effectiveness of the department. The department interacts with the environment at other levels including the contact with the OCC and the loan department of the bank. The OREO department is a fully integrated unit of a $30 billion corporation while MCH is a temporary subsidiary created to handle a unique situation.

The scope of their environment is varied. The bank has property in over 20 states with 60 percent of them located in New England, 10 percent in Florida, 3 percent each in
Georgia and Texas, and 24 percent in the rest of the country. The primary factor influencing the OREO decision making at the bank is the market activity. If there is sufficient interest, the properties will be disposed quickly. If not, the bank will contemplate additional expenditures to capture future value.

The political system, especially the OCC, is the next most important influence. However, the bank, because of past scrutiny is now valuing its assets to market and taking charge-offs quickly in order to move the properties into an active management stage. A positive force for the bank will be its ability to extend financing to qualified buyers. If the illiquidity in the credit market continues that may be an important factor in their success.

**Analysis**

**Objectives**

The Rational Model objective is value maximization. The OREO Department's stated objective is to maximize the value of its real estate assets in disposition. For the Bank of Boston, the most important financial measurement of their success is yearly earnings. Because of the possession of the OREO properties, earnings suffer because of reduced lending capability and higher expenses. The bank is motivated to take those steps necessary to increase both short term and
long term earnings. The data indicates that the OREO Department can pursue and is willing to pursue value maximizing objectives as in the Rational Model.

The Organizational Model objective is to seek attainable goals. There would seem to be no incentive for the organization to seek only "attainable" objectives. The OREO department staff is motivated to capture the greatest value on these assets if they understand that the process helps to ensure their employment! The Managing Director indicated no explicit disposition objectives were set except to recapture as much value as possible. However, without set objectives it is unclear how the staff's performance is assessed. If their performance cannot be assessed, a Rational Model match to the data is unlikely. But, considering the narrow purpose of the department and urgency of the situation the short term, fixed objective setting of the Rational Model are strong.

The Political Model objective is to seek goals which will be acceptable to external constituencies. Since the bank is not constrained by many external constituencies the objectives setting by a Political Model seems unlikely. Indirectly, the OCC is interested in their justification procedures, but as long as the bank is progressing toward improving their capital position OCC is satisfied.
Alternatives

The Rational Model assumes there are no cost and time constraints and the amount of information is unlimited; the search for and evaluation of alternatives is precise, exhaustive and quantifiable. The Managing Director said the department relies heavily on the net present value analysis produced internally to generate values for various options including immediate sale, hold and sell and improve and sell. The search is conducted with the use of the outside brokers over as long a period as is necessary to obtain reasonable offers on a property. This matches the Rational Model assumptions of finding precise, quantifiable alternatives.

The Organizational Model search for information and evaluation of alternatives is limited with constraints. Time and cost constraints of holding onto the property are high. However, the department does not want to accept low offers on properties if the bank will have to acknowledge another loss on its balance sheet. They are willing to accept risk which suggests that the Organizational Model is not as appropriate a match for this step as is the Rational Model. The reliance on quantitative analysis of alternatives is strong.
The Political Model assumes that evaluation of alternatives is constantly redefined as more information is gathered. Given that the bank is not immediately influenced by any external constituencies, this model does not seem appropriate. The OCC does have strict rules on the amount of capital the bank needs to carry on its books and has actively encouraged the bank to trim its exposure to real estate assets. Nevertheless, as long as the bank is above minimum capital requirements and is actively managing their assets they have relative autonomy in searching for options on property disposition including capital improvements. The Rational Model's emphasis on quantifiable criteria more closely matches this process.

Choice Making
The Rational Model choice making is based on a computational strategy, whereby, the property disposition choice comes down to the rational decision of accepting the highest legitimate offer for the property. At first glance, this would be a consistent match. The final decision is made based on an NPV analysis which is created in-house. However, I only interviewed one person in the department, the Managing Director. If his testimony is correct, all disposition decisions are made by himself. This would indicate the use of judgement; an Organizational Model
strategy.

The Organizational Model choice making is based on a judgemental strategy. The Managing Director's autonomy to make decisions, with a financial analysis as support, is a strong argument for an Organizational Model match. The Director cannot have the time to analyze all the explicit and implicit assumptions backing up the data presented to him on each property. He is operating with some uncertainty and must rely on rules of thumb to expedite decisions.

The Political Model choice making is based on a compromise and bargaining strategy. The bank is interested in giving financing out on properties to increase selling activity and to earn fees and interest income from additional lending. Compromise may occur when a property is sold with financing instead of cash because the bank is assuming additional risk. However, their overall strategy is not based on bargaining. The department wants to justify a decision choice with qualitative and quantitative reasoning. The Political Model does not match the data.

Implementation and Evaluation
The Rational Model standards for implementation and evaluation are predetermined. A computational choice making approach to decision making values the timing, cost and
acceptance of risk during implementation. There could be complicated implementation and evaluation decision steps if the bank decides to improve a property or offer financing on a property. Various staff members, outside contractors or other bank staff would need to get involved in the process. The timing, cost and risk could not be explicitly valued. The Rational Model would not apply in this case.

The Organizational Model implementation and evaluation steps follow policy and procedure. The qualitative and quantitative aspects of the decision are equally important. In most cases is consistent with the data, the department has the flexibilty to cut deals with buyers that best meet their goals. This is consistent with the Organizational Model. There are internal policies to govern the disposition continuum. Other procedures are followed to meet external regulations.

The Political Model assumes that implementation is an open process subject to discussion and all decisions are to be continually evaluated until all constituences are satisfied. Except for periodic reviews by the OCC when they sample the files of properties that had been sold, there is no evaluation of sales. The department is heavily influenced by the policies and procedures of a large banking corporation. There is little room for discussion when it comes time to
implement a decision. The Political Model does not match the data.

Environment
The Rational Model assumes that the environment is disregarded during the decision process. This is not true with the OREO department. The environment plays a big role in the decision making. There is a strong reliance on outside brokers and asset managers to provide the information necessary to analyze and price properties internally. There is also the indirect influence of the OCC on the decision process. The top management of the bank have complete authority to change the decision process. Clearly, the Rational Model does not match the data.

The Organizational Model assumes the process is sensitive to environmental influences. Yes, the firm is sensitive to environmental influences but it does not disregard or is dominated by them. The OREO department is cognizant of the OCC desire for adequate justification of sales so they perform the necessary tasks to the OCC's satisfaction. The use of input from outside contractors and appraisers in setting prices shows they are willing to rely on external feedback to move properties. The bank's top management has authority to change the department's focus at any time. However, it seems obvious the bank has structured the
department to have some autonomy to sell properties. The Organizational Model assumptions are seen in the data.

The Political Model assumption of a dominant environment does not match the data. Only with regard to the market activity which dominates both MCH and the Bank of Boston's decision making. OCC has a less dominant role than the FDIC does at Maine Credit Holdings. The Bank of Boston is still completely independent though they are operating under unusual scrutiny. The autonomy and flexibility to manage their assets shows that they are relatively unconstrained by the environment.

In summary, no one model fully describes the process. The Bank of Boston strategy to let the OREO department make its own management and disposition decisions and the bank's relative freedom from regulatory oversight allows the process to follow a more rational path.

The Bank of Boston Decision Matrix, Figure 6 on page 82, shows a greater reliance on rational decision making during goal setting, search and analysis of alternatives and choice making. Implementation and the evaluation of decisions and the influence of the environment are most similar to an Organizational Model of decision making. The conclusions could be skewed because I only interviewed the Managing
Director of the OREO department. The opinions of department staff, other bank officials, or the OCC are needed for a stronger conclusion. For instance, it cannot be ignored that the department functions within a very large organization which is in a very regimented business. The influence of organizational goals, policies and procedures, and internal staff politics cannot be underestimated. The reader should be aware of this limitation.

FIGURE 6:

BANK OF BOSTON
DECISION MATRIX

<table>
<thead>
<tr>
<th>PROCESS</th>
<th>MODELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rational</td>
<td>Organizational</td>
</tr>
<tr>
<td>* short term, *</td>
<td>short term, attainable, satisfying</td>
</tr>
<tr>
<td>* fixed, *</td>
<td></td>
</tr>
<tr>
<td>* value maximizing *</td>
<td></td>
</tr>
<tr>
<td>***********************************</td>
<td></td>
</tr>
<tr>
<td>Alternatives</td>
<td>political</td>
</tr>
<tr>
<td>* no cost constraints, *</td>
<td>cost constraints, time constraints, partially quantifiable</td>
</tr>
<tr>
<td>* no time constraints, *</td>
<td></td>
</tr>
<tr>
<td>* precise, quantifiable *</td>
<td></td>
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<tr>
<td>***********************************</td>
<td></td>
</tr>
<tr>
<td>Choice making</td>
<td></td>
</tr>
<tr>
<td>highest value, computational strategy</td>
<td>rules of thumb, judgemental strategy,</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation &amp; Evaluation</td>
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<tr>
<td>closed system, qualitative implementation, no evaluation</td>
<td>open system, procedural, qualitative and quantitative criteria</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td></td>
</tr>
<tr>
<td>disregarded</td>
<td>sensitive</td>
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</tbody>
</table>

82
Comparison of Maine Credit Holdings, Inc and the Bank of
Boston/OREO Department

The two matrices give a graphic representation of the
differences and similarities between MCH and the BOB/OREO
department. Quickly, one can see that these organizations
are operating under different decision making conditions.
Even though one model does not fully address or consider all
the factors involved during the management and disposition
of the real estate assets, each matrix has a dominant model.
MCH's process is heavily weighted toward the Political
Model, and the BOB/OREO department's process is a closely
correlated to the Organizational Model.

Some of the similarities and differences of MCH and the
BOB/OREO department were outlined on Page 46 in the
beginning of this chapter. Several of these points are
critical in prejudicing each firm's decision making. MCH's
contract with the FDIC is the most important factor which
distinguishes their decision process. As shown in Figure 6,
the matching of objectives setting, choice making, and
environmental influences to a Political Model is consistent
with desire for acceptable solutions (fast dispositions) in
a dominant environment (the FDIC & Federal Government).
The BOB/OREO department's relative independence from the external environment is the greatest influence on their decision making process. They are attempting to follow a highly rational course of action when disposing of real estate. They look at unlimited options (sell immediately, hold and sell, and improve and sell), and use a computational choice making strategy (npv analysis). These options do expose them to certain levels of risk. More importantly, the corporate culture significantly impacts their decision making. The department operates according the rules and regulations of the department. This influence cannot be trivialized.

The two processes resemble each other during the implementation and evaluation stage because of the organizational emphasis on following rules and regulations. Each of the firms follows procedures on closings and evaluation of sell decisions. Some differences do occur because MCH is a subsidiary corporation and the OREO department is a specialized line unit of the corporation. MCH's policies are geared toward satisfying FDIC regulation while BOB/OREO's are intended to fulfill the corporation's primary objective of improvement in the balance sheet and secondary objective of OCC satisfaction.

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84
WORKS CITED IN THIS CHAPTER


CHAPTER FOUR

Conclusion

The effectiveness of the decision making at Maine Credit Holdings and The Bank of Boston/OREO Department is hard to judge at this time. Each company is still actively managing and selling assets and will be doing so for some time to come. It is evident that the banks are encountering new types of decision problems that are unfamiliar to them. Typically, when a bank lends money on real estate, it is expecting fixed rewards for its risk and is primarily concerned with the security provisions of the loan, such as the fair market value of the pledged assets. The bank, as lender, also looks to the existence of resources and cash flow to ensure repayment of principal and interest.

Now, as the owner of real estate, the bank assumes the equity position in which the decision making context is entirely different. Instead of being accounted for in the coupon rate of the loan, risk is now limitless. The bank's capital is exposed to all the risks of ownership. The fixed reward of the loan is now replaced by a theoretically
unlimited upside potential. To manage and sell the real estate efficiently, the organization and management must understand this basic shift in outlook. As owners, they must work to create value economically and to proactively manage their assets.

Banks also need to understand the complicated and often inconsistent nature of real estate selling. Net present value analysis of various options is just one step in deciding what to do with a property. Pricing a property "right" might not be the best strategy for selling it quickly. Frequently, painting the outside of a building a different color or auctioning the property off at a higher price may work! Those banks that are willing to inject creativity and flexibility into their decision making process will have greater success in disposing of property, especially in a depressed market. The hiring of real estate professionals to make decisions is a correct response to address this issue. Their experience and insight are needed to identify the most cost effective approaches to selling property.

The disposition process is dominated by two environmental factors. The first factor is authority of the regulatory agencies to dictate and direct a bank's activities. Generally, their outlook is short term because of the crisis
facing the banking system. The FDIC is charged with maximizing returns to creditors, so they look to sell assets as quickly as possible. The OCC is interested in pressuring the banks to dispose of OREO property in order to improve their capital position. As all parties (the FDIC, OCC, banks, and receiverships) become more experienced in managing and selling assets, the relationships should become more cooperative than adversarial. Therefore, decision making should improve. The second factor is the activity in the marketplace. If liquidity returns to the marketplace, sales will increase quickly. A general economic expansion combined with increased liquidity would render this discussion meaningless.

Clearly, Fleet Bank (Maine Credit Holdings) and The Bank of Boston have two distinct OREO organizations. MCH, as it makes decisions on real estate, is making money while insulated from risk. The Bank of Boston is trying to limit the amount of money they have already lost while they are still exposed to substantial risk. Maine Credit Holdings should continue to do what they have been doing, using real estate professionals to agressively market their properties. If a recommendation is made, it would be for them to streamline the decision process so sales could be consummated quickly. This would require the cooperation of the FDIC. The Bank of Boston should consider utilizing
auctions more frequently, for two reasons. First, the cost of holding OREO property is very prohibitive and second, the strategy of expending funds on some properties in an attempt to capture value is suspect.

Streamlined receivership companies, such as MCH, which are staffed by real estate professionals, should be superior to a bank OREO department in selling assets. If given the necessary autonomy by the FDIC to choose creative, innovative selling strategies, the real estate pros should be more successful in their mission. If financing of properties is made available, sales will increase dramatically. Meanwhile, the Bank of Boston is operating an organization within an organization. Banks are notorious for their multi-layered, heirarchal structures. Their decision making has traditionally been very conservative and methodical. Though the Bank of Boston/OREO Department says they have been successful to date, it is doubtful they have the ability to modify their regimented style so that "fleet of foot" decisions can be made. Clearly, they need to consider hiring additional real estate professionals in senior decision making positions or creating a separate subsidiary company to handle assets outside the corporate decision loop. These organizations must be tailored to fit the creative decision making tasks, by utilizing the appropriate structures and managerial expertise.
APPENDIX A

Maine Credit Holdings, Inc.
Organizational Chart

Fleet Bank of Maine

FDIC Oversight Committee

Maine Credit Holdings

Chief Executive Officer

Loan Recovery

Asset Management

Marketing

Senior Credit Officer

Vice President

Vice President

Workout Staff

Asset Managers

Marketing Mgrs.

Support Staff
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