Banking by Joyce Fredman

The alphabet soup of S&Ls

The thrift industry is in the sorriest shape of its history; yet it has more regulators taking care of it than it has institutions.

In the ongoing saga of the savings and loan institutions of the United States, the Federal Home Loan Bank Board, regulators of the thrifts, announced on Sept. 13 that the Board was withdrawing its request that Congress give a guarantee to the evergrowing number of promissory notes being issued.

Chairman Wall's reception before the House Banking Committee on Sept. 8 was less than warm, so it's no surprise that he's changing his tack. Bank Board member Lawrence White said that instead, the board will ask the Attorney General (Richard Thornburgh) for a legal opinion that such notes already carry the full faith and credit of the federal government.

Chairman Wall is desperate for somebody's backing. The same day the decision to go to the Attorney General was announced, Wall said that another 50 thrifts are to be closed or merged by the end of the month. This year to date, 102 S&Ls have been merged or closed.

With every announcement, the suspicion that there is a massive papering over of the problem becomes reinforced. Even within the banking community, rumors are that Wall has gone beyond the beyond.

Taxpayers ought to be curious as to who these august agencies are, that have so glibly handed them a $100 billion tab. They may well be the largest and most incompetent group of paper pushers Washington has seen. But since they're so expensive, the complexities of the incompetence deserve a look.

The Federal Home Loan Bank Board is the federal agency that supervises and regulates the 3,000 S&Ls in the United States. The FHLBB employs 1,400 people itself. However, it has found digging the graves for these institutions such a complex job, that several subsidiary agencies were set up to help them out.

Three of those subsidiaries made it into the press when a congressional report was released on Sept. 12 stating that the General Accounting Office has found that over 500 regulators have been illegally exempted from government salary limits. Federal employees are subject to civil service pay classifications and therefore cannot exceed a salary of $75,000 a year. But it seems the executives of these subsidiaries, set up starting in 1972, have been getting six-figure salaries.

The Office of Regulatory Activities employs 146 people. They say they are in charge of supervising the S&Ls. When it was brought to their attention that that job description supposedly belongs to the Bank Board, a spokesman explained that they oversee such activity. In other words, they oversee the overseeing of the S&Ls. This is called "overseeing of the examination process and supervision."

The Office of Finance has 52 employees. They issue bonds for the Federal Home Loan Banks and issue FICO (Financing Corporation) bonds, a vehicle to raise money for FSLIC, another agency (see below). The Office of Finance is not the only fundraiser for the industry, however.

There is the Federal Home Loan Mortgage Corporation, known as Freddie Mac. Its major function is to buy loans and mortgages from both S&Ls and banks, pool a group of them, and underwrite them and sell them to Wall Street. They recently approved a plan opening up their preferred stock to the public starting Jan. 1.

The Federal Asset Disposition Association (FADA) also is meant to generate income. It was set up three years ago in order to help the Federal Savings and Loan Insurance Corporation (FSLIC)—another agency which acts as the insurance arm of the Bank Board. Their task was to market and sell the billions of dollars in assets of the insolvent thrifts.

FADA, which employs 360, itself is in the red. It had losses of nearly $20 million in 1986 and 1987. (That seems to be a qualifying feature for the Bank Board. FSLIC is also massively in debt.) Nonetheless, the inability of these clowns to sell the largely bad real estate that composed such assets has not prevented them from lining their own pockets.

According to the House Banking Committee, 32 top executives at FADA earned a total of over $3 million a year, with its previous chairman, Roslyn Payne, being the highest paid official in the federal government in 1986. That was released last May.

Now, the GAO has found that Roslyn had plenty of company. At least another 499 from FADA, the Office of Finance, and the Office of Regulatory Activities have been receiving well over their due.

The 58 employees of the Office of Enforcement do not appear to be enjoying such benefits. The Office of Enforcement is "responsible for assisting the bank board in securing the compliance with laws, regulations, and safe and sound banking practices." Accordingly, it is well within their means to unemploy themselves and the rest of the thrift agencies.