

## Banking by William Jones

### S&Ls bailout agreement near

*The plan will close down 500 thrifts, while forcing the healthy ones—and the taxpayer—to bail out what's left.*

The Bush administration's plan to deal with the nation's bankrupt savings and loan institutions has gone a good part of the way through its congressional "loop" with only a few amendments, although those put forward in the House Banking Committee may loosen some of the stipulations the administration wanted with regard to restricting the growth of some of the poorly capitalized S&Ls.

After four days of debate and voting on more than 160 amendments, the House Banking Subcommittee on Financial Institutions, in a voice vote of its 47 members, approved the measure on April 14. The Senate Banking Committee had approved the legislation the day before.

The administration plan is a draconian program to shut down S&Ls, and incorporates a significant role for the Department of Justice in prosecuting alleged criminal offenders among the thrift industry's managers. The plan calls for the government to spend \$157 billion in taxpayers' money and contributions from the savings industry over 10 years, to close more than 500 ailing institutions. It also calls for merging the depleted Federal Savings and Loan Insurance Corporation (FSLIC) with the stronger Federal Deposit Insurance Corporation (FDIC).

In one amendment added to the legislation, the House Banking Subcommittee on Financial Institutions voted to give the FDIC greater independence, new responsibility to regulate state-chartered thrifts, and authority to set premiums on the riskiness of bank and thrift lending activi-

ties. The subcommittee voted to restructure the Federal Home Loan Bank Board by making its oversight office a unit of the Treasury Department, but leaving as quasi-independent entities the 12 regional Federal Home Loan Banks. The panel also ruled that FHLBB chairman M. Danny Wall would be renominated as chairman of the Bank Board, subject to confirmation by the Senate.

The panel also allowed the thrifts to use new logotypes that would show an American eagle and promise that deposits are backed "by the full faith and credit of the U.S. government." The thrifts were demanding the use of the logotypes of their purchaser banks, in order to assure depositors of the safety of their deposits. The subcommittee defeated by voice vote two amendments that would allow healthy S&Ls to change their status from that of S&Ls to that of commercial banks, and thus effectively pull out from bearing the cost of revamping the S&L system.

Bankers seem to be happy with the legislation. They should be; it gives greater freedom to commercial banks in obtaining healthy savings associations. The plan effectively breaks down the barriers between savings associations and commercial banks. The subcommittee decided to allow banks and credit unions that concentrate at least 30% of their business in housing lending to be eligible for long-term loans from the regional Federal Home Loan Banks. The regional banks borrow on Wall Street at low, government-backed interest rates, and funnel

the money to home finance.

Proponents say the amendment is a way to bring new capital into a capital-short industry. Opponents contend that the banks will only acquire healthy savings institutions and leave the government with more than 500 sick ones to liquidate. In the original legislation, President Bush had proposed to allow banks to buy only ailing S&Ls for the next two years, and healthy ones after that.

The subcommittee was prepared to significantly lower the capital requirements for savings and loan associations, fearing that the more stringent requirements mandated by the Bush bill would collapse the industry. An amendment which would have considerably liberalized the capital requirements was narrowly defeated in the subcommittee. Although the subcommittee did not allow thrifts to count soured loans as capital, it nevertheless agreed to permit poorly capitalized S&Ls to grow—a policy which is opposed by the White House.

The legislation will next be taken up by the Banking Committee, and the full Senate is expected to vote on a final package within a week.

The more sinister aspect of the Bush proposal is an extension of the powers of the Justice Department to go after the "crooks" in the industry. The Bush administration is looking for scapegoats for the bankruptcy of the S&Ls and of the economy as a whole, and among those scapegoats will be those who have been operating on the fringes of the law—or even within it.

Former U.S. Attorney Joseph DiGenova, interviewed ABC News's "Nightline" on April 12, warned that there was over \$150 million in pilfered funds in the S&L system, and that the criminals—those who owned and operated the savings associations, would be apprehended and convicted.