

Banking by John Hoefle

Thornburgh wants more cops

That's the U.S. attorney general's "solution" to the crisis of the thrift institutions.

On June 13, U.S. Attorney General Richard Thornburgh stopped in Houston, as part of a whistle-stop tour through Texas to promote the Bush Plan for the nation's troubled savings and loan institutions.

Thornburgh used the Texas visit to repeat the administration's shopworn contention that the crisis that has devastated the nation's thrifts is due to fraud on the part of thrift managers, and to call for a massive federal effort to throw the alleged perpetrators in jail and seize their assets.

The Thornburgh tour was designed to make headlines in Texas, while back in Washington, D.C. the fracas continued in the House of Representatives and the White House over how to deal with the thrift crisis.

Thornburgh's theme was that the mighty Department of Justice, which has squandered many millions on blatantly political assaults such as that against Lyndon LaRouche and his associates, has a "shortage of resources" to prosecute these "very difficult cases." Thornburgh claimed that as many as one-third of the major bank fraud cases were as a result not being pursued, allowing "significant wrongdoers" to escape.

The problem with bank fraud cases, Thornburgh asserted, is that they involve "some of the most complicated and outlandish rip-off schemes we've ever seen in this country." Investigating them, he said, involves many hours of searching through documents and computer records.

Especially, some would say, when you have to fabricate the evidence first.

The solution, Thornburgh stated,

lay in the \$50 million which the Bush Plan would allocate for increased law enforcement personnel, including the hiring of 100 new federal prosecutors and 200 new FBI agents. Coupled with the increase in personnel, the Bush proposal would also increase the statute of limitations period on bank fraud cases from the current five years, to ten years.

"The result of the lack of law enforcement may mean that wrongdoers may escape punishment and millions of dollars lost in S&L schemes may never be recovered," Thornburgh said. He also complained that the sentences handed out in these cases are insufficient, saying, "It's not the prosecutors who are failing to press these cases. We are trying to convince the courts that crime in the suites is just as important to try and prosecute as crime in the streets."

The Bush Plan would also likely involve the renegotiation of some of 1988's Southwest Plan thrift bailouts, by eliminating the benefit of "good will" carried on a thrift's books. Some \$20 billion of good will is carried on thrifts' books, much of it held by thrifts that took over other ailing thrifts and used the good will—with the blessings of the Federal Home Loan Bank Board (FHLBB)—to defer accounting for the losses held by the ailing institutions. In a letter to Ohio Congressman Charles Wylie, the Justice Department said that prior agreements between thrifts and regulators do not prohibit Congress from imposing new capital standards.

While Thornburgh and Bush are fiddling, the thrift crisis continues to

smolder. The nation's thrifts posted a negative income of \$3.4 billion in the first quarter of 1989, while losing \$28 billion in deposits, continuing a deposit run which began in May 1988. Texas thrifts alone had a negative income of \$2.2 billion during the first quarter, and lost \$3.3 billion in deposits.

"It's the biggest and longest [deposit] outflow in history," said FHLBB chief economist James Barth. The good side of the outflow, insisted Barth, is that thrifts are maintaining capital strength while they shrink, thus increasing their capital ratios. "No growth is not necessarily bad," Barth said.

The major bone of contention in the June congressional actions in Washington is how much investment, or capital, the owners themselves must be required to invest in the S&Ls that they operate. Bush personally met with congressmen June 15, on the eve of the expected vote on the issue, to demand stiffer requirements. Bush and a host of House Democrats attribute the failure of thrift institutions to poor capitalization (and fraud), and not to economic decline.

Thornburgh praised the Dallas Bank Fraud Task Force as a "model investigative and prosecutorial operation in the war against savings and loan fraud," calling its 36 convictions out of 46 individuals charged an "enviable record."

But most of those victories have been the result of plea bargains. The task force lost its biggest case to date, the show trial of Independent American Savings' Thomas Gaubert, who decided to fight rather than capitulate. In the words of one Dallas investor, "The function of the task force seems to be to find people who would confess to being frauds and cheats, and they've had very few takers."