Eye on Washington by Nicholas F. Benton

Savings and loan meltdown predicted

The head of the National Council of Savings Institutions says the administration's bailout is just the beginning.

'The situation facing the nation's savings and loan industry now is akin to a Hershey chocolate bar sitting on a hot sidewalk in he summer. Unless action is taken very quickly to save it, it will melt down completely."

That was how Dr. Mark Reidy, head of the National Council of Savings Institutions, described the situation to a gathering of S&L executives in Washington on June 20, on the eve of a vote by Congress to pass the Bush administration's S&L bailout package.

Most experts now predict that taxpayers will be hit for at least $300 billion to bail out the nation's ailing thrift industry—but some indications provided by Reidy point to a situation even worse than that.

For example, when asked by this reporter about whether he was satisfied that the underlying causes of the savings and loan crisis are being effectively addressed by the bailout legislation, Reidy struck an ominous tone. He pointed out that one of the speakers at a workshop of the conference held the day before pointed to the "trend of commercial real estate in the Northeast to move in the direction of the Southwest."

This was a reference to the precipitous collapse in real estate values in Texas and other Southwestern states, which has been the principal cause of the S&L crisis, despite administration efforts to pin the rap on "mismanagement" and even criminal fraud.

Reidy noted that shiny new glass office buildings in the Dallas area are now being bulldozed down, because they failed to attract any occupants, and that many others throughout the region "will never become solvent properties."

"Even in the best of all possible worlds," he said, "there is going to be a great fallout in values of commercial real estate nationally."

How this will be dealt with will determine whether the industry as a whole survives or not, Reidy said. In other words, it is not so much the details of the bailout legislation that are important, but the kind of "judgment calls" that are made by the industry's top managers. "If they move too fast on the problem, then they could create a situation that would create more problems than it would solve for the S&Ls that are still surviving."

This would happen, he said, if the move were made to begin dumping real estate in local markets. "This would threaten all real estate, and undermine the healthy thrifts."

Later, during his address to the assembled executives, he predicted that the current S&L package before the Congress "will not be the last." There will be second, third, and fourth follow-ons to the current bailout. This will occur because "there is so much contained in this first bill that no one could possibly foresee all the problems that will arise once it begins to be implemented. . . . There are at least 15 major pieces of legislation contained in this one bill. The operating implications of the bill go far beyond what Congress can possibly understand now."

For one thing, he noted, the amount of money allocated will have to be greatly increased.

For another, this bill avoids many of the more controversial components of the problem, such as how to deal with credit unions, and the issue of federal insurance for foreign deposits.

He said the legislation is designed to do more than simply mend the ailing S&L industry, however. Its real aim is to give Congress power over the states in the regulating of thrift institutions. In this regard, it is "clearly an overreaction." he said. This was reflected in the attitude taken by the Bush administration when its plan was first announced, and it took the posture that it was going to "punish" the industry for its problems.

Reidy predicted that the net result of the current approach to the problem will be "an end to the dual banking system within 10 years." In other words, any distinctions between commercial banks and thrifts that now exist, chiefly to ensure secure credit for homebuilding and local entrepreneurial activity—will be abolished.

President Bush, Reidy said, has "only given lip service to housing finance." Reidy expects the Federal Home Loan Bank Board to be liquidated soon, and the Federal Deposit Insurance Corporation will emerge as the only insurance agency for both banks and thrifts. "Within 10 years, there will be complete chartering homogenization," he predicted.

In the face of these grim forecasts, Reidy's only advice to the executives was to "stay flexible," "fight to survive," and "buy time."

He said that between now and the expected early-August date for the final vote on the S&L bailout package, the main strategy for the industry will be "damage control," including an effort to "calm down the high level of emotion that currently exists on the Hill over this issue."