Banking by Kathleen Klenetsky

Death throes of the S&Ls

As Bush's bailout package goes into final negotiations, officials are saying saving and loans are passé.

SEC Commissioner Joseph Grundfest was nearly lynched by angry S&L executives when he told a conference of the U.S. League of Savings Institutions in Washington June 26, that it was their mismanagement alone which has caused the nationwide collapse of thrift institutions, and that they should basically bow out of the home mortgage industry, if they want to continue to exist.

There are plenty of other financial entities which can handle mortgages "more efficiently," Grundfest told the conference, which was convened to discuss the implications of the Bush administration's S&L "bailout" scheme. The impetus for tougher regulations for the S&Ls, he said, comes partly from other sectors of the "financial services industry" (i.e., the big banks poised to take over the remaining thrifts), which consider the S&Ls "a class of financial lepers that are properly subject to stringent scrutiny."

Incredibly, Grundfest advised the attendees that thrifts should continue to invest in junk bonds.

Other speakers at the conference, in various and sundry ways, delivered the same message, that the S&L industry is essentially a thing of the past. Both the House and Senate have passed versions of the Bush measure, which has now gone to a conference committee.

M. Danny Wall, chairman of the Federal Home Loan Bank Board, told the conference that at least 700, and possibly 1,200 S&Ls will "go out of existence," as a result of the administration's "rescue" effort.

Wall said that he foresees a "period of constriction" for the S&Ls, "both in terms of assets and the number of institutions." To soften the blow, he added that perhaps, over time, there will be a "resurgence in deposits, for those thrifts which manage to survive."

Without acknowledging the fact outright, Wall hinted at the real purpose of the Bush bill, to facilitate the takeover of the S&Ls by the major commercial banks. The FHLBB head stated that he supports that version of the thrift legislation which willl allow commercial banks to buy up healthy thrifts as soon as the bill is signed into law, rather than the other version, which calls for a two-year waiting period.

Wall predicted that Congress will have a compromise version of the S&L package ready for Bush's signature by early August, when Congress takes its summer recess; but he admitted that Congress "may not be able to resolve the differences" between the House and Senate versions of the legislation by that time.

As if the picture painted by Grundfest and Wall wasn't grim enough, another speaker, Washington, D.C. attorney John K. Villa, warned the assembled S&L officials that they could soon be the victims of wholesale RICO (racketeering) suits. He reported that the Senate version of the package "would make *all* the federal banking criminal statutes predicate offenses for RICO."

If this provision ends up in the bill's final version, it "will have the unfortunate effect of vastly increasing the number of civil RICO actions against financial institutions and their officers and directors." But even if it doesn't, he warned, the S&L bill will nevertheless "expand the range of civil enforcement measures available" to the government to prosecute S&L "fraud," "extend the reach of certain existent measures to new (and, in some instances, less precisely defined) conduct," and "dramatically increase the civil and criminal penalties."

"The cumulative result of these far-reaching changes would be to make available to the federal banking regulators and law enforcement authorities uniformly more punitive sanctions, and at the same time allow unfettered discretion in their use."

The S&L officials' reaction to this picture of unrelieved doom and gloom alternated between rage and depression.

Grundfest's remarks provoked the most intense response. Past USLSI president Gerald Levy publicly blasted his speech as "most offensive." The furor it provoked spilled over into the corridors outside the conference room, where Grundfest found himself surrounded by a horde of angry S&L officials, who denounced him for giving a totally distorted picture, based on stories published in the *Washington Post*.

When this reporter interjected that former FSLIC chairman Ed Gray had given *EIR* an interview charging that former Treasury Secretary Don Regan had set about to deliberately bankrupt the thrifts because there was "too much housing" in the U.S., several officials of the USLSI responded that they "wouldn't be in the least bit surprised," since that's exactly what has happened.

A USLSI official later told *EIR* that the real causes of the thrift collapse began with "Paul Volcker's interest rates, followed by banking deregulation, and then the collapse of oil and real estate values."