Click here for Full Issue of EIR Volume 16, Number 33, August 18, 1989

Banking by John Hoefle

The 'bailout' that wasn't

The administration's S&L bill knocks out the cocks, floods the hold, and sinks the thrifts.

The much-touted S&L "bailout" bill signed into law by President Bush Aug. 9, does not rescue the beleaguered thrift industry. What it actually does, is destroy it.

The bill is structured in such a way as to force the $1.2 trillion in deposits currently held by thrifts, into the hands of the commercial banks and their allies. It is, in short, a blatant asset grab.

The bill, known as the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), restructures both the thrift industry itself, and the network of government agencies which regulate it. It puts the FDIC in charge of the thrifts, and creates a Resolution Trust Corporation (RTC) to dispose of the $500 billion or so in real estate and other assets the government has thus far seized from insolvent thrifts. The RTC will be overseen by the RTC Oversight Board, chaired by the secretary of the Treasury, and including the secretary of HUD and the chairman of the Federal Reserve, plus two independent members appointed by the President and confirmed by the Senate. Effectively, however, the RTC will be part of the FDIC.

FIRREA abolishes the Federal Home Loan Bank Board (FHLBB), which previously regulated the thrifts, replacing it with the Federal Housing Finance Board (FHFB), which will oversee housing lending by the regional Federal Home Loan Banks. The bill also creates the Office of Thrift Supervision (OTS) as a new arm of the Treasury. The OTS will be to thrifts what the Office of the Comptroller of the Currency is to commerical banks, regulating federally chartered S&Ls.

The Federal Savings and Loan Insurance Corporation (FSLIC), is being replaced with the Savings Association Insurance Fund (SAIF), and will be placed under the auspices of the FDIC. The FDIC's own insurance fund is being renamed the Bank Insurance Fund (BIF). Together, SAIF and BIF form the Deposit Insurance Fund (DIF).

The only one the bill leaves out is STIFF, which is what will be left of the S&L industry, thanks to this bill, one observer noted.

The new Resolution Funding Corporation (RefCorp, or RFC) will be the entity which will sell the $30 billion in bonds to finance the "off budget" portion of the restructuring, which begins Oct. 1. RFC will have no employees—its function will be performed by employees of the Treasury Department and the regional Federal Home Loan Banks.

The bill establishes new capital requirements for S&Ls, requiring them to immediately have tangible capital equivalent to 1.5% of assets, with that figure going to 3% on Dec. 31, 1994. There are 672 S&Ls in the United States which do not meet the 1.5% capital requirement, and are thus now insolvent under the law; 263 of those thrifts have already been seized this year by the FDIC, leaving 409 to be seized over the next few weeks. An additional 300 thrifts do not currently meet the 1994 standard.

FIRREA establishes new loan guidelines for thrifts, forcing them to keep nearly 70% of their assets in mortgage-related investments, and prohibiting them from buying junk bonds and other speculative practices. FIRREA also sets the premium paid by thrifts into SAIF at $1.50 for every $1,000 in deposits, rising to $2.30 next year, and ultimately as high as $3.25.

One feature of the bill touted by the administration is that the S&L industry will "contribute" $50 billion toward the restructuring, but such talk is nonsense. The thrifts will be taxed, both by the higher premiums paid for deposit insurance, and by expropriation of dividends and retained earnings from the Federal Home Loan Banks, which are owned by the thrifts.

The bill allows, for the first time, commercial banks to take over healthy S&Ls, and to integrate such acquisitions into existing branch operations. The bill also allows S&Ls to convert to bank charters. Thrifts that convert will still have to pay the higher S&L insurance premiums for five years, however.

The enforcement provisions of FIRREA provide for $75 million for the Justice Department, earmarked for investigation and prosecution of bank and thrift fraud, and raise the penalties for violation of the act sharply: The fine limit is raised to $1 million per day, and the maximum jail sentence set at 20 years, per violation.

By placing the S&Ls under the jurisdiction of the FDIC, which is politically controlled by the big Wall Street banks, Congress has placed the fox in charge of the chicken coop. The restrictions on the thrifts' loan portfolios will prevent them from regaining their health, forcing them into failure or takeovers, while the additional funding for the Justice Department allows increased operations against political factions which stand in the way.

Within a few years, the thrift industry will cease to exist.

© 1989 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.