

## Banking by John Hoefle

### Bush's thrift plan floundering

*Just like the savings and loans themselves, the thrift "bailout" is sinking fast.*

The slow-moving "bailout" of the nation's thrifts was dealt a well-deserved blow March 21, when U.S. District Judge Royce Lamberth of Washington, D.C. issued an injunction prohibiting the Office of Thrift Supervision from seizing Olympic Federal Savings and Loan of Berwyn, Illinois, on the grounds that neither the first director of the OTS, M. Danny Wall, nor his replacement, Salvatore Martoche, had been confirmed by the Senate as required by the Constitution. Despite the plea of OTS attorney Aaron Kahn that a ruling against the agency would be "an invitation to chaos," the judge ruled that the Constitution prevailed over the administrative desires of the government.

The situation remained unresolved until April 5, when the Senate confirmed Timothy Ryan to replace Martoche as director of the agency. Ryan has no experience in thrift management or regulation. In fact, he's not even sure there should be a savings and loan system. During hearings before the Senate Banking Committee, Ryan said, "I do not have a view . . . on whether or not there should be a thrift industry." Coming from a man whose ostensible mission is to rescue the thrifts, that is an alarming statement.

The matter is indicative of the arrogance and incompetence that has pervaded the government's handling of the thrift crisis, in which law and reality have been sacrificed in the name of perception management, political games, and a fascist consolidation of the banking system.

The real goal of the regulators and

their Wall Street controllers, as *EIR* has repeatedly warned, is the dissolution of the nation's thrifts, and the seizure of their deposit base by the giant commercial banks. The *Wall Street Journal* was blunt in its lead editorial April 2: "In fact, in the current financial environment there is no public policy justification whatever for a separate and distinct savings and loan industry. The good thrifts should become banks. . . . The rest should be put out of their misery."

The same philosophy is driving the growing clamor for "reform" of the deposit insurance system. Deposit insurance is the great equalizer, making the neighborhood bank just as safe a place for your money as the giant money center banks. Were deposit insurance to be eliminated or substantially degraded, that would no longer be the case. The result would be that deposits would flee the smaller banks to the relative safety of the "too big to fail" giants.

Meanwhile, the Resolution Trust Corp., the agency created to dispose of the assets of the thrifts seized by the OTS, continues to bungle its way from one disaster to another. The RTC has amassed a huge pile of assets, which it must sell in order to raise the cash to finance new seizures. The RTC is already the nation's largest owner of real estate, and is well on the way to being the nation's largest holder of junk bonds. As the *New York Times* noted March 13, the RTC could eventually wind up with some \$450 billion in assets, making it "the largest financial institution in the world, the largest single owner of real estate, the

largest liquidation company, and the largest auction firm." And, one might add, the largest boondoggle.

To clear out some of this swelling inventory, RTC Chairman L. William Seidman, who also heads the FDIC, recently announced "Operation Clean Sweep," a plan to sell or close 140 thrifts by the end of June. "Losses can only be stemmed by the swift sale of all property to private sector buyers," Seidman said. "We have yet to find citizens who will buy assets out of a sense of patriotic duty. To attract customers, you must provide them what they want. They want a potential for profit." In other words, in order to sell the properties, you must price them well below even the currently depressed market value. The common term for this is "dumping."

In the interim, the RTC will once again try to raise working capital by issuing, through the Treasury, 40-year bonds. The first such try, in January, was a disaster. Some analysts were surprised that the Treasury would try another such sale, but as Stone and McCarthy Research managing director F. Ward McCarthy told the *Wall Street Journal*, "Not to issue another 40-year bond would have been tantamount to admitting that the first one was a failure. If they did that, they could never come to market with another one."

While the Bush administration continues to fiddle with its so-called bailout, the nation's financial system continues to burn. Deposits at the nation's thrifts have declined for 18 of the last 19 months, with depositors withdrawing \$74 billion more than they deposited in 1989. The disaster is growing as the depression deepens, and neither the administration nor the Congress has the slightest idea of how to solve it. So they shuffle papers and issue meaningless statements, while the nation dies.