

## Banking by John Hoefle

### The RTC is out of control

*After 18 months, the S&L bailout has cost more than three times what it was supposed to cost for the first three years.*

When the Financial Institutions Reform, Recovery, and Enforcement Act (Firrea) was passed in August 1989, *EIR* warned that the Bush administration's projections of the cost of the bailout of the savings and loan industry were, to put it politely, fiction. "Without a change in policy," *EIR* said at the time, "another bailout is inevitable."

Firrea created the Resolution Trust Corp. and gave it \$50 billion to cover all thrift losses through Sept. 30, 1992. According to the administration, that would be more than enough to close down all the insolvent thrifts. The administration projected that the bailout would cost \$166 billion over the first 10 years, and \$300 billion over 30 years, including interest. Of that \$300 billion, the taxpayers would pay \$225 billion and the supposedly healthy thrifts would pay the rest.

Three months later, in October 1989, RTC chairman William Seidman admitted to the House Ways and Means Committee that the RTC would need another \$50-100 billion for use as "working capital" to keep the agency going until it could sell the assets of the 283 S&Ls it had already seized.

On May 23, 1990, Treasury Secretary Nicholas Brady, head of the RTC's Oversight Board, raised the administration's bailout cost forecast to between \$89 and \$132 billion. By the end of 1990, the RTC had spent the \$50 billion originally appropriated for losses, and another \$51.4 billion it had borrowed as working capital, for a total of \$101.4 billion.

On March 23, 1991, President Bush signed the RTC Funding Act of 1991 into law, appropriating another \$30 billion in loss funds for the RTC, and granting it authority to borrow another \$48 billion in working capital. That raised the cost of the bailout to \$80 billion in appropriations and \$99.4 billion in working capital, for a total of \$179.4 billion. After only 18 months, the bailout had already cost more than three times the amount projected for the first three years.

Despite these enormous sums, the RTC is bankrupt once again, without the money to close the increasing numbers of failed thrifts, and without the money to manage the billions of dollars worth of assets it has already seized.

Therefore, no one should have been surprised when, on June 26, 1991, Secretary Brady told the Senate Banking Committee that the RTC needs another \$180 billion to carry it through the first phase of closures. Brady asked for an additional \$80 billion appropriation for losses, and another \$100 billion for working capital. If approved, that would bring the appropriations total to \$160 billion and the working capital borrowing to \$199.4 billion, for a grand total of \$359.4 billion. Not only is this seven times the administration's initial projection, but the first phase of the bailout would be extended until Sept. 31, 1993—a full year behind the original schedule.

In fact, if the administration's latest request is approved, the Bush administration will have spent more in the first four years of the program, not

counting interest, than it projected for 30 years, including interest. Furthermore, given its abysmal understanding of the matter and its willful blindness to the depression, there is every reason to believe that the administration will be forced to seek additional funds before the four-year period is up.

"I'm fully convinced the RTC has lost control of the situation," House Banking Committee chairman Henry B. Gonzalez (D-Tex.) observed in February, in a masterful bit of understatement.

The RTC is indeed out of control. By April 30, 1991, the RTC had acquired \$318.3 billion in book-value assets from seized thrifts, making it nearly as big as the two biggest U.S. banks—the \$217 billion Citicorp and the \$111 billion BankAmerica Corp.—combined. Of those assets, the agency had sold the most marketable \$154.3 billion, leaving it with \$164 billion in lesser-quality assets to unload, still enough to make it the second-largest U.S. bank by a comfortable margin, and with many billions of dollars worth of assets more on the way as soon as the new funds are approved.

By Sept. 30, the end of fiscal 1991, the RTC expects to have resolved 557 S&Ls, with another 185 thrifts in conservatorship or in its Accelerated Resolution Program. Once these 742 institutions are resolved, Brady told the committee, "the lion's share of closing insolvent thrifts will be finished."

But this figure, like all the rest, is understated. When calculating the need for another \$180 billion, Brady conveniently dropped 208 thrifts from the list of those to be closed, even though they are still losing money. By doing so, Brady shaved \$25 billion off the request, which would otherwise have been \$205 billion.