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Mistakes in S&L crisis to be repeated

With the banking crisis zooming out of control, the bankers and their regulators are screaming for forebearance.

Despite all the promises from elected officials and bureaucrats that a savings and loans-style crisis would never again occur, such an event is well under way among the commercial banks. Just as federal regulators encouraged the S&Ls to engage in all manner of insane speculative activities during the 1980s, then looked the other way when the system inevitably crashed, so too have regulators turned a blind eye to the worthless assets and loans littering the balance sheets of the bankrupt and even more speculative U.S. commercial banking system.

When the need for a taxpayer bailout of the bankrupt S&L system was admitted publicly in the wake of the 1988 presidential elections, government officials fell all over themselves promising an end to regulatory forbearance, the practice of overlooking financial problems in the vain hope they will eventually go away. But now a panicked government, faced with the imminent collapse of huge chunks of the banking system, is increasing its demands for forebearance.

The latest example of this phenomenon came on Nov. 6, in remarks by outgoing Office of Thrift Supervision chief Timothy Ryan to the Savings and Community Bankers of America in San Diego, California.

Ryan claimed that the government's overreaction to the savings and loan crisis had "created a climate of fear, and fear produced an overly restrictive supervision" by federal bank and thrift examiners. As a result of government regulatory ambiguity, Ryan said, "honest directors and officers developed unwarranted fears of lawsuits, and went out of their way to avoid certain types of lending . . . out of fear for their personal exposure."

Ryan claimed that regulators had difficulty in instructing examiners to treat the banks more fairly, without giving the impression that they should ignore bad loans. "It's hard to tell people, when it's their job to be good, solid examiners, that they've gone too far," Ryan said.

The government did indeed create a "climate of fear" in the S&L world, with its prosecutorial vendetta against virtually anyone associated with a failed S&L. But while the feds were excoriating the thrifts and the examiners who supposedly failed to see what was happening, the assets and deposits of the failed thrifts were being funneled into the commercial banks, which were the real beneficiaries of this regulatory witchhunt.

Now, however, with the bailout of the commercial banks under way, the attack dogs at the Justice Department have been muzzled. No one is calling for the head of John Reed, the chairman of the bankrupt Citicorp, for example, even though the losses to the taxpayer from Citicorp will dwarf the losses from Charles Keating's Lincoln Savings and Loan. Keating was treated as public enemy number one, and the politicians who helped him were savaged, but the commercial bankers and their allies receive no such unpleasant treatment.

On the contrary, regulators are desperately trying to reduce the alleged regulatory burden being placed upon the banks by "outmoded" banking laws—things like requiring banks to set aside sufficient reserves against bad loans, or maintaining reasonable equity capital. And of course, bank examiners, who insist on questioning the value of banks' worthless assets, are whipped into line.

The Bush administration has placed extraordinary pressure on banks and thrift examiners to hide the extent of the problems at commercial banks. In December 1991, the administration called nearly 500 bank examiners from around the country to Baltimore, for what can accurately be characterized as a political indoctrination session. The message: There are no problem banks.

You should carry out your job "in a way that promotes economic growth," Deputy Treasury Secretary John Robson ordered the examiners. "You are encouraged to give the benefit of the doubt, even if it might ultimately turn out to be a misjudgment. . . . Do not assume a doomsday scenario."

To make sure that the examiners followed their orders, regulators set up procedures whereby bankers could protest examiners' decisions directly with top political appointees in Washington, bypassing normal channels.

The political nature of this regulatory indoctrination was further underscored Dec. 17, when White House press secretary Marlin Fitzwater finally admitted that the economy was in a "recession," and on Dec. 18, when Federal Reserve chairman Alan Greenspan admitted that the economy "clearly had faltered." Two days later, the Fed dropped the discount rate 1%, to 3.5%, its lowest level since 1964.

By June 1992, Robson told the American Bankers Association, "the regulatory element in the credit crunch had eased." But now, with the banking crisis back with a vengeance, the feds are once again screaming for forebearance.

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