Banking by John Hoefle

The RTC declares victory

The end of the S&L crisis is said in sight, but the cost to the FDIC of bank failures for 1992 just tripled.

In a surprising announcement, the Resolution Trust Corp. (RTC) said March 23 that it would begin winding down its operations. "The vast majority of thrift institutions to be resolved is behind us and the backlog of assets to be sold is declining, indicating now is the time to start down-sizing the RTC," said Albert V. Casey, RTC president and chief executive officer.

According to Casey, the RTC had closed or sold 630 S&Ls, and had only 73 institutions left in conservatorship, and all of them would be resolved by Sept. 30. By the end of June, Casey announced, the RTC would close regional field offices in Atlanta, Dallas, Denver, and Overland Park, Kansas, merging their functions into consolidated offices in those cities. By January 1993, the RTC would close regional field offices in Phoenix, Tampa, Baton Rouge, Minneapolis, Tulsa, and San Antonio; and by September, in Chicago, Houston, and Somerset, New Jersey.

By Sept. 30, 1993, Casey said, the agency plans to have cut its staff of 8,400 employees to less than 4,000. By the end of 1996, Casey says, the RTC will have sold the last of its portfolio of S&L assets.

The way Casey was talking, one would have thought the RTC had successfully completed its mission.

The ink was barely dry on the 1989 $50 billion federal S&L bailout legislation when the Bush administration began raising its projections of how much money the bailout would cost. Within a month, RTC chairman William Seidman was asking for another $50-100 billion in funds. By the end of 1991, a total of $265 billion in direct appropriations and working capital—more than five times the original projection—had been authorized by Congress.

On Feb. 26, the RTC requested another $55 billion. Unless the money was appropriated by March 15, then newly appointed RTC chief Casey told the Senate Banking Committee, there could be a "costly disruption in RTC operations." The $55 billion would bring the direct appropriations to $160 billion, and the total to $320 billion. And even that might not be enough, admitted Treasury Secretary Nicholas Brady, who warned that "there are conditions beyond our control under which even our conservative estimate of $160 billion will not hold."

For the administration to claim that an amount more than three times the original estimate is "conservative," shows how out of control the S&L bailout has become. By the end of 1991, the RTC had acquired some $357 billion in assets from 584 thrifts. According to the General Accounting Office (GAO), RTC had sold $228 billion of those assets and had $129 billion in inventory. Most of the $228 billion sold were liquid financial assets, while much of the remaining $129 billion were hard-to-sell non-performing assets and real estate. At year's end, the RTC held $26.4 billion in delinquent loans, compared to $19.2 billion at the end of 1990.

Despite selling $5.4 billion in real estate in 1991—four times sales in 1990—the RTC's inventory of real estate rose to $17 billion at year's end, compared to $13 billion in 1990.

Since its inception in 1989 through 1991, despite periodic promises to clear out the inventory, the RTC had managed to sell only $6.7 billion in real estate. Not only is the RTC unable to sell its real estate, but even worse, according to the GAO, the agency doesn't even know what it owns. In testimony before the House Banking Committee's Financial Institutions Subcommittee Feb. 26, Assistant Comptroller General Richard Fogel said that "after two years of operation, RTC still doesn't have a system to know where their assets are and how much they're worth and what they've got."

While Congress rejected the RTC's request for another $55 billion, a bill authorizing another $25 billion in direct appropriations is working its way through committee. If passed, it would raise the cost of the bailout to $290 billion, or nearly six times the administration's initial promise.

While the RTC declares victory, the Office of Thrift Supervision grandly reported March 10 that U.S. S&Ls earned a $1.9 billion profit in 1991—the first profit in five years—compared to a loss of $2.9 billion in 1990. Unfortunately, the OTS figures do not include the thrifts being run by the RTC, which lost $1.7 billion in the first three quarters of the year. Final figures for the RTC-run thrifts have not been announced as of this writing.

Finally, according to Financial Research Institute director Dennis Jacobe, the Office of Management and Budget has raised its projections for the costs of bank failures to the Federal Deposit Insurance Corp. for fiscal year 1992 to $33 billion, more than triple the original $9.7 billion estimate. With the OMB projection of a $38 billion loss in fiscal year 1993, that would give the FDIC a two-year loss of $71 billion, leaving the agency $18.3 billion in the hole.