

## Banking by Joyce Fredman

### Texas governor: banking policy a fraud

*When Clements predicted that the government will have to pay off depositors at 30¢ on the dollar, all hell broke loose.*

**A** furor broke out on Aug. 10, when Gov. William Clements was quoted in the *Amarillo Daily News* predicting that the federal government was in no position to stand by depositors who had their earnings in the country's troubled thrifts. "All the kings men" came charging out to defend the besmirched honor of the savings and loans.

Governor Clements had minced no words in stating what everyone knows: that the banking situation is a disaster. He observed, "The federal government, instead of closing and putting into liquidation these S&Ls that are in fact broke and have a negative balance sheet today, is keeping the doors open. I'm telling you that this program by the federal government—and I don't care who is responsible for it—of course, what they're doing right now is an absolute fraud on the general public."

Then came the words that really sent the Federal Home Loan Bank Board flying. "The federal government is finally going to belly-up to this problem, and when they do, they're going to have to pay off those depositors like 30 cents on the dollar and give them a piece of paper, like a bond.

"They're going to rationalize by saying, well, I gave you 70 cents on the dollar on a piece of paper that's a bond, like a liberty bond or a war bond or savings bond or whatever you want to call it, and that it's due ten years from now like an IOU," concluded Clements.

The remarks sent some citizens into the savings and loans to withdraw their funds. One man withdrew

\$35,000 because it was his life's savings.

Texans have good reason to be nervous. Texas leads the nation so far this year in bank failures and the number of insolvent thrifts. For the past several months, banks have been scrambling to head off a liquidity crisis. Once the governor's comments became known, the FHLBB outdid itself in self-righteous exclamations.

"I am here to say that the Governor is wrong . . . absolutely incorrect, and must be identified as such immediately," announced M. Danny Wall, chairman of the FHLBB. He and Roy G. Green, president of the Federal Home Loan Bank of Dallas, held separate press conferences to calm things down.

"I can't state it emphatically enough," Wall continued. "FSLIC does not, it has not, nor will it ever pay anything less than 100% of the \$100,000 insured deposits in every institution that bears its insurance. To say that depositors may end up with only 30 cents on the FSLIC insured dollar is a complete fiction—that has absolutely no basis whatsoever in fact."

Al Meyers, chairman of the Texas Savings and Loans League, jumped on the band wagon. "Insured deposits in all Texas S&Ls are absolutely safe. Throughout the long and distinguished history of the S&L business in Texas, not one depositor has ever lost a nickel of insured funds in a Texas S&L."

Despite these reassurances, the facts indicate reason to panic: At least 80 of the 281 FSLIC insured S&Ls in

Texas are insolvent, according to the FHLBB. The Bank Board had also issued a report showing that for the ninth time in 10 months, thrift institutions had lost deposits. More than \$3 billion was withdrawn in June, bringing the total net withdrawals since September to more than \$25 billion.

All these remarks were made the same day that President Reagan signed the Competitive Equality Banking Act of 1987, which allows the Federal Savings and Loan Insurance Corporation to borrow \$10.8 billion over the next three years to fill their empty insurance fund. However, Clements was suggesting that Texas would be lucky to get more than \$1 billion of the \$10.8 billion.

There are other issues to be addressed as well, such as where the money will come from, since the United States has not shown any inclination to change its status as the world's largest debtor. And it is hardly the case that Texas is the only state facing this situation. So what happens when the rest of the dominos fall?

Despite tremendous criticism, Clements did not back down, but only reiterated his concern. "I applaud the renewed commitment [to stand behind the depositors]. The people of Texas have an absolute right to be reassured that their deposits will be secured and guaranteed."

The swiftness of Wall and Green's reply underscored in many people's minds the fragility of the banking situation. Wall, however, had a different explanation for his actions, claiming that he was only trying to avoid massive deposit withdrawals, not just in Texas, but across the country: "If no one challenged them [Clements's accusations], if no one called them into question, if they were left unanswered, people are going to say, 'My God, what about my money?'"

What about it, indeed!