Banking by Joyce Fredman

Worse than Hurricane Gilbert

The American Bankers Association has issued a report decrying the state of the S&Ls—and they are headed in the same direction.

On Sept. 20, the American Bankers Association, the trade and professional organization for America's commercial banks, issued a report on the state of the savings and loan industry. Such reports have become quite popular of late. The cat is out of the bag on just how devasted the thrift section of the economy is, and now everyone wants to jump on the bandwagon to register his or her shock at how such a state of affairs could have come about.

"The thrift crisis poses a Gilbert-like threat to the entire U.S. financial system—especially healthy thrifts and banks," said Donald Ogilvie, executive vice president of the ABA.

In the case of the ABA, there is a vested interest in going on record lambasting the poor management and shoddy practices of the thrifts and their regulators. The commercial banks have had their own share of problems over the past two years, and are overly anxious that they don't end up in the same spotlight.

There is an added fear for the bankers. Talk has gone around Washington and Wall Street about having the Federal Deposit Insurance Corporation (FDIC) come to the aid of Federal Savings and Loan Insurance Corporation (FSLIC), and possibly even a merger of the two insurance agencies. Such suggestions give these bankers nightmares.

From their report, it is clear why. "FDIC funds should not be used for funding FSLIC problems. Like farmer drought-relief, or hurricane relief, FSLIC's insolvency is a national problem that requires a national solution. The burden for solving the crisis should not fall on a single group."

Indeed! Very noble sentiments coming from an industry that has made its main business practicing usury on Third World countries.

The real motivation for their civic-mindedness in bringing this emergency to Congress's attention appears in the very next sentence. "From a practical viewpoint, the FDIC fund is too small to solve the thrift insolvency." In fact, from a practical viewpoint, it isn't clear that the FDIC fund is large enough to deal with commercial bank insolvencies, which are now pushing 300.

But, after all, why can't those who live in glass houses throw stones? Push aside the banking situation, and examine the report and plan of action that the ABA is suggesting on its own.

Donald Ogilvie, the ABA's executive vice-president, clarified what the main worry is.

"The thrift crisis has affected our ability to compete. Allowing undercapitalized or 'brain dead' institutions to continue in operation, puts healthy institutions at a competitive disadvantage by bidding up the price of deposits and the cost of doing business overall." It's not just the depositor who has a problem. Mr. Ogilvie has been terribly inconvenienced.

Most everyone now agrees that the price tag of this inconvenience is upwards of $100 billion. Hence, the ABA "feels that the use of public funds and/or the Treasury's credit now appears unavoidable" in the S&L crisis. Their suggestion as to how these funds are to be deployed is indicative of the methodolgy of banking in the "Recovery."

"Insolvent thrifts must be liquidated at a faster pace. Efforts by the current FHLBB administration to increase the pace of case resolutions . . . and improve standards and staff capabilities have been very encouraging, but more needs to be done."

Everyone else is appalled at the ease with which the Bank Board is issuing billions of dollars in promissory notes and merging small disasters into larger ones with worse management than before. But for these bankers, chairman Wall isn't going fast enough.

The use of the term "case resolution" is most telling. A hue and cry has been raised from the House Banking Committee, because they have suddenly discovered that, truth to tell, there have been no resolutions, simply exchanges of paper and titles.

But such facts have no relevance for Ogilvie, nor for L. William Seidman, chairman of the FDIC. After all, if one becomes too picky as to what constitutes a case resolution, then the numbers the FDIC has been announcing in terms of their resolutions might be held up for scrutiny.

It is not a question, as it might be for a sane investor, of throwing good money after bad. For Seidman and Ogilvie and Rockefeller, it is a question of who pays. Once that is settled, they're quite willing to see a blank check issued for the funeral of the whole thrift industry. "The funds available from the FSLIC recapitalization plan . . . appear to be insufficient. . . . A broader framework for funding . . . is needed." After all, these are the guys who spent their careers developing a very broad framework for compiling trillions of dollars in unpayable debt to bury whole continents.