

Robert M. Fairleigh, III
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This is the story of a heist, a bank heist, certainly the biggest in the history of the United States, probably the biggest in the history of the world. I am referring to the rip off of the savings and loan industry which commenced during the Reagan administration with the passage of the Garn-St. Germain resolution. That law took effect more than seven years ago and the rip off is ongoing this very day. The cost to the tax payer and his heirs will be staggering. No one can prophesy the future but we are certainly talking about a few hundreds of billions of dollars. But before we examine this sordid affront to the taxpayer let's talk about the history and purpose of the savings and loan industry as it developed in the United States.

The rapidity of development of any nation depends upon the degree of self-sacrifice its people are willing to endure. The workers must set aside a proportion of their production to be used to create even larger units of production. Around the turn of the century Americans were eager to save. The banks into which these savings were deposited were called building and loan associations and all had one common denominator: to lend money out long term, even up to thirty years. Thus encouraged, entrepreneurs were eager to take out long term mortgages which would finance long term projects such as homes, powerplants, roads and factories. Such facilities made America the richest country in the world.

And thanks go to millions of small wage earners who were willing to trust their retirement funds to the conservative practices of the building and loan executives.

Somewhere through the years the name Building and Loan Association was changed to Savings and Loan Association but this made no difference to the loyal millions of small investors. The new thrifts were rock solid and market wise. But what the small investor did not realize was that during a severe economic depression S & Ls were as vulnerable to failure as any other financial institution. This became all too evident when the S & Ls failed by the hundreds in 1932.

By 1934 the Government had written some Federal law into the S & L charters which was supposed to help their viability. S & Ls could now pay one-half per cent more interest than that offered by commercial banks in order to capture more deposits with which to write more long term mortgages. Their lending portfolios were constrained 100% to home loan mortgages.

S & Ls prospered until the late 1960's. They attracted deposits by paying more interest than the banks and loaned the money only to people who wanted to buy homes. Life was uncomplicated and the S & L people were known as 9-6-3 people: to work by 9 A. M., lend money at 6%, off at 3 P. M. to the golf course.

It's a shame that all good things come to an end and for the thrifts the end started in 1965. The reason was inflation and the resulting rise in interest rates. S & Ls, by law, could only pay a set interest rate and could lend only at a certain rate. And these low rates were established in the 30's when inflation was not even a household word. By 1979 money market

funds and CD's were paying 15% while the thrifts, by law, could offer only an eight per cent rate. The S & Ls could still write home mortgages and offer the cheapest rate in town but they had no money to lend. Their loyal depositors had gone with the wind. Congress should have addressed this inequity years before but that group had lesser important things to attend to first. One would think that Congress desired to see the entire S & L Industry go bankrupt.

The 1970s were rough times for all savers, both large and small. In 1977 I was receiving 5½% interest from a local S & L. Inflation that year stood at 8%. After inflation and taxes the 5½% income was wiped out and the value of my capital was reduced by the inflation rate of 8%. Strictly a no win situation.

In 1980 Congress allowed deposit insurance for banks and S & Ls to increase from \$40,000 to \$100,000 per account. Congress also allowed thrifts to attract deposits by paying whatever interest markets were offering. However, the S & Ls could not charge over 9% for a home loan and they continued to go broke. It was estimated they would virtually cease to exist by 1984, if Congress did not come to their rescue.

Now we are back full circle to the Garn-St. Germain bill which President Reagan signed into law in 1982. Con men and speculators understood the ramifications of the law but neither Congress nor the Reagan administration knew where it would lead. Needless to say, this was not Congress' finest hour. The new law, in layman's language said this: S & L's could attract deposits from any source available and pay whatever interest rate that would win the deposit. Management was permitted to invest the deposits in any business venture that seemed prudent. So far so good.

Commercial banks had been doing that for decades. But then the Reagan administration took the teeth out of the enforcement end of the law and cut back on the number of regulators who were policing the industry. This, plus politicians and bureaucrats with vested interests, provided the catalyst that sank the thrifts.

Now I ask you, would any of you co-sign a stranger's note and allow that stranger to spend the money any way he pleases? Not hardly. But that is precisely what the government allowed to happen. Hot brokered money was accepted by the S & Ls and invested in any fraudulent, unnecessary, or hair brained scheme that came down the pike. When the loan went sour and the S & L went broke the regulators would seize the thrift and pay off the depositors with tax payers' dollars. That has happened in the past, is happening today, and will occur again tomorrow many times over. It will cost us tax payers hundreds of billions of dollars and the strangest part of this scam is that nobody seems to care.

Now let's examine why investors were so anxious to deposit their money into the S & Ls and why the S & Ls were so hot to win those deposits.

If a thrift advertised that it would pay a one to three per cent premium interest rate for your deposit, wouldn't you take advantage of the opportunity? And if the Federal Savings and Loan Insurance Corporation guaranteed that you would not lose a penny of your investment, wouldn't you mortgage the farm? Small investors took advantage of this bonanza, but the S & Ls real money came from financial institutions who controlled hundreds of millions of investable funds. This money was known as "brokered funds". Scores of billions of dollars were poured into

S & L's CDs wrapped in \$100,000 packages so as to conform to the deposit insurance regulation. S & Ls paid a kickback to win those deposits. This was the first fatal weakness in the Congressional deregulation bill known as the Garn-St. Germain resolution.

Not all S & Ls were operated by crooks and charlatans, but there were enough of them to ruin the industry. They took this money with only one purpose in mind; to keep as much of it as was possible. For instance: a one-hundred million dollar loan would be granted to a developer for a shopping center to be built on a Texas prairie populated mostly by jack rabbits and coyotes. The S & L could easily collect \$10,000,000 from the developer in up front fees which would also be loaned to the developer. If the project succeeded, the S & L would collect another profit but if the project failed, the S & L still had a \$10,000,000 profit. And who paid off the depositors who lost the \$110,000,000? The FSLIC wrote the check on the taxpayers bank account.

In Texas the swindlers were known as "cowboys" and they gambled mostly in real estate, condos, and commercial buildings. In the early 1980s the Texas economy was built around \$35 a barrel oil so some of the gambles could have worked out successfully. But when oil dropped to \$10 Texas feces hit the fan while scores of S & Ls went belly-up.

In California the swindlers were known as "gamblers" because they invested the thrifts' money principally in financial paper. Junk bonds were a favorite because they paid up to 18% and provided a huge cash flow which the S & Ls always and desperately needed. Interest rate swings were another favorite gamble. If the guess was correct, the S & L made a bundle; if the guess was

wrong, the taxpayer picked up the tab.

The methods used to bankrupt the thrift industry were both myriad and complicated and successfully dissipated the insured deposits made available to the thrifts. The huge pools of money made available was the second fatal flaw in the infamous Garn-St. Germain Act.

And this brings us to the third and final flaw of the bill. Why were these insured deposits not policed to prevent the predators from playing fast and loose with our money?

The answer to this question opens up a can of worms and displays greed, dishonesty, ignorance, and duplicity on the part of politicians and bureaucrats alike. If this duo had given the regulators the resources with which to do their job and then stood aside and let them do their job, the rape of the S & L Industry would never have occurred. It is as simple as that. This fiasco would not have taken place if anyone had cared. Well, that is not exactly right. Some people did care, but they were the wrong people. The wrong people accepted campaign contributions from individual S & L Associations and their lobbyists as well. They accepted money which was invested for them in "wheeler dealer" speculations. They accepted week-end parties replete with go-go girls. This established a cozy relationship between members of Congress and the S & L Industry and proved fatal to the U.S. taxpayer. Jim Wright, later to become Speaker of the House, prevented restrictions and limitations from being imposed upon the S & Ls. He delayed the closings of bankrupt S & Ls which resulted in unnecessary billions being lost. Tony Coelho, House Democratic Whip, repaid

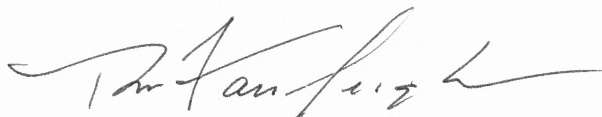
a favor he owed the Columbia S & L by sinking a bill that would limit the S & L's speculation in junk bonds. Senator St. Germain repaid his debt while Chairman of the House Banking Committee by holding no hearings on the S & L crisis thus withholding the information from the media and the public. Congressmen Cranston, Glenn, DeConcini and two others, known as the "Keating five" prevented the closing of the Lincoln S & L for two years and made it the most expensive bailout to date. You will probably be hearing more about the "Keating five" but please remember they are only the tip of the ice burg that allowed the rogue S & L to run wild.

Now let's talk about the bureaucrats who threw road-blocks in front of the auditors. Most of the rogue S & Ls were state chartered thrifts which meant that these S & Ls could appoint the Federal Home Loan Bank members who, in turn, directed the activity of the regulators. What we have here is the rogue S & L's appointing the regulators who would audit the rogue S & Ls. Can you think of anything more cozy than this relationship? It goes without saying that often the regulators could do no more than watch the S & L bet the bank and go belly-up. And when permitted the auditors would step in and pick up the pieces and send us taxpayers the bill.

What will this collective madness cost us? Based on known failures the Office of the Management of the Budget is estimating up to \$300 billion. However, there are other losses which can not be determined until the seized assets are sold. But what is the market value of improved raw land, vacant shopping malls and condos, junk bonds, and other assets I can't imagine? And when the government raises the billions to repay all the guaranteed

losses, what will be the carrying charges of the debts incurred?
And when all these assets are sold, what effect will it have on the
value of our assets?

What lesson have we learned from the contents of this some-
times incoherent paper? To me, the lesson is clear. We cannot
allow a group of people to spend other people's money without
watching that group of people like a hawk. For scores of years
we taxpayers have not audited the way Congress spends our money.
Won't we ever wise up?



R. M. Fairleigh

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Sources: The Big Fix - James Adams
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