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Banking by Kathy Burdman

Behind the thrifts' profit squeeze

The major insurance companies have shut down mortgage markets as part of their 'postindustrial' plan.

The nation's 5,000 thrift institutions, the savings banks and savings and loans who do most of the home mortgage lending in America, are being hit with one of their worst profit squeezes in modern history.

This week, nine out of the 10 largest mutual savings banks in New York reported actual net operating losses for the 1980 fiscal year. The losses totaled $264 million for the nine banks, led by the Bowery Savings Bank, New York's largest and number two in the nation.

So bad is the situation at the savings and loans, for their part, that the Federal Savings & Loan Insurance Corporation reported recently that a wave of S&L bankruptcies was only narrowly averted during late 1980 through major federal bailouts. The corporation spent a record $1.3 billion in federal funds providing short-term emergency credit extensions to as many as 35 S&Ls across the country, with total assets of almost $4 billion, to prevent these institutions from shutting down.

Federal Reserve Board Chairman Paul Volcker's murderous interest-rate squeeze is of course in large part responsible for the current threatened health of the thrift institutions. The thrifts have sustained huge losses in their deposit base during 1980, as money market funds and other speculative financial assets playing double-digit interest rates, tied in effect to the federal funds rate, have drawn billions of dollars out of the thrift institutions.

At the Bowery Savings Bank, for example, withdrawals exceeded deposits by $215 million during the first 11 months of 1980. The U.S. League of Savings Associations estimates that its member S&Ls lost over $20 billion in deposits during the second half of 1980. This trend is expected to accelerate in 1981.

The accompanying collapse of the home mortgage market has been spectacular, with both housing starts and mortgages falling by over 27 percent during 1980. This is in part due to the thrifts' shrinking deposit base, which forces them to make fewer loans, and in part due to the huge rate of rise of mortage rates to 15 percent, which homebuyers simply cannot pay.

But it was the leading insurance companies such as Prudential, along with bank trusts such as U.S. Trust, who have dealt the final blow to the U.S. home mortgage market. These large so-called institutional investors normally repurchase mortgages from the thrift institutions, and they make up the bulk of the investors in the secondary mortgage market. As of the third quarter of 1980 the insurance companies held over $300 billion in such mortgages.

It is this resale of large inventories of 20-year mortgages that has provided thrifts with the new cash to be able to make new ones. But as of this year, the insurance and other institutions have "stopped such investments altogether, shutting down the secondary mortgage market for good," Wall Street investment bankers say. "We don't know who in hell is going to buy fixed-rate long-term mortgages," Louis Anderson, vice-president at Imperial Savings & Loan in San Diego, said of the insurance companies. "They don't want to lock up their money for 30 years."

Insurance executives of the American Council on Life Insurance such as the CEOs of Prudential and Equitable believe that homebuilding is a dead or "sunset" industry in which the U.S. can no longer afford to invest, Council spokesman Stanley Karson told a journalist. The insurance companies are shifting huge amounts of funds out of mortgages, steel, auto, and other "dying industries" into computers, microchips, and other "technetronics" industries, as I reported last week.

The aim of the insurance companies is to move the economy into the "postindustrial society . . . by redirecting the major capital flows in the economy, and changing the whole organization of production over the next decade," Karson said.

"The entire long-term investors' market," such as insurance and bank trust departments, "has made a gigantic permanent shift away from any investment in such long-term instruments as home mortgages," James J. O'Leary, chief economist of U.S. Trust, said. "This is the end of the long-term, fixed-rate mortgage. The institutions will not be interested in investing in them, and the thrifts soon will no longer be able to make them."

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