Banking by Kathy Burdman

No fat for Richard Pratt

The Federal Home Loan Board chairman has bought a plan to cut back the nation's S&L industry.

A chorus of Federal officials raised the specter of the imminent collapse of America's $600 billion savings and loan industry in mid-July.

Deputy Secretary of Commerce Joseph Wright, Jr., addressing a Washington meeting on electronic funds transfer, warned July 13 that the U.S. Treasury may have to spend $70 to $80 billion by the end of the year in taxpayers' money to bail out S&Ls.

The next day, before a packed House Banking Committee, Federal Home Loan Bank Board Chairman Richard T. Pratt announced that up to 80 percent of the nation's 4,700 S&Ls are now operating at a loss, and that a full one-third of them, with assets totaling over $200 billion in home mortgages, are bankrupt. These institutions "are not visible under present economic conditions, and may not survive," Pratt stated.

The cause of the S&Ls' troubles is the continued 20 percent plus interest rates of the Paul Volcker Federal Reserve, which has driven the cost of money to S&Ls up above 15 percent, while they still earn an average of 9 percent or below on most mortgages.

Mr. Pratt, the chief federal regulator responsible for S&Ls, warned that if one-third of the nation's S&Ls did go under, U.S. Federal Savings Insurance Corporation with $5 billion in assets would be emptied, and the U.S. Treasury would have to spend up to $45 billion on emergency bank bailouts.

What's wrong with this picture?

The problem is that this is a panic being deliberately created by people such as Joe Wright and Paul Volcker, who want to phase out the nation's S&Ls of home-mortgage lending altogether, to reduce the number of homes built.

The S&Ls are sound; they can be saved—can only be saved—by an immediate lowering of the Fed's crushing high interest rates.

A hint of what's really afoot here is contained in the conclusions drawn by Deputy Commerce Secretary Joe Wright, a former top official of New York's Citibank. Mr. Wright is pushing Citibank Chairman Walter Wriston's program of restructuring the U.S. banking system to rationalize all but a handful of banks.

To avoid the need for a federal bailout of $80 billion, Wright told his audience, Congress must move rapidly to "wipe out unnecessary bank regulation." He particularly backed the so-called Regulators Bill, written by Volcker, which could allow big commercial banks like Citibank to move across the industry, and across state lines, to buy up failing S&Ls.

Mr. Pratt, who is supposed to look out for the S&Ls, has meanwhile introduced just such legislation into Congress.

The "Thrift Institutions Restructuring Act of 1981," just released to Congress by the Home Loan Bank Board, will mean the end of the S&L industry as we know it, and its transformation into a small number of commercial banks, mostly owned by big New York banks like Citibank.

The bill, according to Treasury officials who have seen it, "gives S&Ls so much power that Citibank might recharter itself as an S&L." Under the bill, S&Ls can do commercial banking, invest in real estate through direct ownership, make speculative real-estate loans, give regular checking accounts, and operate short-term speculative "money market funds."

The bill's Sec. 401, however, also incorporates verbatim the Volcker provision to let Citibank go cross-industry and interstate to buy up every S&L in, say, Illinois, the Treasury official said. So the while S&Ls may be doing all sorts of business, they will have in the meanwhile, been bought out by the big boys.

To make a long story short, they won't be S&Ls anymore. "The whole purpose of this act is to allow the S&Ls to get out of the unprofitable business of home lending," said the Treasury source. "They will be owned by commercial banks, and they will do commercial lending. They will essentially be more commercial than commercial banks."

As a result of the broadened powers of these "neocommercial" banks, as S&Ls may now be called, big industrial corporations may even start to buy them up in droves to "gain a captive source of finance," the Treasury man said. Unlike commercial banks, the new S&Ls will be eligible for such purpose.