Banking by Kathy Burdman

Bailout time for the S&Ls

Paul Volcker busts the federal budget once again; what's really needed is low interest rates, at once.

The near-bankrupt U.S. savings and loan industry is about to receive a hefty bailout from the federal Treasury on the order of $8-$10 billion within the next weeks, my Washington sources now concur. High time, too, for if the administration waits much longer there will be many more S&Ls in need of mergers and federal bailouts than there is money in the insurance funds. Behind the move is new support for S&Ls from White House Counselor Edwin Meese, who for political reasons is advising President Reagan to act.

But what this drastic action shows above all is that Reserve Chairman Paul Volcker is responsible for busting the U.S. budget. It is Volcker's interest rates which have bankrupted the S&Ls, and forced them onto the federal dole. This occurs when the U.S. deficit is already rising at $20 billion a year for every one point Volcker holds interest rates above 10 percent. Now Volcker is costing the taxpayers another $10 billion, for starters.

The White House moved after a call by the U.S. League of Savings Associations and the National Savings Bank Association March 3 for a $10 billion package of federal relief. U.S. Savings League President Roy Green proposed at a press conference that the U.S. Treasury establish a new Community Depository Conservation Corporation which would pay S&Ls an interest-rate supplement on their holdings of low-paying mortgages. This fund could also be used to give direct capital assistance to S&Ls whose net worth (capital) falls below 1.5 percent of assets.

Green flatly told the press that Volcker is the real problem. "We have waited for interest rates to fall, and we can afford to wait no longer." he stated.

Volcker's rates are the reason why the S&Ls must pay out an average of 16 percent on deposits, while earning only an average 9 percent on mortgages. This gave the S&Ls a loss of $6.4 billion in 1981, and they are losing close to $1 billion a month now.

Days later, Presidential Counselor Ed Meese met with the S&Ls, and for the first time began to plead within the White House for a bailout. The free-market maniacs at the Treasury continued to argue that the government let the S&Ls "die," my source said, and no policy has been firmed up yet, "but it is only a matter of weeks before the White House gets something through."

Heavy lobbying by the industry and word that the White House thinks the situation is dangerous is also about to move Congress. When House Banking Committe Chairman Fernand St. Germain (D-R.I.) called for a $10 billion S&L bailout last month, it seemed no one in Congress would consider spending the money. But certain conservative Republicans have begun to move.

"There is absolutely no way the Congress would or will walk away from its commitment to guarantee savings," Senate Banking Committee Chairman Jake Garn (R-Utah) told the press in mid-March. This statement, not widely publicized, refers to the fact that until now, deposits in S&Ls have only been insured up to the $7 billion assets of the Federal Savings & Loan Insurance Corporation, which has never had any legal mandate to obtain further Treasury funds should its own resources run out. While Garn did not advocate any concrete bailout plan, this statement indicates a real change.

Conservative House Republican Barber Conable of New York on March 5 endorsed the St. Germain plan, saying "We're going to have to bail them out," and support is reported to be growing among House Republicans.

According to my sources, the White House itself has told Treasury Secretary Donald Regan to prepare a list of "options for the President" regarding the S&L crisis. These reportedly include a public statement by the President or Donald Regan that the U.S. Treasury pledges its "full faith and credit" behind all deposits. This would be used after an emergency arose; such a dramatic announcement would have little use in forestalling an emergency, since it might frighten more depositors than it soothed.

The only real option is a bailout fund. "Theoretically we won't spend a cent," one White House aide told me, "but that's just theory. In politics, you have to be more practical."

However, unless there is a lowering of U.S. interest rates in a few months, the bailout could double or triple and become a major budget headache for U.S. taxpayers.