Savings & loans on the edge

The story of "Fast Eddie" McBirney and Sunbelt Savings is exemplary of the brewing disaster.

The status of America's savings and loan institutions is an unmitigated disaster, a situation that screams for attention now.

The tragedy is that these institutions, unlike the New York banks, whose rotten condition is largely the result of usurious loans and laundered drug money, are the places where the workers of this country have their hard-earned savings. Now they are in serious jeopardy.

In Texas alone, a good half of the 280 savings and loans are insolvent. In fact, the Dallas Federal Home Loan Bank Board (FHLBB) reported that Texas thrifts, as a group, ended the first quarter of 1988 with a net worth of *negative* $10 billion.

M. Danny Wall, chairman of the FHLBB, parent agency for the Federal Savings and Loan Insurance Corporation (FSLIC), proposes to take care of this problem by "reconfiguring." This is newspeak for combining a lot of small, failed institutions into a bunch of big failures.

On May 11, the FHLBB reported a $3.3 billion dollar loss for the savings and loan industry in the quarter ending March 31. As staggering as that figure is, it is only the industry's second-largest ever loss; for the quarter ending Dec. 31, 1987, the capital loss was $4.5 billion.

However, like a Chinese box, within that statistic were hidden a couple of record-breakers. For the month of March alone, the loss was $2.4 billion, and within that, a dramatic $1.2 billion loss for one single Texas thrift, the Sunbelt Savings Association of Dallas, Texas.

In the early 1980s, Edwin T. McBirney III, Dallas real estate millionaire with a penchant for the bizarre, merged six, small troubled thrifts into the Sunbelt Savings and Loan Association. McBirney, who was just 30 at the time, fast became hailed as a financial wizard for this scheme, which resulted in a 5,000% increase in assets over a four year period for the newborn thrift.

Most of this wizardry amounted to making high-risk loans in real estate that has since gone bust. In fact, McBirney made these huge loans with such rapidity that he was nicknamed "Fast Eddie" and the Sunbelt Savings, "Gunbelt"!

Life with "Fast Eddie" wasn't all work and no play, however. In 1986, this 33-year-old wizard, whose political associates include Speaker of the House Jim Wright and California Rep. Tony Coelho, was making frequent gambling trips and hosting parties that would give Fellini a run for his money. One particularly notorious bash took place on Halloween, with McBirney dressed up as a king and serving antelope and lion meat to hundreds of guests in his backyard.

Despite McBirney's strange fantasies, reality prevailed. The Texas oil and real estate markets took a dive and so did the "Gunbelt." After a two-month audit by federal regulators, McBirney was out. The original merger had been strike one, and Thomas J. Wageman, who took over as chairman and CEO in November of 86, was now at bat.

Mr. Wageman distinguished himself by two things. One was aggressively foreclosing on any troubled real estate, adopting a "pay or post" motto, according to one colleague.

The other was keeping the heavy losses as quiet as possible. Although it was well known that Sunbelt faced difficulties, the magnitude of the numbers took everyone aback. When Sunbelt reported a net loss of $406.2 million for the nine months prior to Dec. 31, 1987, it was secret no more. Mr. Wageman had swung—strike two.

Now, despite the fact that the federal regulators have yet to declare Sunbelt insolvent, rumors abound that Sunbelt will be merged, reconfigured. Strike three is right around the corner.

The most recent insanity is the second transaction in what is called the Southwest Plan. This is a strategy to restore "health breathed life" (sic) into the Texas S&L industry. The FHLBB will merge four ailing Texas thrifts—Lamar Savings of Houston, Briercroft Savings of Austin, Stockton Savings of Addison, and City S&L of San Angelo—into Dallas-based Southwest Savings, at a cost of $2 billion to the government.

This will create a $5.4 billion savings association half owned by FSLIC and half owned by Caroline Hunt's Southwest Savings Association. The FHLBB put up no cash in the deal; it gave Southwest a note for $483 million and income and capital guarantees valued at more than $1.5 billion to cover bad assets.

In return, FHLBB will acquire rights to half of Southwest's common stock and it will receive preferred stock valued at 90% of the merged thrifts' first $60 million in post-merger profits.

This cozy arrangement presumes of course, that the merger is a success. If it goes the way of the rest of the mergers in the state, however, the U.S. taxpayer will be once again be charged dearly for the incompetence of the regulators.