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## Interview: Edwin Gray

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# Savings & loan blowout looms

*Edwin Gray, the head of the Federal Home Loan Bank Board during part of the Reagan administration, was interviewed on Jan. 20 by EIR analyst Kathy Wolfe. Gray witnessed the impact on the thrift industry of the high interest-rate regime of Treasury Secretary and then White House Chief of Staff Don Regan and Federal Reserve chairman Paul Volcker. With their income locked-in primarily in the form of low-interest housing loans, the savings and loans suddenly had to start paying higher and higher rates to depositors to remain competitive, trying to make up the spread by means of highly risky real estate investments and the like. Gray warned of what was happening, but his warnings weren't heeded—by no accident.*

**EIR:** Let me ask you for a little bit more detail on how we got into the mess that we're in, and if you had some proposals for how we can get out of it.

**Gray:** I will send you the testimony that I did before the Senate, in August, and before the House Banking Committee on Jan. 13. I'm, of course, very concerned that the taxpayers have to pay a \$100 million bill, which was unnecessary. And much of my testimony expresses that frustration, and gives a lot of the reasons for why this has happened.

**EIR:** For example, James Baker. What was his role in it? What was former Citibank head Walter Wriston's role in it?

**Gray:** The person whose role you really ought to be focusing on is Don Regan. That's the guy.

**EIR:** I'd very much like to. Is that in your testimony?

**Gray:** Oh yeah. Absolutely. And his twerps, you know. Jim Baker, when he became Secretary of Treasury, I went over to see him, and I remember one of the things he said was, "Well, how does it feel to be an undertaker?" because we were trying to close some of these thrifts that had crazy people in them. He indicated that he understood, and then he appointed an undersecretary of the Treasury, a fellow named George Gould, who was very helpful to me.

But basically it was Don Regan. He tried to smear me and get me out many times of the administration, which is no secret to anybody. And so I talked about that.

I don't know whether you read the interview that I did with *Regardies* magazine. Dave Stockman and the people at the Office of Management and Budget were just—awful. And OMB is in the Executive Office of the President. They are largely responsible for this; they share a great amount of culpability in this. Don Regan, of course, had a position of great power, both in the Treasury and over at the White House. And as a guy who's worked for the President for a long time, I just think he ill-served the President. But the President appointed him, and just kind of delegated him everything having to do with finance in the whole government, in the whole Executive Branch. And Don Regan always wanted it done his way. And I guess I was too independent for him, because he caused me a lot of problems.

**EIR:** I want to ask you about motivations. Do you really think that's all it was?

**Gray:** He wanted to see the demise of the thrift system, that is very clear. I can tell you that this was no secret. I mean, from early on, that's what he wanted, and of course, he got it in the end. Look, Don Regan was in a position where, because he was the chief economic spokesman for the President, he knew exactly what the problem was, and in his position as the chairman of the cabinet Council on Economic Affairs. First of all, he would *never* return my calls. Secondly, he blocked my efforts—and for that matter every effort before me—to go over and brief the cabinet Council on Economic Affairs regularly about the deteriorating situation at the Federal Savings and Loan Insurance Corporation.

**EIR:** Never giving a reason?

**Gray:** Oh yeah! He gave a reason! It was a ridiculous reason. He said, "Well, we can't have people from the independent agencies coming over to the White House, because they're independent agencies, and they can't be a part of the Executive Branch decision-making process." Well, that's just *patently* absurd. We didn't want to become part of the cabinet Council, or Executive Branch decision-making process. We were very proud of our independence. I certainly was.

What we were trying to do is to brief everybody: people in the administration—*notably* the cabinet Council on Eco-

conomic Affairs, which Don Regan chaired the whole time he was there. Just like we were trying to brief the Congress, the oversight committees. Congress, of course, is the great overseer of the thrift system and the banking system, and we were trying to brief them, and we did many, many times. Not that they *did* anything.

But there you have the chief economic person in the administration denying us the opportunity to let them know. We had some expertise in the field, and Don Regan always used that argument! I don't think it was a *real* argument, he didn't want us to come over. I remember back in 1981 and 1982, he was saying—when I was at the White House—things that were very punitive toward the thrift system. This is at a time when he ought to have been indicating some kind of concern, and he didn't. *Many* thrifts, in 1981 and 1982, were in trouble, not because they wanted to be, but because they had been doing what the government presumably had wanted them to do, and that was to make long-term fixed-rate mortgages. Don Regan was contemptuous of the principal reason why they were there. And I believe—these are only my beliefs—that he was contemptuous for many reasons, among them that the thrifts were protected by Congress in their housing-finance role, which apparently he felt other parts of the financial system—well, he felt that nobody should be protected, in other words. And the real reason was that they were protected because they *were* making home finance available to American families.

So afterwards, the spread problem became a bad asset problem, and the OMB didn't provide us the examiners we needed, and the Congress sat on its hands for all this time, and the U.S. League of Savings Institutions said we were exaggerating about the problems of the FSLIC, and so forth.

**EIR:** In 1980, I did an interview with this fellow from Merrill Lynch, and another fellow at the Federal Reserve; the one referred me to the other. They both said, "Yes, we don't want the dedicated lenders to exist, because we think there are too many houses in America, and people are having too many babies." This was overt.

**Gray:** Oh, absolutely! When I was in the White House, we had a lot of people in the administration who believed that, too.

**EIR:** Who?

**Gray:** I think probably Donald Regan to start with. This is my belief. To a lesser or greater extent, the idea was pervasive in the White House and at OMB, that housing was getting a special preference in America's investment.

**EIR:** And shouldn't?

**Gray:** Well, not so much. This was pervasive. I didn't agree with that. Frankly, I don't think the President agreed with it, but I didn't think the President was paying really the kind of attention that—look, if we could have had another kind of

person in Don Regan's position, somebody with a more balanced view of the needs of America and the financial system, we wouldn't have had a lot of these problems. But it wasn't to be. That isn't to say that some of the things still wouldn't have happened, because there was a mind-set back in 1983 that deregulation of the financial system was going to be a panacea, and most particularly a panacea for the thrift system. Of course, it wasn't, because, well, first of all, thrift institutions are not free market players. Public policy has placed them in a unique position, where in return for using government-guaranteed deposits, they would have the resources to finance housing. But deregulation, particularly in some of the states like California, Texas, Florida, and across the Sunbelt, provided through the state charters almost unlimited powers in *any* area—not just housing—and of course, many in the thrift industry were saying, "Gosh, finally we don't have to be locked into housing. Now we can do other things." They sure did other things, and look what happened.

**EIR:** So, everybody was saying we've got too much housing?

**Gray:** I'm just saying it was pervasive enough to have an undue influence on policymaking.

**EIR:** David Stockman, at the same time, was saying things like that, was saying that all the farmers ought to be shut down, and in fact, his mother, who is a farmer, got real mad at him at one point.

**Gray:** Well, Dave Stockman was a total disaster in almost everything that I can think of.

**EIR:** Don't you really think that certain people, such as Don Regan and some of these other very radical free market types, were actually trying to use this idea of the free market to impose zero-population growth, in fact, an environmentalist mentality on the United States, that they did not dare come right out and say the goal that they held? That's what I get from this big attack on housing.

**Gray:** Well, yeah. I sometimes believe that Don Regan wanted to see the thrift system fall on its face and he got his wish, of course. Actually, the U.S. League helped him quite a bit. I believed that he and others felt that way because they really wanted to see the demise of housing finance institutions.

**EIR:** Why?

**Gray:** Because, I believe they felt that housing finance could be provided through other mechanisms, such as we're now seeing in fact—secondary market for mortgages, and the involvement of Wall Street—outside of the "protected" savings and loan system.

**EIR:** So there's a certain element of immediate, personal, business greed—in other words, they wanted to give the

business to Wall Street that the protected lenders were getting preferentially?

**Gray:** I think they wanted to accelerate it. It's already happened, a large part has already happened. I'm just telling you they got their way!

I think there was a mixed bag on Wall Street. I think there were a lot of people who were making money off of thrifts, and are still doing that. I'm sure that some big money center commercial banks had those kinds of feelings. The extent to which they did, I don't know, but a lot of people have considered the thrift system to be a nuisance. To the extent that some of the things that have developed, they're probably right. It's rather a nuisance now for the taxpayer, and when I say a nuisance, I mean a *tragedy*.

**EIR:** You let Jim Wright have it in your *Regards* interview. Who else in the Congress besides Wright was either in on it with the bankers like Don Regan from a policy side, or else was venal or protecting morons?

**Gray:** I can tell you that some of the people tried hard—I remember Chip Pashayan from California. He was lobbying me very hard to do away with our growth regulation and our direct investment regulation back in late 1984-early 1985, in a way that was very unusual, because he was so fervent. And it seemed very strange to me that he was doing this, because nobody else in the Congress did quite that. You remember Congressman Annunzio, who authored a resolution to try to derail our direct investment regulation back in early 1985? And because of his great authority in Congress, and we were trying to get our FSLIC bill passed. There were constant pressures. We were getting letters. I remember I got an awful letter from—who was that senator from Arkansas?—saying we were doing terrible things to the thrifts in Arkansas.

**EIR:** There is a tremendous potential for a crash and for a panic.

**Gray:** Yes. I agree.

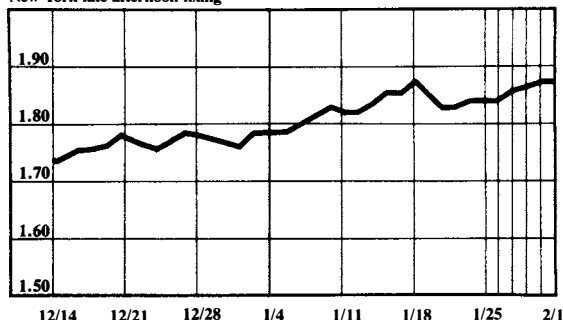
**EIR:** I don't see anyone in the current administration, who would sit down with the interest that you and I have and try to devise a way out of this that could hold up, if people like *U.S. News* and Walter Wriston, and Don Regan, and whoever else there is, all get on their high horse and whip up the justified public outrage at the looting of S&Ls by shysters—which is very justified. It's Wall Street, not Main Street. And those guys are now coming out yelling and saying the trouble is that "S&Ls are dinosaurs." That's a quote. And in the face of *them* doing *that*, I think the S&Ls are going to end up kind of like the Mexican banking system did when Britain invaded the Falkland Islands. Argentina and England went to war, and the next thing you know, everybody was pulling their money out of Mexico and Brazil. They want a panic to wipe out the S&Ls.

**Gray:** That's right.

## Currency Rates

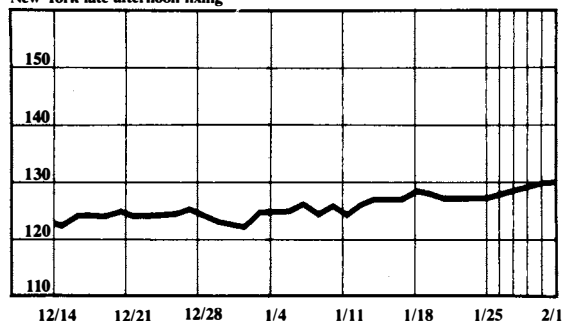
### The dollar in deutschemarks

New York late afternoon fixing



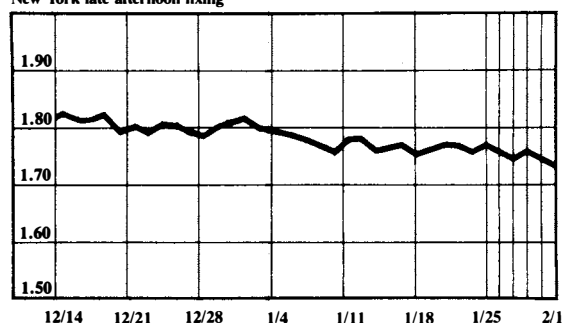
### The dollar in yen

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

