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The S&L bailout goes bust

History repeats itself as Washington tries to sweep the banking crisis under the election-year rug.

The Resolution Trust Corp.'s operation to bail out bankrupt savings and loans ground to a halt April 1, when the agency's authority to spend appropriated funds expired.

In February, RTC chairman Albert Casey had demanded that Congress grant the agency an additional $55 billion in direct appropriations, to avoid a "costly disruption" in RTC operations.

Late last month, the Senate approved a bill giving the RTC $25 billion and lifting the April 1 spending deadline, allowing the agency to spend the $17 billion remaining from the 1991 appropriations. The Senate bill also specified that up to $1.85 billion of the new money be used for the controversial open-bank assistance program, wherein the government pumps money into insolvent thrifts without closing them.

The situation was different in the House, where Democrats were prepared to bring a similar bill to the floor for a vote—if the Republicans would agree in advance to support the measure. The Republicans refused, so the bill died.

House Banking Committee chairman Henry B. Gonzalez, D-Tex., and ranking banking committee Republican Chalmers Wylie of Ohio then forged a compromise bill which eliminated the April 1 spending deadline for already-approved funds, but provided no new funds. This bill was also defeated, leaving the RTC broke.

In response, the administration announced what RTC chairman Casey called "drastic action" to deal with the crisis. Casey, who just two weeks before had declared victory in the S&L crisis, announced that the RTC would be forced to leave 50 insolvent thrifts open, and cut back on the sales and management of the agency's assets.

"Although commitments to sell several S&Ls over the next ten days will be honored, continued S&L marketing activities have been halted," Casey said.

At the same time, the White House, saying that "the nation can no longer afford to wait for Congress to act," announced a series of regulatory changes for banks and S&Ls, designed to sweep the problems further under the rug. That policy, as the S&L crisis proved, is a prescription for disaster.

The changes announced by the administration include: the elimination of restrictions on interstate branching by S&Ls; reducing the amount of capital banks and thrifts must set aside when making construction loans; and allowing banks and thrifts to count "purchased credit card relationships" and "purchased mortgage servicing rights" as part of their capital.

Simultaneously, the Federal Reserve announced a cut to 10% from 12%, the amount of reserves banks must set aside for checking and NOW accounts.

The lifting of restrictions on interstate branching will make it easier to sell insolvent thrifts—assuming buyers can be found—but it will do nothing to stem the flow of red ink. Nor will the other changes, which amount to nothing more than bookkeeping illusions.

Even as the administration was announcing its new plan, one of the nation's largest S&Ls, HomeFed Bank of San Diego, with $13.9 billion in assets, was forced to publicly request government help.

HomeFed, which had fallen $410 million short of regulatory requirements in tangible capital, $615 million short in core capital, and $1.2 billion short in risk-based capital as of Dec. 31, 1991, failed to meet a March 31 deadline to raise additional capital.

The thrift lost $807 million in 1991, dropping its stockholders' equity to $13.6 million, from $799 million the previous year. Nonperforming assets more than doubled during 1991, rising to 14.8% from 6.4% at the end of 1990.

With numbers like that, even HomeFed's own auditors expressed doubts that the thrift would survive. It has been placed in the Office of Thrift Supervision's accelerated resolution program, which will allow it to remain open until the government comes up with enough money to close it.

Things are no better on the banking front, either.

The government has dramatically slowed the pace of bank closings this year. Of the $33 billion which the administration predicted would need to be spent for bank closings this fiscal year, only $4.2 billion had been spent through the end of March—the midpoint of the the fiscal year.

"Regulators will try to avoid closing banks in 1992 unless it's absolutely necessary," warned Congressional Budget Office director Robert Reischauer in testimony before the Senate Banking Committee April 1.

Reischauer compared the administration's forbearance for commercial banks to "the thrift forbearance of the 1980s, which turned out to be both misguided and an incredibly expensive mistake."

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