

ews from Senator

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## DOLE CALLS FOR ACTION ON THRIFT CRISIS

OVER THE PAST TWO WEEKS, THE THRIFT INDUSTRY, THE FEDERAL HOME LOAN BANK BOARD, THE ADMINISTRATION, THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC) AND VARIOUS MEMBERS OF CONGRESS HAVE BEEN COVERED IN EVERY MAJOR NEWSPAPER IN AMERICA.

YESTERDAY MORNING, DANNY WALL, THE CHAIRMAN OF THE FEDERAL HOME LOAN BANK BOARD, TESTIFIED ALONG WITH REPRESENTATIVES OF THE THRIFT INDUSTRY BEFORE THE SENATE BUDGET COMMITTEE. THE SUBJECT OF THE HEARING WAS THE POTENTIAL COST OF A TAXPAYER BAILOUT OF THE THRIFT INDUSTRY.

THE STATUS OF THE THRIFT INDUSTRY IS AN ISSUE WHICH MERITS DISCUSSION, BUT IT SEEMS TO ME THAT THE DISCUSSION WE HAVE HEARD SO FAR DOESN'T MEASURE UP TO THE ISSUES THAT HAVE BEEN RAISED.

THE TIME HAS COME TO STOP THE POLITICAL FINGER-POINTING. THERE IS PLENTY OF BLAME TO GO AROUND. CONGRESS, THE CARTER ADMINISTRATION, THE REAGAN ADMINISTRATION, A NUMBER OF STATE LEGISLATURES, FEDERAL REGULATORS AND INDUSTRY MANAGEMENT MUST ALL SHARE SOME OF THE RESPONSIBILITY FOR THRIFT INDUSTRY'S PROBLEMS.

IN THIS CASE, WE SHOULD NOT LET POLITICS AFFECT OUR BETTER JUDGEMENT. THE PROBLEMS FACING THE THRIFT INDUSTRY ARE SERIOUS. IF UNADDRESSED, THEY COULD AFFECT THE ENTIRE U.S. ECONOMY.

THIS IS NOT A PROBLEM THAT WE CAN SIMPLY THROW MONEY AT OR PUT A BAND-AID ON. IT'S GOING TO TAKE TIME TO COME UP WITH A RESPONSIBLE, WORKABLE SOLUTION, AND, UNFORTUNATELY, THE 100TH CONGRESS DOESN'T HAVE ANY LEFT.

## AN AGENDA ITEM FOR THE 41ST PRESIDENT AND THE 101ST CONGRESS

THE AMERICAN PEOPLE ARE GOING TO HAVE TO MAKE SOME TOUGH CHOICES IN THE VOTING BOOTH IN NOVEMBER, AND THE LEADERS THEY SELECT ARE GOING TO HAVE TO MAKE SOME TOUGH CHOICES IN 1989.

THE THRIFT INDUSTRY SHOULD BE ONE OF THE TOP PRIORITIES FOR THE NEXT PRESIDENT AND THE NEXT CONGRESS. THE NEXT PRESIDENT SHOULD USE HIS MANDATE AND WORK WITH THE CONGRESS TO FORGE A REAL SOLUTION TO THIS PROBLEM. AND, HE SHOULD DO IT EARLY IN HIS TERM.

## THE FIRST ORDER OF BUSINESS

IN MY VIEW, THE FIRST ORDER OF BUSINESS FOR ANY CONGRESSIONAL DISCUSSION OR STUDY OF THIS ISSUE SHOULD BE TO FIND OUT MORE ABOUT WHAT FINANCIAL COMMITMENTS FSLIC HAS MADE IN MERGERS AND ACQUISITIONS INVOLVING INSOLVENT THRIFTS.

THE CHARGES SUGGESTING THAT THE BANK BOARD IS USING FANCY ACCOUNTING TECHNIQUES TO PAPER OVER EXTENSIVE U.S. FINANCIAL COMMITMENTS WHICH MAY EVENTUALLY FALL TO THE U.S. TAXPAYER ARE SERIOUS. WE NEED TO KNOW PRECISELY WHAT FINANCIAL COMMITMENTS HAVE BEEN MADE IN ORDER TO MAKE RESPONSIBLE DECISIONS FOR THE FUTURE.

## WHERE DO WE GO FROM HERE?

SOME HAVE SUGGESTED INCREASING THE STAFF AT THE HOME LOAN BANK BOARD AS A PRUDENT FIRST STEP. WE SHOULD MAKE EVERY EFFORT TO ENSURE THAT THE BANK BOARD HAS AN ADEQUATE PROFESSIONAL STAFF, BUT THE BANK BOARD HAS ALREADY INCREASED ITS STAFF. THE MANPOWER PROBLEMS EVIDENT IN THE EARLY 1980'S APPEAR TO BE RESOLVED. ANOTHER INCREASE MAY NOT BE NECESSARY.

THE ARGUMENT THAT THE REGULATORS SHOULD HAVE SUPERVISED THE DEREGULATION OF THE INDUSTRY MORE CAREFULLY HAS SOME MERIT, PARTICULARLY IN THOSE STATES WHICH GRANTED BROAD NEW POWERS TO THEIR STATE-CHARTERED INSTITUTIONS. BUT, THE STATES THAT ELECTED TO GIVE THEIR THRIFTS CARTE BLANCHE TO PURSUE COMMERCIAL AND REAL ESTATE INVESTMENTS WITH FEDERALLY-INSURED DEPOSITS ARE ALSO AT FAULT.



HOWEVER, WE DO NEED TO EXAMINE THE ROLE THE STATES HAVE PLAYED. THE DUAL BANKING AND THRIFT SYSTEMS ARE AN INTEGRAL PART OF THE FINANCIAL SECTOR IN THE UNITED STATES. I DO NOT QUESTION A STATE'S AUTHORITY TO REGULATE STATE-CHARTERED INSTITUTION, BUT I DO THINK THAT CERTAIN STATES SHOULD HAVE PROCEEDED MORE CAUTIOUSLY IN DEREGULATING FEDERALLY-INSURED INSTITUTIONS. THE STATES WHO HELPED CAUSE THE PROBLEM SHOULD ALSO BE PART OF ANY SOLUTION WE COME UP WITH.

SOME WILL UNDOUBTEDLY CALL FOR A RETURN TO THE GOOD OL' DAYS OF REGULATED INTEREST RATES AND REDUCED THRIFT POWERS. IN MY VIEW, THIS IS NOT A REASONABLE ALTERNATIVE. INFLATION MAY BE UNDER CONTROL NOW, BUT WE CANNOT GUARANTEE LOW INTEREST RATES IN THE FUTURE.

AS LONG AS THRIFTS ARE ALLOWED TO OFFER A MARKET RATE OF INTEREST ON THEIR SAVINGS AND CHECKING ACCOUNTS, THEY MUST BE ABLE TO DIVERSIFY THEIR LOANS TO MINIMIZE THEIR VULNERABILITY TO FLUCTUATIONS IN INTEREST RATES.

WE MUST RECOGNIZE THAT DEPOSITORS HAVE BECOME MORE SOPHISTICATED. THEY ARE ACCUSTOMED TO RECEIVING MARKET INTEREST RATES ON THEIR HOLDINGS. IF WE REDUCE THE INTEREST RATE A THRIFT COULD OFFER ON DEPOSITS, DEPOSITORS WILL SIMPLY LOOK ELSEWHERE FOR A BETTER INVESTMENT.

THE CALL HAS BEEN MADE FOR A TAXPAYER BAILOUT, AND, UNFORTUNATELY, WE CANNOT RULE OUT THIS POSSIBILITY. BEFORE WE LOOK AT TAXPAYER'S WALLETS FOR A SOLUTION TO THE THRIFTS PROBLEMS. WE NEED TO DECIDE HOW MUCH THE INDUSTRY CAN REALISTICALLY BE ASKED TO PAY IN TERMS OF INCREASED CONTRIBUTIONS TO FSIC. CONGRESS SHOULD EXHAUST EVERY REVENUE ALTERNATIVE BEFORE WE TURN TO THE AMERICAN TAXPAYER.

THE ADMINISTRATION HAS SUGGESTED SOME ALTERNATIVE REVENUE SOURCES WHICH WOULD MINIMIZE THE SIZE OF A BAILOUT. TREASURY SECRETARY BRADY HAS RECENTLY CALLED FOR A DEPARTMENT STUDY OF THESE OPTIONS WHICH SHOULD HELP FIRM UP THEIR REVENUE ESTIMATES, AND GIVE US A BETTER INFORMATION BASE TO WORK WITH.

#### NATIONAL THRIFT COMMISSION

AS SO OFTEN HAPPENS, CONGRESS MAY BE PASSING ON SOME OF ITS TOUGHEST DECISIONS TO A STUDY COMMISSION. BUT, THIS TIME I HONESTLY DON'T SEE THAT THE 100TH CONGRESS HAS ANOTHER ALTERNATIVE.

THE SENATE HAS ENDORSED A BILL CREATING A NONPARTISAN COMMISSION, AND THE HOUSE BANKING COMMITTEE APPROVED THEIR OWN VERSION OF THE BILL LAST FRIDAY. I CERTAINLY HOPE THAT WE CAN GET SOMETHING ENACTED BEFORE THE END OF THE CONGRESS.

THIS IS AN ISSUE THAT WILL REQUIRE A LOT OF THOUGHT AND STUDY, AND IT IS AN ISSUE THAT SHOULD BE A TOP PRIORITY IN 1989. THE RECOMMENDATIONS MADE BY THIS COMMISSION COULD BE VERY USEFUL IN THE DEBATE NEXT YEAR.

#### CONCLUSION

MR. PRESIDENT, IN THE FINAL ANALYSIS THIS SHOULD NOT BE A DEMOCRAT OR REPUBLICAN ISSUE.

WE SHOULD GATHER THE BEST INFORMATION AVAILABLE, COOPERATE WITH THE ADMINISTRATION AND THE INDUSTRY, AND PROCEED WITH A THOROUGH REVIEW OF OPTIONS AND SOURCES OF FUNDS. SO THAT THE NEXT CONGRESS AND THE NEXT ADMINISTRATION CAN SIT DOWN AT THE TABLE AND WORK OUT A RESPONSIBLE, WORKABLE SOLUTION TO THE THRIFT INDUSTRY'S PROBLEMS.

ANY LEGISLATIVE OR REGULATORY RESPONSE TO THE THRIFT INDUSTRY'S PROBLEMS SHOULD BE IMPLEMENTED AT BOTH THE FEDERAL AND STATE LEVEL.

ON THE OTHER SIDE OF THE COIN, THRIFT MANAGERS HAVE MADE THEIR OWN CONTRIBUTIONS TO THE DEBT FACING THE INDUSTRY TODAY. MANAGEMENT DECISIONS PLAYED A BIG ROLE CREATING THE INDUSTRY'S PROBLEMS. THE BOTTOM LINE IS THAT POOR INVESTMENT DECISIONS FORCED MANY INSTITUTIONS INTO INSOLVENCY.

IF THRIFT MANAGERS HAD BEEN MORE PRUDENT IN THEIR INVESTMENTS, WE WOULD NOT BE IN THE SAME PREDICAMENT TODAY.

GRANTING NEW POWERS TO THE BANK BOARD IS ANOTHER OPTION. UNDER CURRENT LAW, THE BANK BOARD LACKS THE AUTHORITY TO CLOSE DOWN THRIFTS BEFORE THEY BECOME INSOLVENT. THE PROBLEM IS THAT ONCE AN INSTITUTION IS DECLARED INSOLVENT, THE PROSPECTS FOR ACTUALLY TURNING IT AROUND ARE REMOTE. ALLOWING THE BANK BOARD GREATER FLEXIBILITY IN DEALING WITH POORLY CAPITALIZED THRIFTS, COULD LIMIT THE GROWTH OF DEBT IN THE INDUSTRY AND HELP THE INDUSTRY TURN MARGINAL INSTITUTIONS AROUND BEFORE THEY GO UNDER.

AFTER REVIEWING THE DEVELOPMENT OF THE THRIFT INDUSTRY, THE CASE CAN BE MADE THAT FEDERAL DEREGULATION OF THE INDUSTRY HAS BEEN SUCCESSFUL. THE CURRENT PROBLEMS SURFACED IN THE SOUTHWEST MORE FOR ECONOMIC THAN POLICY REASONS. THESE INSTITUTIONS STRUGGLED THROUGH DOUBLE-DIGIT INFLATION, A SLUMPING AGRICULTURAL SECTOR AND DRAMATIC DECLINES IN OIL PRICES.