The thrift insanity sets up taxpayers

by Chris White

The insane soap opera, played out within the government's regulatory agencies, around the theme of the bankruptcy of the thrift system, moved a step closer towards its seemingly inevitable denouement on Thursday, Oct. 6. On that day, the bumbling bureaucrat cast as the the head of the Federal Home Loan Bank Board, Danny Wall, upped his estimate of how much the bankruptcy closure of the insolvent part of the system would cost, to $50 billion, while asserting that the federal government will have to get in on the act.

Bob Dole of Kansas, leader of the Republicans in the Senate, announced that he "cannot rule out" the possibility of a multibillion-dollar taxpayer bailout of the system. And, to cap it all, the House of Representatives voted by an overwhelming 395-21 to establish a bipartisan national commission, to take up the problem of the thrifts, and produce a report by Feb. 1 next year.

It has been obvious for some time that Danny Wall, a former congressional aide, is way out of his depth as chairman of the Federal Home Loan Board. Like a carbon copy of the now infamous Joe Isuzu of U.S. television commercials, his earlier assertions that the thrift system is so sound, he would advise his mother to put her money there, have only proven that salesmen and their pitches may have a place somewhere in the system, but it's not at the head of the Federal Home Loan Bank Board.

Wall has upped his estimate of what the liquidation of the nation's insolvent thrifts is ultimately going to cost three times in the last two months. From about $13 billion first, to about $20 billion next, and then Oct. 6 to $50 billion. But don't worry too much, you have his word on it.

Plain fact is that Wall is now only within striking distance of the lower range of estimates of what the cost will actually be. Citibank's John Reed, and Bert Ely, the Cassandra of the S&L system, start their count at $70 billion. Others, looking at the shape of the system as a whole, take the range of between $125 billion to $250 billion, and say that anyone who is below those parameters is out of the proverbial ballpark.

500 insolvent thrifts—officially

There are about 3,000 thrift institutions in the country. At the beginning of the fiscal year, about 500 satisfied the FHLBB's requirements as insolvent. Over the last months, and increasingly over the last weeks, more than 120 of those have been "reorganized." Yet, the number of insolvent thrifts is still over 500, officially.

The means by which the reorganizations have been accomplished, packaging unsecured liabilities and near worthless assets of weaker members of the system to dilute the assets of stronger members of the system, help ensure that the crisis simply spins out of control.

It will get much worse simply because of what the thrifts are forced to do to maintain the appearance that they are still afloat. In principle, the thrifts, despite the public drama, are actually the soundest part of the banking system. Their weakness is a reflection of the destruction of the commercial banking system under the policies associated with the Carter administration and its designee as chairman of the Federal Reserve system, Paul Volcker.

Thrifts ought to be sounder than the rest of the system, because in principle, they were the repository for a sizable chunk of the savings of households and individuals, and because they lent for housing construction and mortgages. Thus unlike the rest of the banking system, thrifts ought to have a relatively stable and extended time horizon on their lending operations, over the life of what used to be a typical

15-year mortgage, collateralized against deposits of wages and salaries.

Volcker and Carter made that impossible to continue by jacking up interest rates, to the point that the thrifts were losing money on their loans, while the volume of savings was diminished. Instead of correcting that, thrifts were permitted to borrow from money markets to then re-lend, while trying to make money on the difference between the cost of borrowing and the income from loans outstanding.

If their borrowings from the money markets were packaged in the form of certificates of deposit of $100,000 or less, those borrowings were insured by the Federal Savings and Loan Insurance Corporation. So now the FSLIC isn't only standing behind savings of individuals and households, it's also backing a chunk of the liabilities of the speculative coupon-clippers from the money-market houses.

Chain reaction potential

Such swindling creates the potential for either the collapse of the thrifts to set off a chain reaction of liquidation back into the banking and investment community from which thrift system funds are borrowed—a chain reaction which recent increases in interest rates make more likely, or for the liquidation of the securitized paper on which the banking system has come to depend to spill over into a chain reaction which will bring down the thrifts.

A competent solution would resituate the thrifts, within an overall reorganization of the bankrupt credit system, such that their present status as adjuncts of the degenerate speculative usury system would be ended, and the system could once again become the backbone of regional and local economic activity, using savings of households and individuals as the means by which wealth-creating capital improvements in communities' residential and infrastructural stocks are secured.

Against this type of approach the talk about "the insolvency of the thrifts," "the cost to the taxpayer" of bailing out the system, ought to be seen for what it is, namely either outright ignorance, or the sleaziest kind of sanctimonious hypocrisy. For starters, it's not the thrift system which would be bailed out, it's the speculators who have lent to the wreckage that Jimmy Carter and Paul Volcker made of the thrift system. Secondly, providing a federal bailout to such "respectable" loan sharks won't help the thrifts, nor will it correct any way the underlying bankruptcy of the credit system as a whole. It will simply make things worse, throwing taxpayers' funds into the bottomless pit that the so-called "money-managers" have dug for themselves with their own incompetence.

And thirdly, it is to be presumed, since people like Citibank's John Reed make it clear, that the sound parts of the thrift system, such as savings of individuals and households, and secured loans, like mortgages, would also be transferred to the money-market agencies which are intended to be the recipients of the bailout, the better to collateralize thie risks.

So far Wall has provided $20 billion toward this effort. The House Banking Committee has given Wall authority to issue another $5 billion in bonds, which some think actually means that Wall can issue another $12 billion as he sees fit. And so it goes on.

Another bipartisan swindle

But more ridiculous still is the now enacted proposal to establish a bipartisan National Commission on the S&Ls. The house voted for the establishment of such a commission to "study and recommend solutions" to the insolvency crisis of savings institutions. The measure now goes before a House-Senate conference committee, because the Senate has already voted up its own version of the scheme. Both bills call for reports on the thrifts to be prepared by next Feb. 1.

The Senate, though, has enacted a broader mandate, calling for a study which encompasses the Federal Deposit Insurance Corporation too, and the structure of the deposit insurance system, all by April 1 next year. The commission, in both versions would have 14 members, chosen by both Houses, President Ronald Reagan, and the incoming President.

Here we go again. We already have a bipartisan National on Economic Commission, headed by Bob Strauss and Drew Lewis. This is mandated to come up with "solutions" to the budget deficit, which, and it is no secret, will involve massive cuts in federal spending and a package of tax increases.

Now we also seem to have a parallel and complementary commission on increasing the budget deficit. The amount discussed for cuts and tax increases under the first such commission starts at upwards of $50 billion per year. The amount that taxpayers will have to cough up, in increased federal commitments, under the second, starts at $50 billion per year, and rises from there.

Will we next have a third commission to reconcile the differences between the two? It is difficult to conceive how much more insane things can become, when it comes to these so-called "crises."

Of course the reason these are crises at all, is purely and simply because those who dispose of the power to implement solutions refuse to tolerate any solutions which would undermine their own financial power. Therefore, they refuse to tolerate any solution, since the only solution, top down reorganization of banking and credit by executive action would wipe out their power. Thus we have "bipartisan" commissions to study problems which it is already foreordained cannot be solved, because the powers that be will not permit it.

And meanwhile the thrift system is bankrupt, the banking system is bankrupt, Congress is out of commission, and the day of reckoning is coming. The way the powers that be are going, the ultimate cost will not be measured in dollars and cents, but in the very existence of the United States.