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University of California, Berkeley

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THE THRIFT INDUSTRY: ANATOMY OF FAILURES -- FORMULAS FOR SUCCESS

BY

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CENTER FOR REAL ESTATE AND URBAN ECONOMICS
UNIVERSITY OF CALIFORNIA AT BERKELEY

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Testimony Before the Senate Banking Committee
Washington, D.C.
March 7, 1989

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The Thrift Industry: Anatomy of Failures -- Formulas for Success

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Mr. Chairman and Members of the Committee:

Summary

- The financial crisis faced by the FSLIC is an insurance crisis caused by a small minority of mismanaged or fraudulently run thrift institutions and bungled regulation and not an industrywide crisis -- These institutions should be closed and fraudulent players should be prosecuted to the fullest extent possible. Political leaders, consultants, and lawyers who intervened on their behalf should also be prosecuted.

- 70% of thrift institutions are healthy and prudently managed and have the vast majority of their money invested in residential mortgage loans -- These institutions should be allowed to remain specialized residential mortgage lenders, regulated by an independent but revamped Federal Housing Bank System. They should have continued access to long term advances, and favorable capital requirements as long as they remain invested exclusively in residential mortgages. Placing the FHLBS under the Treasury would deal a potential death blow to housing. Treasury has a built-in institutional bias against the allocation of funds to housing and only an independent agency can serve

that function. Also, since the safety and soundness issue will be removed from the FHLBS and transferred to FDIC, the conflicts of interest of the past decade will be removed from the regulatory system.

- 85% of the losses incurred or likely to be incurred by the FSLIC are due to direct real estate investment (often disguised as loans), land development activity, commercial real estate activity and other inherently risky ventures -- Direct investments by financial institutions of government insured deposit funds should be prohibited.
- 55% of the FSLIC losses have occurred in the energy belt states of Texas, Louisiana and Colorado -- while the insolvent financial institutions must be closed, the economies of these areas are likely to show substantial recovery in the next five years. A slow liquidation and intensive management of real estate assets might substantially reduce the actual losses to the government.
- At least 50% of the FSLIC losses occurred because of the rapid growth of new entrants into the industry who were inexperienced, incompetent, and/or unscrupulous -- The ability to open a financial institution with government deposit insurance should be substantially restricted to those with lending and management experience, substantial real capital (at least $50 million) and a broad based ownership structure (to prevent self-dealing). Asset growth should also be restricted, loan diversification required, and conflicts of interest closely monitored. The use of brokered funds to support asset growth

should be severely restricted.

- The savings and loan industry is still vital to the home mortgage industry -- 50% of home mortgage originations in 1988 were made by thrifts and 44% of home mortgages including mortgage securities were held by thrifts.

- Advances of the Federal Home Loan Bank System to the thrifts have been vital in supporting home mortgage lending -- The administration's proposal to tap the capital of the FHLBS to support the FSLIC bailout is short-sighted, as it could cripple the advance creating ability of the FHLBS. It is equivalent of a hidden tax on the healthy thrifts of another 8-10 basis points.

- The proposed differential deposit insurance premiums for healthy savings and loans relative to commercial banks continues and exacerbates the competitive disadvantage for healthy thrifts. While it may give the appearance of parity, because of the rebate of fund surpluses, the FDIC-insured institutions will likely have a 10 basis point advantage by the mid-1990s.

- The profit margins in the lending industry are already narrow, with the total insurance premium equal to 40-50% of the healthy industries profits and the new proposed differential equals 16% of the healthy industries profits. Also, the uncapped premium proposal (or even a cap at 35 basis points) would make it impossible to attract new capital to the industry. The regulatory risk of premium increase would be equivalent to capital confiscation.

- FSLIC (and FDIC) insurance should be converted from a deposit guarantee fund to a true insurance program, with differential pricing based on the riskiness of an institutions assets. Risk pricing elements should asset class (i.e., credit risk), geographic location of assets, and interest rate sensitivity.

The present rush to "solve" the thrift problem by the current administration is like its predecessor's reform, the Garn-St. Germain legislation in 1982, a recipe for disaster. The thrift crisis of 1988-89 and the consequent need for a $100 billion rescue package, is a direct consequence of the 1982 thrift reform legislation. This early reform of the thrift industry combined with bungled and inept regulation, misguided congressional intervention on behalf of failing thrifts, mismanagement and fraud, stupidity in both the public and private sectors, and a regional depression in the energy belt, has brought us the biggest financial scandal in American History.

The proposal by the administration, while a move in the right direction, if not modified in several ways, could ultimately destroy the healthy segment of the savings and loan industry to pay for the past ineptitude of the federal regulators and in many cases criminal activities of a minority in the business. Besides the obvious injustice, the consequences of this proposal could be to create a scarcity of private sector home mortgage credit and even more reliance on federal government agencies to provide this credit. The cost to government of weakening the healthy sector of the thrift industry may be an additional $100 billion per year of off budget mortgage security guarantees. To the consumer, the lack of a viable thrift industry will mean higher mortgage interest rates, lower interest rates on savings deposits, and less choice of mortgage instruments and less availability of mortgage credit.

This bleak prognosis, however, need not occur. A carefully crafted plan can freeze the massive losses from the savings and loan crisis and perhaps recover half the losses estimated by the administration. A revised regulatory structure could prevent future abuses of the federal deposit insurance system and refocuses the surviving healthy thrifts on safe and sound lending to the residential mortgage market.

I would now like to present my views on the causes and magnitude of the thrift crisis and the importance of the thrift industry to the residential housing market.

I. Causes of the Thrift Crisis

There are three major and interrelated causes of thrift crisis. The deregulation of thrifts asset and liability structure in the 1982 Garn-St. Germain legislation set the stage for the activities that would create the crisis. This highly unregulated environment, combined with virtually free government deposit insurance provided by the FSLIC attracted a large number of new participants into the industry. These players saw that they could attract large sums of government insured capital and invest this money virtually without restriction in a variety of investments which most traditionally run financial institutions would regard as highly speculative. Overlaid against this free-wheeling regulatory environment was a real estate boom in the energy producing and sun belt states that sucked up large sums of capital even though the economic fundamentals of many of these markets had begun to dramatically weaken by early 1983.* This deadly combination of: deregulation without adequate

*This author in a widely quoted speech in February 1983 correctly forecasted the collapse of the Texas, Oklahoma and Louisiana economies.

supervision, new-inexperienced, often unscrupulous and usually incompetent, entrants to the industry, and a regional real estate boom about to become mired in a regional economic depression, caused the present crisis. The crisis was exacerbated by the failure of Congress and the administration to provide adequate personnel and financial resources to the regulators who had recognized the growing problems by 1984. In addition, Congress specifically lobbied against proposed actions to deal with problems, such as brokered funds, land development loans, and the Texas institutions.

The detail documenting of these causal factors would take far more time then available here. The following charts, however, are strongly supportive of our view. Table I shows the best estimates of the capital situation in the industry as of Sept. 30, 1988. As can be seen clearly, we have a bi-modal distribution with 835 institutions reporting GAAP capital of less than 3% showing a $23 billion deficit in tangible capital. Actual loss experience when these institutions are closed will probably be $50 billion given previous loss rates. On the other hand, over 1,200 institutions have over 6% GAAP capital and nearly $20 billion of tangible capital. Table II shows the concentration of loss estimates by state. Clearly, the Texas-Louisiana-Colorado axis is responsible for over 55% of losses. Table III illustrates the extent of the regional economic depression that in part created these losses. The cities in Texas, Oklahoma, Colorado, and Louisiana are at the bottom of the list. Table IV shows that the losses were primarily due to the acquisitions of risky and non-prudent asset

TABLE I

GAAP CAPITAL TO TOTAL ASSETS RATIO -- ALL FSLIC-INSURED SAVINGS INSTITUTIONS

GAAP CAPITAL TO ASSETS	NUMBER	ASSETS	RAP CAPITAL	GAAP CAPITAL	TANGIBLE CAPITAL	LIAB.
< 0%	436	$142,425	($14,884)	($18,095)	($22,122)	$157,309
0% TO 1%	99	$96,812	$1,514	$606	($314)	$95,298
1% TO 2%	116	$63,314	$1,704	$1,029	($511)	$61,610
2% TO 3%	184	$117,272	$4,003	$2,907	($41)	$113,269
3% TO 4%	284	$167,469	$7,023	$5,833	$2,881	$160,446
4% TO 5%	337	$257,819	$13,254	$11,672	$6,841	$244,565
5% TO 6%	345	$195,748	$11,475	$10,738	$6,936	$184,273
OVER 6%	1,223	$282,558	$26,150	$24,762	$19,731	$256,408
TOTAL	3,024	$1,323,416	$50,239	$39,451	$13,400	$1,273,177

GAAP CAPITAL TO ASSETS	PERCENT OF NO.	PERCENT OF ASSETS	RATIO TO TOTAL ASSETS			PERCENT OF LIAB.
			RAP CAPITAL	GAAP CAPITAL	TANGIBLE CAPITAL	
< 0%	14.4%	10.8%	-10.45%	-12.71%	-15.53%	12.4%
0% TO 1%	3.3%	7.3%	1.56%	0.63%	-0.32%	7.5%
1% TO 2%	3.8%	4.8%	2.69%	1.62%	-0.81%	4.8%
2% TO 3%	6.1%	8.9%	3.41%	2.48%	-0.04%	8.9%
3% TO 4%	9.4%	12.7%	4.19%	3.48%	1.72%	12.6%
4% TO 5%	11.1%	19.5%	5.14%	4.53%	2.65%	19.2%
5% TO 6%	11.4%	14.8%	5.86%	5.49%	3.54%	14.5%
OVER 6%	40.4%	21.4%	9.25%	8.76%	6.98%	20.1%
TOTAL	100.0%	100.0%	3.80%	2.98%	1.01%	100.0%

Data as of September 30, 1988; Dollars in millions

Source: Federal Home Loan Bank Board

TABLE II
GAAP INSOLVENT SAVINGS INSTITUTIONS BY STATE

	TOTAL INSOLVENT			
	COUNT	GAAP CAPITAL	ASSETS	CAPITAL/ ASSETS
ALABAMA	5	($102)	$1,516	-6.73%
ALASKA	2	($89)	$310	-28.86%
ARIZONA	2	($357)	$800	-44.66%
ARKANSAS	13	($761)	$3,981	-19.12%
CALIFORNIA	25	($1,972)	$5,853	-33.68%
COLORADO	11	($436)	$6,356	-6.86%
CONN.	1	($20)	$143	-14.05%
DELAWARE	0	$0	$0	NA
WASH. DC	0	$0	$0	NA
FLORIDA	21	($881)	$7,185	-12.27%
GEORGIA	7	($32)	$930	-3.48%
GUAM	0	$0	$0	NA
HAWAII	0	$0	$0	NA
IDAHO	0	$0	$0	NA
ILLINOIS	46	($697)	$11,187	-6.23%
INDIANA	6	($34)	$887	-3.87%
IOWA	5	($108)	$770	-14.01%
KANSAS	16	($184)	$2,755	-6.67%
KENTUCKY	1	($23)	$51	-44.46%
LOUISIANA	30	($660)	$4,101	-16.10%
MAINE	0	$0	$0	NA
MARYLAND	5	($193)	$2,339	-8.24%
MASS.	0	$0	$0	NA
MICHIGAN	5	($139)	$1,385	-10.05%
MINNESOTA	3	($71)	$3,602	-1.96%
MISS.	9	($107)	$1,188	-9.01%
MISSOURI	11	($241)	$6,503	-3.70%
MONTANA	1	($10)	$135	-7.35%
NEBRASKA	9	($176)	$1,849	-9.51%
NEVADA	0	$0	$0	NA
NEW HAMP.	0	$0	$0	NA
NEW JERSEY	11	($193)	$3,450	-5.60%
NEW MEXICO	5	($627)	$1,563	-40.11%
NEW YORK	5	($70)	$2,290	-3.07%
NOR. CAR.	7	($24)	$2,175	-1.09%
NOR. DAK.	2	($8)	$205	-4.10%
OHIO	17	($296)	$5,927	-4.99%
OKLAHOMA	6	($29)	$1,541	-1.91%
OREGON	3	($156)	$881	-17.67%
PENN.	5	($75)	$3,200	-2.35%
P.R.	0	$0	$0	NA
R.I.	0	$0	$0	NA
SOU. CAR.	2	($28)	$1,071	-2.59%
SOU. DAK.	2	($6)	$138	-4.60%
TENNESSEE	5	($29)	$446	-6.54%
TEXAS	115	($8,837)	$49,154	-17.98%
UTAH	3	($115)	$2,657	-4.31%
VERMONT	0	$0	$0	NA
VIRGINIA	6	($133)	$2,098	-6.35%
VIRGIN IS.	0	$0	$0	NA
WASHINGTON	3	($25)	$699	-3.56%
WEST VIRG.	0	$0	$0	NA
WISCONSIN	2	($35)	$310	-11.34%
WYOMING	3	($109)	$794	-13.67%
NATIONWIDE	436	($18,089)	$142,425	-12.70%

Data as of September 30, 1988; Dollars in millions   Source: Federal Home Loan Bank Board

TABLE III

EMPLOYMENT GROWTH AND UNEMPLOYMENT RATES BY CITY

	Nonagricultural Employment						Unemployment Rate					
	---1988---		---1987---		---1986---		---1988---		---1987---		---1986---	
MSA	Rank	Pct	Rank	Pct	Rank	Pct	Rank	Pct	Rank	Pct	Rank	Pct
West Palm Beach-Boca Raton-Delray Beach, FL	1	6.8	3	7.3	4	7.4	48	4.7	31	4.2	23	4.0
Las Vegas, NV	2	6.7	2	7.8	3	7.6	57	5.0	74	6.4	70	6.6
Seattle, WA	3	5.6	8	5.3	11	4.9	38	4.3	67	6.0	65	6.4
Jacksonville, FL	4	4.8	10	4.8	9	5.2	75	5.7	53	5.1	26	4.3
Orlando, FL	5	4.6	5	6.3	2	8.2	54	4.9	32	4.4	17	3.7
San Diego, CA	6	4.6	12	4.8	12	4.9	16	3.3	26	3.7	34	4.7
Gary-Hammond, IN	7	4.5	1	8.3	86	-4.6	82	6.6	84	7.5	87	12.6
Sacramento, CA	8	4.5	7	5.7	10	5.1	45	4.6	57	5.2	56	6.1
Fort Lauderdale-Hollywood-Pompano Beach, FL	9	4.2	13	4.7	20	4.2	40	4.5	28	3.9	12	3.5
Indianapolis, IN	10	4.0	17	4.4	18	4.4	64	5.3	56	5.2	38	5.1
Monmouth-Ocean, NJ	11	3.9	16	4.5	15	4.7	26	3.7	10	3.0	6	3.2
Richmond-Petersburg, VA	12	3.8	18	4.2	24	4.0	24	3.6	25	3.7	18	3.7
Middlesex-Somerset-Hunterdon, NJ	13	3.8	32	3.4	34	3.2	4	2.6	2	2.4	2	2.7
Washington, DC-MD-VA	14	3.8	23	3.9	27	3.9	10	2.8	7	2.9	8	3.2
Columbus, OH	15	3.7	26	3.7	13	4.7	42	4.6	44	4.9	50	5.8
Grand Rapids, MI	16	3.7	50	2.5	32	3.5	77	6.0	70	6.1	69	6.6
Greenville-Spartanburg, SC	17	3.5	35	3.2	21	4.2	7	2.8	24	3.7	35	4.8
Riverside-San Bernardino, CA	18	3.4	4	6.8	6	6.8	44	4.6	37	4.6	54	5.9
Columbia, SC	19	3.4	34	3.2	36	3.1	5	2.8	21	3.6	11	3.5
Houston, TX	20	3.3	76	1.0	87	-6.2	65	5.4	79	6.7	84	9.9
Oakland-East Bay, CA	21	3.3	45	2.7	60	1.8	27	3.7	30	4.1	43	5.5
Toledo, OH	22	3.3	25	3.7	65	1.5	62	5.2	73	6.3	81	7.9
Cincinnati, OH-KY-IN	23	3.3	21	3.9	28	3.9	35	4.3	50	5.0	59	6.2
Little Rock-North Little Rock, AR	24	3.2	48	2.6	67	1.3	66	5.4	80	6.7	76	7.4
Omaha, NE-IA	25	3.2	57	2.1	46	2.6	29	3.8	46	4.9	45	5.6
Milwaukee, WI	26	3.2	43	2.8	40	2.9	19	3.4	54	5.1	53	5.9
Birmingham, AL	27	3.1	29	3.5	57	2.0	71	5.6	65	5.9	82	8.0
Portland, OR	28	3.1	15	4.6	43	2.8	36	4.3	39	4.7	68	6.5
Dayton-Springfield, OH	29	3.1	60	2.1	61	1.7	47	4.7	52	5.1	66	6.5
Norfolk-Virginia Beach-Newport News, VA	30	3.0	38	3.0	39	2.9	51	4.8	33	4.5	36	4.8
Louisville, KY-IN	31	2.9	11	4.8	49	2.6	87	9.5	77	6.5	71	6.8
Wilmington, DE-NJ-MD	32	2.9	14	4.6	50	2.5	25	3.6	8	2.9	21	3.9
New Haven-Meriden, CT	33	2.9	71	1.7	26	3.9	14	3.2	11	3.0	4	3.1
Tampa-St. Petersburg-Clearwater, FL	34	2.8	31	3.4	17	4.5	61	5.2	40	4.7	29	4.4
Allentown-Bethlehem, PA-NJ	35	2.7	52	2.4	75	0.2	30	3.9	49	5.0	31	4.6
Akron, OH	36	2.7	66	1.8	52	2.5	70	5.6	71	6.2	80	7.8
Raleigh-Durham, NC	37	2.5	27	3.6	29	3.8	1	2.1	6	2.9	7	3.2
Charlotte-Gastonia-Rock Hill, NC-SC	38	2.5	6	6.0	5	7.1	11	2.9	16	3.3	22	4.0
Scranton-Wilkes Barre, PA	39	2.5	47	2.7	59	1.9	59	5.1	75	6.4	57	6.1
Cleveland, OH	40	2.3	58	2.1	71	1.0	49	4.8	58	5.4	74	7.0
San Antonio, TX	41	2.3	62	2.0	73	0.7	81	6.5	81	6.7	77	7.4
Albuquerque, NM	42	2.3	74	1.2	48	2.6	55	5.0	68	6.1	61	6.4
Wichita, KS	43	2.3	22	3.9	1	8.3	46	4.6	48	4.9	51	5.8
Hartford, CT	44	2.2	40	3.0	16	4.6	15	3.3	14	3.2	5	3.2
Bergen-Passaic, NJ	45	2.1	37	3.1	44	2.7	18	3.4	9	3.0	10	3.5
Anaheim-Santa Ana, CA	46	2.1	39	3.0	22	4.1	2	2.5	3	2.5	14	3.6
Chicago, IL	47	2.1	56	2.1	63	1.6	68	5.5	69	6.1	58	6.2
San Francisco, CA	48	2.1	59	2.1	77	-0.3	9	2.8	12	3.0	25	4.2
Salt Lake City-Ogden, UT	49	2.0	73	1.4	66	1.3	34	4.2	64	5.6	46	5.6
Rochester, NY	50	2.0	44	2.7	74	0.4	37	4.3	23	3.6	40	5.2
Miami-Hialeah, FL	51	2.0	61	2.0	41	2.9	76	5.7	59	5.4	39	5.2
Los Angeles-Long Beach, CA	52	1.9	53	2.4	54	2.4	23	3.6	42	4.8	55	6.0
Minneapolis-St. Paul, MN-WI	53	1.9	19	4.1	45	2.6	28	3.8	34	4.6	27	4.3
Boston, MA	54	1.8	64	1.9	55	2.2	3	2.5	1	2.3	1	2.5
Buffalo, NY	55	1.7	42	2.9	37	3.1	74	5.7	38	4.7	60	6.3
Jersey City, NJ	56	1.7	65	1.9	70	1.1	80	6.5	76	6.5	63	6.4
Albany-Schenectady-Troy, NY	57	1.6	20	3.9	51	2.5	33	4.2	15	3.3	32	4.7
Newark, NJ	58	1.6	70	1.7	69	1.1	31	3.9	22	3.6	24	4.1
New Orleans, LA	59	1.5	84	-0.9	83	-3.8	85	8.7	87	8.1	86	10.9
Atlanta, GA	60	1.5	63	2.0	14	4.7	39	4.4	29	4.0	30	4.5
Harrisburg-Lebanon-Carlisle, PA	61	1.5	24	3.8	58	1.9	13	3.2	18	3.5	3	3.1
Honolulu, HI	62	1.4	28	3.5	33	3.4	8	2.8	19	3.5	15	3.6
Baltimore, MD	63	1.4	55	2.1	35	3.1	63	5.3	41	4.8	37	5.0
Springfield, MA	64	1.4	36	3.1	53	2.4	12	3.1	5	2.6	9	3.4
Pittsburgh, PA	65	1.3	68	1.7	76	-0.3	43	4.6	66	6.0	44	5.5
San Jose, CA	66	1.3	51	2.5	78	-0.4	17	3.3	20	3.5	41	5.3
Detroit, MI	67	1.3	78	0.8	64	1.5	84	6.9	86	8.1	75	7.1
Memphis, TN-AR-MS	68	1.2	9	5.2	30	3.5	53	4.9	62	5.5	64	6.4
St. Louis, MO-IL	69	1.2	69	1.7	42	2.8	78	6.0	78	6.5	72	6.9
Tucson, AZ	70	1.2	41	2.9	47	2.6	67	5.4	43	4.8	47	5.6
Syracuse, NY	71	1.1	30	3.5	56	2.0	52	4.8	55	5.1	73	6.9
New York, NY	72	1.1	72	1.5	68	1.3	41	4.5	36	4.6	49	5.7
Nassau-Suffolk, NY	73	1.0	54	2.1	31	3.5	22	3.5	4	2.6	16	3.6
Philadelphia, PA NJ	74	0.9	33	3.3	62	1.6	20	3.4	27	3.8	13	3.5
Greensboro--Winston-Salem--High Point, NC	75	0.8	49	2.6	23	4.1	6	2.8	13	3.2	19	3.8
Baton Rouge, LA	76	0.8	82	-0.1	79	-1.1	86	8.9	85	8.1	85	10.8
Tulsa, OK	77	0.7	87	-1.9	84	-4.1	79	6.1	83	6.9	83	8.4
Kansas City, MO-KS	78	0.5	80	0.1	19	4.3	73	5.6	61	5.5	33	4.7
Phoenix, AZ	79	0.5	46	2.7	25	3.9	69	5.5	47	4.9	42	5.4
Providence, RI	80	0.2	67	1.8	38	3.1	21	3.4	17	3.4	20	3.8
Knoxville, TN	81	0.0	81	0.0	8	5.4	83	6.7	72	6.2	79	7.7
Fort Worth, TX	82	-0.1	77	0.9	72	0.8	60	5.2	63	5.6	62	6.4
Dallas, TX	83	-0.1	75	1.0	80	-1.3	50	4.8	51	5.1	48	5.7
Denver, CO	84	-0.4	79	0.3	82	-2.4	72	5.6	82	6.8	78	7.5
Austin, TX	85	-1.1	85	-1.0	81	-2.3	56	5.0	60	5.5	52	5.9
Oklahoma City, OK	86	-1.3	83	-0.5	85	-4.2	58	5.1	45	4.9	67	6.5
Nashville, TN	87	-1.3	86	-1.1	7	5.9	32	4.1	35	4.6	28	4.4

Source: Salomon Brothers Inc

TABLE IV

ASSET COMPOSITION OF FAILED AND HEALTHY THRIFTS

	Severely insolvent institutions		All other FSLIC-insured institutions	
Year-end	Residential mortgage-related loans	Nontraditional investments	Residential mortgage-related loans	Nontraditional investments
1982	63.7 %	14.3 %	72.1 %	8.9 %
1983	54.7	24.3	67.6	9.7
1984	45.8	33.0	64.3	12.6
1985	38.9	40.8	61.9	14.6
1986	35.6	43.2	61.1	14.9
1987	33.5	44.0	62.0	14.6
June 1988	35.0	43.6	62.1	14.8
Number	210		2,507	
Liabilities	$74.1 billion		$1,109.1 billion	
GAAP equity	($22.3 billion)		$47.9 billion	
Equity liabilities	-30.06%		4.32%	

Source: J. Noel Fahey, "Grade A Institutions Far Outnumber the Bad," Savings Institutions, January, 1989 (Original source: Federal Home Loan Bank Board) investments -- at least for government insured depository institution. Severely insolvent savings and loans had 44% of their assets in non-traditional investments and only 35% in residential mortgages, while healthy savings and loans had 62% of their assets in residential mortgage and only 15% in non-traditional investments. Over 85% of FSLIC losses were derived from the direct or indirect real estate development activities of the thrifts and not plain vanilla home mortgage lending.

Table V shows that rapidly growing thinly capitalized institutions were the cause of a significant portion of the losses incurred by FSLIC. The cases and risks were so obvious and apparent that it still is incomprehensible to me that no one stopped this risky activity, which resulted in the looting of the federal treasury.

II. Importance of the Thrift Industry to the Housing Market

Despite the asset side deregulation of 1982, the savings and loan industry is still an essential element of the home mortgage finance system. Table VI and Figure I show that the savings and loans made nearly 50% of home mortgage originations in the country in both 1980 and 1988. Their holding of home mortgages staged at 44% of all mortgages in both 1980 and 1988 and still were clearly the most important source of home mortgage credit. Finally, Table IV, shown earlier, indicates that healthy savings and loans still had over 62% of their assets invested in residential mortgage loans.

These figures clearly show the vital linkage between home mortgage lending and the vast majority of good players in the savings and loan industry.

TABLE V

FAST GROWERS IN THE PAST ARE MAJOR PROBLEMS TODAY

Institution Name	Location	Tangible Capital as of March 1988	Liab. as of March 1988	GAAP Capital As of March 1988	Annualized Asset Growth 1st half of 1985	Tangible Capital as of Dec. '84	Tangible Capital to Assets as of Dec. '84
Sunbelt SA of Texas	Dallas, TX	-$1,699	$4,042	-$1,696	202%	-$13	-0.91%
Independent American[1]	Irving, TX	-699	1,635	-696	63%	-67	-5.72%
American Diversified[2]	Lodi, CA	-656	1,166	-656	27%	27	3.36%
University SA	Houston, TX	-623	4,232	90	26%	87	2.72%
Bright Banc SA	Dallas, TX	-562	4,795	-232	519%	33	5.58%
Commodore Savings	Dallas, TX	-435	1,151	-433	55%	12	2.06%
Security S & LA	Scottsdale, AZ	-291	1,076	-291	44%	-48	-5.24%
Sandia FS & LA	Albuquerque, NM	-287	1,308	-216	90%	-41	-6.42%
United SA of Texas	Houston, TX	-188	4,928	37	27%	-50	-1.28%
Commonwealth Savings	Houston, TX	-179	1,933	-172	52%	34	3.50%
Meritor Savings Bank[3]	Arlington, VA	-51	718	60	489%	-40	-15.07%
Blue Valley FS & LA	Kansas City, MO	-38	931	-38	27%	15	1.93%
Champion FS & LA[4]	Bloomington, IL	-37	2,399	77	54%	-88	-6.40%
First FS & LA	Austin, TX	-31	1,004	-18	84%	42	7.05%
Murray Savings	Dallas, TX	-26	1,436	-14	81%	30	4.88%
Allenpark Federal[5]	Houston, TX	-24	234	-24	62%	6	0.81%
Occidental FSB	Omaha, NE	-22	730	-17	79%	8	1.81%
Montfort Federal[6]	Dallas, TX	-13	1,222	-13	27%	30	3.31%
Charter FS & LA	Bristol, VA	-2	868	53	85%	-21	-4.84%
Altus Bank, A FSB[7]	Mobile, AL	-0	2,567	97	44%	-21	-1.56%
Totals/Averages		-$5,864	$38,377	-$4,104	73%	-$65	-0.30%

(Dollars in millions)

Source: Joint Statement of Gerald J. Levy, Chairman, Guaranty Savings & Loan Association, Milwaukee, WI, Herbert M. Sandler, Chairman, World Savings & Loan Association, Oakland, CA and Donald B. Shackelford, Chairman, State Savings Bank, Columbus, OH, Before the Committee on Banking, Housing and Urban Affairs of the United States Senate, August 2, 1988.

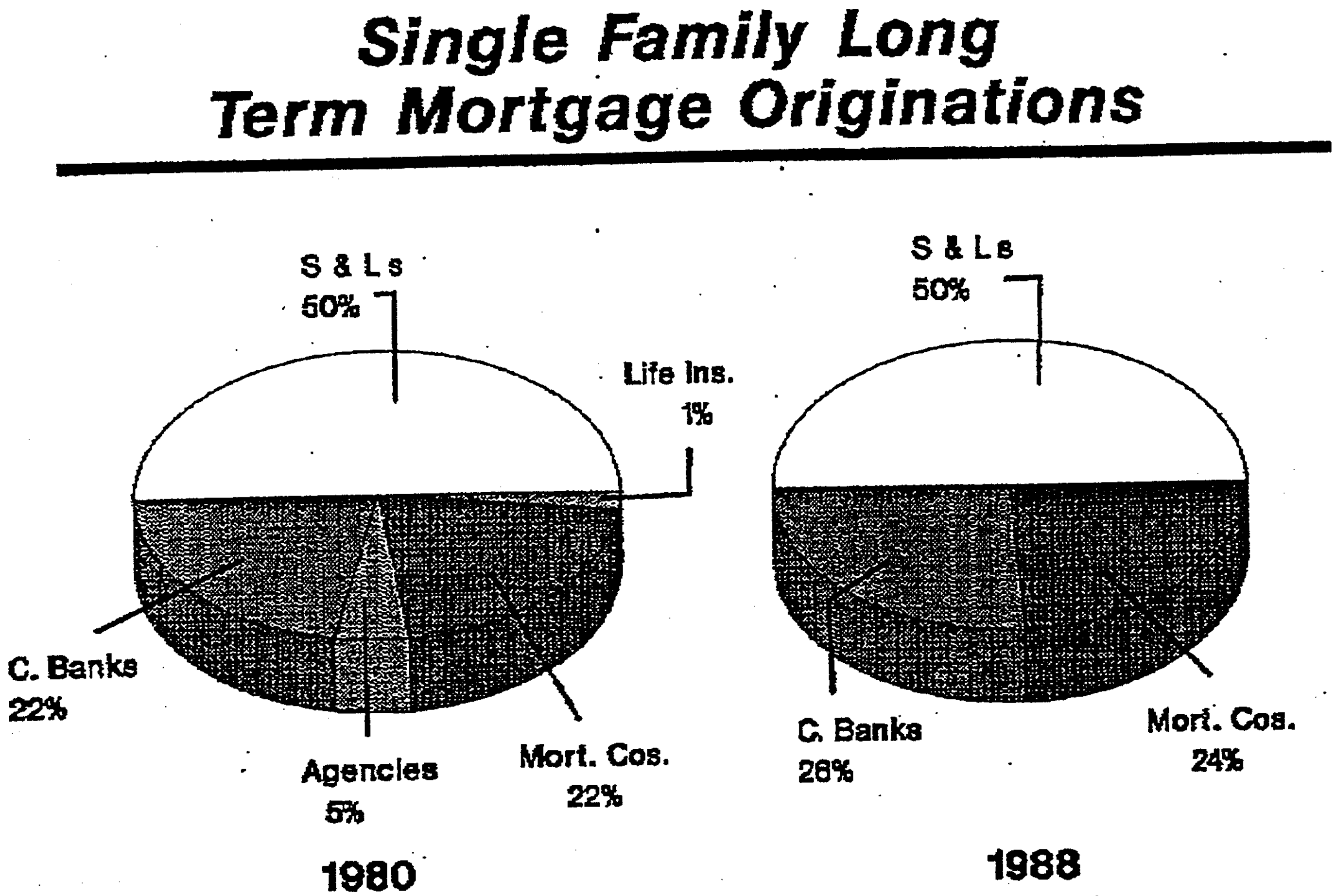
TABLE VI

MORTGAGE ORIGINATIONS AND HOLDINGS BY TYPE OF INSTITUTION

	Single Family Mortgage Originations		Single Family Mortgage Holdings	
	1980	1988	1980	1988
Savings & Loans	50	50	44	44
Commercial Banks	22	26	17	25
Mortgage Bankers	22	24	1	1
Insurance Companies & Pensions	1	--	7	11

Source: Department of Housing and Urban Development

FIGURE I



Source: Department of Housing and Urban Development