# FSLIC Crisis

by Gail Bolcar

The American Bankers Association (ABA) has carefully monitored the condition of the Federal Savings and Loan Insurance Corporation (FSLIC) and the thrift industry for several years. On September 20, 1988, the ABA released a paper entitled "The FSLIC Crisis: Principles and Issues, A Call to Action," which was prepared by the ABA's FSLIC Oversight Committee under the direction of William T. McConnell, President, Park National Bank, Newark, Ohio. In this paper, a three-phase action plan was presented to address the growing insolvency of the FSLIC.

Immediate action calls for halting the growth of the 900 or more insolvent and nearly-insolvent FSLIC-insured institutions. The committee suggested limits on growth of deposits, borrowings from Federal Home Loan Banks, use of brokered funds, growth of assets, and loans to new customers, officers and directors.

Near-term actions call for documentation of deficiencies in thrift regulatory, supervisory and accounting practices, as a basis for formulating a program for correction. At a minimum, thrift standards and practices should be brought up to the same level as those governing banks. In addition, a framework needs to be developed for increasing the pace of insolvent thrift caseload resolutions. Any constraints on financial and personnel resources that are needed to accomplish the resolutions should be eliminated and administrative procedures for assisted mergers should be streamlined. Only in this way can the rapid escalation of the FSLIC insolvency be meaningfully reduced.

As part of this framework, a solution for funding the FSLIC's insolvency needs to be developed. The funds available from the recent FSLIC recapitalization plan appear to be insufficient to resolve the problem. The conclusion of most observers is that the FSLIC's insolvency is so large — perhaps as much as $75 billion or more — that the use of taxpayer funds and/or the Treasury's credit now appears unavoidable.

While some have suggested the use of the insurance funds at the Federal Deposit Insurance Agency (FDIC) and the National Credit Union Administration (NCUA) to resolve the FSLIC deficit problem, several considerations argue strongly against such an approach. The thrift industry crisis is a national crisis, and concentrating the cost of the FSLIC assistance on just a narrow segment of our society runs completely contrary to the principles followed in other national assistance programs. Furthermore, banks and credit unions have not been responsible for the condition of the thrift industry or its deposit insurer and should not be required to pay for the mistakes of thrift regulators and supervisors, nor the irresponsible actions of the thrift competitors. From a purely practical viewpoint, there are simply not enough funds available in the FDIC and the NCUA to reduce even one-third of the FSLIC's insolvency.

Longer-term actions calls for enactment of legislation in the 101st Congress to bring thrift regulatory, supervisory, and accounting standards up to banking industry levels. Additional legislation may be required to enable an increase in the pace of insolvent thrift caseload resolutions and provide a sound means for funding the FSLIC's insolvency. Moreover, steps must be taken to reform the deposit insurance system — particularly in the area of increasing the reliance on market discipline — to assure that a crisis like that besetting the thrift industry does not reoccur. In addition, there should be a reconsideration of whether a specialized housing credit system consisting of specialized lenders and the Federal Home Loan Banks is still needed.