# TREASURY NEWS

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Statement by
The Secretary of the Treasury
Nicholas F. Brady
Regarding the President's Savings and Loan Reform Program

Thank you, Mr. President.

From the day five months ago that I was sworn in as Secretary of the Treasury, achieving a sound, responsible resolution to the savings and loan crisis has been a top priority. As the President has said, there are no simple or painless solutions to this problem. When he took office eighteen days ago, the President reaffirmed our commitment to fix it now, fix it right, and fix it for good. He also directed me to consult with Congress, and we have done so.

Two watch words guided us as we undertook to solve this problem--NEVER AGAIN.

- Never again should we allow a federal insurance fund that protects depositors to become insolvent.

- Never again should we allow insolvent federally insured deposit institutions to remain open and operate without sufficient private capital at risk.

- Never again should we allow risky activities permitted by the states to put the federal deposit insurance fund in jeopardy.

- Never again should we allow fraud committed against financial institutions or depositors to be anything but a serious white collar crime.

The plan I am about to describe to you meets all these requirements. It is a blueprint for comprehensive reform and financing. It is supported by all the federal bank regulators--the Federal Reserve, the Comptroller of the Currency, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation. I will first describe the crucial reform program, then turn to the financing structure.

But before I begin, let me stress that insured depositors need not worry. Insured deposits are as safe today as they were yesterday, regardless of whether these savings are in savings and loans or commercial banks; savers with insured accounts will continue to be protected in the future. The banks that are open today will be open tomorrow. Our aim is to ensure that there will be no disruption of services in local communities. Above all, federally insured savings are, and will remain, backed by the full faith and credit of the federal government.

Now for the reform program. The current organization of the thrift system dates to the New Deal era. As the events of the 1980's have demonstrated, this system is antiquated. The Federal Home Loan Bank Board, under the leadership of Chairman M. Danny Wall, has addressed this crisis in an expedited manner under extremely difficult circumstances--with inadequate funding and limited staff. The men and women who work at the Bank Board and the FSLIC deserve our thanks for their tireless efforts. But, to correct long-term structural problems, we propose the creation of an independent insurance agency to protect depositors. FSLIC will be consolidated with the FDIC. The existing expertise and manpower of FSLIC will be incorporated into the FDIC. However, and I stress this point, two separate insurance funds, with separate premium streams, one for S&Ls and one for banks, will be maintained. The two separate funds cannot be commingled.

In conjunction with this step, we propose to reorganize the existing regulatory structure to ensure the availability of home financing in the future. The entire supervisory structure will be accountable to the Chairman of the Federal Home Loan Bank System, instead of to the industry they regulate. And the Chairman of the revitalized Federal Home Loan Bank System, like the Comptroller of the Currency, will report to the Secretary of the Treasury.

In a further measure to put our financial institutions on a sound footing, we will require that the level of private capital be uniform for all banks and S&Ls in adequate quantities to act as a buffer to the deposit insurance funds. Therefore, by June 1, 1991, all insured institutions must meet the uniform capital standards applicable to FDIC-insured banks. For the savings and loans this will mean roughly doubling the required capital.

We are upgrading safety and soundness measures. If this plan is enacted, in the future depositors will be protected through a range of new measures, including:

- o A capital requirement that will be pegged to the risk of S&L investments;
- o Stricter standards for granting insurance;
- o Prohibitions and restrictions on growth and risk-taking by undercapitalized institutions;
- o And, where risky activities authorized by the states pose a threat to the insurance fund, federal deposit insurance standards will prevail.

Requirements for receiving federal deposit insurance will be determined by the FDIC. There will be no more windmill farms financed by federally guaranteed deposits; and new uniform accounting, supervisory and disclosure standards will help enforce these measures.

Lest anyone have any doubts about how serious we are about cleaning up the thrift industry and keeping it clean, we are upgrading enforcement and increasing penalties to make fraud against financial institutions and depositors a most serious white collar crime. Under our plan, the maximum civil penalty will be increased from the current $1,000 per day to $100,000 per day. Under our plan, the U.S. government will make every effort to recover squandered funds by increasing funding for enforcement.

These reform measures are vitally important to the future of the thrift industry. Without them, we will not have a healthy private savings and loan industry to provide home financing for Americans. But as we are all acutely aware, reform and a financial solution to the problems of the current system go hand in hand. When combined with the $40 billion already spent, the $50 billion in new funds provided by this program will bring to $90 billion the total amount available to address the problems of insolvent S&Ls.

We believe it is essential that we resolve, with all deliberate speed, the cases of the insolvent S&Ls. We will do so through the creation of the Resolution Trust Corporation (the RTC). It will be a corporation whose function is to isolate insolvent S&Ls from healthy ones and resolve them in an orderly fashion. The RTC mechanism will allow one consolidated resolution process where accounting for -- and controlling the funds will be a clear and straightforward process. In short, strict accountability will be ensured. The RTC will not have a large staff and the FDIC will manage the resolutions. The work of the RTC will be overseen by a board consisting of the Secretary of the Treasury, Chairman of the Federal Reserve, and the Comptroller General. A funding corporation will sell $50 billion in bonds over the next three years to finance the resolutions.

Our plan for financing the recovery and restructuring of the S&L industry uses both private and public funds to resolve insolvent thrifts. This plan is on-budget, in other words, every cent of additional public funds spent counts as an increase in budget outlays. Funds for the payment of principal will come from S&L industry sources.

In all, this plan provides funds for three purposes. First, S&L industry and Treasury funds are used to finance the RTC's resolution of insolvent thrifts. Second, S&L insurance premiums are used to create an insurance fund for healthy S&Ls. Third, increased commercial bank insurance premiums help bring the FDIC insurance fund for commercial banks up to a fully funded level. But let me reiterate, no commercial bank insurance premiums are used to resolve insolvent S&Ls or go into the S&L insurance fund.

The S&L industry financing comes from three sources: retained earnings of the Federal Home Loan Banks, funds from the disposal of assets received by the insurance fund from insolvent S&Ls, and deposit insurance premiums charged to individual S&Ls.

Commercial bank resources required to bring the FDIC fund up to a fully funded level will also come from an increase in insurance premiums. The FDIC will reduce insurance premiums to both commercial banks and S&Ls, once it determines that their respective funds are fully financed and pegged to a more historical reserve-to-deposit ratio of 1.25 percent.

The FSLIC and FDIC will immediately begin a joint supervisory program with personnel also contributed by the Federal Reserve and Office of the Comptroller of the Currency. Over the next several weeks FDIC personnel will assume supervisory control of insolvent S&Ls to protect depositors. This program will stabilize these institutions by curbing losses and will give a head start for the tough job ahead.

This, then, is the Bush Administration's solution to the savings and loan crisis. If enacted by Congress in an timely manner, it will provide a sound, long-term solution to the S&L

crisis. I call on Congress to work with us to turn this plan into law as soon as is possible. Working together, we can recreate and rejuvenate the vital thrift industry which served our country so well in the past.

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