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WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/6/89 ACTION/CONCURRENCE/COMMENT DUE BY: 1:30 TODAY

SUBJECT: FACT SHEET - SAVINGS AND LOAN

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	✓	MCCLURE	✓	☐
SUNUNU	✓	☐	NEWMAN	☐	☐
SCOWCROFT	☐	☐	PORTER	✓	☐
DARMAN	✓	☐	STUDDERT	✓	☐
BATES	✓	☐	UNTERMEYER	☐	☐
BREEDEN	☐	✓	Boskin	✓	☐
CARD	✓	☐		☐	☐
CICCONI	✓	☐		☐	☐
DEMAREST	✓	☐		☐	☐
FITZWATER	✓	☐		☐	☐
GRAY	✓	☐		☐	☐
HAGIN	☐	☐		☐	☐

REMARKS:

Please provide your comments/recommendations directly to Richard Breeden's office with an info copy to my office by 1:30 TODAY Monday, February 6. Thank you.

RESPONSE:

James W. Cicconi
Assistant to the President
and Deputy to the Chief of Staff
Ext. 2702

THE WHITE HOUSE
OFFICE OF THE PRESS SECRETARY

FOR IMMEDIATE RELEASE February 6, 1989

FACT SHEET

THE PRESIDENT'S REFORM PLAN
FOR THE SAVINGS AND LOAN INDUSTRY

President Bush announced that he will send Congress a major reform and financing initiative to resolve the nation's savings and loan industry problems. The President emphasized that all insured savings and loan and bank deposits are and will continue to be backed by the full faith and credit of the federal government.

The President's proposal has the support of all the federal agencies that regulate financial institutions: the Federal Reserve Board, the Comptroller of the Currency, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation.

The President's proposal contains these elements:

- The plan will fundamentally restructure the way the savings and loan industry is regulated and insured to prevent such a crisis from ever reoccurring.
- It will improve supervisory controls so that regulators will be able to prevent the kinds of abuses that have occurred in the past.
- It will increase the financial integrity of the federal deposit insurance funds for the future.
- It will enhance enforcement and increase penalties to make fraud against financial institutions the most serious of all white collar crimes.
- It will create and fund a new corporation to pay the cost of closing all insolvent savings and loan institutions.
- Action will be taken to begin placing these institutions under the ownership and control of the federal government in an orderly manner.

Structural Reform

The Federal Savings and Loan Insurance Corporation (FSLIC) will be separated from the Federal Home Loan Bank Board and attached administratively to the Federal Deposit Insurance Corporation (FDIC). This will create one strong independent insurer with an overriding mission of providing insurance to protect depositors and maintaining the security of the deposit insurance fund. The considerable expertise of the two corporations will be available to deal with financial insurance and regulatory issues. However, while a single agency will be created, separate insurance funds will be maintained for commercial banks and for S&Ls. The separate insurance funds will not be commingled, and premiums from each industry will be used only for its own insurance fund.

The current Federal Home Loan Bank Board (FHLBB) will be renamed the Federal Home Loan Bank System (FHLBS). Its current board will be replaced by a single chairman. The Chairman of the FHLBS will be subject to the general oversight of the Secretary of the Treasury in the same manner as the Comptroller of the Currency, who regulates national banks. The system of 12 Federal Home Loan Banks will be maintained to support housing finance. However, supervisory responsibilities will be strengthened, current pay standards for supervisory personnel of the FHLBB will not be altered.

By separating the insurer from the chartering agency, more serious disciplinary standards are likely to be maintained in the future. In addition, by subjecting the actions of the FHLBS to oversight by the Treasury department, the interests of the taxpayers can be more fully and consistently protected. This Treasury oversight has existed for national banks since the Administration of President Abraham Lincoln. These steps will create a system of checks and balances for savings and loans that more closely parallels that for commercial banks.

Improved Supervisory Controls

The President's plan will increase safety and soundness standards for savings and loan institutions. In effect, these institutions will be brought up to commercial bank standards over a two-year period.

All S&Ls will be required to meet the capital requirements applicable to FDIC-insured banks by June 1, 1991. That is, their capital must be increased to approximately six percent of assets, almost double the current capital requirement. Risk-based capital standards would be utilized. The increase of private capital will stand ahead of the government's guarantee of deposits, giving taxpayers an enhanced level of protection.

The FDIC will be given enhanced authority to set insurance standards for all S&Ls, both federal and state-chartered. It will be able to restrict risky activities that have been authorized by some states in the past. In addition, the FDIC would be authorized to take appropriate measures on an expedited basis when unsound practices are found.

Financial Integrity

The President's plan will require increased insurance premiums to put federal deposit insurance on a sound financial basis for the future, funded by the industry.

It will recapitalize the deposit insurance fund for S&Ls, with S&L premium income of a billion dollars a year beginning in 1991. The annual premium rate payable to the FDIC by S&Ls will be increased to 0.23 percent of deposits (from 0.208 percent) from 1991 until 1994, when it will decline to 0.18 percent.

The plan also will require increased premiums for commercial banks to bring the separate FDIC fund more in line with its own historic reserve-to-deposit ratio. When a target reserves level of 1.25 percent of total insured deposits is achieved, excess net premium income will be rebated. The FDIC premium paid by commercial banks will increase to 0.12 percent (from 0.083 percent) in 1990, the first year and to 0.15 percent in succeeding years. Commercial bank premiums will not be used to resolve insolvent S&Ls or to shore up the S&L insurance fund.

Enhanced Enforcement

The President's plan will add new enforcement authorities, increase penalties for fraud, and increase funding to provide for dramatically increased law enforcement staff and prosecutions.

The scope of federal regulators' enforcement authority will be broadened to include all insiders, in addition to those directly involved in running an institution. It will give regulators broader power to impose temporary cease-and-desist orders.

It will increase maximum civil penalties to $1,000,000 per day, and maximum criminal penalties to 20 years or more, with new sentencing minimums. It will provide authority for regulatory agencies to pay rewards to informants.

Most importantly, approximately $50 million per year will be provided from the proceeds of the funding program to the Justice Department to fund a new national Financial Institution Special Team ("FIST"). The FIST will include dedicated investigators, auditors, analysts, and prosecutors. FIST activities will be under direct supervision of the Attorney General, with the assistance of the Director of the FBI. The President has directed that FIST operations receive full cooperation of all regulatory authorities, and that the progress in recovering misappropriated assets and indictments of wrongdoers be reported to him monthly.

Resolution of Remaining Insolvents

The President's plan will create a new Resolution Trust Corporation to resolve currently insolvent S&Ls in an orderly fashion. The creation of this new private corporation is proposed for practical business reasons. It will allow isolation of insolvent S&Ls during the resolution process, and will facilitate a full and precise accounting of all funds that are used.

The RTC will have an Oversight Board comprised of the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the Comptroller General of the United States. It will not have a large staff of its own, but will contract with FDIC to manage the insolvent institutions. The RTC would seek to complete the resolution or other disposition of all institutions and their assets over a period of five years.

The RTC will require $50 billion in funding to resolve the remaining insolvent S&Ls. Another $40 billion has already been committed in past FSLIC resolutions. Much of the funding required will come from S&L industry sources, but general revenues will also be required. All Treasury funds will be counted on-budget.

A separate Resolution Trust Funding Corporation will be authorized to issue $50 billion in 30-year bonds. The principal will be repaid entirely with S&L industry funds, so there will not be any budgetary impact from the repayment of the principal of these bonds. Taxpayer funds or guarantees or commercial bank funds will not be required for repayment of the principal of the RTFC bonds. Approximately $5 billion of existing S&L industry funds, retained earnings of the Federal Home Loan Banks and special assessment premiums will be used to purchase zero coupon Treasury securities, which when they mature in 30 years will pay off the $50 billion in principal of the RTC bonds.

Initially, approximately two-thirds of interest payments of $5 billion per year on the RTFC bonds will be paid with S&L industry funds derived from a portion of the earnings of the Federal Home Loan Banks. The remaining one-third of such interest payments will be made through on-budget expenditure of general revenues by the Treasury Department during the first five years. Over that period, the average annual Treasury outlay will be $1.4 billion.

The approximately $40 billion in financial obligations previously committed by the FSLIC in resolving more than 200 failed thrifts will be serviced with a combination of industry and Treasury funds for the first five years. Over that period, the average annual Treasury outlay, again derived from on-budget general revenues, will be $2.4 billion, or approximately 45% of such total payments.

Total Treasury Department on-budget outlays of almost $4 billion per year during the first five years do not exceed outlays already contemplated in President Reagan's FY 1990 Budget.

<u>Immediate Joint Supervisory Cooperation</u>

The President announced that the FDIC and FSLIC immediately will begin joint supervisory cooperation to bring the expertise of the FDIC as well as the FSLIC to bear on the effort to address the expensive problem of resolving insolvent S&Ls.