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Rick
FYI
[Signature]

March 15, 1989

The Honorable Donald W. Riegle, Jr.
United States Senate
105 Dirksen SOB
Washington, D.C. 20510

Dear Senator Riegle:

I thought that you would be interested in seeing the just issued study which concluded that high yield bonds have been an "attractive investment" for thrifts and have not "been a reason for the recent thrift industry problems."

This GAO study represents the first time a federal government agency has undertaken an in-depth, wide-ranging study of the high yield bond market. As such, it is a landmark contribution to the ongoing debate over investment by federally insured institutions in high yield bonds.

The GAO report found that high yield bonds have "provided thrifts attractive risk-adjusted returns in relation to other assets available to thrifts." In fact, the report found that an actively managed and diversified portfolio of high yield bonds has provided savings and loan institutions with higher returns in relation to alternative investments, including U.S. Treasury and investment grade bonds. I have enclosed a copy of the study along with a fact sheet on savings and loan investment in high yield bonds.

I hope that the findings of the report are useful as you continue to examine the problems confronting our nation's thrifts. Please do not hesitate to contact me if I can answer any questions about the report or thrift investment in high yield securities.

Sincerely,

Doug Lowenstein

Doug Lowenstein
Vice President