

DEPARTMENT OF THE TREASURY
WASHINGTON

PERSONAL

May 6, 1987

Dear Mr. Chairman:

I have had the opportunity today to read your speech of May 4th delivered to the Independent Bankers Association. Quite frankly, I found your comments about the Treasury's actions with respect to FSLIC both disturbing and frustrating.

The seriousness of FSLIC's problems is hardly a fiction created by the Treasury. Over the past four years, the General Accounting Office has produced 19 separate reports on the state of the savings and loan industry and its insurance fund. I assume you would agree that this is an independent source, and hardly subject to influence by the Treasury. A number of academicians have commented as to the size and urgency of the problem. Chairman Volcker has told me that his staff has recently reviewed the state of the industry and has concluded that the Treasury may be underestimating the size of the problem. In fact, in his March 24th letter to you, Chairman Volcker stated that: "Financial assistance for the FSLIC is urgently required and Title III provides the initial resources of \$7.5 billion -- an amount that I believe should be increased to the full \$15 billion originally requested."

Very importantly, the views of a number of Home Loan Bank Presidents, the principal supervisory agents within the S&L regulatory system, reinforce our concerns as to the seriousness of the industry's problems, their urgency and the mounting cost of the delay in resolving them. For example, if you would care to have a frank discussion with Roy Green, the President of the Dallas Home Loan Bank, I believe you would come to share more of our nervousness about what is happening out there in the real world. And, FSLIC is truly almost out of money! (I don't just mean book capital either; right now I'm troubled by FSLIC's shortage of cash and liquid securities.)

Our motivations are neither cynical nor irresponsible. Indeed, we would be irresponsible if we did not speak out about the reality which we, and other knowledgeable observers, perceive. Depositors, public confidence in our financial structure and ultimately the taxpayer are at risk if this problem is not handled adequately and expeditiously. While it may be your sincerely held view that "closing the nonbank bank loophole is just as important and urgent as recapitalizing FSLIC," I should point out that neither now nor historically has a nonbank safety and soundness crisis engulfed the FDIC. In our opinion, the urgency of FSLIC's problem stands in sharp contrast.

I can assure you, as the person at the Treasury most responsible for our FSLIC policy, that there will be no “leaks” from our Department designed to further some hidden agenda. We will continue, however, to express our views forcefully with respect to any subject where we feel the public good is at stake.

Very truly yours,

George D. Gould

The Honorable William Proxmire
Chairman, Committee on Banking,
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