Document No. 061640SS

WHITE HOUSE STAFFING MEMORANDUM

DATE: 8/8/89 ACTION/CONCURRENCE/COMMENT DUE BY: 8/9/89 8:00 AM

SUBJECT: FACT SHEET ON KEY PROVISIONS OF FINANCIAL INSTITUTIONS REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989

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

REMARKS: Please forward any comments directly to Richard Breeden, 2FL, WW, no later than 8;00 AM, Wednesday, August 9, 1989, with a copy to my office. Thank you.

RESPONSE:

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

[Draft - 8/8/89 - 12:30pm]

KEY PROVISIONS OF THE FINANCIAL INSTITUTIONS REFORM, RECOVERY AND ENFORCEMENT ACT 1989

STRONG THRIFT CAPITAL REQUIREMENTS

- Thrift institutions must maintain a minimum core capital to total assets ratio of three percent to provide a cushion against losses.
- Supervisory goodwill must be phased out over five years.
- Other national bank capital standards must be satisfied.

FUNDING

- For Current Cases: provides $18.8 billion from the sale of Treasury securities and industry contributions in fiscal 1989 and $30 billion to be raised by the Resolution Funding Corporation (REFCORP) to resolve currently insolvent S&Ls and those that fail during the next three years.
- For Future Cases: provides $32 billion in public and private funds to the new Savings Association Insurance Fund (SAIF) to resolve thrifts that fail from 1992-1999 and to capitalize SAIF.
- For Old Cases: provides all necessary funds for FSLIC cases resolved before January 1, 1989.

RESOLUTION TRUST COPORATION (RTC) AND RTC OVERSIGHT BOARD

- The RTC will be established to merge or liquidate thrifts that have failed or will fail from January 1, 1989, until August 1992.
- The Federal Deposit Insurance Corporation (FDIC) will be the exclusive manager of the RTC, handling day-to-day operations.
- The RTC Oversight Board will establish general policies for the RTC and oversee its activities. Members will be the Secretary of the Treasury (Chairman), the Chairman of the Federal Reserve Board, the Secretary of Housing and Urban Development and two public members appointed by the President.

REGULATORY RESTRUCTURING

- Restructures the Federal Home Loan Bank Board into four functions.

  1. The Office of Thrift Supervision is formed under the oversight of the Department of the Treasury to regulate state and federal thrifts and thrift holding companies.

  2. The Savings Association Insurance Fund (SAIF) replaces the Federal Savings & Loan Insurance Corporation in providing deposit insurance for thrifts and will be managed by the FDIC.

  3. The Federal Housing Finance Board will supervise the credit activities of the 12 regional Federal Home Loan Banks.

  4. The Federal Home Loan Mortgage Corporation (Freddie Mac) will become an independent government-sponsored enterprise.

RESTRICTIONS ON THRIFT POWERS

- Investments in junk bonds, either directly or through a subsidiary, are prohibited, but may be placed in a separately capitalized affiliate where insured deposits are not at risk.

- Equity investments (such as direct real estate investments) are prohibited within federally-insured thrifts.

- Loans to one borrower are generally limited to the amount allowed for national banks.

- Brokered deposits are not permitted for undercapitalized thrifts.

QUALIFIED THRIFT LENDER (QTL) TEST

- Thrifts must maintain 70 percent of their assets in housing-related loans and other qualified assets.

- Thrifts that fail the QTL test must convert to a bank charter or be subject to certain restrictions.

HOUSING

- Federal Home Loan Banks must contribute at least $100 million a year by 1995 to subsidize interest rates on advances to member institutions that make loans for low and moderate income housing.

- The RTC must provide a three-month right of first refusal period to qualified buyers of single family homes held by the RTC, and a right of first refusal for multi-family housing that could extend to 135 days.

ENFORCEMENT

- Maximum terms of imprisonment for major financial institution crises, such as bribery and fraud, are increased to 20 years and the maximum criminal fine for these violations is increased to $1 million.

- The basis for civil penalties imposed by the regulators is expanded and the maximum penalty is increased to $1 million a day.

STUDIES

- The Treasury, in consultation with the depository institutions regulators and others, will conduct major studies on the federal deposit insurance system as well as a study on the risk exposure to the federal government of government-sponsored enterprises.