Senate Seeks Slow Growth of Troubled S&Ls

Proxmire, Garn Want Fast Action to Halt Losses

By ROBERT A. ROSENBLATT, *Times Staff Writer*

WASHINGTON—Alarmed by growing losses in the savings and loan industry, leaders of the Senate Banking Committee called Tuesday for emergency legislation to slow the growth of financially troubled S&Ls and to assure that state-chartered institutions meet federal investment standards.

Pounding the table, Chairman William Proxmire (D-Wis.) said: "I feel strongly now we should take action to stop the bleeding."

The ranking Republican, Sen. Jake Garn of Utah, said legislation now could avert the need for a taxpayer bailout of the troubled industry in the future. "I'm not going to ask taxpayers across the country to bail out fraud and mismanagement because people went crazy with investments they should not have been involved in," he said.

Proxmire and Garn made their appeals for congressional action after hearing testimony from S&L executives who warned that the cost of solving the industry's financial crisis could ultimately range as high as $80 billion or more, far above the estimate of $30.9 billion by the Federal Home Loan Bank Board, which regulates the federally chartered S&Ls.

However, FHLBB Chairman M. Danny Wall said later Tuesday that his regulatory staff is already preventing troubled S&Ls from undertaking risky growth in deposits and loans. And there are no significant new problems involving dubious investments by state-chartered institutions, Wall said. The surge of bad investments when California and Texas allowed S&Ls to rush into new businesses is "ancient history," he said in an interview at his office.

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William Proxmire

S&Ls: 2 Key Senators Urge Action to Restrict Growth

Continued from Page 2

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Wall dismissed the proposals by Proxmire and Garn, saying: "It's an election year. I don't feel we need it [legislation.] They may feel the need to do it for their own satisfaction or their own comfort."

Wall insisted that the bank board has enough financial resources to deal with the nation's 510 insolvent S&Ls, whose liabilities far exceed their assets. The bank board has merged or closed 51 institutions this year and hopes to deal with 200 more of the worst cases by the end of 1989, he said.

However, Tuesday's Senate hearing demonstrated that members of Congress are becomingly increasingly skeptical of the bank board's ability to cope with the sick segment of the S&L industry. Aggregate losses from the insolvent segment of the business are far greater than the profits amassed by the 2,500 healthy institutions.

There is no threat to depositors with accounts up to $100,000, which are insured by the federal government and backed by the full credit of the Treasury if the Federal Savings and Loan Insurance Corp.—the insurance fund—goes broke.

But many members of Congress fear that it may become necessary to provide a direct bailout by taxpayers if there is not enough money in the insurance fund to arrange mergers or shutdowns of all the troubled S&Ls.

Proxmire warned that a bailout might be the only alternative if the healthy segment of the S&L industry cannot supply the insurance fund with the premiums it needs to deal with the sick institutions. The bank board, through assessments, is already taking an amount equal to about 25% of the healthy S&Ls' profits for use in the deposit insurance fund.

In contrast to the calls for action by many committee members, Treasury Undersecretary George Gould advised caution, saying that a revival of the depressed real estate market in Texas and a rise in oil prices could alleviate the financial pain of many S&Ls.

"I urge this committee in the strongest possible terms to resist the mounting pleas for an unnecessary, budget-busting bailout of the FSLIC," Gould said.

Because the insurance fund is depending so heavily on contributions from the industry, the profitable "innocent" S&Ls are being made to suffer because of the transgressions of others, Herbert M. Sandler, chairman and chief executive of World Savings & Loan, based in Oakland, told the banking committee.

"We are in a big, big, black bottomless pit. We're begging you to solve the problem today before it gets worse," Sandler said.

The industry's losses, Sandler said, "could be $50 billion if you're a hopeless optimist." If the country has a recession, things could get much worse, with potential losses of $80 billion or more, he said. "This is the greatest financial scandal in U.S. history, a ticking time bomb ready to blow."