Everything's Black and White When It Comes to Ed Gray
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Edwin J. Gray

By TOM FURLONG *Times Staff Writer*

Mortgage-industry insiders are still talking about the performance that savings and loan regulatory czar Edwin J. Gray gave last March before a prestigious group of about 100 savings executives and attorneys at a private housing conference in Utah.

Following his speech, Gray was repeatedly asked to provide proof for a favorite but controversial contention of his: that wider investment powers for savings and loans pose a serious threat to the industry's deposit-insurance fund.

According to several at the meeting, Gray repeatedly sidestepped all such queries and succeeded in so angering the audience that it began groaning out loud when he tried to explain his position.

"People were yelling at him," said one regulator. "He was quite shaken by the reaction."

So it goes these days for the 49-year-old Gray, a Ronald Reagan protege who is having a rough time getting much respect as the 20th chairman in the 53-year history of the Federal Home Loan Bank Board.

Though he isn't well known to the general public, Gray is the official primarily responsible for ensuring that savers get their money back should a savings and loan association fail.

Gray has become arguably the most controversial chairman ever to head the sprawling bureaucracy that regulates the nation's 3,167 savings and loan associations. In 21 months on the job, he has put an indelible stamp on the S&L industry that has endeared him to an influential few but angered the industry at large.

In addition to heading the Home Loan Bank Board, Gray is chief of the Federal Savings & Loan Insurance Corp. (FSLIC), which administers the $6.3-billion insurance fund that guarantees deposits up to $100,000. And he's chairman of the Federal Home Loan Mortgage Corp. (Freddie Mac), which provides a secondary market for mortgage loans.

Gray's supporters say he's a kind of modern-day Hippocrates, administering necessary but foul-tasting medicines to an unhealthy industry. According to this view, the chairman is an absolutely tireless, courageous public servant whose polices are in the best interest of all S&Ls—even if not all of them realize it.

His base of support is the large California S&Ls, which generally believe that industry growth and investments must be better controlled and managed if major failures are to be avoided. Just last Thursday, the three-person bank board adopted two far-reaching—and very controversial—regulations that will sharply restrict where S&Ls may invest their deposits and how fast they may grow.

"If he weren't controversial, he wouldn't be

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doing his job," said William McKenna, a Los Angeles lawyer who is one of the chairman's closest advisers.

On the other hand, those who oppose him believe that he is spearheading a regulatory counter-revolution seeking to put government handcuffs back on an industry already deregulated by state and federal legislation.

They also view him as a Rodney Dangerfield-type who does not have the experience, talent or temperament to tell savings and loans how to run their businesses.

One catty industry nickname for him is "Mr. Ed," an allusion to the old television show about a talking horse. (A spokesman for Gray termed the name "snide and irrelevant.")

The hotbeds of unhappiness with Gray's policies are the thrifts—both new and old—that think expanded investments and rapid growth will help them remain profitable. Gray is also extremely unpopular among the hundreds of associations being organized that have been trying unsuccessfully to obtain the FSLIC insurance that they must have before they can open for business.

Most criticism of Gray and the bank board is spoken in private for fear of drawing regulatory wrath.

One of the few industry figures willing to speak ill of the bank board publicly is Gregory Zimmerman, president of Superior Savings Assn. in Cleveland. After the growth-restriction rule was first proposed last December, Zimmerman confirms that he wrote the bank board a protest letter that termed the regulation "one of the more idiotic, misguided, moronic ideas ever to pop out of the head of a mindless bureaucrat."

Though Gray professes to be unaffected by criticism, industry sources insist that he's exploring the possibility of returning to private industry because he could make more money—his salary is $70,100 a year—and feels unappreciated by those he's trying to serve.

Gray, however, brushes off these reports, saying, "I have every reason to believe that I will stay through my term," which expires in mid-1987.

Gray's term in office has come at an extraordinarily vulnerable, chaotic and confusing time for the thrift industry. High interest rates and deregulation have forever laid to rest what was, until the end of the 1970s, a profitable and not-too-demanding industry.

Today, the nation's savings associations have roughly $1 trillion in assets but no real net worth. That means that the industry's tangible assets don't exceed its liabilities—not exactly a vote of confidence in the highly leveraged world of banking.

But Gray's main dilemma, as he sees it, is that the FSLIC fund is grossly under-funded yet is still expected to protect depositors from failures—all at a time when S&Ls are growing at an unprecedented clip and such growth makes failures more likely.

In one recent case, the FSLIC had to spend $193 million—about 3% of its fund—to close Southern California's San Marino Savings & Loan Assn., a medium-size but fast-growing association that had run afoul of the regulators.

Gray continually harps on the fact that he won't allow the "fast-buck" artists to jeopardize the FSLIC fund.

Since Gray assumed his job, he has taken up a number of well-publicized causes with unswerving—some would say messianic—fervor and determination.

Proponent of ARMs

Gray insists that S&Ls must maintain a separate identity from commercial banks so that homeowners have ready access to mortgage money.

Some of his other causes include his belief that securities firms should not own S&Ls and his admonitions about the dangers of deposits raised through professional money brokers. He has also been a tireless promoter of adjustable-rate mortgage loans as a way of minimizing interest-rate risks.

But Gray is believed to be most proud of something that he won't discuss publicly—the forced resignation last summer of Charles W. Knapp as chairman of Financial Corp. of America.

In a tense, behind-the-scenes drama that lasted for several months, Gray took on the brilliant, flamboyant and (in some quarters) popular Knapp, whom Gray and the large California S&Ls viewed as a reckless and dangerous gambler.

Gray eventually engineered Knapp's resignation during the height of a deposit run that nearly put FCA into receivership, a result that surely would have bankrupted the FSLIC fund, bank board officials say.

Gray performed ably, displaying "all the right instincts" during an extremely tense time, said Eric Hemel, the bank board's chief economist. (Knapp has never commented on his ouster.)

The bank board chairman's job has not traditionally attracted the financial world's brightest stars. Before 1980, the only easily recognized name on the list of former chairmen was Preston Martin, now vice chairman of the Federal Reserve Board, who held the job from 1969 to 1972.

In the past few years, however, the chairmen have included such executives as Richard Pratt and Jay Janis, whose backgrounds have included a variety of high-level posts in government and industry.

Gray's background, by contrast, has been a mix of journalism, public relations, politics and Ronald Reagan.

Born in Modesto, Gray worked his way through Fresno State University, then drifted into journalism, first as a radio reporter for station KMJ in Fresno in the late 1950s and then as a news editor for the United Press International bureau in Madrid in the early 1960s.

Gray was a press aide for six years for then-Gov. Reagan in Sacramento and later served as campaign press secretary during Reagan's 1980 presidential campaign.

Gray was also on the White House staff in the early months of the Reagan presidency, where he was credited with helping garner Adminstration support for federal deregulation legislation in the banking industry. (Gray has always considered himself an advocate of deregulation, but he says he believes that some states, California in particular, went overboard in defining permissible investments for state-chartered institutions.)

When Gray wasn't working for Reagan, he was working as a public relations man for San Diego Federal Savings & Loan Assn., now known as Great American First Savings Bank, and for Pacific Telephone Co.

His critics are quick to point out that with such a background, it's no wonder that he isn't very well respected.

"Ed Gray does not know the savings and loan industry," one S&L analyst claimed. "Where in his background does he have the experience for this job? And since he doesn't have the experience, his first reaction on something new is: 'How do we stop it.' "

Gray, in a recent lengthy telephone interview, seemed less interested in impressing anyone than in being remembered as the bank board chairman who put the S&L industry back on its feet. "That requires some tough measures," he noted. "You can't please everyone."