THE WHITE HOUSE

WASHINGTON

May 5, 1989

Dear Mr. Thomas:

On behalf of President Bush, thank you for your message regarding the savings and loan crisis.

The President shares your deep concern on this matter. At a news conference on February 6, he outlined his Administration's proposals for resolving the financial crisis at many of our nation's thrift institutions. The President's plan ensures that the Federal government's guarantee to insured depositors is forever honored and that the system is reformed comprehensively so that similar abuses will not be repeated. Four major elements define the President's proposal:

1. In order to help control future risk-taking and reduce ongoing losses, all currently insolvent savings institutions will be placed under direct oversight by the Federal Deposit Insurance Corporation (FDIC) and other regulatory agencies. Ultimately all insolvent institutions will be recapitalized or closed.

2. The regulatory system will undergo a major overhaul to enable it to limit risk-taking more effectively. Prudent levels of capital would be required in the future for all insured institutions, as well as common accounting principles and safety and soundness regulations. Under this system, the FDIC would become the insurance agency for both banks and thrifts, and it would have authority to enforce rules against unsafe and unsound practices.

3. A ten-year financing plan will raise approximately $85 billion to underwrite the closure of insolvent firms. This plan is designed to provide sufficient resources for present and future needs and ensures that the savings and loan industry pays as much of the costs of the program as possible.

4. The Justice Department budget will be increased to approximately double its resources dedicated to combatting fraud. A nationwide program will also be established to find and punish those guilty of wrongdoing in the management of failed financial institutions.

The President supports the continuation of a system in which lenders have the option of specializing in housing finance. Indeed, current differences in insurance premiums between banks and thrifts would be dramatically reduced under the President's legislation, and the Federal Home Loan Bank System would be maintained. However, undercapitalized thrifts have caused tens of billions of dollars of losses that the taxpayers will be forced to pay. In light of that fact, the Administration believes any reform plan should require thrifts to be subject to the same capital, accounting and prudential requirements as national banks.

Obviously many thrifts will not be able to comply with the new capital requirements proposed by the Administration within the required period. Solvent but undercapitalized firms would continue to operate, but they would be barred from future growth until they achieved capital compliance. These undercapitalized firms would also be subject to supervisory oversight. These requirements would give troubled firms time to resolve their difficulties, but would at the same time protect the taxpayers from further massive losses due to risk-taking by firms with inadequate capital. Please be assured that our objectives are to restore credibility and public faith in the thrift industry.

In light of your interest, I am enclosing a copy of the President's February 6 statement, which highlights details of the Administration's proposal to resolve the savings and loan crisis.

Congress is now moving rapidly to consider the legislation submitted by the Administration. Since substantial ongoing costs can be avoided, the President welcomed the Senate's recent passage of his proposal, and he is calling on members of the House of Representatives to do the same.

With the President's best wishes,

Sincerely,

Richard C. Breeden
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for Issues Analysis

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Enclosure