Country club savings and loans get the biggest bailout ever

by Joyce Fredman

In one of the most egregious displays ever of preference for speculative investment and mismanagement, federal regulators on June 6 announced a record $1.35 billion payoff to the depositors of two bedraggled thrifts—American Diversified Savings Bank and North America Savings and Loan, both of Costa Mesa, California.

These two institutions represent both the incompetence and corruption that lie behind the Reagan-Bush administration's free market theories. Not only are their histories rife with lousy management, but the fact that these two S&Ls were chosen to receive over one-third of the Federal Savings and Loan Insurance Corporation's paltry $3 billion (or less) fund, as opposed to the hundreds of institutions representing the savings of workers around the country, is more than suspect. As we shall see, the two savings institutions had very few accounts in the name of average Americans. These are most unusual depositors that the FSLIC has determined to bail out.

Just the facts

Three years ago, federal regulators came up with a scheme to allow the most troubled savings and loan institutions to continue to operate under executives picked by the regulators. In other words, the Federal Home Loan Bank Board (FHLBB) would throw out the boobs and put in sharpies from other well-run institutions to get everything under control. It's called the Management Consignment Program. The idea was that, *within a few months,* FSLIC would either liquidate the thrift, or put up new capital to attract a new owner.

Needless to say, there has been too little money to do either in most cases. Hence, a new category has been created for the most troubled institutions, a kind of limbo, where the thrifts sit and wait for dollars that don't exist to come their way. As one astute consultant put it, "The general sense is that, with some exceptions, management consignment has been a failure. The program has been a mistake, because it has prolonged the problem. It amounted to a bet that things would get better, and they didn't."

Not only did things not improve, they got drastically worse. The two Orange County institutions have the figures to prove it. American Diversified Savings Bank has been in management consignment since Feb. 14, 1986, and North America Savings and Loan has been in the program since Jan. 23, 1987. The wizards from this program came out with an incredible set of numbers on March 31, 1988.

North America had $98.2 million in assets and $215.69 million in liabilities. Its regulatory capital level was −$317.5 million. Its operating losses were $1.59 million per month and it had an unbelievable 98% of its portfolio in nonperforming assets.

American Diversified had $509 million in assets and $1.166 billion in liabilities. Its regulatory capital level was −$656 million. Its operating losses were $8.3 million per month and it had 76.8% of its portfolio in nonperforming assets.

Thus, just as in the case of the Sunbelt Savings and Loan Association, the Texas thrift which gained notoriety by announcing a dramatic $1.2 billion loss for the month of March, the FSLIC's management consignment cure was as deadly as the disease. Sunbelt had its management revamped by the regulators twice!

FHLBB chairman M. Danny Wall has called the closing of these institutions a "second front." What Wall is peddling as an offensive against the banking crisis is in fact a big payoff. The money will go to depositors—nothing wrong with that. The FSLIC insures depositors in each member institution up to $100,000 per account. However, about $2 million in American Diversified and approximately $700,000 at North America are over the $100,000 limit. No need to worry. The FSLIC will share with those depositors whatever proceeds are received by the agency from the intended sale of the two institutions' assets.

According to regulators, American Diversified has about 13,500 accounts, and North America 2,500. But these are not the Texas farmer, or the steelworker from Maryland. Very few, if any, are held by small individual depositors. These depositors are what are known as "sophisticated investors who were either shopping the country for unusually high returns or were solicited by the so-called money desks operating at each S&L," said Mary Creedon, the FSLIC's deputy executive-director.

If they were shopping, they found quite a bargain. American Diversified was paying interest that averaged 8.64% and North America was paying an average of 8.53%. The national average was 7.08%. About 80% of these smart shoppers were other financial institutions, including banks, credits unions, and, of course, fellow S&Ls.

The investments of these two institutions are as strange as their "depositors." American Diversified, which went from $11 million to $1 billion in assets in a few years, was run by Ranbir S. Sahni. Sahni's "investment strategy" was to put dollars in wind farms and ethanol plants. It is still not clear what exactly Dwayne D. Christensen of North America was doing. He died in a car crash just hours before the regulators took over. His S&L has been described as the biggest case of insider fraud in state S&L history, and Christensen's estate and associates are being sued for over $40 million in racketeering and fraud claims.

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The bill

On May 19, 1988, the General Accounting Office issued its report on the state of the nation's savings and loan industry. After completing an audit of the FSLIC, it was admitted that as much as $64 billion could be needed to safeguard the thrifts in trouble. Last August, Congress, with its inimitable vision, had granted the FHLBB, which administers the FSLIC, $10.8 billion in borrowing power to solve the industry's crisis. Chairman Wall continues to keep a straight face amid this insanity; he even exudes confidence.

Last August, when Gov. William Clements of Texas cast serious doubt on the ability of the federal government to deal with the disastrous conditions of the S&Ls, the FHLBB went berserk. Wall protested, "I can't state it emphatically enough: FSLIC does not, it has not, nor will it ever pay anything less than 100% of the $100,000 insured deposits in every institution that bears its insurance." An interesting posture, considering that there are 17,000 depositors in Maryland who have close to $500 million still frozen in accounts from 100 "troubled" S&Ls that were shut down in 1985. No sophisticated shoppers here, just ordinary citizens who have not been able to get their money for three years, and it isn't clear if they ever will.

The regulators

Then again, Danny Wall and his pathetic colleagues are hardly winning popularity contests with anyone these days. Three years ago, in an effort to bolster the income of FSLIC, another agency was set up, the Federal Asset Disposition Association (FADA). (There are probably more regulators and agencies than solvent thrifts at this point.) Its task was to market and sell the billions of dollars in assets of insolvent thrifts. FADA itself, however, now appears to be insolvent. It had losses of nearly $20 million in 1986 and 1987.

The inability of these bureaucrats to sell the largely bad real estate that composed such assets did not prevent them from lining their own pockets. According to the House Banking Committee, 32 top executives at FADA earned over $3 million a year, with its chairman (since resigned) being the highest paid official in the federal government in 1986.

Most recently, Jack Anderson and Dale Van Atta have reported an even uglier scandal involving M. Danny Wall himself. This regards Lincoln Savings and Loan, which was slated for receivership or conservatorship in May 1987. Lincoln is also in California, in Irvine, and is owned by Charles H. Keating, Jr. The story goes that within a month of Wall taking over as chairman (July 1987), he told fellow regulators that the Keating problem was settled. However, a previous two-year audit had raised allegations of speculative investments in junk bonds, equity securities, and deficiencies in loan underwriting. According to Anderson, after a lengthy audit, Lincoln officials demanded and were granted (May 20) by Wall's office removal to a new jurisdiction. Interestingly enough, the senators involved in pressuring the regulators to bring a halt to the investigation were also recipients of close to $300,000 in campaign contributions from Keating and his business associates. The senators are John Glenn (D-Ohio), Donald W. Riegle, Jr. (D-Mich.), John S. McCain III (R-Ariz.), Dennis DeConcini (D-Ariz.), and Alan Cranston (D-Calif.).

Such scandals do shed some light on the situation, and go a long way to explaining why a few crackpot S&Ls seem to get immediate attention and royal treatment, while 500 or more of the nation's savings institutions, desperately screaming for attention, are ignored.

When the pompous Danny Wall took over, he predicted, "We're going to be conducting a lot of funerals and shotgun weddings, and that is going to make a lot of people unhappy. Because of the job we have to do, we are going to be stepping on a lot of toes."

But then, stepping on people and conducting funerals has been the hallmark of the Reagan-Bush "Great Recovery."