CONCERNING CRISIS IN FINANCIAL INSTITUTIONS

A Resolution approved by GS XVIII (1991)

WHEREAS, the United Church of Christ in its Seventeenth General Synod Pronouncement "Christian Faith, Economic Life and Justice" has declared that "Through our covenant with God, we are responsible to our sisters and brothers for the justice of the economic institutions in which we participate" and has called "the various bodies of the UCC … to increase their advocacy on behalf of economic justice in the economic life of their nation;"

WHEREAS, in the past eleven years, the economy has become less just as evidenced by the relative decline in income and living standards of the middle, working and lower classes and a relative increase in the wealth and income of the affluent and very rich;

WHEREAS, the takeover of Savings and Loan institutions by wealthy investors, executives and depositors has contributed to the general shift in wealth and income of the affluent and very rich;

WHEREAS, the takeover of the S&L's was accomplished through the Federal Government's policy of deregulation of the S&L institutions, a policy which allowed "business insiders" to crowd out small local depositors, to direct investments away from middle-class residential housing to commercial enterprises, and to invest in high-risk ventures that were insured by U.S. taxpayers;

WHEREAS, in this climate of deregulation, powerful and affluent S&L owners and entrepreneurs committed what Attorney General Richard Thornburgh calls "the biggest white-collar swindle in history," and whose fraud, insider abuse, or outright criminality were factors in 60 percent of the failed S&L's according to William Seidman, the chairman of FDIC;

WHEREAS, in 1989, Congress passed the S&L bailout law (Financial Institutions Reform, Recovery and Enforcement Act), a law which sells bonds to pay for purchase of insolvent S&L's and the reimbursement of insured depositors' accounts at an estimated cost of $300 - $500 billion to U.S. taxpayers over this decade ($5,000/taxpayer) and up to $1,369 trillion in the next forty years ($15,000/taxpayer);

WHEREAS, Federal prosecutions have recovered less than one percent of taxpayer funds attributable to fraud and currently the Bush Administration is backing efforts by big accounting firms, banks, S&L's and Wall Street investment houses to eliminate key civil provisions of the Racketeer Influenced and Corrupt Organizations Act or RICO, the statute used to prosecute Charles Keating;

WHEREAS, the 1989 S&L bailout law and the lack of vigorous prosecution of S&L investors will benefit wealthy bondholders and the S&L officials who ruined those institutions at the expense of U.S. taxpayers; and

WHEREAS, the deregulation of the S&L's, the undermining of efforts by the Federal Home Loan Banking Board Chairman Gray to rein in the S&L's and expose the scandal, the passage of the S&L bailout law which socializes private gain, and the efforts of the Bush Administration to now deregulate commercial banks are all a consequence of the concentration of political power in the hands of business and the lack of effective countervailing power among the citizenry.

THEREFORE BE IT RESOLVED, the Eighteenth General Synod of the United Church of Christ condemns with righteous indignation the criminal behavior and governmental ineptitude which have damaged the savings and loan industry;

BE IT FURTHER RESOLVED, the Eighteenth General Synod of the United Church of Christ calls upon the Office for Church in Society through the Christian Faith: Economic Justice Working Group to work with other appropriate instrumentalities and ecumenical agencies, to engage in further study of problems and injustices related to the management and regulation of financial institutions and to develop study resources for local churches, associations and conferences;

BE IT FURTHER RESOLVED, the Eighteenth General Synod of the United Church of Christ urges its members, local churches, associations and conferences to stud the problems of financial industries and organize people to work for a greater degree of justice in the financial institutions of our country.

Background

Historically S&L's were financial institutions that were owned by depositors in local communities; they offered mortgages to middle and modest-income families in those communities. Though S&L's underwent changes through the years, as late as the 1970s, 67% of the assets of S&L's were invested in home mortgages and the 4,732 S&L's financed nearly 80% of the home mortgages in the U.S.

A major reason the S&L's remained true to their mission was that, in the 1930s, the government created an insurance (FSLIC) and regulatory structure to safeguard deposits and ensure that deposits would be used primarily for home mortgages.

In the 1970s and early 1980s, the federal regulatory structure was dismantled. Prior to deregulation, only depositors were permitted to own S&L's; new rules changed that ─ investors were permitted to obtain stock in S&L's in order to raise more money thereby transforming the S&L's into profit-making enterprises. In 1982, the transformation was completed ─ single investors were allowed to own S&L's. To allow the S&L's to compete for investors (who were attracted to the high yield interest accounts such as money markets) the federal government repealed the regulation that put a cap on interest rates (a measure which benefitted investors but hurt borrowers seeking mortgages). FSLIC coverage on investments was increased to $100,000, making the S&L's attractive to large investors. And the requirements that deposits had to be used for home mortgages was lifted, paving the way for investments in more profitable commercial ventures.

Once deregulated, many S&L's were taken over by wealthy depositors such as real estate developers and other entrepreneurs who loaned money to themselves and others to invest in profitable but risky ventures such as shopping centers, hotels, and office complexes and in high-risk junk bonds.

Deregulation led to the destruction of the S&L's. Of the 4,732 institutions that existed in 1980, 2,227 had collapsed nine years later. Mismanagement was part of the problem ─ S & L officials using taxpayer-guaranteed deposits invested in high-risk markets; when the markets collapsed, so did the S&L's. Additionally, "fraud, insider abuse, or outright criminality were factors at 60 percent of failed S&L's" in the words of William Seidman, FDIC chairman. Fraudulent schemes such as "land flips" (where developers and mortgage brokers sell land back and forth among themselves at a higher price each time, yielding profits for the developers and brokers fees and "points" for bankers) created inflated "paper" values and the illusion of solvency.

The growing insolvency of the S&L's and the mismanagement and criminal conduct of the S&L officials was detected by regulators at the Federal Housing Loan Bank Board (FHLBB) in the mid-1980s. However, due to the White House's Office of Management and Budget decision to cut regulatory staff, the ineptitude of the FHLLB auditors and direct interference by the White House and a number of Congressmen's efforts to block FHLBB's Ed Gray's efforts to crack down on S&L officials and to expose the impending disaster, the S&L crisis was allowed to continue until the end of the decade. Congressional interference ─ largely a response to the campaign contributions of financial industrial PACs and intensive lobbying by the U.S. League of Savings Institutions and other financial lobby groups ─ breached the limits of ethical conduct leading to the indictment and resignation of Speaker Wright and other influential Congressmen and the indictment and subsequent Congressional hearings against the group of Washington legislators known as the "Keating Five."

In response to the collapse of the 2,227 S&L's, the Bush Administration proposed the Financial Reform, Recovery and Enforcement Act of 1989 (FIRREA). Among other things, the bill proposed a taxpayer bailout of the insolvent S&L's. Through the sale of these bonds, to be paid back over 40 years, the federal government would take over hundreds of insolvent S&L's and reimburse depositors' accounts. More than half the cost of the bailout would consist of interest payments on the bonds. The bill passed in both Houses and was signed by President Bush on August 10, 1990. It is now clear that the proposed bailout will cost between $300-$500 billion in this decade alone ($5,000 per taxpayer) and could cost $1,369 trillion over the next 40 years when the additional S&L's that are expected to fail are added along with the interest payments that have to be made to pay off the debts.