NEVER AGAIN: The S & L Bailout Bill
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On May 15, 1989, the Shadow Financial Regulatory Committee issued policy statement Number 43 on “Financial Institutions Reform, Recovery, and Enforcement Act of 1989.” This statement was issued shortly before the enactment of FIRREA and dealt with all the bills then pending in Congress. In part, the statement argues that “none of the pending bills effectively deals with the incentive and other structural defects of the present system. Instead, they contain a number of provisions that could worsen the situation.” The complete statement is provided in the appendix.

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One of the first major domestic problems encountered by the new Bush Administration was the insolvency of the Federal Savings and Loan Insurance Corporation (FSLIC) as the Government insurer of savings and loan association (S&L) accounts. During the 1980's, thrift institution failures had skyrocketed from 11 in 1980 to 223 in 1988. The cost to the FSLIC of this wave of failures completely overwhelmed its resources, rendering it insolvent as of the end of 1988 by over $56 billion. At that time there were 365 thrifts, officially estimated to be insolvent under generally accepted accounting principles (GAAP), that were still in operation; the estimated cost of those insolvencies was an additional sum of $38 billion.

The Federal Deposit Insurance Corporation, as the Government insurer of bank deposits, had likewise been experiencing large losses in this same period. Bank failures rose from 10 in 1980 to 200 in 1988. As a consequence, in 1988 the FDIC experienced, for the first time, an operating loss ($4.2 billion), reducing its fund to $14 billion or approximately 0.8% of insured deposits.

The attitude of both the Executive Branch and the Congress throughout the 1980s had been to deny or minimize the extent of the S&L problem. As one of its first actions, the new Bush Administration in February 1989 recognized that the industry insolvency amounted to at least $90 billion and proposed a plan both to pay the accumulated costs and to prevent such losses in the future.

Under the Administration approach, embodied in the proposed Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the cost of meeting the insurance obligation and resolving the insolvencies would be financed in part by the issuance of an immediate $50 billion in 30 year bonds, with the Treasury paying the interest costs and making other contributions as needed to the insurance fund over time.

FIRREA also contained provisions intended to address the causes of the massive S&L insolvencies and the collapse of the FSLIC. According to Secretary of the Treasury Nicholas Brady in testifying on the Administration bill: "Two watchwords guided us as we prepared a plan to solve this problem—NEVER AGAIN."

In amended form, the legislation passed the Senate on April 19, 1989, and the House on June 15, 1989; the final version as worked out by the Conference Committee passed both houses and the 400-page bill was signed into law by the President on August 9, 1989.

It is the purpose of this analysis to examine the adequacy of this lengthy and expensive legislation to achieve its stated objective. Does the