



[Home](#) > [Industry Analysis](#) > [Research & Analysis](#) > The S&L Crisis: A Chrono-Bibliography

The S&L Crisis: A Chrono-Bibliography

[NOTE: This chronology and bibliography is provided solely for informational purposes. The inclusion or exclusion of a source constitutes neither an endorsement nor a rejection by the FDIC of the opinions expressed in that source.]

[General Books and Articles](#)

A basic bibliography to provide an overview of the S&L Crisis.

[Causes of the S&L Crisis](#)

Background materials for understanding what led to the S&L Crisis.

[Charles Keating and Lincoln Savings and Loan](#)

Details on one of the costliest S&L failures that involved 5 U.S. Senators.

[Criminal Activity Associated with S&L Failures](#)

The goods on specific criminal investigations of S&L owners and directors.

[Depository Institutions Deregulation and Monetary Control Act of 1980](#)

Details on the 1980 law (DIDMCA) that eased the distinctions among savings institutions.

[Deregulation of the S&Ls](#)

Working papers and analysis covering the deregulation of the S&L industry that led to the crisis.

[Financial Institutions Reform Recovery and Enforcement Act \(FIRREA\)](#)

The law enacted in August, 1989, to bail out the S&L crisis and create the Resolution Trust Corporation.

[Garn - St Germain Depository Institutions Act of 1982](#)

Analyses of the 1982 law that allowed S&L's to diversify their activities with the view of increasing profits.

[Interest Rate Vulnerability](#)

Bibliography for understanding S&L interest rates, and S&L vulnerability during this time period.

[Southwest Plan](#)

The plan to consolidate and package insolvent Texas S&Ls and sell them to the highest bidder.

[State Deposit Insurance Funds - Ohio and Maryland](#)

S&L failures in Ohio and Maryland and the end of the State Deposit Insurance Funds/

[Taxation and Accounting bibliography](#)

Understanding the tax and accounting rules for S&L's

1966-1979 Market [interest rates](#) fluctuate with increasing intensity and S&Ls experience difficulty with each interest rate rise. Interest rate ceilings prevent S&Ls from paying competitive interest rates on deposits. Thus, every time the market interest rates rise, substantial amounts of funds are withdrawn by consumers for placement in instruments with higher rates of return. This process of deposit withdrawal ("disintermediation") and the subsequent deposit influx when rates rise ("reintermediation") leaves S&Ls highly vulnerable. Concurrently, money market funds become a source of competition for S&L deposits. S&Ls are additionally restricted by not being allowed to enter into business other than accepting deposits and granting home mortgage loans.

1967--State of Texas approves major liberalization of S&L powers. Property development loans of up to 50% of net worth are allowed.

1972--Hunt Commission recommendations would have created federal savings banks to replace S&Ls. The banks would have had additional authority to make commercial loans and invest in commercial paper.

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1973--FINE Study would have granted same powers for S&Ls as for banks, including checking accounts. Also recommends consolidation of the regulators. Interest rate insurance was recommended if S&Ls are to remain primarily involved in housing finance.

1978--Financial Institutions Regulatory and Interest Rate Control Act of 1978 enacted. Weak version of previous recommendations. Allows S&Ls to invest up 5% of assets in each of land development, construction, and education loans.

1979--Doubling of oil prices. Inflation moves into double digits for second time in five years.

1980-1982 [Statutory and regulatory changes](#) give the S&L industry new powers in the hopes of their entering new areas of business and subsequently returning to profitability. For the first time, the government approves measures intended to increase S&L profits as opposed to promoting housing and homeownership.

March, 1980--[Depository Institutions Deregulation and Monetary Control Act \(DIDMCA\)](#) enacted. The law is a Carter Administration initiative aimed at eliminating many of the distinctions among different types of depository institutions and ultimately removing interest rate ceiling on deposit accounts. Authority for federal S&Ls to make ADC (acquisition, development, construction) loans is expanded. Deposit insurance limit raised to \$100,000 from \$40,000. This last provision is added without debate.

November, 1980--Federal Home Loan Bank Board reduces net worth requirement for insured S&Ls from 5 to 4 percent of total deposits. Bank Board also removes limits on the amounts of brokered deposits an S&L can hold.

August, 1981--Tax Reform Act of 1981 enacted. Provides powerful tax incentives for real-estate investment by individuals. This legislation helps create a "boom" in real estate and contributes to over-building.

September, 1981--Federal Home Loan Bank Board permits troubled S&Ls to issue "income capital certificates" that are purchased by FSLIC and included as capital. Rather than showing that an institution is insolvent, the certificates make it appear solvent.

1982-1985 Reductions in the Bank Board's regulatory and supervisory staff. In 1983, a starting S&L examiner is paid \$14,000 a year. The average examiner has only two years on the job. Examiner salaries are paid through OMB, not the Bank Board. During this period of supervisory and examination retraction, industry growth increases. Industry assets increase by 56% between 1982 and 1985. 40 Texas S&Ls triple in size between 1982 and 1986; many of them grow by 100% each year. California S&Ls follow a similar pattern.

January, 1982--Federal Home Loan Bank Board reduces net worth requirement for insured S&Ls from 4 to 3 percent of total deposits. Additionally, S&Ls are allowed to meet the low net worth standard not in terms of generally accepted accounting principles (GAAP), but of even more liberal regulatory [accounting](#) principles (RAP).

April, 1982--Bank Board eliminates restrictions on minimum numbers of S&L stock holders. Previously, it required at least 400 stock holders of which at least 125 had to be from "local community", with no individual owning more than 10% of stock and no "controlling group" more than 25%. Bank Board's new ownership regulation would allow a single owner. Purchases of S&Ls were made easier by allowing buyers to put up land and other real estate, as opposed to cash.

December, 1982--[Garn - St Germain Depository Institutions Act of 1982](#) enacted. This Reagan Administration initiative is designed to complete the process of giving expanded powers to federally chartered S&Ls and enables them to diversify their activities with the view of increasing profits. Major provisions include: elimination of deposit interest rate ceilings;

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elimination of the previous statutory limit on loan to value ratio; and expansion of the asset powers of federal S&Ls by permitting up to 40% of assets in commercial mortgages, up to 30% of assets in consumer loans, up to 10% of assets in commercial loans, and up to 10% of assets in commercial leases.

December, 1982--In response to the massive defections of state chartered S&Ls to the federal system, Nolan Bill passes in California. Allows California-chartered S&Ls to invest 100% of deposits in any kind of venture. Similar plans adopted in Texas and Florida.

1983--Lower market interest rates return many S&Ls to health. 35% of institutions, however, still sustain losses. 9% of all S&Ls (representing 10% of industry assets) are insolvent by GAAP standards.

March, 1983--Edwin Gray becomes Chairman of the Federal Home Loan Bank Board. Beginning in 1984 and continuing throughout his tenure, regulatory and supervisory measures passed by the Bank Board begin the reversing of deregulation.

November, 1983--Bank Board raises net worth requirement for newly chartered S&Ls to 7%.

March, 1984--Failure of Empire Savings of Mesquite, TX. "Land flips" and other [criminal activities](#) are a pattern at Empire. This failure would eventually cost the taxpayers approximately \$300 million.

April, 1984--Bank Board moves jointly with the FDIC to attempt to eliminate deposit insurance for brokered deposits. Federal court rejects this attempt in mid-1984 as overstepping statutory limits.

July, 1984--Bank Board requires S&L management to adopt policies and procedures for managing [interest rate](#) risk.

January, 1985--Bank Board limits the amount of brokered deposits to 5% of deposits at FSLIC insured institutions failing to meet their net worth requirements. Bank Board also limits direct investment (equity securities, real estate, service corporations, and operating subsidiaries) to the greater of 10% of assets or twice the S&L's net worth, provided the institution meets regulatory net worth.

March, 1985--Ohio bank holiday. Anticipated failure of Home State Savings Bank of Cincinnati, OH and possible depletion of Ohio state deposit insurance fund cause Governor Celeste to close [Ohio S&Ls](#). Eventually, those that can qualify for federal deposit insurance are allowed to reopen.

May, 1985--[S&L failures in Maryland](#) eventually cause loss to state deposit insurance fund and Maryland taxpayers of \$185 million. Ohio and Maryland S&L failures helped kill state deposit insurance funds.

July, 1985--Chairman Gray begins transfer of federal examiners to the twelve regional Federal Home Loan Banks so that they are no longer overseen by OMB and their salaries are paid directly by the Bank Board system.

August, 1985--Only \$4.6 billion in FSLIC insurance fund. Chairman Gray tries to gain support for recapitalizing FSLIC on Capitol Hill. In 1986, GAO estimates the loss to the insurance fund to be around \$20 billion.

December, 1985--Bank Board allows S&L examiners to "classify" questionable loans and other assets for the purpose of requiring loan loss reserves.

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1986-1989 Compounding of losses as insolvent institutions are allowed to remain open and grow, allowing ever increasing losses to accumulate.

August, 1986--Bank Board raises net worth standard gradually to 6% with up to 2% points offset for reduced interest rate-risk.

1987--Losses at Texas S&Ls comprise more than one-half of all S&L losses nationwide, and of the 20 largest losses, 14 are in Texas. Texas economy in major recession: crude oil prices fall by nearly 50%, office vacancy is over 30%, and real estate prices collapse.

January, 1987--GAO declares FSLIC fund insolvent by at least \$3.8 billion. Recapitalization has stalled on Capitol Hill until now by claims of powerful S&L lobbyists that Bank Board regulations are too harsh and arbitrary.

February, 1987--Bank Board requires prior supervisory approval for S&Ls making direct investment in excess of 2.5 times their tangible capital.

April, 1987--Edwin Gray ends his term as chairman of Federal Home Loan Bank Board in June. Before his departure, he is summoned to the office of Sen. Dennis DeConcini. DeConcini, with four other Senators (John McCain, Alan Cranston, John Glenn, and Donald Riegle) question Gray about the appropriateness of Bank Board investigations into [Charles Keating's Lincoln Savings and Loan](#). All five senators, who have received campaign contributions from Keating, would become known as the "Keating Five". The subsequent Lincoln failure is estimated to have cost the taxpayers over \$2 billion.

May, 1987--Bank Board begins phasing out the remains of the liberal RAP accounting standards. S&Ls must conform to GAAP [accounting](#) standards, as banks do. Effective date of this rule postponed by new Chairman of the Federal Home Loan Bank Board, M. Danny Wall, to 1/1/1989.

August, 1987--Competitive Equality Banking Act of 1987 enacted. The Act authorizes \$10.8 billion recapitalization of the FSLIC with only \$3.75 billion authorized in any 12-month period. Also contains forbearance measures designed to postpone or prevent S&L closures.

February, 1988--Bank Board introduces the "[Southwest Plan](#)" to consolidate and package insolvent Texas S&Ls and sell them to the highest bidder. The strategy is to resolve insolvencies quickly while conserving scarce cash for FSLIC. The Bank Board uses a number of strategies to pay for the difference between assets and liabilities of the failed institutions: FSLIC notes, tax incentives, and income, capital value and yield guarantees. The Bank Board disposes of 205 S&Ls through the Southwest Plan with assets of \$101 billion.

November, 1988--George Bush elected President. S&L problem not part of election debate.

1989--President Bush unveils S&L bailout plan in February. In August, [Financial Institutions Reform Recovery and Enforcement Act \(FIRREA\)](#). FIRREA abolishes the Federal Home Loan Bank Board and FSLIC, switches S&L regulation to newly created Office of Thrift Supervision. Deposit insurance function shifted to the FDIC. A new entity, the Resolution Trust Corporation is created to resolve the insolvent S&Ls.

Other major provisions of FIRREA include: \$50 billion of new borrowing authority, with most financed from general revenues and the industry; meaningful net worth requirements and regulation by the OTS and FDIC; allocation funds to the Justice Department to help finance prosecution of S&L crimes. Additional bank crime legislation the next year (i.e., the Crime Control Act of 1990) mandates a study by the National Commission on Financial Institution Reform, Recovery and Enforcement to uncover the [causes of the S&L crisis](#), and come up with recommendations to prevent future debacles.

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