A Primer on the Financial Institution Reform, Recovery, and Enforcement Act of 1989

by

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ABSTRACT

Passed in the midst of the thrift industry collapse, many commentators have criticized this act for setting the stage for the bankruptcy of the Federal Deposit Insurance Company. This paper analyzes the legislative and economic history behind the passage of this act and reviews the major provisions of the act in their proper historical context.

Introduction

The saying “what goes up must come down” may well be applied to describe the real estate boom and bust of the 1980’s and 1990’s. Today, bankers and business students are coping with massive changes in the banking industry. Many of the legislative changes were made in response to financial institution illiquidity that resulted from aggressive lending practices to real estate investors and developers. This paper provides an objective overview of one of the major pieces of legislation that passed in response to the financial crisis that plagued our nation’s savings and loans and thrift organizations. This paper briefly reviews the major elements of the Financial Institution Reform, Recovery Enforcement Act of 1989 citing the legislative history and identifying the acts which it amended. We offer no critique of its efficacy. Our purpose is limited to providing teachers and financial practitioners an understanding of the breadth of the act.

Background

Savings and loan institutions have accounted for 49% of all one to four family mortgages nationwide.1 During the inflationary period of the 1970’s, the nation’s thrift industry found themselves in the odd position of being legally restricted from paying high enough interest rates on deposits. As a result, disintermediation threatened the thrift industry as depositors withdrew their deposits in record numbers. The thrift industry was left with few depositors, fixed long term mortgages and a public that expected to earn

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interest much higher than what the thrift industry was receiving from old home mortgages. On March 31, 1980, President Carter signed into law the Depository Institutions Deregulation and Monetary Control Act of 1980. This law phased out interest rate ceilings on bank and thrift deposits under Regulation Q, raised federal deposit insurance coverage from $40,000 to $100,000, authorized the Federal Reserve to set reserve requirements on short-term accounts at all depository institutions, and authorized depository institutions nationwide to offer NOW or negotiable order of withdrawal accounts to enable them to compete with money market mutual funds.²

The new law that gave thrifts the right to pay market level interest rates to depositors did not ease the financial strain on thrifts. The thrifts found themselves in the awkward position of paying out interest at a higher rate than they were able to earn from their fixed long term mortgages. By 1981 thrifts were paying an average of 11 percent for their funds while their mortgage portfolios were yielding only 10 percent—a negative 1 percent spread. In 1981, their return on assets was a negative .73 and in 1982 their return on assets was a negative .65. In August 1981, for example, 53% of thrifts interest bearing liabilities were in short-term certificates of deposit paying high market rates while 85% of their assets were held in low-yielding, long term, fixed rate mortgages.³ Disintermediation was still plaguing the industry as Americans discovered the convenience of money market funds with check writing privileges. And, double digit mortgage rates and inflation resulted in the lowest record of housing starts 1981 and 1982.

By 1982, Congress again came to the rescue of the failing thrift industry with the passage of the Garn-St Germain Depository Institutions Act of 1982. The act permitted thrifts to offer money market deposit accounts, with no interest rate limitations. During the first four months that these accounts were offered they attracted over $108 billion in deposits. The act also permitted federally-insured thrifts to commit up to 10% of their assets to commercial or agricultural loans, increased the non-real estate secured loan limit from 20% to 40% of assets, lifted educational loan restrictions making all educational loans permissible, authorized thrifts to invest 100% of their assets in state or municipal securities, permitted investments in time deposits and savings accounts of other thrifts, increased from 20% to 30% the permissible level of assets committed to consumer thrifts to accept demand deposits from individuals and corporations; and allowed the use of net worth certificates to assist ailing FSLIC and FDIC–insured institutions.⁴

² Ibid, p. 92.
³ Ibid, p. 92.
⁴ Ibid, p. 93.
The period of deregulation of this industry resulted in savings and loan institutions competing to fund commercial projects including shopping centers, business parks, hotels and strip shopping centers. While many associations increased their capital base, they still faced the dilemma of holding long term assets that were paying less than what they had to offer depositors. The result was pressure to make more profitable commercial loans that often contained up front fees and various forms of disguised equity participation. The legislative history of the Financial Institution, Recovery and Reform Act of 1989 gently suggest that “a number of thrift managers did not have the expertise needed to utilize these new powers, and as a whole the industry had great difficulty in exercising its newfound powers in a safe and sound manner.”

In addition, many real estate developers recognized that if they could acquire some stock in their local savings and loan association, they could exercise some control over the loan committees. Later investigations revealed that the money used to borrow the money to purchase the stock was often borrowed from the savings and loan association. Many of these loans were secured by the value of the stock and real estate projects that were later funded by the same institution! Later investigations by federal regulators attributed 40% of thrift failures to improper insider activities and outright fraud.

There is one other interesting factor which though less reported by the popular press was none-the-less masked by the dangerous course that the thrift industry was heading towards. The regulatory accounting principles (RAP) used by the Bank Board and endorsed by Congress permitted accounting classifications to hide the true financial condition and avert early foreclosure of thrifts that would have otherwise been declared financially insolvent. Between Congress and the Bank Board, thrifts were permitted to use “unconventional” or “creative” accounting techniques. For example, thrifts were permitted to defer losses from the sale of assets with below market yields. Congress permitted thrifts to use income capital certificates in the place of real capital (which had been wiped out by operating losses). FSLIC members were allowed to exclude from liabilities in computing net worth certain contra-asset accounts, including loans in process, unearned discounts and deferred fees and credits. The thrifts were allowed to include net worth certificates, qualifying subordinated debentures and appraised equity capital as RAP net worth. The difference between regulatory accounting principles and generally accepted accounting principles became quite significant as shown below:

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5 Ibid. p. 93.
6 Ibid. p. 97.
RAP vs GAAP Accounting

<table>
<thead>
<tr>
<th>Differences in computation of net worth</th>
<th>1984</th>
<th>1986</th>
<th>1988</th>
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<tbody>
<tr>
<td></td>
<td>$9 billion</td>
<td>$13.3 billion</td>
<td>$61.1 billion*</td>
</tr>
</tbody>
</table>

In 1988, the entire capital base per GAAP for the thrift industry was $46.2 billion. To accommodate a declining net worth of the industry, the Bank Board reduced the permissible minimum net worth requirement for thrifts from 5% to 4% in 1980 and lowered it again to 3% in 1982.

Two economic conditions set the stage for the fall of the thrift industry and the bankruptcy of FSLIC. The OPEC oil cartel lost its grip over production quotas. Some of OPEC members were engaged in war and pumped out far beyond their quotas to fund their wars. The increase in the supply of crude resulted in a drop in oil prices which depressed the southwest—particularly Texas. Texas oil and gas companies contracted because they were not able to produce a profit selling against OPEC nations that had a cost basis of $.25 a barrel compared with some $4.00 or more per barrel of domestic production. The decline in the oil and gas industry resulted in higher unemployment in the Southwest.

The seeds of disaster for the thrift industry were also planted in the Tax Reform Act of 1986. The 1986 tax law radically changed the tax incentives for investing and owning real estate by (1) ending preferential treatment of capital gains, (2) putting a ceiling of $3,000 of real estate losses that could be deducted against ordinary income, and greatly reducing deductions for depreciation of real estate assets.

Throughout the 1980s attempts by regulators to shut down various thrifts were thwarted by Congressional pressure. The most prominent case involved the “Keating Five”—five distinguished United States Senators who were implicated in pressuring regulators from closing down Lincoln Savings and Loan. Charles Keating is now serving a prison term for fraud.

By the time the FSLIC was permitted to shut down failed thrifts, the losses were enormous. During 1988, FSLIC spent $60-70 billion on problem thrifts and itself was insolvent to the tune of $50 billion. By the year 1988, there were 390 thrifts, with assets of 314.8 billion, operating with a GAAP-capital level of between 0 and 3 percent. The industry posted losses of over $1 billion in 1988. The public began to lose confidence in the savings and loan industry and withdrew a record $28.5 billion, breaking the previous annual record of $25 billion in withdrawals in 1981.

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7 Table created from Ibid. p. 94.
The Financial Institution Reform, Recovery and Enforcement Act of 1989

The Financial Institution Reform, Recovery and Enforcement Act of 1989 contains broad implications for the entire financial services industry. The act was aimed at strengthening the powers of regulators to restrict the activities of savings and loans, to create a Resolution Trust Corporation to resume the reorganization and of the industry, and to create rules and regulations to prevent the fraud that plagued the troubled institutions during the 1980s. To accomplish these broad purposes, the act made significant changes to the regulatory scheme. The scope of this overview is limited to reviewing the changes FIRREA made to the financial industry.

Overview

The Financial Institution Reform, Recovery and Enforcement Act of 1989 amended a number of existing laws including, but not limited to, the Federal Deposit Insurance Corporation Act, the Home Owner's Loan Act of 1933, the National Housing Act, the Bank Holding Company Act, the Balanced Budget and Emergency Deficit Control Act, Community Reinvestment Act of 1977 and the Hart-Scott-Rodino Act. It may well be reported that this act was the most expensive piece of legislation in the history of the financial industry when considering the extent of taxpayer support required for the bailout.

Splitting the Insurance and Regulatory Functions

Prior to the Act, the federal agency which insured thrift depositors was the Federal Savings and Loan Insurance Corporation which was under the administrative control of the Federal Home Loan Bank Board (Bank Board). Both organizations were sharply criticized by the press and by witnesses testifying at Congressional hearings. So, Congress split the insurance functions giving them to the Federal Deposit Insurance Corporation from the regulatory function which was given to the new Office of Thrift Supervision. The Federal Deposit Insurance Corporation Board was increased to five to include the Comptroller of the Currency, Office of Thrift Supervisor and three appointments by the President.8

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With the responsibility of insuring the nation's thrifts, came the right of the FDIC to act as receiver or conservator of failed thrifts. As receiver, the FDIC was given the authority to liquidate the assets and pay obligations of the institution on behalf of the depositors and creditors; to merge the institution with another insured financial institution; to organize a Federal savings association to take over the assets and liabilities from a failed thrift, or to organize a bridge bank or new national bank to take over assets and liabilities of any insured bank in default. An analysis of subsequent events may well show that the assumption of such responsibility strained the personnel resources of the FDIC. Seeking to avoid litigation that often arises from disputes when a federal agency assumes control of an entity, Congress included a law encouraging the use of alternative dispute resolution to promote negotiation.

To prevent institutions from getting out from under the new regulatory scheme by converting from a savings and loan to a bank, the Act gives a five-year moratorium on conversions.

The Act also created two separate funds: the Bank Insurance Fund and the Savings Association Insurance Fund. The FDIC was required to maintain separate accounts for each fund and barred from commingled the assets. The FDIC was empowered to set capital requirements for the thrift and to collect insurance premiums. In order to assure sufficient funding, Congress increased the FDIC's authority to borrow from $3 billion to $5 billion.

One of the tactics that many savings and loan associations used that tended to increase losses to the federal insurer was brokered deposits. Many S&L executives felt that they could increase their capital by expanding their liabilities so that they could make new profitable loans. To obtain new deposits, many thrifts "purchased" deposits from other institutions by offering to pay even higher interest rates. Those accounts that were less than $100,000 were federally insured. When the S&Ls were not successful in meeting capital reserve requirements, they increased their depositor base thanks to these brokered accounts. With more deposits came the hope to make more loans and increase

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14 Ibid., §216.
their earnings. FIRREA ended this method of delaying the inevitable by “troubled” institutions. The FDIC was given authority to set restrictions on the use of brokered deposits by institutions with a weak capital position. It is interesting to note that subsequent legislation in the Federal Deposit Insurance Corporation Improvement Act of 1991 incorporate the same restrictions on the use of brokered deposits on the commercial banking industry.

One other change that section 315 imposed was the bar against state chartered savings associations having equity investments. Many state chartered savings associations took equity positions in various real estate projects that they were financing. When the real estate markets collapsed, these states chartered savings associations not only suffered a reduction in the value of their collateral forcing write downs of loans, but also faced 100% losses on their equity portion of their participation.

**Undoing Provisions of the Garn-Saint Germain Act**

Section 302 of FIRREA Act abolished the Federal Home Loan Bank Board and the position of the Chairman of the Bank Board as the chief regulator of the savings and loan industry. Instead, the Department of the Treasury was authorized to set up the Office of Thrift Supervision. The legislative history reveals that Congress wanted to “eliminate the concentration of powers and overlapping functions that characterize the current Bank Board.” The Bank Board had the authority to both charter and regulate the industry and the Chairman of the Bank Board was also the operating head of the Federal Savings and Loan Insurance Corporation (FSLIC). The legislative history states “The system is rife with real and potential conflicts of interest which compromise the integrity of the regulatory, insurance and credit functions of the Federal Home Loan Bank System.” The FDIC is instructed to place thrifts on the same capital standards as national banks by January 1, 1995. The Office of Thrift Supervision was directed by the FIRREA Act to establish capital regulations for the thrift industry that are comparable to those applicable to national banks. In stating the goal, Congress also recognized that “residential mortgages covered by primary mortgage insurance policies issued by approved insurers, which coverage effectively reduced the loan-to-value ratio below 80 percent, represented

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16 Ibid., p. 221.
significantly less risk than other types of private sector credits and warranted a lower capital requirement."\(^{17}\)

In a direct reversal of the Garn-Saint Germain Act, Congress attempted to correct policies that they felt had contributed to the S&L failures. The new capital standards to be phased in by 1995 require two separate measurements of capital adequacy—a core capital standard and a risk-adjusted capital standard. The core capital standard is defined as a flat percentage of core capital to total assets. Under this scheme, core capital is the absolute minimum level of capital that an institution must maintain. That core capital was set at 3%. Recall that the Garn-Saint Germain Act had liberalized the definitions of what was adequate capital.

Recall that the Garn-Saint Germain Act was designed to deregulate the thrift industry so that they could generate earnings by making more profitable loans to non-residential borrowers. FIRREA Act reversed this policy also by reducing loans from non-resident real property to 20% down from 40%.\(^{18}\) Commercial loans were also restricted to less than 10% of net assets.\(^{19}\) The legislative history concludes that these changes were necessary to "return savings associations to their original role as providers of affordable housing finance."\(^{20}\) The "80/20" test included in the act was designed to encourage savings associations to promote "starter" homes. A starter home is one that is priced at less than 60 percent of the median value of comparable homes in a community. FIRREA Act provided for "double" credit in meeting the 80/20 test for loans for such starter homes.\(^{21}\)

Many will write that Congress "closed the chicken coop after the foxes had raided." However, FIRREA Act, section 321 did place a restriction on insider dealings. Any loans to officers, directors or persons who own more than ten percent of any one class of stock would be subject to the requirements of sections 23A and 23B of the Federal Reserve Act.\(^{22}\)

\(^{17}\) Ibid. p. 226.
\(^{20}\) Ibid. p. 232.
\(^{21}\) Ibid.
The Creation of the RTC

Probably the most demanding governmental office during the early 1990s was the Chairman of the Resolution trust Corporation. FIRREA Act established the Resolution Trust Corporation to “manage, merge or liquidate certain conservatorships and receiverships...” The Congressional committee gave the RTC a challenging mandate:

“It is the intent of the Committee that the institutions and assets under the jurisdiction of the RTC will be managed and disposed of in a manner that will not impair local real estate markets, return the maximum funds to the RTC or the institution under its management, and respond to low-income housing needs as appropriate. To accomplish these multiple goals, the Committee established the Real Estate Asset Division (“READ”) within the RTC, extended the life of the RTC from five to ten years to help prevent dumping of assets by allowing the RTC additional time for the orderly disposition of such assets and adopted provisions to provide lower income families with access to residential property within the jurisdiction of the RTC.”

The oversight board of the Resolution Trust Corporation consists of five members: the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Secretary of Housing and Urban Development, and two independent members appointed by the President subject to Senate approval. Like most government boards, Congress required a minimum of four public meetings per year. The RTC became the successor conservator and receiver for all thrift under FSLIC with the passage of FIRREA Act. RTC was given authority to use “the services of private persons, including real estate and loan portfolio asset management, property management, auction marketing, and brokerage services, if such services are available in the private sector and the Corporation determines utilization of such services are practicable and efficient. While further analysis will reveal the success or failure of the RTC in this respect, Congress directed that RTC’s activities would not jeopardize local real estate markets:

The Corporation shall establish an appraisal or other valuation method for determining the market value of real property. With respect to a real

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23 Ibid. p. 236.
24 Ibid. p. 236. This set of objectives is specified under the Act §501 (3) (c).
property asset with a market value in excess of a certain dollar limit (such limit to be determined by the Board of Directors of the Corporation), consideration shall be given to the volume of assets above such limit and the potential impact of sales in such distressed areas. The corporation shall not sell a real property assets located in a distressed area without obtaining at least the minimum disposition price, unless a determination has been made that such a transaction furthers the objectives set forth...”\(^{27}\)

At the same time, Congress provided that Section 8 of the federal rent assistance would be available for first time to low income home buyers to rent units under RTC supervision or control. Congress also provided that RTC could provide below market/below cost loans to low income, qualified first time home buyers.\(^{28}\)

**Funding the RTC**

By setting up a system where the obligations or debt instruments issued by the Resolution Funding Corporation are technically not instruments of the U.S. Government, Congress created an “off-budget” manner of financing the savings and loan crisis. The RTC issues nonvoting capital certificates to REFCORP which is the abbreviation for Resolution Funding Corporation. REFCORP was authorized to issue up to $50 billion in long-term debt offerings to purchase the capital stock. REFCORP obligations are not guaranteed as to principal or interest by the United States but the U.S. Treasury is obligated to pay the interest on these obligations to the extent that other sources. Other sources include the Federal home loan banks who contribute about $2 billion of their retained earnings. The banks are required to annually contribute additional sums for principal and interest payments not to exceed the lesser of $300 million or 20 percent of the aggregate net earnings of the Federal home loan banks for each year until the funding corporation has no more liabilities.\(^{29}\) All this is an intricate way of saying that Congress expected the healthy savings and loans to fund the RTC’s bailout of the unhealthy ones. REFCORP was authorized to issue bonds in minimum $1,000 denominations “to enable a wider range of taxpayers to share in the benefits of these bonds.”\(^{30}\)


\(^{29}\) Ibid. p. 244.

\(^{30}\) Ibid. p. 245.
Strengthening Capital Positions through Mergers

Another strategy of improving the weak thrifts was to ease the regulations restricting mergers and take-overs of thrifts. This strategy was endorsed by the committee which wrote: "(we)...believe that the infusion of private capital into the thrift industry must proceed as quickly as possible." Congress amended the law that prohibited savings and loan holding companies from acquiring any voting shares of a non-subsidiary savings association or savings and loan holding company without prior regulatory approval. The new rules permitted holding companies to acquire up to 5 percent of the voting shares of a non-subsidiary savings association or savings and loan holding company without prior approval.

To encourage weak but solvent savings and loans to increase their capital base (and therefore avoid takeover by the RTC), the FIRREA Act included the Thrift Early Capital Attraction Plan. This plan authorized savings and loan holding companies to make direct equity investments in newly issued stock representing 25 percent of the total outstanding stock of the undercapitalized savings association (or holding company which controls the undercapitalized savings association). The newly injected funds from the sale of stock must be maintained as apart of the capital of the undercapitalized savings association. To avoid "hostile" takeovers and to avoid "significant anti-competitive effects", all acquisitions must be approved by the Office of Thrift Supervision. Note that mergers involving the purchase of shares from existing shareholders are not permitted under this provision since the whole point is to increase the capital base of the undercapitalized institution. The investing company must have a capital to assets ratio of not less than 6 1/2 percent (to avoid having one "troubled" institution take over another "troubled" institution.)

Separating Regulatory and Credit Functions

Title Seven of FIRREA Act, or section 700, abolished the current Federal Home Loan Bank Board. The regulation, supervision and examination functions for Federally chartered thrift institutions are placed under the Office of Thrift Supervision. The credit mechanism by which the Federal Home Loan Bank Board acted as a "bank" for member savings and loan associations was placed under a new independent executive agency.

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31 Ibid. p. 245.
32 Ibid. p. 248.
The Federal Housing Board was created to supervise 12 existing Federal home loan banks. The Federal Housing Finance Board includes seven members: the Secretary of Housing and Urban Development, two presidents of the Federal home loan banks and four members appointed by the President with the advice and consent of the Senate. Membership in the Federal home loan banks was extended to include insured commercial banks and credit unions that engage in mortgage lending. To insure that the use of the funds by members would actually result in loans for residential housing, Congress created two special purpose windows to “target advances for low and moderate income housing and community investment needs.” The community investment program provides financing at the bank’s cost of funds plus administrative expenses while the affordable housing program provides banks with advances at below-market rates to member institutions that, in turn reloan at below market rates for low and moderate income housing.

**Real Estate Appraisal Reforms**

During the real estate boom, savings and loan associations were in competition with other financial institutions to make commercial real estate loans. These loans included interim construction loans as well as long term mortgages. Real estate developers, anxious to build and go on to the next project, structured their “deals” so that their profits were made by adding administrative costs, etc. to the cost or value of the project. As long as the real estate appraisal showed that the collateral could support the intended loan, borrowers and lenders were eager to consummate the deal. Using comparable without regard to supply or demand for retail, office or residential space became commonplace among many appraisers. Since building costs were going up, and the economy was fairly robust, appraisers feared understating rather than overstating values. And, evidently Congress felt that there was sufficient evidence to conclude that many institutions lent without adequate documentation of any kind!

The FIRREA Act requires “the use of State certified or licensed real estate appraisers and a system of uniform national appraisal standards for real estate related to financial transactions engaged in, contracted for, or regulated by the Federal Financial Institutions Regulatory Agencies, by the Resolution Trust Corporation, by the Federal National

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33 Ibid., p. 248.  
34 Ibid., p. 252.  
36 Ibid.
Mortgage Association, and by the Federal Home Loan Mortgage Corporation.”37 The Act created a federal appraisal subcommittee of the Federal Financial Institutions Examination Council. The Act stopped short of requiring a standardized federal examination and specifically left each federal agency with the power to set their own requirements. However, the Act requires that the Appraisal Subcommittee develop rules as to which transactions should be performed by a certified appraiser and which by a licensed appraiser.

Most states provide a system for licensing real estate appraisers, but some do not. In addition, there are private organizations that provide a “certification” for members that pass tests, have certain experience levels or both. The Act stops short of circumventing state and private organizations. Instead, it provided that the Appraisal Subcommittee fund the Appraisal Foundation that would “represent, full and fairly, the broad spectrum of recognized professional appraisal organizations, large and small, and the interests of responsible appraisers who are unaffiliated with any professional appraisal organization.”38 Individuals wanting to perform appraisals related to federally insured loans must satisfy State requirements that meet, at a minimum, the criteria for certification adopted by the Appraisal Foundation.39 Each Federal agency is authorized to require that State certified or licensed appraisers have qualifications in addition to those established by the State. Again, Congress stopped short of empowering the federal government to issue licenses or certifications preferring that this function be done by the states or by private agencies. However, the Appraisal Subcommittee enjoys tremendous leverage through their legislative mandate to “monitor” the systems established by States for the certification and licensing of appraisers.

The Scope of FIRREA Act

The FIRREA Act resulted in a major and costly restructuring of the nation’s thrift industry. The regulatory burden placed on the Federal Deposit Insurance Corporation and the mandate given to the Resolution Trust Corporation is staggering from all perspectives. Subsequent events showed that the extent of the savings and loan bailout was even larger than anticipated at the time FIRREA was enacted by Congress.

Although the burden for insurance was shifted to the healthier Federal Deposit Insurance Corporation, that strategy was deficient because the same problems that caused

37 Ibid. p. 274.
38 Ibid. p. 275.
39 Ibid. p. 277.
financial difficulty for the savings and loan associations also caught the banking industry. By 1991, the Federal Deposit Insurance Corporation found itself strained by the number of and size of banks that it had to assume either as receiver or as conservator. Congress enacted the Federal Deposit Insurance Corporation Improvement Act to restore confidence and liquidity to the nation’s largest bank insurer.

Between 1989 and 1993, the same financial incentives and disincentives that devastated some thrifts caused problems for commercial banks. The economic recession resulted in commercial banks suffering losses, holding devalued assets and lacking a sufficient capital base and avenue for raising capital. The nation’s largest commercial banks held loans to third world countries that could not afford debt services or even interest payments on their loans. The slowdown on Wall Street and the economic recession in the Northeast which ironically was aggravated by sharp cuts in defense for the “peace dividend”, resulted in nonperforming loans and the devaluation of real estate. Even California with its robust economy found itself facing a huge retreat in the aerospace and defense industries.

The interplay between inadequate regulation and supervision and other economic factors as causes of the financial industries woes are beyond the scope of this paper. However, this review of FIRREA is useful in defining the regulatory landscape painted by a Congress that awoke to find that its deregulation of the nation’s thrifts had gone amuck.