. ... Ricketts
Chairman of the Board
President

Standard Federal Bank
Savings/Financial Services

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Standard Federal

Rick: These records show early warnings which were not heeded. Kevin

December 30, 1988

Mr. Steve Harris
Chief Counsel
Senate Banking Committee
105 Dirksen Building
Washington, DC 20510

Mr. Kevin Gottlieb
Staff Director
Senate Banking Committee
105 Dirksen Building
Washington, DC 20510

Dear Steve and Kevin:

When Garry Carley, Ronald Palmer and I visited with you and Senator Riegle last week, one of the questions Kevin asked is whether Standard Federal Bank has expressed its concerns during the 1980s regarding the course being taken with respect to regulation of the savings and loan industry. I am enclosing for your review several letters which I wrote during the early 1980s to various parties including Senator Riegle, the Federal Home Loan Bank Board, the FDIC, and the Depository Institutions Deregulation Committee (DIDC), covering various savings and loan issues that were of concern to us at the time these letters were written. These letters represent only a sampling of the many letters I have written during this decade to members of Congress and the regulatory agencies regarding the savings and loan industry.

One of the enclosed letters, for example, was written to Normand R. V. Bernard, Executive Secretary of the DIDC, objecting to proposed further deregulation efforts with respect to the Regulation Q ceilings and the rate differential. At that time, I cautioned the DIDC that:

> "The premature withdrawal of Regulation Q ceilings and the differential has caused outflows of savings from the savings and loan associations into commercial banks and other investments and has raised the cost of deposits held by savings and loans to a rate in excess of our ability to pay. If the aim of the DIDC is to destroy the thrift industry they are certainly succeeding."

Another letter which I have enclosed is my Petition to the DIDC dated November 3, 1981 requesting that the DIDC rescind one of its rules regarding the method used to establish rates of interest for six-month savings certificates on the basis that the rule was defective in its operation and harmful to the savings and loan industry. (Regrettably, we received no response from the DIDC with respect to this Petition.)

One of the other letters which is included was written on February 22, 1980 to Jay Janis who had just become the Chairman of the Federal Home Loan Bank Board. In that letter I discussed several of our concerns regarding the thrift industry including the need to preserve the capital adequacy of thrift institutions and the need to give federally-chartered savings and loan associations the power to issue adjustable rate mortgages so that thrifts could compete with national banks that already possessed this authority and could better match the terms of their assets and liabilities in order to avoid undue interest rate risk. The enclosed letters as a whole provide a vivid picture of the quagmire imposed on a healthy industry by ill-advised regulatory action.

When my associates and I met with you, another question which was raised is whether healthy thrift institutions have any responsibility with regard to the existing plight of the savings and loan industry. From the letters I have enclosed, you can see that we have attempted to meet this responsibility in part by drawing the attention of our elected representatives and the regulators to mounting problems in the industry that were of concern to us. As we mentioned in our meeting last week, we have also met this responsibility in a financial way by paying more than $36 million in FSLIC special assessments during the last four years. In addition, during 1987 our FSLIC secondary reserve in the amount of $3.2 million was confiscated. Now we think it is the federal government's responsibility to address and cure, at its expense, the problems it helped to create by the failure to regulate, supervise, and examine in an effective manner and by overly rapid deregulation of the savings side of our business without concomitant deregulation on the asset side.

Steve pointed out to us during our meeting with you that one opinion being expressed in Washington is that the healthy thrifts who enjoy FSLIC insurance are obliged to help pay for the failure of other FSLIC-insured thrifts. As you know, we think that the life insurance analogy we gave you points

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out the fault in this line of reasoning. If the two of you and I carry life insurance with "ABC" Insurance Company and pay the premiums thereon, and at the time of my death the ABC Insurance Company is unable to pay the life insurance proceeds to my heirs because of its insolvency, neither of you have any obligation to pay my beneficiaries. Similarly, if a thrift institution fails and the FSLIC is unable to honor its insurance contract with the failed thrift's depositors, it should not be another thrift's responsibility to pay the failed thrift's depositors. (Indeed, one wonders why we should be required to pay special assessments which allow another financial institution or some other third party investor to acquire an institution with FSLIC assistance and in some cases even become a competitor of ours.) The federal government's insurance contract is directly with the American savings public and we believe it is the federal government's responsibility to honor these depository insurance contracts directly without further contribution from the healthy segment of our industry.

I want to thank each of you, as well as Senator Riegle, for spending so much time with us when we visited with you last week. We will be sending you shortly some additional thoughts we have with respect to specific steps that might be taken to more effectively regulate our industry. In addition, we would like to propose to you the names of three of four persons who might provide effective testimony if future hearings are held by your Committee on the topic of the FSLIC crisis. In this respect, please let us know any additional thoughts you might have regarding the subject matter of this testimony.

Best wishes for the New Year.

Very truly yours,

Tom

Thomas R. Ricketts

TRR:GGC:pll

Enclosures

cc: Honorable Donald W. Riegle, Jr.