

1. WHAT NEW POWERS DID THE GARN-ST GERMAIN ACT OF 1982 GRANT TO FEDERAL SAVINGS AND LOAN ASSOCIATIONS?

The Garn-St Germain Act expanded the powers of Federal S&Ls, and relaxed some traditional safeguards.

1. Commercial Real-Estate Lending

The Act permitted a Federal S&L to devote 40 percent of its assets (rather than 20 percent, as under the 1980 Act) to loans secured by nonresidential real estate.

2. Commercial Lending

The Act permitted a Federal S&L to devote up to 10 percent of its assets to commercial, industrial, and agricultural loans. Federal S&Ls could not previously make such loans.

The Bank Board classifies junk bond investments as commercial loans.

3. Loan-to-Value Restrictions

Traditionally, the law required most loans made by Federal S&Ls to be secured by adequate collateral. To provide a margin of safety, loans were often limited by statute to a certain percentage of the value of the collateral.

These restrictions were relaxed over the years, and the Garn-St Germain Act accelerated the process. For example, a loan could not exceed two-thirds of the value of unimproved real property, or 90 percent of the value of real property with a residential structure on it. The Act eliminated the statutory restrictions, and the Bank Board followed suit by greatly liberalizing its regulations.

4. Demand Deposits

The Act permitted a Federal S&L to offer checking accounts to persons or organizations with a business or loan relationship to the S&L. (NOW accounts had been authorized since 1980.)

5. Investments in Government Securities

The Act permitted a Federal S&L to invest in State and local government securities of any kind (not just general obligation securities, as had previously been the case).

6. Money-Market Deposit Accounts

The Act permitted a Federal S&L to offer money-market deposit accounts, paying a yield competitive with that of money-market mutual funds.

7. Consumer Lending

The Act permitted a Federal S&L to devote 30 percent of its assets (rather than 20 percent, as under prior law) to consumer loans.

8. Leasing

The Act permitted a Federal S&L to devote up to 10 percent of its assets to tangible personal property (e.g., motor vehicles, equipment, and office furniture) held for leasing or sale.

9. Miscellaneous

The Act also permitted a Federal S&L to invest up to 5 percent of its assets in educational loans and 1 percent of its assets in small business investment companies.

[The above discussion is drawn in part from a memorandum by Raymond Natter.]

2. TO WHAT EXTENT ARE THE POWERS OF STATE S&Ls IN TEXAS, CALIFORNIA, FLORIDA, OKLAHOMA, AND COLORADO BROADER THAN THE POWERS OF FEDERAL S&Ls?

State S&L powers that are broader than the powers of a Federal S&L are described below. Note, however, that FSLIC's regulations may restrain FSLIC-insured institutions from making full use of State powers. Likewise, State S&L regulators might consider a given asset mix (e.g., investing 40 percent of assets in oil and gas loans) to be an unsound practice even if it is permissible under the letter of the law.

(a) Texas

Texas permits a savings and loan association to devote up to:

- 100 percent of its assets to one or more of the following investments:
 - commercial real estate loans;
 - unimproved real estate loans;
 - real estate development financing (acquisition, development, and construction loans);
 - oil and gas loans;
 - unsecured loans; and
 - securities approved by the S&L commissioner;
- 100 percent of its net worth to investing in and developing real estate; and
- 10 percent of its assets to service corporations (which may, e.g., invest in and develop real estate), or such larger amount as the commissioner may permit if the S&L meets FSLIC's net worth requirements.

The powers of Texas S&Ls are determined not by statute but by rules issued by a three-member commission.

(b) California

California permits a savings and loan association to devote up to:

- 100 percent of its assets to one or more of the following investments:
 - real estate held for income, for inventory and sale, or for improvement (including the construction of buildings for sale or rental);
 - S&L service corporations, which may engage in any activity permitted by the savings and loan commissioner;
 - corporate debt securities and commercial paper, as defined by the commissioner;
- 40 percent of its assets to commercial real-estate loans;
- 10 percent of its assets to loans for agricultural, business, commercial, or corporate purposes originated by that institution;
- 10 percent of its assets to loans for agricultural, business, commercial, or corporate purposes originated by another financial institution;
- 10 percent of its assets to loans not otherwise permissible; and
- 5 percent of its assets to securities of any type, including securities not otherwise permissible.

(c) Florida

to: Florida permits a savings and loan association to devote up

- 100 percent of its assets to loans "of any type or amount and for any purpose, subject only to the requirement that . . . at least 50 percent of assets other than liquid assets shall be invested in either real estate loans or interests therein on home property or primarily residential property";
- 25 percent of its assets to investment-quality corporate debt securities;
- 20 percent of its assets to service corporations "or other corporations or entities"; and

- 10 percent of its assets or 100 percent of its net worth, whichever is less, to real estate held for income, improvement, inventory, sale, or rental.

(d) Oklahoma

Oklahoma authorizes a savings and loan association to devote up to:

- 10 percent of its assets to service corporations, which may act as mortgage bankers, provide bookkeeping services, and engage in any activity approved by the Savings and Loan Board; and
- 10 percent of its assets or 100 percent of its capital, whichever is less, to real estate held for income, development, improvement (including the construction of buildings), inventory, sale, or rental.

(e) Colorado

Colorado authorizes a savings and loan association to devote up to:

- 10 percent of its assets (reduced by any amount invested in real estate through service corporations) to real estate and "real estate related enterprises" held for income, inventory and sale, or rental;
- 3 percent of its assets to a service corporation "solely for residential real estate development through joint ventures" (in addition to whatever investment in service corporations is permissible for Federal S&Ls); and
- 3 percent of its assets to loans not otherwise authorized, if the loans are "related to real estate or housing."

3. DID THE BANK BOARD AND FSLIC SEEK TO INCREASE THE SIZE OF THEIR STAFFS AFTER THE GARN-ST GERMAIN ACT BECAME LAW? IF SO, WHAT DID THEY ASK FOR AND WHAT DID THEY RECEIVE?

The Bank Board and FSLIC requested minor increases in their staffs in 1982 through 1985. The requests were denied by the Reagan Administration because the two agencies had positions vacant -- which they could not fill because of pay-scale constraints for which the Office of Personnel Management was at least partly responsible.

Beginning in 1985, the Bank Board and FSLIC increased the effective size of their staffs by transferring thrift supervisors to the 12 Federal home loan banks, which are not subject to budgetary and pay-scale constraints.

(The above information was provided by the Bank Board's staff. We asked for specific data about the amounts requested and received for each year, but were told it could not be provided before next week.)