Savings and Loans Crisis

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What was the Savings and Loans Crisis?:

The Savings and Loans Crisis created the greatest banking collapse since the Great Depression of 1929. By 1989, over half the Savings and Loans[1] had failed, along with the FSLIC fund that was created to insure their deposits.

Empire Savings in Texas revealed land flips and other criminal activities. Half of the failed S&L's were from Texas, pushing that state into recession. As bad land investments were auctioned off, real estate prices collapsed, office vacancy rose to 30%, and crude oil prices fell 50%.

Ohio and State S&L failures cost the state-run deposit insurance funds at least $185 million, thus destroying the idea of state-run insurance funds. The FSLIC was bankrupted, to the cost of $20 billion.

Five U.S. Senators, known as the Keating Five, were investigated by the Senate Ethics Committee for improper conduct. They had accepted $1.5 million in campaign contributions from Charles Keating, head of the Lincoln Savings and Loan Association. They had also put pressure on the Federal Home Loan Banking Board, who was investigating possible criminal activities at Lincoln.

What Caused the Savings and Loans Crisis?:

Savings and Loans were specialized banks that used low-interest, but Federally-insured, deposits in savings accounts to fund mortgages[2]. In the 1980's, the popularity of money market accounts reduced the attractiveness of savings accounts, so the banks asked Congress to remove restrictions. In 1982, the Garn-St. Germain Depository Institutions Act was passed, which allowed S&L's to raise interest rates on deposits, make commercial and consumer loans, and removed restrictions on loan-to-value ratios. At the same time, the Federal Home Loan Bank Board regulatory staff was reduced thanks to budget cuts.

In an attempt to raise capital, banks invested in speculative real estate and commercial loans. Between 1982 and 1985, these assets increased 56%. In Texas, 40 S&L's tripled in size, some growing 100% each year.

By 1983, 35% of the country's S&L's weren't profitable, and 9% were technically bankrupt. As banks went under, the state and Federal insurance began to run out of the money needed to refund depositors.However, S&L's kept remained open, making bad loans, and the losses kept mounting.

By 1989, Congress and the president knew they needed to bail out the industry. agreed on a taxpayer-financed bailout measure known as the FIRREA[3] provided $50 billion to close failed banks and stop further losses. It set up a new government agency called the Resolution Trust Corporation (RTC) to resell Savings and Loan assets, and use the proceeds to pay back depositors. FIRREA also changed Savings and Loan regulations to help prevent further poor investments and fraud.

How Much Did the Savings and Loans Crisis Cost?:

Between 1986-1995, over 1,000 banks with total assets of over $500 billion failed. By 1999, the Crisis cost $153 billion, with taxpayers footing the bill for $124 billion, and the S&L industry paying the rest.

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