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During its 160 year history, the savings and loan industry has had its share of turmoil, but no previous situation rivals the events of the 1980s. During this period 525 insolvent S&Ls (or thrifts) were liquidated or sold. The cost was so enormous that in 1989, President Bush announced that taxpayers would have to bear the burden of the bailout at the expense of much needed education, welfare, and infrastructure improvement programs. The situation was so financially complex that few taxpayers truly understood what had occurred.

This essay will examine the savings and loan disaster. The intent is to provide a detailed, yet generalized, view of the history of savings and loans leading up to and through the crisis.

HISTORY OF SAVINGS AND LOANS

Economic environment of the late 1970s and early 1980s. Prior to 1970, the savings and loan industry was a solid, mature, and relatively unexciting industry. Strict regulations from the depression era and a lack of competitors created a strong niche for S&Ls. As inflation went out of control in the 1970s, however, credit shortages became common. Such shortages, as well as new methods for depositing savings and creating credit, placed the regulatory structure pertaining to depository institutions in general, and savings and loans in particular, under attack (Eichler 1989, p. 15). The economic conditions of the late 1970s would help to signal the end of an era for savings and loans.

A major contributor was disintermediation. Historically, people have invested their money in banks and savings and loans, and the institutions, in turn, have invested that money in securities. In the late 1970s, Regulation Q, a ceiling placed on deposit interest rates, caused S&L interest rates to be far below those offered in other areas of the market: securities, money market funds, etc. (Hutchinson 1984, p. 42). Savers began to look elsewhere for greater returns. They invested directly in securities with higher yields and bypassed the S&Ls. This is known as disintermediation. As a result, savings and loans began to lack funds.

Thrifts' operating costs rose as a share of assets because expenses were rising at an increasing rate (Barth 1991, pp. 21-22). Indeed, expenses were increasing faster than revenues, which decreased S&L profits. Savings and Loans also began experiencing a maturity mismatch between liabilities and assets. Thrift assets were usually long-term and included mostly 30-year fixed-rate home loans at very low interest rates. Their liabilities, on the other hand, were short-term passbook accounts subject to immediate withdrawal. This meant that funds were coming into savings and loans much more slowly than they were going out, causing a shortage. The fixed-rate home loans also locked S&L funds into preset low interest levels with no chance for refinancing. As noted earlier, the late 1970s and early 1980s also were years of high inflation and interest rates, both of which were over 12 percent (Eichler 1989, p. 44). In real terms, savings and loans were barely getting enough of a return to cover inflation. These factors all contributed to the low yields on thrift portfolios and return on net worth. In 1980, thrift portfolios had an average yield of 8.8 percent and a market value that was much below the book value (Eichler 1989, p. 44). The return on net worth fell to a record low of 2.4 percent in 1980, compared to 15 percent in 1955, and 14.8 percent just two years before in 1978 (Eichler 1989, p. 41). This further illustrates the low yield on thrift portfolios. In fact, if thrifts had changed the calculation to represent the current value of assets and liabilities in 1980, the net worth would have been -$17.5 billion (Eichler 1989, p. 44). At that time, the entire reserves of the Federal Savings and Loan Insurance Corporation (FSLIC), a government agency set up to insure S&Ls, were just $6.5 billion—an ominous sign of the disaster to come (Eichler 1989, pp. 40-44).

A major issue of the presidential elections of 1976 and 1980 was the deregulation of thrifts. In the spring of 1980, President Jimmy Carter and Federal Reserve Chairman Paul Volcker started a program of credit restraints in order to bring down the rate of inflation (Eichler 1989, p. 36). The plan succeeded but was accompanied by a deep recession with a drastic effect on real estate—a savings and loan stronghold (Barth 1991, p. 40). This poor economic environment contributed to the restructuring and deregulation of S&Ls in a period from late 1980 to 1982.

Period of Deregulation. In the early 1980s, many reasons were given for the deregulation of the savings and loan industry. According to Eichler, the most important were:

- A maturity mismatch between assets and liabilities;
- Increased competition for savings from money market funds;
- A "savers revolution"—more money to be invested and more concern regarding what to invest it in;
- Advancing technology, especially electronically transferred funds, which brought into question the usefulness of large depository branches in which savings and loans had invested heavily;
- Altered demographics which pointed to the potential for a decrease in housing demand;
- Increasing popular acceptance of the idea that national policy had overly favored housing; and
- Mortgage bankers becoming highly competitive as they could successfully operate without deposit insurance. (1989, pp. 57-58)

In 1980, Congress passed the Depository Institutions Deregulation and Monetary Control Act (DIDMCA), the major deregulation act for savings and loans. According to Eichler, its four main reforms included:

- a program to phase out the deposit rate ceiling (Regulation Q) to allow savings and loans to offer market rates;
- NOW (negotiable order of withdrawal) accounts for non-profit corporations and individuals;
- credit card lending and trust functions for federal savings and loans; and
- authorization of federally chartered S&Ls to grant consumer loans and commercial real estate loans, and to invest in commercial paper (notes payables) and debt securities up to 20 percent of assets. (1989, p. 64)

Basically, DIDMCA let S&Ls compete more easily for funds than previously by allowing attractive interest rates and permitting S&Ls a wider range of investment opportunities, such as stock portfolios, bonds, money market funds and commercial real estate ventures.

Further deregulation, such as the Garn-St. Germain Depository Institutions Act of 1982, extended thrift opportunities for investment even more. The maximum percentage of assets allowed in commercial real estate loans was doubled to comprise 40 percent of assets (Eichler 1989, p. 122).

Hindsight allows us to question the need for such deregulation. First and foremost, there were already plenty of commercial banks. Under deregulation, savings and loans basically offered the same services as commercial banks, and the market was already saturated. Another poor move was allowing S&Ls to invest up to 3 percent of their assets in "service companies" (Eichler 1989, p. 65). These service companies undertook projects from which S&Ls were barred, usually risky real estate projects (Eichler 1989, p. 65). However, the most dangerous of all the DIDMCA reforms was the authorization of commercial real estate loans and commercial mortgages—both of which are high risk (Eichler 1989, p. 65). Banks and insurance companies were already handling these loans and mortgages efficiently and aggressively. As a result, the savings and loans got the loan requests that had been turned down by the other financial institutions. Their inexperience helped create the impending fiasco. As will be shown shortly, the DIDMCA reforms created an atmosphere that would lend itself to risk taking and quick-fixes.

THE FAILURE OF THE THRIFTS

"*Blank check.*" The Federal Savings and Loan Insurance Corporation should have been very choosy in awarding savings and loan charters (Eichler 1989, p. 65). However, real estate developers, syndicators, mortgage bankers, and entrepreneurs, all inexperienced in the ways of savings and loans, started S&Ls in states with opportunity for rapid growth and few regulations (Eichler 1989, p. 65). The FSLIC approved almost all of the charters. The risks were high for the new S&Ls, but the incredible leverage for investment justified it. A charter could be had for as little as $1 million; therefore, this was the maximum investors could lose. The remainder of the debt would fall on the Federal Savings and Loan Insurance Corporation, the Treasury, or depositors. In effect, new savings and loans were given a "blank check." The FSLIC was willing to allow S&Ls to sell U. S. Treasury debt through insured savings accounts, at whatever price and under any terms they chose, using the proceeds to make high risk loans (Eichler 1989, p. 76). They could even buy property for development or invest in the securities markets.

Most importantly, the investors had no personal liability. The only restraint was a requirement to maintain 3 percent net worth (relative to assets)—which could be created through questionable accounting practices (Eichler 1989, p. 76).

As the powers of savings and loans increased, the economy began to recover and interest rates began to fall, causing charters to become even more attractive (Eichler 1989, p. 75). Managers could take high risks with the chance for big profits. This was especially attractive to ailing thrifts. They would receive any gains and the government would bear any losses (Eichler 1989, p. 80). Troubled savings and loans needed to generate substantial profits to survive, and they had access to unlimited funds with which to do it.

Commercial loans. With the creation of the Depository Institutions Deregulation and Monetary Control Act in 1980, commercial lending (which is more risky than other forms of lending due to its inherent riskiness and lack of collateral) increased greatly. Unfortunately, this risky lending did not show up on the books. The appearance of losses lagged. Only a borrower's failure to finish a project and complete a sale at a profit required an organization to write a negative result in the records. Thrift managers also often delayed reporting negative results (Eichler 1989, p. 99).

These bad commercial loans were geographically concentrated in Texas, Florida, and California because these states had the most growth. Texas' bad economy revealed an S&L investment history that was terrible even in good times (Eichler 1989, p. 100).

Some S&Ls, especially in California, created "disguised loans." According to Eichler, they would lend not only development costs, but also enough extra funds to cover interest payments and fees for several years. This created a "self-fulfilling prophecy" when S&Ls booked the interest and fees as current profit (1989, p. 96).

More risk taking. As the risk taking continued, savings and loans that had made poor choices found themselves short of the net worth ratio of 3 percent or more (Eichler 1989, p. 79). Creative accounting could not hide these losses. Loans from the Home Loan Banks (lenders of low cost funds to S&Ls) and the FSLIC needed to be repaid before earnings could be used to raise net worth ratios (Eichler 1989, p. 79). Management had to continue to push for high-growth through more high risks. In a December 1982 speech to S&L executives, David Pratt, Chairman of the Bank Board, even encouraged such imprudent practices:

> One approach would be to start 10 or 15 thrift institutions or commercial banks and engage in the most risky activities legally allowed. If you believe that return is related to risks, the expected value of your returns would be higher than under any other approach, while at the same time, you could buy your funds on a risk-free basis through offering U. S. Government obligations in the form of insured savings accounts. That is a scenario that we, as regulators, and that you, as management, are going

> to have to operate under because that opportunity is a realistic one. (Eichler 1989, p. 80)

Many S&L managers took Pratt's words to heart. David Paul, Centrust Chairman of Miami, invested Centrust's assets heavily in junk bonds. By the late 1980s, Centrust was the most profitable thrift in the region. However, the market value of junk bonds fell and Centrust went with it. A senior official of the Office of Thrift Supervision (OTS) stated that losses attributable to fraud are in the 25 percent range (Barth 1991, p. 44).

Effect of economic recovery. After 1982, residential construction bounced back. According to Eichler, vacancies and surpluses replaced shortages, and considerable mortgage money was available. The problem for thrifts was a lack of sound investments (due to competition from commercial banks), not a lack of funds (1989, p. 119).

Ehrlich states that sharply lower interest rates on deposits had a positive effect on thrifts in the mid-1980s. The spread between the cost of S&L funds and the yield on their portfolios widened. Many savings and loans decided to go public in order to gain more capital for growth. Because of low interest rates, these stocks looked relatively attractive (1985, p. 64).

The recovery basically just delayed the failure of many thrifts until the late 1980s, when recession would again be prominent. For others, failure was already evident.

Role of the FSLIC. Many institutions were still in trouble, however, due to offering submarket rates on low-quality loans. The Federal Savings and Loan Insurance Corporation did not want to liquidate these insolvent S&Ls because their net worth was so low and it had no funds to pay for the cost of liquidating them. Instead of asking Congress for the money, the FSLIC hoped that a better economic environment and careful use of new powers by thrifts would cause enough of them to recover to make the number manageable (Eichler 1989, p. 78). Therefore, savings and loans with negative or zero net worth were allowed to operate. This created an open-ended commitment by the government to protect depositors.

The FSLIC created "phoenixes"— large institutions in metropolitan areas in which smaller firms could combine. The FSLIC would be responsible for installing the board of directors. The FSLIC then sold these phoenixes to commercial banks or outside corporations which were not permitted to operate in those areas permitted the S&Ls. From 1983 to 1985, the FSLIC liquidated 25 associations, assisted 160 mergers, placed 25 institutions under new management, supervised 256 mergers and approved 542 voluntary mergers (Eichler 1989, p. 101).

Failure of the FSLIC. The Federal Savings and Loan Insurance Corporation operates similarly to any insurance company. Premiums are paid by the member savings and loans, and these funds are used to pay for any claims. The toll on the FSLIC was costly, however. According to the Bank Board, the FSLIC had a net income of $494,000 in 1985 and a net loss of $3.9 billion in 1986 (Eichler 1989, p. 101). The FSLIC was broke. The claims on its funds far outweighed its premiums.

In 1987, Congress approved a plan for 12 Home Loan Banks to raise $10.8 billion for the FSLIC to spend in the course of 3 years (Eichler 1989, p. 103). The Home Loan Banks would have a claim against future FSLIC premiums until the loan was paid. After 1987, the FSLIC's role was greatly diminished as new organizations were organized to deal more effectively with the fiasco. In 1989, the Savings Association Insurance Fund replaced the FSLIC. The FSLIC Resolution Fund was established to assume all liabilities associated with failed savings and loans prior to January 1989. The Resolution Trust Corporation, which will be discussed shortly, was established to deal with all future liabilities.

Bank Board mistakes. In the early 1980s, the Bank Board should have put a moratorium on the number of new charters the FSLIC could grant. Although the total number of S&Ls did not actually increase, the FSLIC did not have the supervisory or financial resources to deal appropriately with the great number of new S&Ls. The Bank Board should have created more stringent accounting rules—tougher than Generally Accepted Accounting Principles (GAAP)—in order to prevent the hiding of losses. The Bank Board should also have conditioned both growth and riskier investment on higher net worth ratios (Eichler 1989, p. 123). Savings and loans were allowed to increase debt for a shot at higher profits. The Bank Board could also have pushed for a change to equity (shares of stock that inherently need not be paid back) by S&Ls. This would have eased the potential burden on the insurance funds—mostly the FSLIC (Ehrlich 1985, p. 64). The FSLIC and other insurance funds would then have had the ability to raise capital.

THE CLEANUP EFFORT

The Resolution Trust Corporation. In August 1989, Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). FIRREA created the Resolution Trust Corporation (RTC) and Congress named William Seidman, then current head of FDIC, as its director. This agency was formed to supervise the savings and loan bailout. Congress, at President Bush's insistence, split the rescue effort between two groups. The Resolution Trust Corporation Oversight Board and the Federal Deposit Insurance Corporation (FDIC) both supervise and control the RTC. The Oversight Board, chaired by the U.S. Treasury Secretary, decides RTC policy and controls its funding. The Treasury was given a role so that the Administration would have a hand in the effort (Gorman 1990, p. 58). In 1990, the RTC had 5,000 employees and 20 offices nationwide (Yang 1990, p. 66).

In its first year, the RTC took over 264 sick thrifts (Meehan 1989, p. 76). After a slow start, the RTC had by 1990, been effective in disposing of more than 340 insolvent thrifts seized by the government, receiving $110 billion for the assets (Yang 1990, p. 66). New tougher capital standards in recent bailout legislation may make it difficult for even marginally profitable thrifts to survive (Meehan 1989, p. 76). This will make the RTC task even more difficult.

Slowing of economy and thrift rescue. By 1990 the economy was in a recession and buyer interest in sick savings and loans was, according to Karmin, practically nonexistent (1990, p. 37). Unfortunately, federal managers misjudged the market when they tried to sell the worst S&Ls first and required purchasers to buy whole S&Ls — money-losing properties included. In 1990, rising interest rates increased the cost to buyers and the savings and loan industry grew even more sickly. More failures occurred (Karmin 1990, p. 37). Even after loans were bringing in money again or properties were revitalized, the asset managers could still barely move them because of stiff competition from commercial banks and other firms trying to sell their own bad assets (Dentzer 1990, p. 40).

The RTC's effort to sell several hundred billion dollars worth of real estate lingered over the market, depressing prices and damaging the loan portfolios of the surviving 2,600 S&Ls in 1990 (Gorman 1990, p. 58). Slow disposal of real estate could push the cost of the bailout to more than $500 billion over 30 years (Gorman 1990, p. 58). The RTC's slow start is estimated to be costing the U.S. $14 million per day in operating losses and various other expenses. The total number of S & Ls to be bailed out could progress to 1,000, which is twice the number expected in President Bush's original plan (Gorman 1990, p. 58).

The real estate effort. In 1988, the RTC had considerable success in selling off the real estate of the defunct thrifts. The RTC offered huge tax breaks and profit guarantees to those willing to purchase ailing institutions (Yang 1990, p. 67). It became a great giveaway by the government with some business people getting outrageous deals. In December 1988, for example, Ronald O. Pereleman, a private investor, received $900 million in tax benefits when he purchased five insolvent Texas thrifts (Meehan 1989, p. 76).

In response to these incredible deals, Congress passed new legislation requiring that thrift properties be sold for at least 95 percent of their assessed market value (Drummond 1989, p. 212). This alone greatly slowed the bailout effort. Potential buyers could find better deals elsewhere (Gorman 1990, p. 59). Red tape was also involved in the selling of assets. According to Drummond, two appraisals were required, and in big metropolitan areas this could take months. Local housing agencies also had the right of refusal if they did not like the deal. Analysis by these agencies could take three to four months in most places (1989, p. 212).

Real estate experts said the legislation was over cautious and designed only to prevent the appearance of a great giveaway (Gorman 1990, p. 58). *Forbes* magazine found it took two months for the RTC to respond to offers—despite cash in hand (Drummond 1989, p. 212). In 1989, the government disposed of only $2.8 million worth of real estate a day nationwide. At that rate it would take 140 years to sell $100 billion worth (Drummond 1989, p. 212). As of 1990, the RTC owned 26,800 homes, 773 office buildings, 158 hotels, 205 resorts, 51 restaurants, 236 industrial facilities, and 43 mines (Gorman 1990, p. 58).

Many of these assets have been neglected over the past five years; however, the RTC refuses to fix up any of the properties or to provide loans to potential buyers (Gorman 1990, p. 59). The RTC is attempting to liquidate assets and would prefer not to spend additional money on maintenance. To move this tremendous amount of real estate, outside help is going to be needed (Meehan 1989, p. 76). Involving the private sector will more than likely increase the efficiency of the disposals by decreasing the red tape.

A major problem for the savings and loan bailout, however, is that commercial banks are not buying the S&Ls (Karmin 1990, p. 38). Bank examiners watch these risky investments closely. Also, banks are also increasing their own capital requirements by selling the same types of assets—branch depositories and loans (Yang 1990, p. 67). According to Yang, because of these capital requirements, banks are even less likely than before to finance risky real estate loans that could help the thrift effort. Bank regulators are worried about insolvencies and are discouraging real estate loans (1990, pp. 66-67).

THE FUTURE OF THE BAILOUT EFFORT

New efforts. Knowing that it would need to change to become more effective, the RTC began working with Congress in 1990 to create new policies. Most of the policies deal with overcoming buyer resistance to purchasing real estate of the failed thrifts. Policies from the summer of 1990 allocated $7 billion for the RTC to finance 85 percent of the value of properties being sold (Yang 1990, p. 67). In effect, this is a loan from the RTC with a mandatory down payment required from investors. The RTC benefits from the 15 percent down payment and 10-11 percent interest payments while, at the same time, losing liability for taxes and overhead expenses associated with maintaining the properties (Yang 1990, p. 67). This is a positive step as buyers can now more easily obtain loans. Commercial banks, however, are still reluctant to lend money.

In April 1992 the Senate passed a bill providing the RTC with a $25 billion budget plus an additional $17 billion, to be spent without a deadline; it would also allocate $1.85 billion to the Office of Thrift Supervision (Thomas 1992, p. A5). A similar bill supported by President Bush was vetoed by the House of Representatives. Bush's bill was controversial because it tried to help thrifts before they became insolvent (Thomas 1992, p. C9). Therefore shareholders, in addition to depositors, would benefit. Previously, all monetary support was justified on the basis that it protected only depositors. Both bills suggest that it may be less expensive to help ailing thrifts before they fail.

Another positive step is selling "clean thrifts." This involves retaining the bad real estate and securities (junk bonds, for example) and only selling the promising assets (Karmin 1990, p. 38). This should have the effect of reducing the risk for investors involved in reviving an S&L.

The RTC has invoked a bailout mandate: to finish taking over all insolvent S&Ls by September 1993 and to exit the real estate business by 1996 (Karmin 1990, p. 38). This may be next to impossible, but the RTC is trying hard to succeed. To quicken the pace, the RTC is enlisting the help of outside experts: asset managers, accounting firms, lawyers, banks, insurance companies, real estate experts, and investment bankers. All combined may earn a total of up to $50 billion for their services (Dentzer 1990, p. 39). By involving the private sector, the RTC is not only enlisting much needed help, but also reducing future costs by improving efficiency through expertise. To attract workout specialists, who attempt to make bad investments profitable, the RTC is offering big discounts on groups of poor loans and bad real estate (Yang 1990, p. 67). According to Dentzer, these independent specialists and firms may be able to get 30 to 50 percent of book value for the undesirable assets. If left alone, these assets have the potential to lose up to 20 percent of their value for every year left unattended (1990, p. 40).

The RTC is also attempting to group together commercial real estate loans. The agency is offering $528 million in loans on small office buildings and shops in the form of securities (Thomas 1992, p. C1). A reserve fund (in case of default) of $150 million was established in order to have the offering rated triple-A (Thomas 1992, p. C11). The advantage of these offerings is that the RTC can quickly liquidate assets and limit its risk. The reserve fund is used only if a loan defaults, and the government is limited to losses equal to the reserve amount (Thomas 1992, p. C11). These securities-type offerings may be used more in the future.

Likely future efforts. The dilemma for the RTC and other regulatory agencies is the amount of regulation that should be invoked in the bailout. They must regulate enough to avoid abuses of the system, but not so much as to slow the efforts (Dentzer 1990, p. 39). The Oversight Board wants to control the structure, but the RTC needs its freedom to expedite the bailout effort.

If the RTC is to sell assets quickly it must enlist the help of private firms and individuals. This should become more prevalent in the future as encouraging steps have already been taken. Although most of the focus of the S&L crisis is on real estate assets, these assets comprise only $17 billion of the $190 billion in total assets of the insolvent S&Ls as of 1990 (Dentzer 1990, p. 39). Dentzer states that $110 billion of the rest is in loans of some form or another (1990, p. 39). They range from credit card receivables to commercial mortgages with real estate pledged as collateral. If the RTC is to succeed, sorting out these loans and then selling them will be vital (Dentzer 1990, p. 39). The success of the S&L bailout hinges on the bad loans.

Presently, the Treasury is advocating a new proposal involving financial institutions. Among other things, it would toughen bank supervision, consolidate regulatory agencies, and recapitalize the FDIC (*Economist* 1991, p. 75). Clearly, the trend seems to be away from deregulation and back towards stricter regulations. The lessons of history may be remembered. However, Congress' readiness to spread blame for the scandal may affect the long-term reforms proposed by former Treasury Secretary Nicholas Brady that could help to prevent a future bank disaster (*Economist* 1991, p. 75).

Costs. The thrift disaster will cost Americans $500 billion over the next 30 years (*Economist* 1991, p. 75). It is the taxpayer who will be burdened with the huge bill. Appropriately, however, it is the taxpayer as depositor that will benefit. The majority of the funds are being used to pay for claims that depositors have against failed savings and loans. The money helps to restore public faith in the S&L industry. According to Karmin, originally savings and loans and commercial banks were required to pay one-third of the rescue expense through higher premiums on federal insurance. Unfortunately, insurance premiums are directly related to the number and size of deposits, and thrift deposits have not been growing (1990, p. 37). Dentzer states that the bailout tab is now estimated at $250 billion or over $1,000 for every American (1990, p. 39). If the $500 billion estimate is correct, it works out to $2,000 per person. In 1990, various present value methods, which use tomorrow's dollars and discount them back to their present day worth, estimated ranges from a low of $75 billion to a high of at least $140 billion to liquidate the remaining failed S&Ls (Barth 1991, p. 77). Even these estimates may prove to be conservative. In 1990, the RTC expected an additional 223 bad S&Ls to fail with $186 billion in assets (Yang 1990, p. 66). As of the end of 1990, the RTC had disposed of 373 failed thrifts and sold almost one-half of the $274 billion in assets that came with them (*Economist* 1991, p. 75).

Substantial losses occur every day. For example, Charles Keating's Lincoln Savings and Loan had assets of $5 billion but could be sold for only $12 million, a loss to the government and taxpayer of $2.6 billion (*Economist* 1991, p. 75).

These incredible numbers require that the RTC have incredible funding. Some lawmakers suggest linking the funding to the success in liquidating assets, but the RTC needs money in order to liquidate assets (Yang 1990, p. 67). Lawmakers are reluctant to risk their political futures for adequate, albeit highly controversial, funding. If the RTC is to do its job, it is going to have to be fully funded. On a positive note, Office of Thrift Supervision director Timothy Ryan recently reported that the thrift industry will show a "significant profit" for 1991, the first such year since 1986 (Thomas 1992, p. C11).

Future Prevention Measures. A repetition of the events of the 1980s and the resulting savings and loan disaster can be prevented. Savings and loans must return to the service that was originally unique to them — that of the home lender. Savings and Loans could create a strong market niche again by striving to fulfill this need.

Tougher regulation of the S&L industry is also necessary. Increased capital requirements, for instance, are certainly justified. An increase in capital requirements would force savings and loan managers to use their own funds instead of taxpayers' and would eliminate the "blank check" by limiting the leverage available to them.

Many of the problems facing the savings and loan industry 12 years ago, are now reappearing in the banking industry. Banks, and their regulators, will need to be careful not to repeat past mistakes made by their sister industry. The banking industry is larger and more influential than the savings and loan industry, and a similar occurrence would have a much greater effect on the nation.

Although the Resolution Trust Corporation's early efforts were often controversial and ineffectual, more recent actions suggest greater success. Savings and loans showed their first profit since 1986. Current RTC President Albert V. Casey stated in March 1992 that operations are beginning to come to an end. "The vast majority of thrift institutions to be resolved is behind us and the backlog of assets to be sold is declining, indicating now is the time to start downsizing the RTC" (*RTC Review* 1992, p. 7). In the near future, new regulations must be created to deal with accountability issues. History must be remembered. The savings and loan debacle could have been prevented. The deregulation efforts of the early 1980s were not necessarily at fault. Ironically, poor regulation of the new powers granted to S&Ls through deregulation is mostly to blame. It was the abuse of the new privileges, both in financial and ethical terms, that created the disaster.

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