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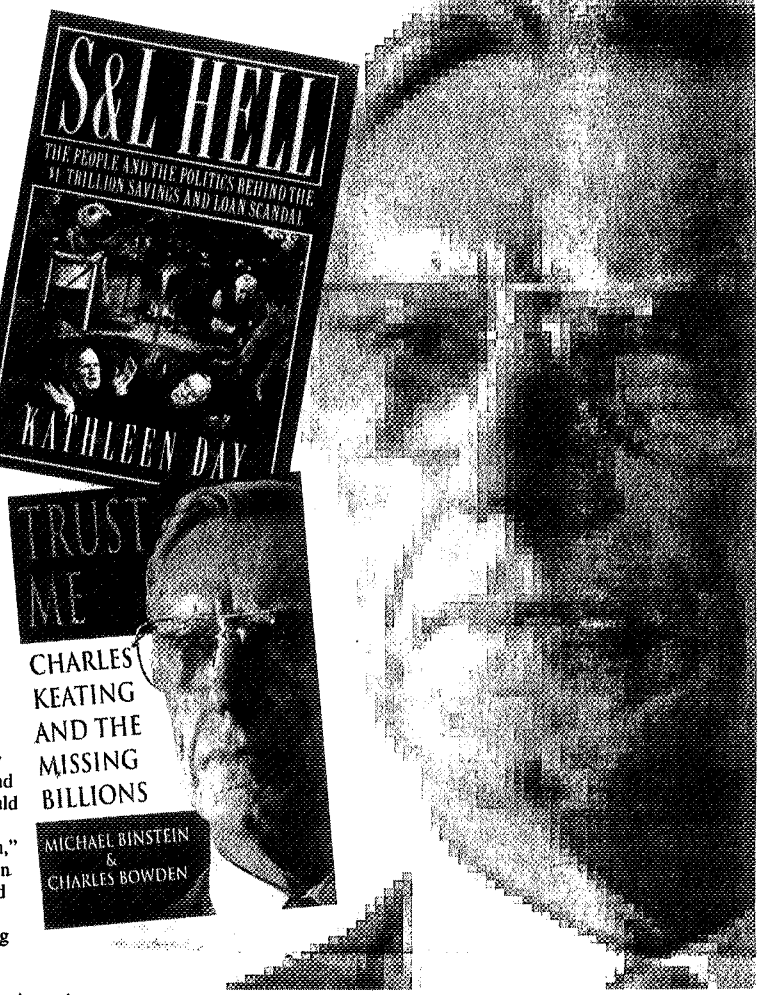
Decade Of Greed

Everything You Ever Wanted To Know About The S & L Scandal

By Matthew Budman



Like NAFTA, deconstructionism, and the popularity of Barney, the savings and loan debacle is something only a handful of people really understand. Even after hours of study, answers to the most obvious questions aren't easy:

- How did the problem develop?
- How much will it cost?
- Where'd the money go?
- Who's responsible?
- Are you sure it's not just Reagan's fault?

Several new books shed a great deal of often-entertaining light on the subject: Kathleen Day's authoritative *S&L Hell: The People and the Politics Behind the $1 Trillion Savings and Loan Scandal* (Norton, $24.95) shouldn't be attempted by complete novices; former Federal Deposit Insurance Corporation head L. William Seidman's *Full Faith and Credit: The Great S&L Debacle and Other Washington Sagas* (Times, $25) offers a whimsical view from a Washington insider; and Michael Binstein and Charles Bowden's juicy *Trust Me: Charles Keating and the Missing Billions* (Random House, $25) is the one that most will want to read.

Day, who's covered the S&L industry for *The Washington Post* since 1986, begins *S&L Hell* with a history of thrifts, showing just how far S&Ls have veered off their initial track: Originally, "S&Ls were allowed to sell only one product: home loans," she writes. "And their clients weren't expected to be the Rockefellers. This was the pivotal idea behind the thrifts' social contract. Congress would give special breaks to a private industry so that it could promote home ownership for the masses."

With rising inflation in the 1970s, S&Ls—which typically invested in long-term bonds while selling short-term bonds—found themselves losing money with each transaction. "When inflation drove interest rates through the roof, S&Ls' interest expenses far exceeded their interest income from home mortgages," Seidman writes. "The fatal defect of the S&Ls was fully revealed. Their industry was on the way to insolvency."

Though many outside the S&L industry felt thrifts had outlived their usefulness, S&L owners had donated hundreds of thousands of dollars to presidential campaigns and members of Congress, and it paid off with Ronald Reagan's sweeping deregulation of the industry.

"Much of the Reagan administration's deregulation was of great economic benefit, but applying the doctrine to the thrift industry, where in fact it really had little relevance, was a colossal error," writes Seidman, head of the FDIC from 1985 to 1991.

In 1979, the government had raised the deposit insurance to $100,000 per account. "This increase," Day writes, "gave visible sign that S&Ls were abandoning their role as banker to the little guy. This was no longer Main Street. It was Wall Street."

Reagan's deregulation (coupled with his removal of many federal thrift examiners) gave S&Ls license to invest money in virtually anything, and the federal deposit insurance allowed for any high-risk venture.

Day sums up the enviable position that thrift owners found themselves in: "If an S&L's gambles paid off, its owners won big. If it lost the gambles, the taxpayers picked up the tab. Either way executives ... could not lose. There was no incentive—from the threat of losing either their own or customers' money—to be conservative."

With this new opportunity came a new wave of S&L owners, most prominently one Charles H. Keating, soon to become a veritable poster boy of, as George Will helpfully termed it, the "Decade of Greed." "Charles Keating, thanks to federally insured deposits, could get access to almost any amount of money and the government would guarantee the folks who loaned it to him," Binstein and Bowden write. "And he could do with this money pretty much anything he wanted."

It was years before investigators could unravel just what had happened to all the money Keating raised for his Lincoln Savings and Loan. This world of electronic money transfers and junk bonds was entirely new.

In *Trust Me*, Binstein and Bowden brilliantly explain the way this modern game was played and the places the money traveled:

"[T]here is no chest full of gold buried in the yard, no big Zurich bank account with a couple of hundred million slopping out of the drawer... [I]t is about how money is spent, how it flies from bank to bank, shell corporation to shell corporation, nation to nation, flies at the speed of electronic impulses pulsing through chips and wires, flies such distances and through so many ports of call that almost never can anyone reconstruct its path and connect its destination with its point of origin. Then this money is all carefully recorded on the books, and those meticulous goddamn books attest that it is all legal and on the up-and-up. And suddenly the damn money is gone ..."

Keating was the most outlandish of the S&L owners—and there were some real characters among them, as the authors of these three books attest.

Despite the fact that Keating was "the largest contributor in the United States to anti-pornography organizations," he was obsessed with women, handing out bonuses to staff members with the understanding that they were to undergo—as, Binstein and Bowden charge, at least a dozen women on Keating's staff did—breast enlargement surgery.

The Arizona banker pumped millions into worthless real estate developments, exorbitant employee salaries, and wild staff parties—and yet, Binstein and Bowden note, he demonstrated a "strange lack of avarice." Greed had little to do with much of Keating's spending.

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Keating's wide-ranging financial moves especially puzzled those who tried to pigeonhole him. To regulators pouring over Lincoln records, the S&L's deals simply didn't make sense. "Why would a man loan a hundred million dollars to another man whose net worth was minus $150,000?" Binstein and Bowden ask.

It's precisely because the deals make so little sense that the S&L scandal is so difficult to understand. At some level, high finance simply moved beyond people's capability to control it.

"The S&L crisis was born in the economic climate of the times," Seidman writes. "It was nurtured, however, in the fertile ground of politics as usual and the political mentality of 'not on my watch.' The system may have given rise to the crisis, but human beings, with all their faults, ultimately determined the scope of the debacle."

With Keating jailed, the rest most likely will be forgotten—from the hapless Neil Bush, slapped on the wrist for incompetence, to the millions of depositors slowly getting their money returned to them by the government, to the federal agencies forced to auction off billions in worthless real estate.

"Charlie Keating is a multipurpose solution now," Binstein and Bowden write. "He can be the bad apple, an aberration in the normal course of the nation's life, and when he is locked up, the problem is solved. Or he can be a verbal shorthand for [gang members] when they point out the injustice of the rich ripping everyone off and the poor being left with so very little."

The "Rambo of the savings and loan industry," to use Binstein and Bowden's phrase, was booked into Los Angeles County Jail Sept. 19, 1990. As Seidman says, "It could not have happened to a more deserving gentleman!"