

Press Releases

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OTS 96-20 - Fiechter Testimony Before the House Banking Committee Still Best Solution to Fix SAIF-FICO

Office of Thrift Supervision

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JOINT PROPOSAL TO FIX SAIF-FICO STILL BEST SOLUTION, FIECHTER SAYS

WASHINGTON, D.C., March 19, 1996 -- A joint proposal submitted to Congress last year to solve the financial problems of the Savings Association Insurance Fund and the Financing Corporation (FICO) was reaffirmed today as the best solution by Acting Director Jonathan Fiechter of the Office of Thrift Supervision (OTS).

In testimony before the House Banking Committee, he said OTS continues to support prompt enactment of the proposal offered by the Treasury Department, the Federal Deposit Insurance Corporation (FDIC) and OTS, which was passed last year as part of the Balanced Budget Act. The proposal, he said, "would permanently solve the financial problems of SAIF and FICO."

The joint proposal called for immediate capitalization of the SAIF via a special assessment on SAIF-insured institutions and for spreading interest payments on FICO bonds, issued in the late 1980s to help resolve failed thrifts, across all FDIC-insured institutions.

These two reforms, Fiechter said, would fully capitalize the underfunded SAIF; eliminate the current premium disparity between thrifts and banks, which has "created a powerful incentive for SAIF-insured institutions to reduce their deposit base; and provide a permanent and stable source of funding for FICO. FICO is at risk of default because of declining deposits in SAIF-insured institutions responsible for paying interest on the FICO bonds.

The joint proposal has been thoroughly analyzed. It represents the consensus position of the Administration, the FDIC and OTS, and enjoys the support of the Federal Reserve Board. Moreover, a complete legislative package is in place that has been carefully reviewed and passed by Congress, he added.

This solution meets two principles Fiechter said should guide analysis of alternative solutions. First, any solution must take account of market forces that will drive business decisions and consumer choices. Any response "based on the premise that private institutions can be

prevented by government rules from responding to market pressures may be doomed to failure."

Second, "the failure to enact timely and permanent solutions can be counter-productive. The history of thrift legislation is replete with partial fixes and deferred decisions that ended up costing the thrift industry and, ultimately, the taxpayer, far more than if the problems had been addressed promptly."

A healthy thrift industry today has opened the window of opportunity to solve the problems with non-government resources. "If we fail to act soon, we may miss the best chance to resolve these problems with minimal risk to the taxpayer," Fiechter said.

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.