The Cost of the Savings and Loan Crisis: Truth and Consequences

by Timothy Curry and Lynn Shibut*

It has been more than a decade since enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which began the taxpayers' involvement in the cleanup of the savings and loan industry.[1] Over time, misinformation about the cost of the crisis has been widespread; some published reports have placed the cost at less than $100 billion, and others as high as $500 billion.[2] Now that the cleanup is nearly complete, we can answer the following questions about a debacle that has consumed the nation for years:

- What was the total cost of the crisis?
- How much of the total was borne by the U.S. taxpayer?
- How much was borne by the thrift industry?
- How do the actual costs compare with those predicted before and during the cleanup years?

The thrift cleanup was Congress's response to the greatest collapse of U.S. financial institutions since the 1930s. From 1986 to 1989, the Federal Savings and Loan Insurance Corporation (FSLIC), the insurer of the thrift industry, closed or otherwise resolved 296 institutions with total assets of $125 billion (table 1).[3] An even more traumatic period followed, with the creation of the Resolution Trust Corporation (RTC) in 1989 and that agency's resolution by mid-1995 of an additional 747 thrifts with total assets of $394 billion.[4] The combined closings by both agencies of 1,043 institutions holding $519 billion in assets contributed to a massive restructuring of the number of firms in the industry. From January 1, 1986, through year-end 1995, the number of federally insured thrift institutions in the United States declined from 3,234 to 1,645, or by approximately 50 percent.[5]

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[1] Although the roots of the savings and loan crisis lay in the late 1970s, the passage of FIRREA in 1989 marked the first time taxpayer funds were used to resolve the crisis. That use of taxpayer funds to meet the guarantee to insured depositors is the reason the term *cleanup* is used rather than *bailout*.

[2] For example, see White (1991), 197. Also, Thomas (2000), 13.

[3] The word *thrifts* refers to savings associations insured by the FSLIC until August 8, 1989, and after that date by the Savings Association Insurance Fund (SAIF), administered by the FDIC.

[4] The $394 billion figure measures total assets as reported in the Thrift Financial Report that was most recent at the time of each thrift's failure. This figure is net of valuation allowances on the books of the institution at the time of failure. Other published numbers have reported the total assets for the 747 thrifts at takeover to be $402.4 billion. This reported number is gross of valuation allowances. Unless otherwise noted, the source for all data is the FDIC.

[5] The total number of thrift institutions represents those that were FSLIC-insured at year-end 1986 and SAIF-insured at year-end 1995. It should be noted that not all of the thrift industry consolidation occurred because of the thrift crisis. Even without such a crisis, some consolidation of the industry would probably have occurred.

Table 1
Thrift Failures, 1986–1995
($Millions)

Year	FSLIC Number	FSLIC Assets	RTC Number	RTC Assets
1986	54	$ 16,264		
1987	48	11,270		
1988	185	96,760		
1989	9	725	318	$134,520
1990			213	129,662
1991			144	78,899
1992			59	44,197
1993			9	6,148
1994			2	137
1995			2	435
Total	**296**	**$125,019**	**747**	**$393,998**

Source: FDIC.
Note: Data are for the period January 1, 1986, to December 31, 1995.

Although the roots of the thrift crisis stretch back to the late 1970s, the financial losses experienced by taxpayers and the industry are tabulated as beginning on January 1, 1986, and ending at year-end 1995. The year 1986 was selected as the starting point because this was the first year when the FSLIC was reported insolvent. Before then, the thrift insurance fund had been able to cover losses from thrift failures. Recognition of the FSLIC's insolvency as of year-end 1986 marked a watershed: at that time many observers realized that taxpayer involvement in the resolution of the crisis was a strong possibility.

The next section of this article provides background material on the crisis. It is followed first by a retrospective on the changing estimates of the size of the thrift problem over time and then by a three-part section identifying and analyzing the cost of meeting the deposit insurance obligations that remained in the wake of the debacle. The costs are broken into the FSLIC and RTC segments, as well as the taxpayer and the thrift industry shares of each, and the total is then analyzed. A brief summary concludes. An appendix discusses the "goodwill" litigation associated with FIRREA.

Background

The causes and severity of the thrift crisis have been documented by scholars for more than a decade.[6] Several reasons cited for the collapse include:

- high and volatile interest rates during the late 1970s and early 1980s, which exposed thrifts to interest-rate risk (caused by a mismatch in duration and by interest-rate sensitivity of assets and liabilities);
- the phase-out and eventual elimination in the early 1980s of the Federal Reserve's Regulation Q, which caused increasing costs of thrift liabilities relative to many fixed-rate assets and adversely affected industry profitability and capital;
- adverse regional economic conditions;
- state and federal deregulation of depository institutions, which allowed thrifts to enter new but riskier loan markets;
- the deregulation of the thrift industry without an accompanying increase in examination resources (for some years examiner resources actually declined);
- reduced regulatory capital requirements, which allowed thrifts to use alternative accounting procedures to increase reported capital levels;
- excessive chartering of new thrifts during the 1980s;
- the withdrawal in 1986 of federal tax laws (enacted in 1981) that benefited commercial real-estate investments;
- the development during the 1980s of the brokered deposit market; and
- delays in funding the thrift insurance fund during the 1980s and the RTC during the 1990s, which led to regulators' failure to close many insolvent institutions in a timely manner.

As a consequence of all these factors, during the 1980s the thrift industry realized unprecedented losses on loans and investments. The result, as noted, was the failure of hundreds of thrift institutions and the insolvency by year-end 1986 of the FSLIC, the federal insurer for the thrift industry. As of year-end 1986, 441 thrifts with $113 billion in assets were book insolvent, and another 533 thrifts, with $453 billion in assets, had tangible capital of no more than 2 percent of total assets. These 974 thrifts held 47 percent of industry assets. In response, Congress created the Financing Corporation (FICO) in 1987 to provide funding to the FSLIC by issuing long-term bonds. By the time FIRREA was passed two years later, FICO had contributed $8.2 billion in financing to the

[6] *See* Barth *et al.* (1985); Kane (1989); Barth (1991); White (1991); Barth and Brumbaugh (1992); Bennett and Loucks (1996); and FDIC (1997).

Table 2
Chronology of Thrift Crisis Events

December 31, 1986	FSLIC insolvent
August 10, 1987	FICO created to fund FSLIC
August 9, 1989	Enactment of FIRREA
	– FSLIC abolished
	– FRF created (succeeds to FSLIC's assets, liabilities, and operations)
	– SAIF created to handle thrift failures starting August 9, 1992
	– RTC created to resolve thrifts placed into conservatorships or receiverships between January 1, 1989 and August 8, 1992[a] (RTC to cease operations December 31, 1996)[b]
	– REFCORP created to fund RTC

Note: FSLIC = Federal Savings and Loan Insurance Corporation
FICO = Financing Corporation
FRF = FSLIC Resolution Fund
SAIF = Savings Association Insurance Fund
RTC = Resolution Trust Corporation
REFCORP = Resolution Funding Corporation

[a]Cutoff date for takeovers later extended to June 30, 1995.

[b]Date to cease operations later changed to December 31, 1995.

FSLIC, an amount insufficient to deal with the industry's massive problems.[7]

In response to the deepening crisis, Congress enacted FIRREA on August 9, 1989, beginning the taxpayers' involvement in the resolution of the problem. (See table 2 for a listing of thrift crisis events.) FIRREA abolished the FSLIC and transferred its assets, liabilities, and operations to the newly created FSLIC Resolution Fund (FRF), to be administered by the FDIC. In addition, FIRREA created—to be administered by the FDIC—a new thrift insurance fund named the Savings Association Insurance Fund (SAIF), which would handle thrift failures starting three years from the date of FIRREA. FIRREA also created the RTC to resolve virtually all troubled thrifts placed into conservatorships or receiverships between January 1, 1989, and August 8, 1992. Because of the continuing thrift crisis, however, the RTC's authorization to take over insolvent institutions was twice extended, the second time to June 30, 1995.[8] The RTC was required to cease its operations on December 31, 1995, and transfer any remaining assets and liabilities to the FSLIC Resolution Fund.[9]

FIRREA provided the RTC with $50 billion to resolve failed institutions. Approximately $30 billion of this amount originated through the establishment of the Resolution Funding Corporation (REFCORP), which was a private-public partnership created to issue long-term bonds to the public.[10] The remaining $20 billion came from the U.S. Treasury ($18.8 billion) and the Federal Home Loan Banks ($1.2 billion). Because the $50 billion in initial funding was insufficient to deal with the scope of the problem, Congress enacted subsequent legislation three times, raising total authorized RTC funding for losses to $105 billion between 1989 and 1995. Some of this amount was never used. (See table 3.)

[7] FICO was created by the Competitive Equality Banking Act of 1987 (CEBA) as the vehicle for recapitalizing the insolvent FSLIC. The law authorized FICO to raise funds for the FSLIC by selling bonds to the public; as noted, FICO had $8.2 billion of outstanding debt as of the passage of FIRREA in August 1989. Initially the thrift industry was to be responsible for payment of interest and principal on the outstanding debt. Later FIRREA permitted the FICO bonds to be paid for by annual assessments from the newly created SAIF insurance fund. Because of concern over the low reserves of the SAIF, the Deposit Insurance Funds Act of 1996 (PL 104-208) provided for the SAIF's capitalization. As part of the capitalization effort, future interest payments on the FICO bonds were to be paid for by all FDIC-insured institutions.

[8] FIRREA's original period for the takeover of insolvent institutions was three years, which ended August 8, 1992. The RTC Refinancing, Restructuring and Improvement Act of 1991 extended the period to October 1, 1993. The RTC Completion Act of 1993 extended it through June 30, 1995.

[9] The original RTC termination date, established by FIRREA in August 1989, was December 31, 1996. The RTC Completion Act of 1993 changed the closure date to December 31, 1995.

[10] The 1989 legislation created a quasi-private corporation to provide funds for the RTC. The organization and structure of REFCORP were patterned after FICO, established in 1987 to raise funds for the insolvent FSLIC. REFCORP was authorized to issue debt obligations in an aggregate amount of $30 billion starting in fiscal years 1990 and 1991. The $30 billion in principal on the REFCORP bonds was paid from the sale of non-interest-bearing U.S. Treasury obligations, which REFCORP purchased in amounts approximately equal to the principal of the REFCORP obligations. These zero-coupon securities were funded from the reserves and special assessments of the FHLBs and the SAIF. Funds for the payment of interest on REFCORP obligations came from several sources, including $300 million per year from FHLB contributions and from the U.S. Treasury. REFCORP raised the $30 billion in offerings by January 1991.

Table 3

RTC Funding Legislation

($Billions)

Legislation	Loss Funds	Date of Enactment
FIRREA, 1989	$ 50.1	August 9, 1989
RTC Funding Act of 1991	30.0	March 23, 1991
RTC Refinancing, Restructuring and Improvement Act of 1991	6.7	December 12, 1991
RTC Completion Act of 1993	18.3	December 17, 1993
Total Funds Appropriated	**$105.1**	
Total Funds Provided to RTC	**$ 91.3**	

History of Cost Estimates

Before, during, and even after the RTC's lifetime, estimates of the costs of the crisis created widespread confusion. Federal agencies, politicians, thrift industry experts, and others put forth myriad estimates on what was called the size of the problem. These forecasts often diverged widely and changed frequently in response to surging industry losses. For example, most loss projections for RTC resolutions during the year leading up to passage of FIRREA in 1989 were in the range of $30 billion to $50 billion, but some reached as high as $100 billion at that time.[11] Over the next few years, as a greater-than-expected number of thrifts failed and the resolution costs per failure soared, loss projections escalated. Reflecting the increased number of failures and costs per failure, the official Treasury and RTC projections of the cost of the RTC resolutions rose from $50 billion in August 1989 to a range of $100 billion to $160 billion at the height of the crisis peak in June 1991, a range two to three times as high as the original $50 billion.[12] The fact that the estimates were moving targets increased the public's confusion and compounded Congress's difficulty in reaching a consensus on funding levels for the cleanup.

What accounted for the disparity and volatility among these projections? First, timely information on the condition of the failed institutions was lacking, especially during the early years. Analysts were forced to base their loss predictions on Thrift Financial Report data that were often outdated and unreliable (because thrift examinations had been infrequent and relaxed accounting standards were used at the time). In reality, the industry was in much worse shape than most observers had anticipated, and once the cleanup got under way and the industry came under intense scrutiny, this became apparent. During the asset reviews of insolvent and undercapitalized institutions, it became obvious that the embedded losses were much greater than thrift financial statements had reported.

Another factor was uncertainty about the expected number of future failures. This number was hard to predict because the economy was changing, as were interest rates and commercial real-estate markets. The Bush administration, for example, originally estimated that more than 400 thrifts with over $200 billion in assets would be turned over to the RTC at a cost of approximately $50 billion, but in less than a year the administration's estimate had grown to 700 or 800 thrifts with assets of over $400 billion. The dramatic misreading of the number of failures and subsequent costs of the crisis, especially during the early years, was acknowledged by L. William Seidman, Chairman of both the FDIC and RTC during this era, in his memoir. "Only three months after the cleanup started," he said, "it was already evident that the problem was far worse than anyone in government had envisioned, including me, and it was getting worse every day. The economy was beginning to slide into recession. Real estate was in real depression in some parts of the country, particularly in Texas, where the savings and loan problem was the largest . . . we would also need billions more to pay off depositors and carry weak assets of the institutions until they were sold and we could

[11] The $30 billion to $50 billion estimates formed the basis for the Bush administration plan in February 1989 to provide $50 billion in funding for the cleanup. Experts outside the federal government at that time claimed that the costs could be substantially higher—possibly reaching $100 billion.

[12] During the final year of the cleanup, the Treasury lowered its official estimates to $120 billion.

recover the funds we had invested . . . we were faced with taking the most politically unacceptable action of all, having to admit that we made a big mistake."[13]

A third factor contributing to the disparate and volatile nature of the projections was that some public reports on the size of the problem looked at "apples" and others at "oranges," and the two groups were not comparable. For example, some estimates included only the expected losses from RTC failures but did not incorporate past FSLIC costs. Other estimates included both the FSLIC and RTC losses but focused only on the taxpayers' losses, while excluding losses incurred by the thrift industry over the same period.

One of the most important factors in explaining the variance among the loss estimates was methodological: the total estimated cost sometimes did and sometimes did not include, in addition to the estimated losses, the borrowing costs for the billions of dollars of debt issues floated to fund the cleanup. During the FSLIC and RTC eras, the industry contributed $38.3 billion (sometimes in partnership with the Treasury) in funding for the cleanup. Special government-established financing entities (FICO and REFCORP) raised these funds by selling long-term bonds in the capital markets. The Treasury contributed another $99 billion,[14] some or all of which was also borrowed because the federal government was experiencing large budget deficits during the period. When some analysts tabulated the costs of the cleanup, they included not only the principal borrowed but also interest costs for periods of up to 30 to 40 years on some or all of the borrowings. Including the financing costs in addition to principal could easily double or triple the estimates of the final cost of the cleanup.

However, in our view, including financing costs when tallying the costs of the thrift crisis is methodologically incorrect. It is invalid because, in present-value terms, the amount borrowed is equal to the sum of the interest charges plus debt repayment. Adding the sum of interest payments to the amount borrowed would overstate the true economic cost of resolving the crisis. An example will illustrate the point. Assume an individual pays $100,000 for the purchase of a residential property and finances the whole amount with a 30-year loan at 10 percent interest. Over the 30 years of the loan the individual pays more than $300,000 in total costs, comprising interest and principal. Yet, the cost of the home is still $100,000, because the present value of the total costs of $300,000 for 30 years of payments discounted by the interest rate of 10 percent is approximately $100,000.[15] Another example: the federal government does not include interest charges when costing specific programs, such as weapons systems or school lunches.

Accounting for the Thrift Cleanup Costs

The costs of the thrift crisis are analyzed below in three sections. The first section looks at costs borne by the FSLIC for thrifts that failed from year-end 1985 through August 8, 1989.[16] Funds were provided to the FSLIC, and when the FSLIC was abolished in 1989, the FRF became responsible for paying off notes and other obligations the FSLIC had left behind.[17]

The second section analyzes costs associated with the RTC resolutions of institutions that failed after January 1, 1989 (excluding failures resolved by the FSLIC). These institutions consist of two groups of failed thrifts: (1) those that were nationalized and placed into FDIC-supervised conservatorships from January 1, 1989, through the passage of FIRREA on August 9, 1989,[18] and (2) those that failed after August 8, 1989. In the first group—institutions taken over before August 9, 1989—there were 262 failed thrifts from 33 states, with $104 billion in total assets. In the second group—institutions that failed after August 8, 1989, and before June 30, 1995—there were 485 thrifts with total assets of $290 billion. The third section analyzes total estimated resolution costs.

Table 4 breaks out the thrift crisis losses for both FSLIC- and RTC-related resolutions by source—either the private or the public sector—as of year-end 1999.

[13] Seidman (1993), 208.

[14] Includes $43.5 billion to the FRF and $55.9 billion to the RTC. See table 4. An additional $4.2 billion was provided to the RTC and later returned to the Treasury.

[15] Actually, the total amount paid out over 30 years would be $315,925.

[16] As mentioned above, the tabulation of costs begins in 1986 because that was the year when the FSLIC became insolvent. Its equity was depleted from a positive balance of $4.6 billion on January 1, 1986, to a negative balance of $6.3 billion on December 31, 1986.

[17] FIRREA transferred all of the FSLIC's assets, liabilities, and operations to the newly created FRF to be administered by the FDIC. The funds needed to settle the FSLIC's remaining liabilities were provided by appropriations from the Treasury, industry assessments, and recoveries from asset sales.

[18] Although the failed thrifts were placed into FSLIC conservatorships, an agreement among the FDIC, the FHLBB, and the FSLIC gave the FDIC authority to supervise these conservatorships. In August 1989 at the RTC's inception, the conservatorships were turned over to the RTC for management and ultimate resolution.

Table 4

Estimated Savings and Loan Resolution Cost, 1986–1995

($Billions)

	Private Sector	Public Sector	Total
Direct Cost			
FSLIC/FSLIC Resolution Fund, 1986–95			
FSLIC year-end equity and reserves, 1985	$6.1		$6.1
FSLIC insurance premiums, 1986–89	5.8		5.8
SAIF assessments diverted to FRF, 1989–92	2.0		2.0
FICO bond proceeds, 1987–89	8.2		8.2
FRF appropriations, 1989–95		$43.5	43.5
Less: FRF equity at 12/31/99[a]		(2.5)	(2.5)
Estimated Direct FSLIC/FRF Cost	**$22.0**	**$41.0**	**$63.0**
RTC, 1989–95			
Raised through REFCORP bond proceeds:[b]			
FHLB payments to defease REFCORP debt, 1989–91	1.3		1.3
SAIF assessments paid to defease REFCORP debt, 1990	1.1		1.1
Net present value of FHLB-paid interest on REFCORP bonds[c]	3.5		3.5
Net present value of REFCORP interest paid by U.S. Treasury[d]		24.2	24.2
Total REFCORP bond proceeds	5.9	24.2	30.1
Appropriations from U.S. Treasury[e]		55.9	55.9
Initial contribution from FHLB system	1.2		1.2
Less: RTC equity at 12/31/99[a]		(4.5)	(4.5)
Estimated Direct RTC Cost	**7.1**	**75.6**	**82.7**
Estimated Total Direct Cost	**$29.1**	**$116.5**	**$145.7**
Indirect Cost			
Estimated cost of tax benefits to acquirers from FSLIC assistance		6.3	6.3
Increased interest expense from higher interest rates on REFCORP bonds compared with U.S. Treasury borrowings[f]		1.0	1.0
Estimated Indirect Cost		**7.3**	**7.3**
Estimated Total Cost	**$29.1**	**$123.8**	**$152.9**
Memo: goodwill litigation cost through 12/31/99[g]		0.4	0.4

Note: For these costs to be comparable to those of other government programs, they exclude interest on the national debt incurred to fund the cleanup, and, in the case of FICO and REFCORP, interest that would have accrued to the national debt had such funding come from the general fund of the U.S. Treasury instead of from FICO and REFCORP. Resolution costs start with 1986 because the FSLIC became insolvent that year.

[a]Adjusted for expenses associated with goodwill litigation. See note g below.

[b]REFCORP bonds were funded via a public-private partnership. Total funds raised by REFCORP were $30.1 billion. Because of the mix of private and public funding, discounting is used to allocate the $30.1 billion on the basis of the contributions made by various parties at different times.

[c]Net present value of the FHLBs' $300 million annual contribution to cover part of REFCORP interest expense.

[d]Calculated as the total REFCORP contribution ($30.1 billion) minus the net present value of the private-sector contributions.

[e]Total appropriations were $60 billion, but $4.2 billion was returned to the Treasury in 1999.

[f]Present value of higher interest expense of REFCORP borrowing compared with comparable-term U.S. Treasury securities. This is treated as a public-sector expense because the U.S. Treasury is responsible for all interest expenses above those paid by the FHLBs.

[g]The FDIC cost of litigation stemming from changes in accounting treatment of supervisory goodwill and other items in FIRREA through 12/31/99. The cost borne by the Department of Justice and estimated future costs are unavailable. Awards that have not been paid are excluded. In this presentation, goodwill expenses and recoveries are excluded from the cost of the Savings and Loan resolutions. Goodwill expenses and recoveries relate to legislative changes in FIRREA, not to the resolution of failed thrifts. Thus, this is reported only as a memo item.

FSLIC Estimated Resolution Costs

For FSLIC failures, the loss from the beginning of 1986 forward was $63.0 billion, of which the public sector accounted for $41.0 billion, or 65 percent, while the thrift industry paid $22.0 billion, or 35 percent of the total. All the FRF-related public-sector losses were accounted for by the Treasury's $43.5 billion contribution. As of year-end 1999, however, the FRF still retained $2.5 billion in equity that was expected to be returned to the taxpayers, so the net loss was $41.0 billion.[19] (As mentioned above, the FRF was responsible for settling accounts on all outstanding FSLIC assistance agreements and receiverships.) The $22.0 billion in thrift industry funding for FSLIC losses included: $8.2 billion that came from the thrift industry through the sale of long-term FICO bonds; FSLIC insurance premiums from 1986 forward and SAIF assessments diverted to the FRF, accounting for an additional $7.8 billion in spending; and $6.1 billion from the original FSLIC insurance fund equity and reserves as of year-end 1985.[20]

RTC Estimated Resolution Costs

As of December 31, 1999, the RTC losses for resolving the 747 failed thrifts taken over between January 1, 1989, and June 30, 1995, amounted to an estimated $82.7 billion, of which the public sector accounted for $75.6 billion, or 91 percent, and the private sector accounted for $7.1 billion, or 9 percent (table 4).

The largest component of the public-sector loss was direct Treasury appropriations of $55.9 billion;[21] the Treasury also absorbed $24.2 billion of the $30.1 billion in REFCORP contributions received from 1989 to 1991. However, the public-sector losses were reduced by $4.5 billion in equity held by the RTC as of year-end 1999.[22]

This accumulation of equity over the years was attributable to a number of factors. When an insured depository institution was closed and put into a receivership, the RTC placed a loss adjustment factor against the book value of the assets (this value was based on appraisals or other market information available at the time). These loss reserves reduced the value of the assets to the expected market or recovery value. In its reserving procedures, the RTC (with the approval of the GAO) took a conservative approach so as not to overstate the value of the assets acquired from failed institutions. In applying reserving procedures, the RTC considered a variety of factors including the fair market value of assets when residential and commercial markets were collapsing and the costs associated with particular sales methods developed by the RTC. For example, claims from both representation and warranty guarantees on asset sales and securitizations of nonstandard assets had to be anticipated and loss reserves established. During the 1990s, as the economy improved and real-estate markets recovered, the losses on asset sales and claims from representation and warranty and asset-securitization guarantees were less than anticipated. Thus, a portion of previously set-aside reserves were recaptured into the RTC equity account and offset the overall costs of the cleanup.

The thrift industry losses included the initial $1.2 billion contributed by the Federal Home Loan Banks (FHLBs) to capitalize the REFCORP. The FHLBs also paid $1.3 billion, and the SAIF paid $1.1 billion, to purchase zero-coupon securities worth $30 billion at maturity—to be used to pay the principal of REFCORP debt. The FHLBs incurred an additional $3.5 billion loss that represented the present value of the FHLBs' portion of the interest payments on REFCORP bonds.

Total Estimated Resolution Costs

As of December 31, 1999, total direct costs attributable to the closing of insolvent thrift institutions over the 1986–1995 period amounted to $145.7 billion. Indirect costs due to the loss of Treasury revenue because of the tax benefits that accrued to acquirers of failed institutions under past FSLIC resolutions amounted to $6.3 billion.[23] An additional $1.0 billion of indirect costs was incurred because interest expens-

[19] The FRF equity will be returned to the Treasury as the remaining workload is completed. This figure is adjusted for goodwill litigation costs.

[20] These reserves were premiums paid before 1986 that were spent during the crisis.

[21] Appropriations were $60 billion, but approximately $4.2 billion was returned to the Treasury in 1999.

[22] These funds will be returned to the Treasury, or will be used to reduce the Treasury's interest payments on the REFCORP bonds, as the remaining workload is completed. This figure is adjusted for goodwill litigation costs.

[23] During most of the 1980s, special tax benefits accrued to those acquiring insolvent thrift institutions. For example, assistance paid to acquiring institutions was nontaxable. In addition, in some cases acquiring organizations could carry over certain losses and tax attributes of the troubled institutions to reduce their overall tax liability. These provisions reduced the amount that the FSLIC was required to pay acquiring organizations to take over insolvent institutions. As a consequence of these tax benefits, revenue was lost to the Treasury. Thus, these tax benefits are referred to as "indirect costs." No such benefits were granted after 1988.

es were higher with the use of REFCORP bonds than with Treasury financing.[24] Thus, the combined total for all direct and indirect losses of FSLIC and RTC resolutions was an estimated $152.9 billion. Of this amount, U.S. taxpayer losses amounted to $123.8 billion, or 81 percent of the total costs. The thrift industry losses amounted to $29.1 billion, or 19 percent of the total.

The accumulated losses of $152.9 billion were higher than the official and private forecasts of the late 1980s but lower than those made by the government and others during the early to mid-1990s. As mentioned above, during the late 1980s the full extent of the problem was unknown until the cleanup began; thus, many early forecasts underestimated the size of the problem. In the early to mid-1990s, lower interest rates and an improving economy reduced the number of thrift failures and improved prices for thrift franchises and assets held by thrifts; thus, the final losses were less than those predicted at the height of the crisis. In addition, because perceptions of thrift assets during the crisis years had been unfavorable, the RTC adopted conservative accounting procedures, and the combination of these policies and a strong economy caused the costs of the cleanup to decline every year after 1991.

As of year-end 1999, the savings and loan cleanup was largely complete. The FSLIC Resolution Fund, which controls all remaining assets and liabilities of both the FSLIC and the RTC, either held or had a direct claim on approximately $7 billion in assets, most of which were cash and low-risk securities.[25] Thus, losses from future asset sales will not materially change the loss figures. However, the costs of the goodwill litigation associated with FIRREA (see the Appendix) are still largely unknown, and it could be several more years before these cases are concluded.

Summary

The savings and loan crisis of the 1980s and early 1990s produced the greatest collapse of U.S. financial institutions since the Great Depression. Over the 1986–1995 period, 1,043 thrifts with total assets of over $500 billion failed. The large number of failures overwhelmed the resources of the FSLIC, so U.S. taxpayers were required to back up the commitment extended to insured depositors of the failed institutions. As of December 31, 1999, the thrift crisis had cost taxpayers approximately $124 billion and the thrift industry another $29 billion, for an estimated total loss of approximately $153 billion. The losses were higher than those predicted in the late 1980s, when the RTC was established, but below those forecasted during the early to mid-1990s, at the height of the crisis.

[24] The REFCORP funding mechanism essentially required that the U.S. Treasury pay interest at slightly higher rates than it did for Treasury bonds of similar maturity. Although some might argue that this requirement relates to funding more than to resolution costs, this funding mechanism was considered necessary for Congress to enact the enabling legislation. Further delays in funding would have increased total resolution costs.

[25] Included are $2.9 billion in cash held directly by the FRF, as well as the FRF's claim on $1.5 billion in cash and low-risk securities held by receiverships for which the FRF is the primary creditor.

APPENDIX: GOODWILL LITIGATION

On July 1, 1996, the U.S. Supreme Court ruled that, with the 1989 passage of FIRREA, the federal government had violated contractual obligations.[26] FIRREA mandated new regulatory capital accounting for depository institutions and provided for the elimination or rapid phase-out of the use of "supervisory goodwill" in calculating the regulatory capital of financial institutions. As a result of the Court's ruling, numerous thrifts that had been involved in mergers and acquisitions during the 1980s and had "supervisory goodwill" on their books became undercapitalized. Many of these thrifts were closed by supervisors, while others altered their business strategies (for example, by shrinking their asset base) to meet the new capital standards.

In response, as of July 31, 2000, 141 thrift acquirers had filed suit in District Court or the U.S. Court of Federal Claims, seeking compensation from the federal government for losses (table A.1). As of July 31, 2000, two judgments totaling $40 million had been paid for cases filed in District Court. All other cases were consolidated to the U.S. Court of Federal Claims, where 103 cases were still pending trial. At the U.S. Court of Federal Claims, judgments have been rendered in six cases, awarding the plaintiffs $983 million from the federal government.[27] Four of these cases were on appeal to the U.S. Federal Circuit Court of Appeals; the other two were recent decisions, and appeals are likely. In another five cases, settlements have been reached with plaintiffs receiving approximately $135 million. Another 3 cases had been tried and were awaiting decision; 7 cases had been dismissed; 12 cases had been consolidated with others; and miscellaneous actions have been taken in 3 others.

In cases involving approximately 40 failed thrifts, the FDIC as successor to the closed institutions had become a co-plaintiff in goodwill suits against the United States. Only two of those cases had been decided as of July 31, 2000, and the trial court awarded the FDIC-managed receiverships $19.8 million. All parties appealed one of the decisions, and an appeal of the second decision is expected.

[26] The case was *Winstar Corporation v. United States*, 90-8C; United Savings Bank, Windom, MN.

[27] Most of the $983 million in judgments against the government came from one case: Glendale Federal Bank, FSB, of Glendale, California, was awarded a judgment of $908.9 million.

Table A.1

Status of Goodwill Cases as of July 31, 2000

Case Status	Number	Settlements/ Judgments ($Millions)
Cases with judgments paid[a]	2	$ 40
Cases pending trial	103	
Cases with unpaid judgments	6	983
Cases settled[b]	5	135
Cases tried and awaiting decisions	3	
Cases dismissed	7	
Cases consolidated into others	12	
Other	3	
Total	**141**	**$1,158**

Source: FDIC.

[a]These cases were decided at District Courts. All remaining cases were consolidated to the U.S. Court of Federal Claims.

[b]In one case (Winstar), the Department of Justice settled with the shareholder plaintiff but not with the FDIC. The settlement amount is included here even though the case was pending trial as of July 31, 2000.

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