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Colman McCarthy

Courage Of Her Convictions

A hundred years ago, judges were locking up cattle rustlers. Now leaf rustlers are criminals.

Heidi Prescott, national outreach director for the Fund for Animals, served a maximum 15-day sentence in a Maryland jail (with two days off for good behavior) for rustling leaves with her feet in a public wildlife management area. She was in the woodland on Nov. 25, 1989, the opening of the deer-slaughtering season, when some of Maryland's toughest hombres were displaying their bravery by pumping bullets into the brains and hearts of does and bucks.

Prescott, an idealist who believes in the sacredness of all life—four-footed as well as two-footed—was arrested with a group of others for breaking a state law that forbids harassing hunters. For the harassment of rustling leaves, as well as talking to the gunners as they hied into the woods to risk life and limb—the deer's—Prescott was fined \$500. She refused to pay. The judge, aiming his judicial gun at this menacing target, sent her off in handcuffs for contempt of court.

Having never met a criminal leaf rustler, I went to the county jail—a maximum-security operation—to talk with Prescott. She is 28, a graduate of Pennsylvania's Edinboro State College and the daughter of a Methodist minister who is now a counselor. She smiled broadly when mentioning that after seven months with the Fund for Animals, and a fair number of 80-hour weeks, she won a raise from \$12,000 to \$14,000. She believes that the simple life is the good life is the humane life, and if we can't end the war against animals chances are slim that we can stop the wars against each other.

Although terrified the first night in jail Prescott was calmed by the warmth shown her by fellow prisoners. She was a curiosity—a jailbird who chose deliberately to fly into the coop. "This is an odd place to have my faith in human nature restored," she said, "but that's what has happened. Not one person has criticized me for what I did on behalf of the animals that day. No one has said, why don't you fight for a more important cause, which is what I hear all the time on the outside."



OREGONIAN

Prescott, a vegetarian whose diet includes no dairy products, went on an unofficial hunger strike the first few days in jail. She wouldn't eat the meat or animal-related food. When vegetables were served, she would trade her meat with others. After a week, she successfully challenged the jail's dietary rules, which sanction vegetarian meals for only religious or health reasons. She broadened it to a third category—ethics.

In the five years between college and the Fund for Animals, Prescott served society as a wildlife rehabilitator. It was volunteer work, rescuing animals hit by cars or wounded by hunters, nursing and then freeing them back into the wild. "I suppose I saved about 100 animals a year," Prescott estimated. "Most were squirrels. I learned a lot about the innate struggle for life that each animal has. I'd come on a near-starving animal or one half-dead after being hit on the road, and I witnessed the intense fight to stay alive. You learn from those kinds of experiences how all life should be cherished."

When not bottle-feeding infant squirrels—every two hours everyday for as long as nine weeks—Prescott earned a small living from artwork. One of her largest paintings—30 feet by 4 feet—was sold to the Brookings Institution in Washington for \$6,000.

In the tradition of pure civil disobedience, Prescott accepted her jailing but not the reasons for it. She told the court, "I remain convinced that my behavior was appropriate. I did not physically strike, obstruct, yell at or insult any of the hunters with whom I communicated. I simply exercised my First Amendment right to voice my objections to the cruelties of sport hunting and my right to walk on public lands."

U.S. jails are packed with people guilty of violent crimes. Prescott may be one of the first people in U.S. history jailed for trying to prevent violence. She sees her imprisonment as a positive, not a negative, experience. "They look on my being here as a punishment. I don't. I see it as a chance to grow, a time in which my beliefs are being tested and strengthened."

Prescott, along with growing numbers of citizens who think public wildlife lands are for animals, not their slaughterers, see this arrest and jailing as the beginning of a nonviolent protest movement, not its squashing. Prescott is a crime-fighter, with one message for woodland gunmen: Take a hike, boys.



BY OULPHANT

"AY."



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

July 28, 1990

The Honorable John Ashcroft
Governor of Missouri
State Capitol
Jefferson City, MO 65101

Dear Governor Ashcroft:

This is in response to your request for information regarding the origin of the savings and loan crisis.

This is a question which the Administration, academicians, economists, and the Congress have been exploring for some time. The Treasury Department is pleased to share our information with you because we believe it is important that as many people as possible have a thorough understanding of the events which began long ago and led to the current crisis.

The savings and loan industry was created in the early 1930's through charters which restricted their activities to fixed-rate, long-term mortgage loans and the acceptance of short-term deposits. Without a diversified portfolio, thrifts were, from their very inception, particularly vulnerable to the "ups and downs" of the real estate market and any substantial increases in interest rates. Because the interest rates these savings and loan institutions charged were primarily locked into long-term residential mortgage loans, significant increases in market rates meant thrift institutions would likely be paying out more in interest to depositors than they were receiving in interest payments from loans.

In 1966, Congress attempted to address the industry's particular vulnerability to increasing interest rates by creating "Regulation Q." This regulation imposed ceilings on the amount of interest that S&Ls could pay on deposits. But as market interest rates increased, depositors who had their money in low-rate S&L accounts began to take their money out of S&Ls and put their savings in other financial instruments, which were paying market interest rates (higher than S&L rates). S&Ls were then faced with massive deposit outflows, while their assets were primarily tied up in long-term, fixed-rate, low-interest mortgage loans.

In the late 1970's, inflation and interest rates soared, and eventually the prime interest rate skyrocketed as high as 21 percent. The combination of high inflation and high interest rates, along with Regulation Q, put extreme financial pressure on the thrift industry. During the period 1978-80, thrifts suffered significant declines in deposits, and their capital positions deteriorated to the point where a substantial part of the industry was bankrupt on a mark-to-market basis.

In 1979, President Carter formed a special Task Force to study the problem. The Task Force recommended deregulation. In 1980, President Carter proposed, and the Congress passed, the Depository Institutions Deregulation and Monetary Control Act (DIDMCA). The principal features of that Act included:

- Providing for the phased elimination of Regulation Q, allowing thrifts to attract more deposits with higher interest rates.
- Increasing deposit insurance from \$40,000 to \$100,000 per account.
- Expanding the ability of federally-chartered thrifts to engage in commercial lending, including commercial real estate loans.
- Lowering capital requirements for thrift institutions.

The huge increase in deposit insurance coverage -- a leap of 150 percent -- increased the U.S. Government's liability should an institution fail.

In another significant decision in 1981, the Federal Home Loan Bank Board (FHLBB), an independent regulatory agency, loosened restrictions on the ability of S&Ls to use brokered deposits. This provided S&Ls with new access to large pools of money formed by aggregated deposits. In 1984, the FHLBB reversed itself and proposed regulations limiting the use of brokered deposits. When the courts overturned the FHLBB regulations, Congress refused to provide the authority needed for FHLBB to proceed with the regulations.

Higher interest rates caused more thrifts to become unprofitable and seriously depleted their capital, but they were allowed to stay in business. Thrifts with low capital had a perverse incentive to make riskier investments in order to gain higher returns. Any profits from the riskier investments could be used to shore up their capital, while any losses from these same investments would be covered by the higher insurance coverage. Huge pools of money -- made available through brokered deposits and deposit insurance -- added to the motivation for thrift operators to expand their risk of loss.

However, even with interest rate deregulation, increased deposit insurance, and brokered deposits, thrifts continued to struggle because the bulk of their assets were still held in low-interest mortgage loans.

In response, Congress passed the Garn-St Germain bill in 1982. The bill allowed federally-chartered thrifts to become more like banks and further expanded authority granted in the 1980 act to make commercial loans. It also continued the 1980 practice of lessening capital requirements. Many believed these actions were necessary in order for thrifts to make higher returns on investments to offset lower returns on mortgage loans. Prior to the passage of Garn-St Germain, states began to greatly broaden the powers of state-chartered, but federally-insured, thrifts to make direct equity investments in speculative ventures, from windmill farms to precarious real estate developments.

As early as 1984, the FHLBB attempted to curb abuses by state-chartered savings associations. The FHLBB was opposed by many in Congress, and in particular by the House of Representatives. For example, in 1985, a resolution calling on the FHLBB to delay its tighter regulation of direct real estate and equity investment by state-chartered institutions was co-sponsored by over one-half of the House of Representatives. In 1987, amendments in the House Banking Committee to regulate these aggressive real estate practices of state-chartered institutions were defeated by overwhelming margins.

Now S&Ls could attract more deposits because they could pay higher interest rates on those deposits, offer higher insurance levels, and attract depositors from across the country. And thrift institutions, particularly state-chartered thrifts, could invest those deposits in highly risky ventures, particularly commercial real estate ventures. And all the time, the U.S. Government's promise to insure every depositor's savings up to \$100,000 kept looming as a larger and larger potential liability.

In 1984, then-Vice President Bush led an Administration task force on regulation of financial services. The task force recommended comprehensive reform of the regulatory system:

- Higher capital and accounting standards for S&Ls making riskier loans and elimination of phony accounting standards. (The task force report noted that low capital levels encouraged insured institutions to engage in high-risk speculative activities.)

- More effective regulation through the elimination of archaic and overlapping regulatory structures.
- Strengthened ability for the FDIC to oversee deposit insurance, and authorization for FDIC to institute risk-based insurance premiums. (The task force report noted that the current flat-rate premium system forced prudently managed institutions to subsidize high risk institutions.)

The task force recommendations were endorsed by the Reagan Administration's Cabinet Council on Economic Policy in 1985 and forwarded to the Congress.

Meanwhile, sharp declines in oil prices and weakness in the agricultural sector contributed to devastating economic declines in certain regions, particularly the southwest. Real estate values plunged. Large numbers of thrifts that had invested in commercial real estate and other ventures became insolvent, requiring deposit insurance protection from the federal insurance (FSLIC) fund. When the FSLIC insurance fund ran low, the Reagan Administration requested \$15 billion to recapitalize FSLIC in the spring of 1986.

The request encountered strong opposition on Capitol Hill. Some Members of Congress feared that providing \$15 billion in deposit insurance funding would encourage S&L regulators to close down more unsafe institutions. The savings and loan industry forcefully lobbied the Congress in opposition to this legislation, and it was killed at the end of 1986.

Finally, in 1987, Congress passed a bill which provided \$10.8 billion for recapitalization of the insolvent FSLIC -- a year and a half after the Administration requested \$15 billion. The final amount authorized was only two-thirds of the amount requested by the Administration. In addition, Congress added forbearance provisions making it harder for regulators to close down high-flying S&Ls. Specifically, those provisions permitted additional questionable accounting techniques which allowed thrifts in trouble to make their levels of capital look better than they were. They also allowed thrifts to count "goodwill" toward meeting capital requirements.

The delay in funding the FSLIC prevented regulators from closing insolvent institutions when the cost of protecting depositors would have been much less. Instead, the problem continued to grow, and so did the U.S. Government's liability to make good on its promise of insurance coverage for deposits.

In February 1989, just 18 days after taking office, President Bush proposed a comprehensive and permanent solution to the savings and loan industry crisis -- The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Four principles have guided the Administration in developing and implementing the savings and loan cleanup effort:

- Protecting the savings of Americans who made deposits in thrift accounts, relying on the U.S. Government's promise of deposit insurance.
- Restoring safety and soundness to the thrift industry, especially through tougher capital requirements.
- Aggressively prosecuting the crooks who stole the taxpayers' money through fraud and mismanagement.
- Cleaning up the S&L mess as expeditiously and responsibly as possible.

After seven months of debate, Congress passed FIRREA, and President Bush signed the bill into law on August 9, 1989.

FIRREA provided not only the initial funds for remedying the current crisis in the industry and protecting depositors' savings, but the legislation also put into place the mechanisms needed to prevent similar occurrences in the future.

With these protections in place, as well as additional provisions proposed by the Administration to enhance the Government's ability to prosecute those guilty of financial fraud and mismanagement, we believe we have the basic framework necessary to clean up the savings and loan crisis in an expeditious and responsible manner.

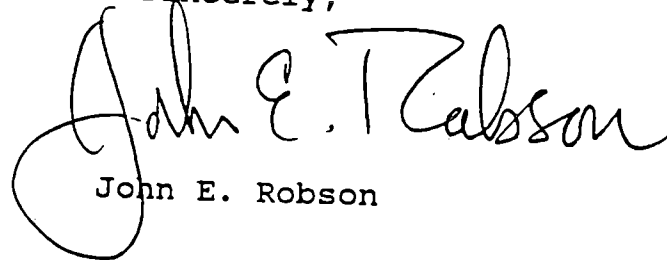
In the year since FIRREA was enacted, the government has paid out \$62.5 billion in deposit insurance obligations, representing 5.8 million accounts -- about \$10,000 per account. The RTC has seized 463 insolvent thrifts -- more than one per day; closed or sold 211 bankrupt thrifts -- one every 48 hours; and sold or liquidated more than \$65 billion of assets -- \$178 million per day. By moving expeditiously and responsibly to quarantine sick thrifts, the Administration has stemmed the losses and given the healthy segment of the industry an opportunity to succeed.

Since October 1988, the Justice Department has obtained more than 200 convictions for savings and loan fraud. Settlements and judgements from civil cases during the first half of 1990 will produce recoveries in excess of \$200 million.

Let me reiterate that the purpose of the cleanup effort is not to bail out financially unsound S&Ls or S&L executives responsible for the crisis. The sole purpose is to protect the savings of those Americans who have insured deposits in savings and loan institutions. The U.S. Government made a promise to insure those deposits, and the Government is now living up to that promise.

We hope this is useful in tracing the causes of the thrift crisis and describing the considerable progress made under FIRREA to address the problem and prevent its recurrence.

Sincerely,

A handwritten signature in cursive script that reads "John E. Robson". The signature is written in dark ink and is positioned above the typed name.

John E. Robson

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Clean Air Revisited

The Clean Air Act, once thought to be a sure thing, may have a big problem: the bottom line. As Members of Congress plow through its hundreds of pages, many are becoming worried over its impact on the economy. When as part of the budget negotiations, the idea for a 5% energy tax floated out of the budget summit, Rep. John Dingell, co-chairman of the conference committee, quickly told negotiators the Clean Air Act already represented a hefty tax on energy.

The Bush Administration also has begun to recognize the costs that the Clean Air Act would impose on the economy. Last month, Michael Boskin, chairman of President Bush's Council of Economic Advisers, responded to congressional questions about claims from the Environmental Protection Agency that the act would have little adverse job impact. "The President's support for this proposal was not premised on the view that its costs would be negligible. He is fully aware they may result in temporary unemployment," he wrote. "Rather, the President believes that our nation is able and should be willing to pay a reasonable price to clean its air. But the President is not prepared to see American firms, workers, and consumers overcharged or to see economic growth needlessly slowed."

It is now clear that is precisely what the Clean Air Act will do. A single provision requiring the use of gasoline and alcohol blends in 25% of the country will add 15 cents to 25 cents a gallon to the price of gasoline. A study by Tom Austin, a former executive officer of the California Air Resources Board, concludes that the reformulated fuel will be 15% less fuel-efficient and could actually increase nitrogen-oxide emissions. "Motorists would end up paying more for dirtier air," he says. A study by Resources for the Future, a leading environmental group, also questions the use of alternative fuels. It estimates that reducing emissions through methanol

use could cost \$31,000 to \$66,000 a ton.

Other provisions of the Clean Air Act make just as little economic sense. Its crash program of installing limestone scrubbers on old power plants to reduce acid rain will have the perverse effect of delaying the installation of clean coal technology. The bill will divert at least \$50 billion in capital to install a 20-year-old technology and add to pollution by leaving behind tons of limestone sludge a year.

After studying what the congressional process did to the President's proposal to create a system of tradable emissions permits to reduce acid rain, analysts at Washington University concluded that "the Senate has created a Rube Goldberg scheme for distributing emissions allowances." Both House and Senate versions have eviscerated the intended savings from a tradable-permits system.

The Clean Air Act's fast phase-out of chlorofluorocarbons uses the most tentative of scientific research on ozone depletion to justify a dramatic increase in air-conditioning and refrigeration costs. The likely substitute for the most popular banned refrigerant costs 30 times as much and will itself be banned by the year 2015. The economy will have to shoulder at least \$10 billion to \$15 billion a year in added refrigeration costs by the year 2000.

Members of Congress tell us privately that the Clean Air Act was rushed to passage because no one wanted to publicly oppose any bill with the words "clean air" in it. The Bush Administration was then rolled in private negotiations with environmental extremists, and then backed off from its threats to veto an outrageous bill. These are hardly excuses for enacting a public policy that drapes significant financial weights on an economy trying to compete globally.

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