State S&Ls lost $468.1 million

For the first time since 1985, most of the industry’s losses came from S&Ls outside the Southwest, Sheshunoff reported. Still, S&Ls in Texas, with a net loss of $6.2 billion, lost the most money. Arizona lost $2.3 billion and California lost $1.9 billion in 1989, the report said.

“Contrary to what the industry totals might suggest, many S&Ls are strong, profitable institutions,” said company president Alex Sheshunoff.

“Many institutions are operating in either overbuilt or overpriced real estate markets and a few have been weakened further by ill-advised investments in risky assets such as junk bonds,” he said.

Six states — Texas, Arizona, California, New York, New Jersey and Pennsylvania — accounted for three-fourths of the total industry loss, the report said.

“Each of these states has real estate problems or is home to a few large thrifts that have made questionable investments,” Sheshunoff said.

The industry’s losses took a big bite out of its tangible capital, which consequently fell $11.4 billion, or 53 percent, during the year. As a result, the industry ended 1989 with a tangible capital to assets ratio of 0.79 percent despite thrifts’ struggle to achieve a new federally required minimum of 1.5 percent.
CONTINUED FROM 1D

Nevertheless, 1,989 S&Ls with $796.8 billion in assets finished 1989 with tangible capital ratios of 3.0 percent or more. As with income, the adequately capitalized many are overshadowed by the severely undercapitalized few.

Total assets for the nation's thrifts dipped 7.6 percent to $1.28 trillion in 1989 from $1.39 trillion in 1988, the only year-to-year decline in the decade, the report said.

Assets declined primarily because S&Ls sold assets to improve their capital-to-assets ratios, and regulators disposed of assets of some troubled thrifts, Sheshunoff said.

Total assets of Louisiana's S&Ls declined 11.7 percent to $13.3 billion, the report said. S&Ls grew in only 11 states in 1989, most notably in Hawaii, Washington, the District of Columbia and Wisconsin, Sheshunoff reported.

Repossessed assets continued to increase during the year, but the rate of increase slowed dramatically compared with previous years.

Consisting mainly of foreclosed real estate, repossessed assets rose 4.2 percent to $33.9 billion in 1989 from $32.5 billion in 1988. By comparison, repossessed assets grew an average of 33.9 percent per year between 1984 and 1988.

"Unfortunately, the slowdown in growth of repossessed assets does not appear to indicate an improvement in troubled real estate markets," Sheshunoff said.

"Instead it largely reflects the actions of federal regulators who have acquired large amounts of repossessed assets, particularly in the Southwest."

Significant growth in repossessed assets occurred in Arizona, New York, Colorado, Kansas and Arkansas. But repossessed assets continued to pose the biggest problem in Texas where they account for 18.1 percent of total assets.

Among Louisiana thrifts, repossessed assets declined 15.5 percent to $462 million in 1989 from the year before.

"The outlook for the U.S. savings and loan industry remains uncertain," said Sheshunoff. "The profitable well-capitalized majority is struggling to maintain the confidence of depositors shaken by the dismal performance of the unprofitable, undercapitalized few."

Thrifts face three challenges, he said. They will have to deal with the credit risk arising from deteriorating real estate values, the interest rate risk posed by holding fixed-rate mortgages and controlling overhead expenses as interest spreads shrink, he said.