



THE SECRETARY OF THE TREASURY
WASHINGTON

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JUL 23 1987

Banking, Finance & Urban Affairs Committee

July 23, 1987

Dear Mr. Chairman:

I greatly appreciate your and Chairman Proxmire's response to my overture on the FSLIC recapitalization legislation, H.R. 27.

As you know from our joint effort to aid FSLIC, the Treasury Department has pressed for well over a year to recapitalize FSLIC so as to protect the depositors it insures without spending the taxpayers' money. This is the crucial first step in a real recovery of the savings and loan industry. The Administration first sent a responsibly-funded FSLIC plan to Congress on May 22, 1986. Congress has considered our proposal at length, and indeed each House passed it at the end of last year -- although it failed because of differences over extraneous amendments.

I also concur with your assessment that the size of FSLIC's problems necessitates modifications in the bill's provisions -- a fact brought home to us nearly every day with new accounts of insolvent and mismanaged S&Ls. And we certainly would err if we enacted laws that work directly against attracting new capital into the savings and loan industry, adding to FSLIC's costs at a time it can ill afford additional burdens.

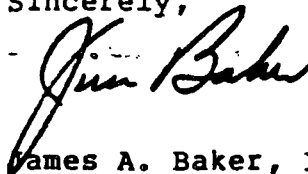
I am pleased that you are willing to work with the Administration to try to achieve legislation acceptable to the President that truly protects depositors, taxpayers, and consumers. In an effort to achieve compromise, I have mentioned to you and Chairman Proxmire a few provisions that need modification. There are a number of possibilities for compromise that could meet the legitimate concerns of both the Congress and the Administration.

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I share your strong interest in resolving these differences expeditiously. After lengthy deliberations, it would certainly be unfortunate if the FSLIC recapitalization were too little, too late, and again bogged down because of contentious extraneous issues. If we cannot reach agreement on these other matters, I hope we can at least agree to put them on ice while we protect a vital financial industry and the Americans who entrust their savings to it.

I look forward to hearing from you soon.

Sincerely,



James A. Baker, III

The Honorable Fernand J. St Germain
Chairman
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Copy to: Speaker of the House
Mr. Wylie