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In a watershed year...

Facing the Emerging Issues in S&Ls
"This is a watershed year for savings and loan associations. The economy of the United States is undergoing enormous changes that will have an impact on the financial sectors well into the future, and S&Ls are on the leading edge of those changes," Henry Forer said at the conclusion of the firm's National Conference on Emerging Issues in Savings and Loan Association Accounting and Taxation.

"At the same time," he continued, "the industry's accounting, tax and supervisory regulations are being affected by significant developments. We felt we had to alert our savings and loan association clients to these hot spots, to give them as much help as possible to prepare for the years ahead."

The all-day seminar, which featured speakers from Deloitte Haskins & Sells, the savings and loan industry, government and the accounting profession, was held early in November at the Host International Hotel in Alexander Zakupowsky, Jr. (l.), DH&S partner with the Washington, D.C. National Affairs office, and Jack I. Goldstein, manager with the Miami office Savings and Loan Services Group

at the Tampa (Florida) International Airport.

Henry, a partner with the DH&S office in Miami, is a recognized authority on S&Ls and chairman of the firm's National Industry Group on Savings and Loan Associations. Other members of the group are Robert T. Atwood, Washington, D.C. National Affairs; Curtis H. Cadenhead, Jr., Atlanta; James C. Dailey, Tulsa; John Ellingsen, San Francisco; Thomas Y. Hartley, Columbus; Michael P. McCarthy, Washington, D.C. National Affairs; and Richard D. Skelly, Miami.

For about twelve years now, Henry, along with Miami managers Lynn Stokes and Jack Goldstein, has been publishing the Savings and Loan Management Bulletin. This usually is a one- or two-page bulletin, published on an as-needed basis, explaining key taxation, accounting and regulatory developments in the S&L industry and providing fast and accurate inside information, generally before it is available from other sources. Circulation of the bulletin is about 2,500 copies. According to Henry, as of the beginning of November 1979 some thirty-one bulletins had been issued during 1979, a figure reflecting the rapid pace of developments within the industry.

"By late last summer," he said, "I had accepted the fact that both the pace and the magnitude of the changes that were already exerting strong effects on the S&L industry, and which would be even more important in the near future, demanded a forum where the issues could be explained, explored and probed by recognized authorities and representatives of the S&L industry." After obtaining the enthusiastic support of Bill Stewart, Executive Office partner in charge of the Client Services Group, and Ken Webster, partner in charge of Specialization, Henry discussed the idea with the other members of the National Industry Group on Savings and Loan Associations, received their support, and began arranging the roster of speakers and the agenda for the meeting.

Tampa was chosen because of its facilities and convenience. "DH&S has as clients 40 of the largest 200 S&Ls in the country," Henry said, "and a large number of these are based on the east coast and in the Midwest. For
example, we were recently selected as auditors for Standard Federal Savings and Loan Association of Troy, Michigan, the tenth largest association in the country, and City Federal Savings and Loan Association of Elizabeth, New Jersey, the largest S&L in that state. The Host International Hotel has excellent facilities and, because it is virtually part of the airport terminal, offers maximum convenience for those to whom time is important.

More than 250 people attended the conference, including some 200 representatives of client and nonclient S&Ls from all over the country. "We had people here from as far away as California," Henry pointed out. Many of them had attended one of the five regional seminars on the revised AICPA Audit and Accounting Guide for Savings and Loan Associations, which were conducted by the firm's National Industry Group on Savings and Loan Associations in September 1978 and were impressed by the presentation. In addition, the scope and range of the topics discussed and the level of authority and expertise of the speakers explained in part why so many people were willing to spend their time and funds to travel to Tampa. (DH&S sponsored a reception the evening before for those arriving early, and was host for lunch and a postconference reception on the day of the seminar.) In addition to introductory and concluding remarks by Henry, speakers and their topics, in the order of their presentations, included:

- Michael P. McCarthy, formerly Chief Accountant for the Federal Home Loan Bank Board in Washington and now a DH&S partner in the Washington, D.C. National Affairs office, and H. Dwight Mathews, partner with our Atlanta office, who, with the assistance of former Atlanta paraprofessional Carolyn Marchman, presented skits exploring "Compliance with Regulation, Super vision, Examination and Oversight."
- S. Lynn Stokes, a manager with the Miami office Savings and Loan Services Group, who took as his topic "The New IRS Position on Deferral of Points and Loan Fees."
- Dr. Kenneth J. Thygerson, Chief Economist for the United States League of Savings Associations, Chicago, who spoke on "Savings and Loan Economics in Uncertain Times."
- Alexander Zakupowsky, Jr., formerly Accountant-Advisor with the United States Treasury Department's Office of Tax Policy under an exchange program and now a partner with the DH&S Washington, D.C. National Affairs office, and Jack I. Goldstein, manager with the Miami office Savings and Loan Services Group, who discussed "Adjusting to the New Consolidated Tax Return Regulations."
- Robert T. Atwood, director of the DH&S Washington, D.C. National Affairs office and outgoing chairman of the American Institute of CPAs Committee on Savings and Loan Associations; Edward H. Schweers, executive vice president of Fulton Federal Savings and Loan Association in Atlanta and immediate past chairman of the Thrift Industry Accounting Committee; and Robert C. Wilkins, a DH&S alumnus who is now a project manager for the Financial Accounting Standards Board, all of whom participated in a joint presentation on "Formulating New Accounting Standards in the Savings and Loan Industry."
- Francis M. Passarelli, Acting Deputy Director — Policy/Programs, Department of Examinations, Federal Savings and Loan Insurance Corporation, Federal Home Loan Bank Board, Washington, D.C., who offered observations on "The FHLBB Forward Commitment Regulations and New R Memorandum."
- Columbus partner Thomas Y. Hartley, the firm's national accounting and auditing coordinator — savings and loans associations, who spoke on "Accounting for Reverse Repurchase Agreements Under Generally Accepted Accounting Principles."
- Joseph D. Wessellkamper, partner in charge of the DH&S Computer Services Department at Executive Office, New York City, and Juan A. Galan, Jr., manager with the management advisory services group in Miami, who reviewed "Compliance with FHLBB Bulletin PA-7-1a on EDP Internal Control."

Participants at the conference said that one of the things they appreciated most was the pacing of the session. The knowledgeable, precise technical presentations of Lynn Stokes, Alex Zakupowsky, Jack Goldstein, Tom Hartley, Joe Wessellkamper and Juan Galan were counterbalanced by the humorous but highly informative skits of Mike McCarthy, Dwight Mathews and Carolyn Marchman; the clear, concise analysis by Ken Thygerson of the present state of the economy, the
outlook for the immediate future and how the S&L industry will be affected; the call for a further strengthening of the already close ties between the AICPA, FASB and the savings and loan industry by Bob Atwood, Ed Schweers and Bob Wilkins; and the serious talk delivered in a very personal and humorous style by Frank Passarelli.

A conference kit distributed to those at the meeting included a copy of the new firm publication titled "Internal Audit Departments for Savings and Loan Associations: Dealing Effectively with Federal Home Loan Bank Board Memorandum R-45," as well as outlines of the material given in the technical presentations.

While speakers at the meeting ranged across a wide number of issues of growing importance to the savings and loan industry, Ken Thygerson in his talk gave perhaps the clearest reason why the conference was so important at that time. According to Dr. Thygerson, the savings and loan industry faces an uncertain future because of steeply rising interest rates, including those for home mortgages. The highly volatile state of the international oil market further complicates the situation and makes attempts to formulate long-term policy even more difficult. There is no way the status of economic conditions in the United States can be divorced from what is happening in the global oil market, he pointed out. Finally, to add to the confusion, the country is moving into an election year that promises to be even more stressful than usual.

In his address, Dr. Thygerson predicted that the interest-rate situation will remain questionable, unstable at least until the early part of 1980. There is no way of forecasting exactly how high interest rates can rise, but the economist said he doubts if the top has been reached. The country faces the likelihood of perhaps another six months of high interest rates, he said, with domestic political pressures and activity and international developments playing a major role in affecting interest-rate levels.

He also anticipated a sharp decline in mortgage-market activity during 1980. Mortgage rates may rise to as much as 14.5 percent, Dr. Thygerson believes, and these high rates will result in a reduction in demand for mortgage money and in a much lower level of housing starts. The months ahead will not be easy ones for savings and loan associations, he warned, and it appears that government legislation in the future is likely to have additional impact on the operations of S&L associations. What is critical, he emphasized, is for the S&L to formulate plans that will permit quick and effective response to changes. There is really no way anyone can accurately predict what will happen during the next six months, the next year, the next five or ten years, he said, because of the number of variables, the unstable nature of the domestic and international economies. Consequently, it is necessary now to project possible future developments and trends that...
can affect an S&L and then formulate responses to these. S&Ls cannot afford simply to react after the fact any longer; changes are occurring much too fast to permit such a luxury. The times now make it mandatory that the S&L determine well in advance how it expects to meet shifting economic conditions.

"Ken Thygerson's speech pretty much summed up why I and the others at DH&S believed that a conference to discuss and explore these emerging issues was vital now," Henry Forer said, following the meeting. "We agreed that this conference would be the most effective and efficient way to bring the thinking of top authorities and experts on key topics relating to S&Ls to a broad cross section of savings-and-loan people. Many of these subjects are very technical, highly complex, and a conference like this gives participants the opportunity to ask questions of the speakers. It provides an additional service to our clients that we might not be able to offer any other way; the amount of technical information, informed opinion and background conveyed to so many people in so short a time is incredible. I suppose you could say that it is another example of our going beyond the bottom line.

"I think it's also clear recognition on our part, on the part of the firm, that our growth and health are directly related to the growth and health of our clients," Henry concluded. "In simple terms, we help ourselves when we help our clients, and so it only makes sense for us to give them as much help as possible."