World and Nation

S&Ls suffer record losses in 1988

From Associated Press reports

WASHINGTON — The nation's savings and loans lost a record $12.1 billion in 1988 and face continuing problems in 1989 from rising interest rates, government officials said Tuesday.

The Federal Home Loan Bank Board said the 2,949 S&Ls lost $2.3 billion in the fourth quarter, pushing red ink for the year well past the previous record of $7.8 billion set in 1987.

Still, losses in the second half of the year, $4.1 billion, were down substantially from the first half's $8 billion, largely because of government efforts to close, merge or prop up 223 institutions, also a post-Depression record.

James Barth, chief economist of the bank board, said the worst may be over, but he warned that the effect of rising interest rates in 1989 will be "obviously adverse."

"Operating income should be lower across the board for all thrifts in the first and second quarters," Barth said, adding, however, "I would guess we aren't going to see $12.1 billion (in losses) in 1989."

Savings and loans make their money by borrowing short-term, from depositors, and lending long-term, for mortgages and other purposes. When rates follow a normal pattern, higher long rates and lower short rates, institutions earn more on loans than they pay to depositors. But currently short-term rates approach and in some cases surpass long-term rates, severely cutting into earnings.

Much of 1988's red ink was old in the sense that institutions finally got around to recognizing bad loans that had long ago gone sour. About $11 billion in such non-operating losses, together with $1.9 billion in tax payments by the industry, more than offset a modest $900 million profit on current operations.

Most analysts believe the non-operating losses will ease in 1989, while rising interest rates will erode operating profits.

Bert Ely, an Alexandria, Va., financial institutions analyst, said government assistance paid to S&Ls this year as a result of last year's rescue deals will mask $5 billion to $6 billion in 1989 losses.

"It's just like the farm economy; if we have better results in 1989, it's only because a substantial subsidy is being pumped into the industry," Ely said.

In another result of government spending, the industry's capital hit a record $46.2 billion at the end of 1988, amounting to 3.4 percent of $1.4 trillion in loans and other assets.

That's up from 2.7 percent at the end of 1987, but the industry still has a long way to go to come up to the 6 percent that is standard for banks and would be required of S&Ls by June 1991 under President Bush's plan for dealing with the S&L crisis.

Meanwhile, the bank board's Barth said the heaviest losses continue to be concentrated in just a few institutions, with the 20 most-troubled institutions losing $2 billion in the fourth quarter.

Nine of the worst 20 were in Texas, and the state's 204 institutions collectively lost $1.38 billion in the fourth quarter.

For the year, the 30 percent of the industry that was unprofitable lost $17.7 billion, more than swamping the $5.6 billion earned by solvent institutions.

The agency also said the number of insolvent institutions at year-end declined for the first time in the decade from 520 at the end of 1987 to 364 at the end of 1988.

So far this year, the bank board has shut down or sold 11 of those 364. It lists about another 250 institutions as solvent but troubled and likely to require government action.

In other savings and loan developments Tuesday, Budget Director Richard Darman, appearing before a House Banking subcommittee, defended plans to borrow S&L rescue money in a way that would keep $50 billion from showing up in the federal budget deficit.

Fighter plane agreement may face changes

From Associated Press reports

WASHINGTON — President Bush is expected to propose major changes in the FSX fighter plane agreement with Japan in order to safeguard U.S. technology and make the project more palatable to critics, U.S. officials said Tuesday.

The proposed modifications would seek to protect, along with other sensitive U.S. data, computer "source codes" that help fly and control the plane, said Bush administration and congressional sources.

The changes would also give the Commerce Department an expanded role to monitor the project and keep track of Japanese compliance with the agreement, said the sources, who insisted upon anonymity.

A remaining issue of contention is whether Bush will incorporate his changes in a complete revision of the 1988 agreement negotiated by the Reagan administration, or serve them up as "side agreements," the sources said.

The plane is to be an advanced version of the American-made F-16 fighter, and will be built in Japan. Congressional opponents have called the project a giveaway of U.S. expertise to a nation with whom the United States is running its largest trade deficit, more than $50 billion a year.

The sources said that Commerce Secretary Robert Mosbacher, who favored tighter controls on the project, appears to be the victor in a Cabinet tug-of-war with the Defense and State Departments, which had supported the project with fewer reservations.

A formal decision by Bush was expected within the next few days, White House aides said.

"Defense and State are being given a final chance to make their case," said one official.

Marlin Fitzwater, Bush's press secretary, said that as of Tuesday the president still was not ready to announce details, even though "aspects of the decision" had been discussed with the Japanese government.

"We're interested in their review of some of the suggestions we've made and some of the options we've laid out," Fitzwater said.

The Japanese government was said to be resisting efforts to completely redo the agreement. However, opponents of the project suggested Tuesday that side agreements with Japan were more difficult to enforce and could torpedo the entire project in the House and Senate.

The Reagan administration negotiated the arrangement after Japan refused to buy F-16s and indicated it would build its own jet fighters. The new FSX plane would be built jointly by General Dynamics and Japan's Mitsubishi Heavy Industries.

Backers of the project within the administration argued that it should go ahead to avoid damaging U.S.-Japanese relations. But skeptics, including Mosbacher, argued that the technology transfer could work to the disadvantage of U.S. industry, particularly if the Japanese used the advanced technology in building other aircraft.

Under the proposed restrictions on computer "source codes," first reported by The Washington Post, the technology would be shared with the Japanese for the FSX project, but in such a way that the data could not be used on other enterprises.

The codes supply the fighter's computer with information on how to control the plane and its weapons.

Restrictions on these codes were not part of the original agreement, and would have to be handled either in a side agreement or in a complete rewrite, administration officials said.

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Transport secretary defends concealing Pan Am warning

From Associated Press reports

LONDON — Embattled Transport Secretary Paul Channon went before a jeering Parliament on Tuesday and denied he was lax in warning airlines of a new type of terrorist bomb before the Pan Am Flight 103 disaster.

Channon, often shouting above calls for his resignation, said that after the jumbo jet was blown apart over Scotland on Dec. 21, he concealed from Parliament for security reasons the international alert about a radio-cassette bomb.

He also said that at the time, he thought the disaster could have been an accident.

"I told Parliament all I could," Channon said during a House of Commons emergency debate, forced by the opposition Labor Party. "In investigations where there are also important security matters it is essential that all of us exercise a certain degree of restraint."

Prime Minister Margaret Thatcher rallied to Channon's defense, declaring that "totally unfair accusations have been made against him by lesser men."

News in Brief

10 die in Brazilian plane crash

GUARULHOS, Brazil — A Brazilian cargo plane crashed and exploded in a shantytown in this southeastern city Tuesday. Officials said the three-member crew and at least seven people on the ground were killed and more than 100 people were injured.

Lt. Col. Nelson Coura Martinho of the Sao Paulo state police said rescue teams found the bodies of the three crew members and two children and a woman who were burned to death.

"We expect there may be more bodies under the rubble," said Martinho, standing on a muddy hillside surrounded by the charred remains of wooden shacks in the Jardim Sentilha slum.

Also killed were a severely burned pregnant woman and her baby boy, who was born in a hospital emergency ward minutes after his mother's death but died soon after, said doctors at the Catuape Hospital in Sao Paulo, 15 miles away.

Israelis hold news conference

JERUSALEM — Prime Minister Yitzhak Shamir and Shimon Peres, his political rival and partner, said Tuesday that peace is more important than party politics despite a battle within their troubled coalition over talking with the Palestine Liberation Organization (PLO).

Shamir and Peres, who is finance minister and leads the center-left Labor Party, held a news conference after addressing 1,600 international Jewish leaders invited by the government to express solidarity with Israel.

2 officers killed in IRA attack

BELFAST, Northern Ireland — Police and troops searched for booby traps Tuesday before removing the bodies of two senior police officers killed in an Irish Republican Army (IRA) ambush. Ireland pledged to help catch the killers.

IRA guerrillas hid behind a wall and sprayed the officers' car with gunfire as they returned from a meeting Monday with their Irish counterparts in the border town of Dundalk, police said.

Northern Ireland Secretary Tom King, Britain's top official in the province, called the killings "a deliberate attack on the security cooperation" envisioned in the 1985 Anglo-Irish Agreement, which gave the Republic of Ireland a voice in Northern Ireland's affairs.

"Everything that can be done will be done to find the perpetrators," King told Parliament in London.

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Navy missile malfunctions, explodes after test launch

From Associated Press reports

CAPE CANAVERAL, Fla. — A $23.7 million Trident 2 missile cartwheeled out of control and exploded Tuesday just four seconds after it blasted off on the first submarine test-launch of the Navy's newest, most powerful weapon, the Navy reported.

The crew of the nuclear submarine USS Tennessee launched the long-range missile at 11:20 a.m. while cruising submerged in the Atlantic Ocean several miles off Cape Canaveral.

The 44-foot Trident 2 burst to the ocean's surface, and its first stage rocket motor ignited before the malfunction "caused it to veer off course and self-destruct after four seconds of flight," a Navy statement said.

Flaming debris from the missile showered into the ocean. The Navy said no damage was done to the submarine or nearby support ships.

Each of the three-stage Trident 2s can deliver three to 12 warheads to individual targets up to 6,000 miles away. The Navy said the test missile carried only an instrumented dummy package.

The failure could delay Navy plans to have the intercontinental-range Trident 2 operational in time to send the Tennessee on operational patrol late this year with 24 of the deadly weapons.

The statement said the exact cause of the malfunction cannot be determined until the flight data is studied.

The test was the first of about 10 undersea firings planned here in the next few months. That program could be put on hold while the failure is being investigated.

The Navy says the new weapon is much more accurate than its undersea predecessors, Polaris, Poseidon and Trident 1, and can match the targeting ability of land-based missiles even though it is launched from a submerged, moving submarine.

Published reports have said Trident 2 warheads can strike within 400 feet of their targets, compared with about 1,500 feet for the Trident 1. That striking distance matches the predicted accuracy of the new land-based MX missile.

Tuesday's launch from the Tennessee was preceded by what the Navy called a highly successful series of test firings from a land launch pad at Cape Canaveral, dating back to January 1987.

Fifteen of those tests were rated successes and one a "no test" which occurred when an Air Force safety officer destroyed the missile by triggering onboard explosives with a radio signal after his radar indicated it was off course.

The destroyed missile was deliberately programmed to go off course to test the guidance system's ability to correct its path but, through a mixup, the safety officer was not notified of this plan.

The Tennessee is the first of nine submarines equipped to carry the Trident 2. Its crew of 17 officers and 142 enlisted personnel was commanded Tuesday by Navy Capt. Dennis Witzenburg.

Three high-ranking naval officers were aboard the Tennessee for the test firing: Vice Adm. Daniel Cooper, assistant chief of naval operations for undersea warfare; Vice Adm. Roger Bacon, commander Submarine Atlantic Fleet; and Rear Adm. Kenneth Malley, director of strategic systems programs.

Bennett planning drug czar agenda

From Associated Press reports

WASHINGTON — Drug czar William Bennett is considering everything from imprisoning drug dealers on barges on the Potomac River to evicting convicted dealers from public housing as possible options in the war on drugs in Washington, the nation's murder capital, an aide said Tuesday.

Bennett has said he may make the District of Columbia a test case in the war on drugs by designating it the nation's first "high-intensity drug-trafficking area."

Such a designation, which was included in the drug bill passed by Congress last year that created Bennett's Office of National Drug Control Policy, would allow him to allocate federal personnel and cash to combat the problem.

The District of Columbia became the nation's murder capital with 372 slayings last year, the highest per capita rate in the country. So far this year, there have been 119 murders, compared with 73 at this time in 1988, police said Tuesday.

A dozen people in Bennett's office are investigating the options, said an aide, who spoke on grounds of anonymity.

Anything attempted for Washington would be viewed by the office as "how it would fit in as a demonstration program, a model program. We're trying to keep our eye on the ball, and the ball is the overall national strategy."

The national plan is due Sept. 9.

"The number one thing we're thinking about is expanded prison space, to put more people away for longer periods of time," the aide said. "We're looking at a vast range of options.

"One is to use military bases as prisons. We're also thinking about boats, putting prisoners on barges in the river," he said, noting that New York is already doing that.

Another option being used by New York and under consideration for Washington is a 24-hour drug court, the aide said, adding that the possibilities of expanded court time, special courts, additional judges and prosecutors are all being considered.

Although there has been much talk publicly about increased use of the military, the aide said the primary use of any part of the military, including the National Guard if it were called in, would be for help with surveillance equipment or possibly with medical care and law enforcement training.

"Probably the last and least likely thing would be actual troops on the street," the aide said. "The military's just not meant to be part and parcel of civilian arrest troops. They can help out and train or work with specialty equipment, but not on the streets."

Bennett, speaking Tuesday at a drug conference in Paradise Valley, Ariz., said he has no plan to use National Guard troops.

"It's not something that is in the works," Bennett said. "It's certainly nothing that we've considered as a live option."

The aide said another option being considered is to improve coordinated efforts of federal law enforcement officials with the local police, but not necessarily to reassign Drug Enforcement Administration or FBI agents from elsewhere to the Washington field offices.

It is not "realistic" to "bring in a whole cadre of FBI or DEA agents and leave other places bare," the aide said.

For the Record

The 1989 NCAA Men's Basketball Championship brackets that ran in the Monday, March 20 DTH reversed the Final Four pairings. The Midwest champion will face the Southeast champion, and the East champion will face the West champion. The DTH regrets the error.