October 20, 1966

Mr. Raymond E. Hengren  
Federal Deposit Insurance Corporation  
Washington, D. C. 20429

Dear Ray:

I was appalled yesterday when I discovered that your cover letter to the Seger memo was dated September 26th. Blame it on the difficulties of starting a new semester in a new home (we have had many a crisis in the past month centering around 'drains') after a most hectic but rewarding summer.

I read the memo when it arrived. I wrote the following after studying the memo some more.

The dynamics of financial distress and crisis are too little understood. Aside from the generally damped out repercussions of fraud, it always is something that cannot, but does, happen. You are aware, recalling the 1930's of the complex of initial conditions, initiating events and human error that enters into the generation of a serious crisis.

As I see it, the main point of the Seger memo is not that the state-chartered California Savings and Loan associations will still make a profit under the assumed conditions, but rather how much the average profit rate has decreased in the past two years. Seger's estimated profit rate of 0.48% of assets is approximately 40% of the 1.23% profit rate of 1964 as reported by Partee. That is, some 60% of the profit rate has evaporated under the pressures of the tight money we have had.

Sincerely yours,

Pasha P. Minsky

P.S. As is evident from the attached memo, I still feel that a cash flow oriented examination procedure is needed.