EXCLUSIVE

First Pennsylvania Corporation: The Worst Bank In The World

SPECIAL REPORT

A Philadelphia banking consortium, led by John Bunting's First Pennsylvania Bank, is currently spearheading a drive for massive cutbacks and rationalization of the city's public sector. In an atmosphere replete with Watergatings of prominent state and local "old line" politicians who oppose this policy, Bunting announced last month that the Philadelphia school system would have to pare 25 percent off its 1977-78 budget before the banks would lend it the $31.5 million to enable it to *finish this school year*.

Bunting's crackdown on Philadelphia is more than a local version of the Carter Administration's (read David Rockefeller's) policy of debt collection through austerity, such as cutbacks in city services. John Bunting has an even more pressing personal stake in this matter: First Pennsylvania Bank, the nineteenth largest in the country, is virtually bankrupt. The wretched status of First Pennsylvania — in plain view in their annual report and annual reports specialize in covering up the true condition of corporations — is testimony to their undisputed status as the worst bank in the world.

Lest one should imagine, however, that the other banks mentioned in this report are healthy financial entities, the reader is referred to EIR Vol. IV, No. 19 for an autopsy of the New York banks. These institutions are only marginally better off in their real estate investments, and considerably worse off in their foreign loans. The top fifteen banks are themselves facing imminent bankruptcy proceedings as billions of dollars of Third World debt fall due in the second and third quarter. These establishments are no longer banks in any proper sense of the word. Like First Pennsylvania, they are public health hazards.

Who Is John Bunting?

Over the past decade of his tenure as First Pennsylvania's chairman, John Bunting has built up an image as the wheeler-dealter, dashing Dan of the banking world. He is known as a man who will take all kinds of risks and engage in unorthodox practices, which have resulted in a doubling and tripling of such key items as earnings, dividends, deposits, assets, and capital growth.

But as insiders in the industry know, John Bunting is a buffoon rivaling David Rockefeller himself — a reckless incompetent whose bell has begun to toll. "John Bunting has expressed his philosophy," commented a Pennsylvania state banking official, "that a bank as large as First Pennsylvania can never fail." Bunting feels that no matter what happens, in the long run the government will have to bail them out. He bases his risk-taking and his investment strategy on that ultimate premise.

"John Bunting is a very very good speaker," continued the official. "he wanted to become regional head or chairman of the Federal Reserve earlier in his career. But at a certain point he decided that he wanted to make a lot of money, so he went in to First Pennsylvania .... Bunting never got the practical experience or training which a man in his position usually gets. But he is a very, very good speaker."

An Executive Intelligence Review survey of top investment houses in New York found only a handful of individuals who dealt at all in First Pennsylvania stock, and of those few who did, no one would recommend it without strict reservations. A senior analyst at Loeb, Rhoades said, "No one is researching First Pennsylvania, they've gotten into very hot water with real estate investments. Real Estate Investment Trusts (REITs) were hit after 1974, and we only recommend those who have a long term plan for getting things back into shape, and they aren't one of them." Another analyst at Paine, Webber summed it up best. When asked if anyone wants to touch First Pennsylvania, he laughed, "Well, at the right price, even a '42 Nash Rambler is a good investment."

An examination of First Pennsylvania Corporation's (FPC) 1976 annual report shows that it isn't even an Edsel. Since Bunting took over the helm, FPC has engaged in an orgy of real estate speculation and bad loans that have resulted in an overall financial condition worse than any of the largest fifteen bank holding companies, including Chase Manhattan and Bankers Trust, which have been put on the problem list of the U.S. Comptroller of the Currency. As Table I shows:

* 81 percent and 61 percent of their REITs and real estate construction loans, respectively, are non-performing.
* 40 percent of the loans are non-performing for four categories of real estate and financial institution investment.
* 63 percent of total non-performing loans are these four categories.
* These categories of bad loans account for fully 10 percent of total loans.

First Pennsylvania Corporation's percentage of non-performing loans to total loans is, conservatively, 15.8 percent, more than triple the average of the top 15 banks, and 50 percent worse than First Chicago, the worst of the top 15. Furthermore, their net loan losses over the past two years are *double* the average of the top 15, on a

Table 1 — Non-Performing Assets, 1976

(in millions of dollars)

	OREO[A]	NON-ACCRUAL LOANS	RE-NEGOTIATED LOANS	TOTAL NON-PERFORMING LOANS	% OF NON-PERFORMING LOANS PER CATEGORY	% OF ALL NON-PERFORMING LOANS	TOTAL LOANS PER CATEGORY	% OF NON-PERFORMING LOANS TO ALL LOANS
FIRST PENNSYLVANIA								
REITS	---	11.9	68.7	80.6	81	---	99	2.1
NON-BANK FINANCIAL INSTITUTIONS	---	5.6	10.0	15.6	5.3	---	292	NEG
REAL ESTATE CONSTRUCTION, DEVELOPMENT	---	128.8	42.1	170.9	61.5	---	278	4.4
REAL ESTATE COMMERCIAL, PERMANENT	---	44.4	---	44.4	20.0	---	222	1.1
TOTAL, FOUR CATEGORIES	73[B]	190.7	120.8	384.5	39.9	63	964	10.0
COMMERCIAL, INDUSTRIAL		90.1	112.0	202.1	13.7		1,474	5.2
TOTAL	73	299.0	239.0	611.0	100.0		3,861	15.8
BANKAMERICA	35	289	262.0	586	---		35,448	1.7
CHASE MANHATTAN	280	1,386	325.0	1,991	---		30,663	6.5
BANKERS TRUST NY	118	569	413.0	1,100	---		11,347	9.7
FIRST CHICAGO	96	976	152.0	1,224	---		11,720	10.4
MANUFACTURERS HANOVER TRUST	91	295	202	538	---		17,610	3.3

AVERAGE OF TOP 15: 5.1

A OTHER REAL ESTATE OWNED-TAKEN OVER THROUGH FORECLOSURE, ETC., ESSENTIALLY NON-PERFORMING

B CONSERVATIVE ESTIMATE

SOURCE: ANNUAL REPORTS AND LOEB, RHOADES

percentage comparison of losses to total loans (see Table 2).

Just as revealing is FPC's provision to cover their losses (see Table 3). Their loan loss reserve entering 1977, as a percentage of impaired assets, is nearly half the average of the largest 15 banks, and only slightly better than Bankers Trust and First Chicago. In 1976 their loan loss provision — the amount allocated during the year to the loan loss reserve — was not only proportionally lower than any of the top 15, but with the exception of First Chicago, was the only one *lower* than their loan losses (*$52.8 million provided vs. $66 million lost*).

This has vital ramifications for 1977 and 1978 once a further fact is taken into account. FPC's earnings, or net income, peaked in 1973 at $43.3 million. In 1974 net income dropped to $35.7 million, then to $18.2 million in 1975, before creeping up to $23.1 million last year. Earnings are critical for First Pennsylvania in more than the usual way. Because of their shaky financial position, they have maintained the same dividend payments for the last three years, at $1.32 per share, despite the sharp drop in net income. The yield on FPC equity is 8.3 percent, 50 percent higher than the average for the top 15 bank holding companies. Although dividends ate up nearly all the net income the past two years, with very little of the earnings retained, FPC had no choice. Had they cut the dividends payout, they risked a capital flight and stock dumping, as their assets and capital have sharply contracted after years of speculative growth. This bears directly on the loan loss provision (see Table 4). Every dollar put into the provision is one dollar taken

Table 2 — Comparisons of Net Loan Losses, 1975 and 1976

	(MILLIONS OF DOLLARS) 1975	1976	1975-76 TOTAL	% 1975-76 LOAN LOSSES TO 1976 TOTAL LOANS
FIRST PENNSYLVANIA	30.0	66.0	96.0	2.48
BANKAMERICA	148.6	119.2	267.8	.75
CHASE MANHATTAN	251.0	269.0	520.0	1.69
BANKERS TRUST N.Y.	97.7	81.9	179.6	1.58
FIRST CHICAGO	92.9	145.8	238.7	2.03
MANUFACTURERS HANOVER TRUST	70.0	83.3	153.3	.87
TOTAL TOP 15 BANKS	1,520.2	1,531.1	3,051.3	1.29 AVERAGE

SOURCE: ANNUAL REPORTS AND LOEB, RHOADES

Table 3 — Comparisons of Loan Loss Reserves, 1976

(millions of dollars)

	TOTAL IMPAIRED ASSETS*	LOAN LOSS RESERVE	RESERVE AS % OF IMPAIRED ASSETS	LOAN LOSS PROVISION	PROVISION AS % OF IMPAIRED ASSETS	NET LOAN LOSS
BANKAMERICA	586	272	46.4	147.1	25.1	119.2
CHASE MANHATTAN	1991	324	16.1	310.2	15.6	269.0
BANKERS TRUST N.Y.	1100	107	9.7	100.0	9.1	81.9
FIRST CHICAGO	1224	102	8.3	126.5	10.3	145.8
MANUFACTURERS HANOVER TRUST	588	150	25.5	91.6	15.6	83.3
FIRST PENNSYLVANIA	611	61	10.0	52.8	8.6	66.0
AV. OF TOP 15			13.5%		14.0%	

*NON-PERFORMING

SOURCE: ANNUAL REPORTS AND LOEB, RHOADES

Table 4 — First Pennsylvania Corporation

(MILLIONS OF DOLLARS)

	A EARNINGS BEFORE LOAN LOSS PROVISION	B EARNINGS**	C LOAN LOSS PROVISION	D NET CHARGE-OFFS (LOAN LOSSES)	E LOAN LOSS RESERVE***
1972	47.8	38.9	8.9	10.0	36.4
1973	54.4	43.3	11.1	11.5	35.3
1974	67.7	35.7	32.0	24.4	34.9
1975	79.2	18.2	61.0	30.0	42.6
1976	75.9	23.1	52.8	66.0	74.1
1977	---	---	---	---	60.8
1977 *	80.0	30.0	50.0	50.0	60.8
1978*	---	---	---	---	60.0

*HYPOTHETICAL

** COLUMN A MINUS C

SOURCE: ANNUAL REPORT

***AMOUNT FOR EACH YEAR ROUGHLY EQUALS COLUMN E + C-D FOR THE PREVIOUS YEAR

NOTE: COLUMN E IS FOR BEGINNING OF YEAR

out of earnings. In 1975 Bunting girded for the approaching loan loss deluge by doubling the loan provision from $32 million to $61 million, taking a year of low earnings that barely covered dividend payments equivalent to 1974. But in 1976 he had to show an improvement in earnings, even if modest. Hence, FPC "cheated" on its provision for 1976, took record loan losses, and entered 1977 with a lower reserve than 1976 and nearly the worst position of the major banks, as mentioned previously.

In order not to become even more exposed, FPC will have to put approximately as much into the loan provision this year as its loan losses. This should be, conservatively, in the $50 million range. If this is done and losses are equivalent, FPC would enter 1978 with the same loan loss reserve. The bank must also, however, show *at least* a $30 million earnings margin to maintain the illusion of "resurgence" for its edgy stockholders. This means that its earnings before loan provisions must be at least $80 million, reversing last year's decline (column A of Table 4). And this raises another critical problem.

FPC's income from interest and fees on loans — traditionally the main source of earnings increase — dropped a whopping $40 million in 1976, or 10 percent. This was offset by a roughly equivalent drop in interest paid on deposits and borrowed funds. The bank's $23 million profit came from essentially two sources: a $10 million tax rebate partially due to new methods of loan loss accounting, and a $10 million increase in "trading account profits and commissions" — that is, sheer speculation in the bond market!

Bunting incredibly takes great pride in this achievement. In his letter to stockholders in the 1976 annual report, he boasts:

> "A two year downtrend in earnings was reversed as profits jumped by 27 percent to $23.1 million. First Pennsylvania Bank, led by First Pennco — its securities trading subsidiary located in New York — and solid success in its own investment department, paced the resurgence with a 37 percent increase in earnings....
>
> "While we expect earnings gains from our lending area, we will once again be dependent to some extent on a strong performance in the securities trading and investment areas as well as continuing overall very tight expense control. We think First Pennco will have another good year."

As any competent securities analyst knows, the bond market has had a poor year so far, and will be lucky to pull steady; and repitition of last year's boom is out of the question. Federal funds interest rates have risen about one percentage point in recent weeks, and with inflation running in double digits and the money supply galloping even faster, interest rates will soon be forced much higher, with market collapse soon to follow. In sum, there is no way Bunting is going to improve on 1976's bond market speculation. FPC will suffer a sharp decline in its trading account profits this year; first quarter figures already show a $760,000 decrease vs. a $782,000 gain last year, which points toward returning to the 1975 figure for the year — a $10 million loss!

The $80 million target for earnings before loan provisions therefore looks more like $60 million on this count alone. Bunting will then have the suicidal choice of cutting his loan loss provision and reserve even further, or wiping out dividend payments. But, says Bunting, "We believe that our loan losses in 1977 will not be as large as in 1976 so that a commensurate reduction in the reserve for the very high levels of last year is appropriate." What he neglects to point out is that the real estate "resurgence" is based primarily on book juggling, e.g. banks' assumption of failing property in lieu of loan repayment. The very modest improvement in banks' control over their real estate assets last year thus hangs by a thread, subject to massive failures with any significant credit crunch or string of defaults.

That this realization has struck Bunting like a bucket of cold water is evident in his panicked strongarming of the Philadelphia school system. The 25 percent budget reduction he is demanding will destroy education in Philadelphia and result in 10,000 layoffs and $100 million lost in taxes. Like his counterpart Felix Rohatyn of New York's Big MAC, Bunting is not interested in collecting the nickels and dimes of the system's debt for his bank. The situation is far too advanced for that. What Bunting is gunning for is the elimination of institutions of a progressing industrial society and the regimentation of the population such that it will accept austerity and a low standard of living — thereby opening Philadelphia and Pennsylvania to the large-scale labor-intensive energy investment schemes of James Schlesinger. In his report, Bunting calls for turning Philadephia into a Puerto Rico-type operation, and ends with a virtual declaration of war: "As presently constituted, it is fair to say that this country cannot afford prosperity."

Michael Marcase, superintendent of schools in Philadelphia, recently responded to Bunting's proposals: "We can only pray at this time that responsive persons will not tolerate this pillage of the Philadelphia public schools." The EIR recommends far more than praying. We recommend that the Philadelphia banking community and First Pennsylvania consult our financial staff for discussion of the appropriate steps toward investment in the private development bank proposal of U.S. Labor Party chairman Lyndon H. La Rouche.

EXCLUSIVE

Rockefeller And The Coal Industry

COAL

The popular imagination associates the Rockefeller family name with oil and New York City banks. Not so well known is the fact of Rockefeller domination of another key sector of the U.S. economy — the coal industry.

The Rockefellers and associated business institutions dominate:

*the largest coal-reserve-possessing companies in the United States.

*a majority of the top coal-producing companies.

Knowledge of this domination provides insight into the motivation behind the Rockefeller-sponsored Carter Administration's "Energy Program."

The Rockefeller family and its allies also have significant holdings in railroads which are or would be principal carriers of coal under the Carter energy program; they are also organizing themselves into consortia to profit from a mooted rival transport medium — the long-distance coal-slurry pipeline (a mixture of water and coal dust sent through a pipeline as though it were oil).

The policies of the present generation of Rockefellers are a lawful continuation of those initiated by the first of the line, John D. Rockefeller Sr., who within years of founding Standard Oil began branching into pipelines, railroads, coal, etc. The older generation still remembers the early connection of the Rockefeller family to coal — in the form of memories of the infamous 1913 Ludlow (Colorado) massacre of over a dozen miners and members of their families during a strike against the Colorado Fuel and Iron Company, in which the Rockefellers had a majority interest.

Coal and War

To look at the coal-promotional aspects of the Carter energy program as merely a boondoggle for a particular industry in which the Rockefellers happen to be heavily invested would be an error. Carter's energy program proposes to postpone the demise of David Rockefeller's leading financial institutions by conduiting flows of funds away from industrial capitalists and workers — toward One Chase Manhattan Plaza. Carter proposes discriminatory taxes on the productive sector (a) through price increases on oil and natural gas ("to discourage use") and coal ("to encourage production"), and (b) through various federal energy taxes, which in turn would make their way to Chase Manhattan coffers through public works swindles, "welfare reform," etc.

The coal-related aspect of the Carter-Rockefeller energy plan includes a programmed strike of coal miners later this year (already being emphatically predicted by Rockefeller-linked communications media)...another energy-short winter (with coal in short supply in the winter of 1977-78, vs. the natural gas shortage of 1976-77)...the breaking of the Eastern-based United Mineworkers Union through nonunion mining operations in the Rockies...the re-opening of uneconomical Rockefeller mines in the East, to be worked by nonunion labor under conditions imitating the worst mines in the Union of South Africa. Coal itself would be pegged at triple the present price, on the basis of a supposed BTU equivalency to oil, or some such pretext. Immediately related to these productivity and labor-destroying schemes would be a parallel drive to revive thermodynamically inefficient coal gasification processes first introduced in Nazi Germany.