Chase Manhattan Bank Is On Its Way Down And Out

Leading Wall Street banking and political figures reported this week that the "lifeboat economics" warfare between Citibank and Chase Manhattan bank will bankrupt Chase, the nation's third largest bank, in a month.

First, high level banking sources confirmed this week that the bailout arrangement between the Saudi Arabian Monetary Agency (SAMA) and David Rockefeller's Chase broke down. Under this arrangement, the Saudi's were delivering monthly deposits to the tune of several hundred millions of dollars in the form of 2 year certificates of deposit, which bore interest at one percent lower than the going rate. After peaking at $1 billion in July, there has been no August delivery; instead, the Saudi's placed six-month maturity deposits in London and elsewhere. Mideast specialists at Bank America and the American Enterprise Institute report that the concensus of the banking community now is that there will henceforth be diversification of Arab funds.

Second, Federal Reserve Board chairman Arthur Burns, heeding the attacks on him by Citibank's recent monthly *Economic Digest*, and by business magazines such as *Business Week*, stopped the Federal Reserve's easy money policy that had made cheap and abundant funds available during June and July to Chase and other basket cases for the refinancing of their over extended debt portfolios. On Aug. 14, the Federal Open Market Committee (FMOC) raised the federal funds rate — the rate at which bank's borrow short-term funds from each other — by .125 to 6.125, the highest level in years and 45 basis points above the previous week's close. With the prime lending rate fixed at 7 and bank interest commission at .5 interest spread is now about 1.375 (7.5 — 6 .125), barely the breakeven level for its administration costs. Thus, Chase must turn to auto-cannibalism and cut back its operations — a move already begun which will push Chase, overhung with uncuttable bad assets, into bankruptcy settlement court.

How well Chase can survive this pincers move against it can be readily inferred from its net income last year, which before retrenchment, had fallen a third from $173.7 million in 1975, to $116.4 million in 1976. Chase's net income, the bank's measure of profit, was already down another 5 percent for the first six months of 1977.

Backroom Wheeling and Dealing

Chase's demise has become the leading backroom talk on Wall Street which is smelling blood. According to a senior analyst at Kidder, Peabody, the rate war among international banks will start to take its toll of "second and third tier banks," including Chase, within the next month. A Merril, Lynch banking counselor added that "All the banks are carrying bad paper, but if you look at the quality of Chase's paper, you can only say, 'My God'."

Moreover, a Bank of America economist has bluntly stated that "if it comes to a crash, we and Citibank will make it, and Chase won't."

That this judgment is not exaggerated is borne out upon examination of Chase's internal structure, revealed principally in its own annual reports. As for the quality of Chase's paper, leaving foreign lending aside for the moment, Chase's own figure for bad domestic real estate loans is half of the total of all such loans or of $3.44 billion, which is almost equal to Chase's entire capital.

On the foreign side, Chase's portfolio is stocked with many higher risk loans, especially because of its late entry into the international market relative to such inter-

Mexico Press On The IMF 'Experts In Ruin'

The following are excerpts from a caustic column by Manuel Buendia published in the Mexican daily El Sol *Aug. 14 on the subject of the international Monetary Fund:*

"Do you want to ruin yourself more rapidly than you are doing now? Consult us. We are experts. International Monetary Fund."

This imaginary ad could well be a fixed ad in the Latin American newspapers. Currently the IMF has the best of recipes for ruining a country's economy and cancelling that country's aspirations of independence, as is demonstrated by the experiences of Brazil, Peru, Uruguay, Argentina, Chile, and Bolivia. Colombia and Venezuela saved themselves because they had other types of currencies with which to pay their debts: the former coffee, the latter oil.

...The recipe is surprisingly simple and clear, so as not to give room for mistakes. It is made up of seven essential movements, which do not necessarily take place successively. Sometimes everything happens at once.

a) freeze wages; b) free prices; c) reduce or eliminate subsidies; d) reduce money supply; e) reduce indebtedness; f) curb public investment; g) pay, with fanatic religiosity, what is owed to foreign banks.

The IMF experts guarantee the result under oath: a country's complete ruin in the shortest possible period, not to exceed ten years under any circumstances.

At the end of this time, the plans of an in dependent country — indeed with a lot of problems but nevertheless independent — will have been bought by a foreign imperialist power, and the democratic government will have been replaced with a civilian or military dictatorship of the new owner and his bankers.

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national lenders as Citibank and Morgan. For example, in 1970, when foreign loans made up 30.7 percent of Citibank's lending, they made up only 14.9 percent of Chase's. Consequently, Chase picked up riskier foreign real estate and government loans, and less stable foreign corporate lending. Between 1975 and 1976 Chase increased its Western Hemispheric non-U.S. assets, including lending, from $4.7 billion in 1975 to $6.2 billion in 1976, a staggering leap of a third, accounting for almost the entire increase in Chase's growth in foreign assets between these years. However, Chase's income before security transactions in the Western Hemisphere, dropped from a scanty $18 million in 1975, to $9 million in 1976, a fall of 100 percent. Adding its weight to this drop was a huge failure in Chase's venture into Puerto Rican real estate which because of the continuing poor market there Chase will still have to carry on its books for several years, writing off losses against it each year.

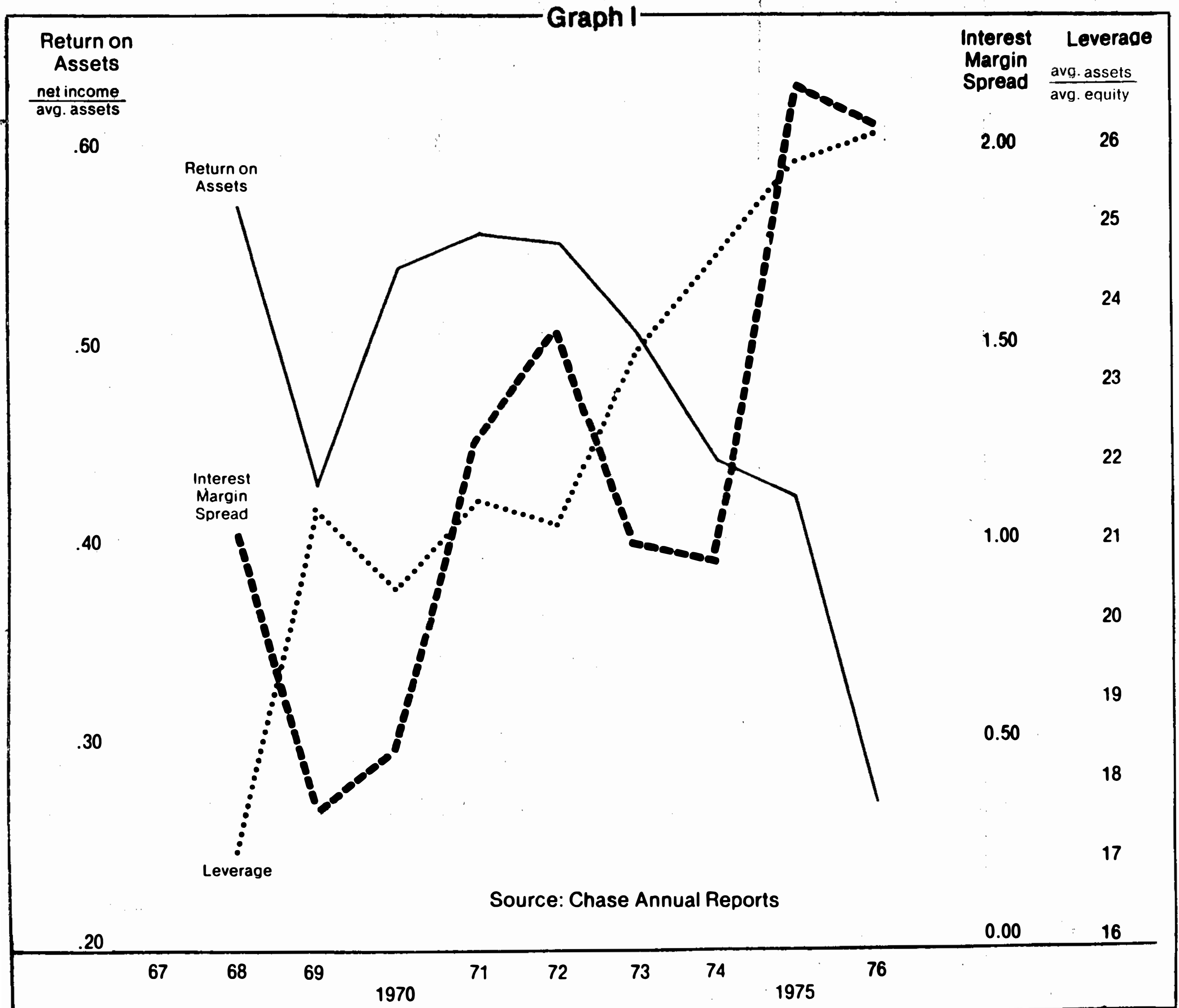
The overall situation demonstrating Chase's bad loan situation can be read off of Graph I. As that graph indicates, for the period 1968-76, there has been a steep drop in Chase's return on assets (the ratio of net income to average assets), despite the fact that more of other people's money is being put to work (indicated by the leverage ratio), at increasingly favorable interest margin spreads.

Such a remarkably poor income performance coming from such favorable earning conditions can have but one explanation: Chase is involved in a huge refinancing operation for salvaging non-accruing loans.

This refinancing earns repayment of interest only, while swelling the loan account volume on Chase's asset ledger.

The moment Chase finds itself unable to refinance countries which are technically in default, a balance of several billion dollars of non-accruing Eurodollar loans will immediately appear on Chase's books.

Other key parameters, which banks scan with hawk-eyed attention, point up Chase's road to ruin. Since 1972, Chase's profit margin, its net income to operating in-



come, has followed the following path:

1972	10.20%
1973	6.91%
1974	4.92%
1975	5.38%
1976	3.86%

It is almost difficult to imagine that in 1962, Chase's profit margin was 27.74 percent, eight times what it is today.

The Banker's War

In the case of comparison of Chase to its chief adversary, Citibank (Citicorp), Chase's marginal deficiencies — the sort that wipe a bank out in a banking war — stand out as enormous.

By 1976, 48 percent of Citibank's lending was conducted in local currency loans, as opposed to only 21 percent for Chase. Local currency loans, which are transacted in the local currency of the borrowing party's country, and *not in dollars*, do not require the debtor or the debtor's country to make repayment in dollars, obviating a major foreign payments problem. Hence, such loans are far more attractive to the borrower. For this reason, local currency loans can command higher rates of interest, accounting in part for the fact that during 1975-76, Citibank's interest spread was a critically decisive 1.25 percentage point above Chase's: 3.48 percent for Citibank during these years, to 2.11 percent for Chase.

Citibank's ability to conduct a greater volume of local currency loans has, in turn, stemmed from its far more extensive network of branch banks (wholly owned subsidiaries), as opposed to Chase's greater reliance on affiliate relationships.

Whereas, Chase has only a representative in Riaydh, Citibank has two fully staffed branch offices there.

Citibank has also integrated itself into an "old boys" banker's network, which ties it closely to several leading conservative British *commercial* banks, as well as conservative banks stretching across the continent from Germany to Italy and on down to South Africa, where Citibank has 8 branch banks. This includes Citibank's interlock with Lloyd's, Britain's second largest commercial bank, through their jointly owned National Grindlay's Bank, which has 206 branch offices in Britain, the Middle East, Africa, and Asia. And while Citibank and the German and Swiss banks have been gobbling up larger shares of the Eurodollar market, and the Bank of America along with the British and Japanese have been dominating the Far East, Chase's Orion consortium has been increasingly squeezed out by stiffer competition.

In "lifeboat economics", just as in the oil industry, increasing one's market share to increase one's deposit base in order to cover one's bad loans is the name of the game.

The fall of Chase's asset base, both domestic and foreign, by $2 billion between January and August of this year according to New York Clearing House Association figures, and Citibank's increase by a $3.5 billion, for a net advantage of $5.5 billion, indicates how well the respective players are playing.

Citibank has been able to increase its proportion of assets which are in cash and interest-bearing deposits at other banks from 17.7 percent in 1972 to 21.9 percent in 1976. Chase, on the other hand, has seen a decrease from 26.5 percent in 1972, to 22.0 percent in 1976, and lower still in Aug. 1977.

This, of course, has cut heavily into Chase's cash flow, forcing it to rely on SAMA and federal funds money. But these two sources of funds are drying up or have already ended.

With no other source of funds unless, of course, Senator Jake Javits's (R.—N.Y.) March call for Congress to provide a $50 billion bailout of the New York banks is heeded, Chase faces the prospect of cutting back rapidly, with no added source of income in sight. This is the cold hard reality of which bankruptcy stories are about.