Banking by Kathy Burdman

Conti Illinois: tip of the iceberg

As EIR *predicted, U.S. banks are being cartelized into a Canadian-style system.*

Continental Illinois Bank, with bad loans exceeding 110% of its capital, failed to apply for Chapter 11 bankruptcy on May 10, despite persistent rumors to this effect. The Controller of the Currency, the nation's chief bank regulator, issued a formal statement denying that it had met with Japanese bankers to arrange a foreign takeover.

The run on Conti was organized—out of London. A full month earlier, the nation's eighth largest bank had taken a hefty 6% profit drop in the first quarter on bad oil loans from the bankrupt Penn Square bank, and chairman Roger E. Anderson had resigned. But it was not until the week of May 7 that Conti experienced a "walk" by depositors, led by London Eurodollar investors. The bank was forced to pay 100-150 basis points more than other banks for large certificates of deposit.

Conti had stopped answering its telephones by late afternoon. Its lawyers cancelled long-scheduled appointments and went into a closed-door meeting. Stories of a merger with Citibank were rife. As *EIR* has reported, Manufacturers Hanover, itself in bad trouble, is the more likely candidate, since the Fed would prefer to keep both basket cases in the same bed.

It is unlikely that federal regulators would permit a $20 billion institution to fail; a merger would be more likely. Conti is the least of the problem. The United States is headed for a major credit crunch which may well precipitate a big round of bank mergers.

In fact, we are now seeing the reorganization of the U.S. banking system, of which I have warned in this column since 1978, into a Canadian-style bank cartel. Instead of America's 14,000 regional banks and 5,000 S&Ls, which have provided credit to industrialize and house the nation since 1934, we will end up with a system like Canada's, where five giant banks run the market, imposing zero or negative growth.

During the past month, more than 5 of the top 15 banks in the U.S. announced that they will merge and expand to go national. Citibank, the lead dog in the cartelization scheme, announced plans April 10 to open 10 banks in nine states outside New York. Similar announcements were made by Chase Manhattan, Mellon Bank, U.S. Trust, Bank America, and Chemical Bank.

This moves was made despite the fact that most of them took hefty profit drops in the first quarter. These include Citicorp, −2%; Chase, −3%; Bank of America −16%; and Mellon −14.5%. These figures do not even reflect the Latin American debt blowout, which was papered over in the first quarter. They were based entirely on domestic real-estate, farm, and other losses such as a $6.2 billion S&L subsidiaries loss by Citibank.

What we will see, if the folks at the Bank of England, the Bank for International Settlements, and Citibank get their way, is a general consolidation. The London *Financial Times* editorially gloated May 12 that there will now be a round of "consolidation" of U.S. banking, with smaller banks in particular being forced out of international lending and into bankruptcy.

To deliberately fuel panic, the *Wall Street Journal* May 9 also pulled out of the icebox an old story that the FDIC was filing charges against more than a half dozen big U.S. accounting firms for covering up the bad books of smaller American banks that eventually went bankrupt. The next day all hell broke loose around Conti.

In fact, the whole international banking system has fallen into massive illiquidity in a way that will force this development to a head sooner rather than later. The most revealing part of the Conti story is that during the 48 hours following May 9, London Eurodollar six-month interest rates jumped more than 2 % to almost 13%, "the largest jump in history," according to one banker.

"Don't treat the Eurodollar rate as a real rate. It is a prohibitive rate," said another source, a rate set by London banks because they simply don't want to deposit money with other banks. "It signals 'investors beware.' Not many people are trading funds at that rate."

Following the run on Conti, the largest banks had put together a "lifeboat" operation, borrowing funds through Singapore and Bahamas bank cutouts. Evidence of the bailout could be seen in the spectacular increase in Eurodollar rates. Led by Conti, banks also began dumping their Treasury security portfolios to gain liquidity. This helped jack up rates by forcing the Treasury to pay more for funds.

Wall Street insiders expect a new round of bankruptcies of Treasury security dealerships, such as Drysdale Securities and Lombard-Wall. Commercial banks who deal with them will face hundred-million-dollar losses.