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Banking by D. Stephen Pepper

Scum rises to the top

But this is a symptom, not the cause, of the insolvency of the U.S. banking system.

The U.S. banking system is effectively bankrupt, but no one in any position of responsibility will admit it. Before 1981, an average of six banks failed each year in the United States, and the problem list hovered around the 200-level year after year. But since 1982, some 221 banks have collapsed, and 1,000 problem banks are being monitored by the FDIC, the federal insurer of commercial bank deposits.

The situation is even worse among the thrift institutions. In recent testimony before the Senate Banking Committee, it was suggested that fully one-third are in difficulty and may not survive. A study by the Federal Savings and Loan Insurance Corp. shows that at least 14%, or 434, of all S&Ls have negative net worth, and that if these insitutions alone were to close, $15.8 billion in deposits would have to be covered by a federal insurance fund that now only contains $5.6 billion.

Every authority agrees that the single most important factor that has changed the industry was the record high interest rates of Paul A. Volcker. The same treatment that wrecked the farm sector, wrecked the banks. According to a top staffer at the FDIC, even in the commercial area, we are seeing a record rate of failures for the post-depression era: 100 banks are expected to fail this year, and 100 more are expected to do so next year.

On the trouble list are several of the nation's largest banks, although he was not at liberty to name them. Nevertheless, Bank of America, the nation's second largest, and the world's largest lender to the agricultural sector, is almost certainly among them. Others include Continental Illinois, First Chicago, Bankers Trust, and Crocker. According to this same source, "The high interest rates had a major effect, even producing disinflation in some sectors: agriculture, energy, real estate in California and Texas." Other than referring to depressed sectors as experiencing "disinflation," this is a fairly honest appraisal.

Thrifts, as they are known, were the backbone of the nation's savings institutions. They were hit hardest by the Volcker measures. In 1982, to "save" the industry, deregulation was introduced that permitted these hitherto conservative institutions to compete with commercial banks for deposits by offering flexible interest rates, and to enter into lending activity such as construction loans which had hitherto been closed to them. Overnight, the S&Ls, famous for their long-term solidity, jumped into that "go, go banking" which had already destroyed the solvency of the commercial banks.

A number of operators moved into this situation, such as Jeffrey Levitt at Old Court in Baltimore, and of course, one of the biggest players at this sort of game, Marvin Warner of Ohio's Homestate. But the greenest pasture for this new-style banking is Florida, becase of the ready availability of drug money. It was here that ESM securities was set up and largely funded by Warner through funds drained from Homestate. Through his son-in-law, Steven Arky, Warner received almost $2 million in a personal account with ESM. Arky also enjoyed such an account, and on the very day this was exposed, he committed suicide. Warner at one time was a partner in American Savings and Loan, having been introduced into Florida banking by one Hugh Culverhouse. Culverhouse and Warner were one-time partners in the ownership of the Tampa Bay Buccaneers football team. The third partner was Vicente Perez Sandoval, the son-in-law of Oswaldo Cisneros, the notorious drug banker of Venezuela.

The latest scandal of this kind to hit Florida is the collapse of Sunrise Savings. This bank went from $4.5 million in assets when it was founded five years ago, to $1.8 billion in 1984, and collapsed in 1985. Robert C. Jacoby, the chairman of Sunrise, went after retirees' pension funds: "Anywhere there are retirees, it'll be like shooting ducks," he was recently quoted as saying.

Sunrise was very likely in the drug-money-laundering business. It received large off-shore deposits, ostensibly from German investors in Florida real estate. These funds were to be invested in such enterprises as the Monte Carlo Country Club, or the Monte Carlo Polo Club, by an off-shore outfit called Ambassador World Enterprises. The bank is now under the management of Amerifirst of Miami, another expansion-minded bank; a federal grand jury has been convened, and Sunrise is now heading for an early eclipse.

The criminality of management in such cases is a symptom, not a cause, for the rising rate of bankruptcies. As the banking business becomes more and more openly a branch of Dope, Inc., it is inevitable that more and more crooks rise to the top.

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