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Third quarter bank crisis breaks as EIR predicted

by Kathy Wolfe

Just as predicted by *EIR*'s April and June quarterly reports on the U.S. economy, the U.S. and dependent world banking system in the first week of September have gone into a generalized crisis, with more than $100 billion in loans announced to be unpayable, and overdue.

Precisely this sort of "collapse of some large mass of debt, either in the U.S. internal economy, or by a number of developing nations simultaneously," was predicted for the end of 1985 by *EIR* founding editor Lyndon H. LaRouche, Jr., in the introduction to *EIR*'s April 1985 *Quarterly Economic Report*. Now it is happening, in spades, across both the U.S. domestic economy and the rest of the world:

- On Sept. 3, Farm Credit Administration Governor Donald Wilkinson declared that the $74 billion Farm Credit System is about to go under due to more than $11 billion in unpayable agricultural loans. "We cannot absorb the losses we face," he stated. Wilkinson asked Congress for a multi-billion dollar bailout, stating, "This is the most severe crisis the Farm Credit System has faced since the Depression." If FCS goes under, it will dwarf the $40 billion bankruptcy last year of Continental Illinois, and rock world markets.
- On Sept. 5, the Federal Deposit Insurance Corporation (FDIC) announced that at least $25 billion of additional farm debt to private commercial banks is "uncollectable" and about to collapse.
- On Sept. 6, the banking crisis broke out again in Maryland, which closed all savings & loans in May. The $500 million Community S&L of Baltimore, Maryland and its falling real estate subsidiary Equity Programs Investment Corporation (EPIC) failed and had to be taken over and bailed out by the taxpayers of the state af Maryland. This was the fourth Maryland S&L which has had to close its doors, with total bad assets in the state of over $2 billion. Meanwhile, New York's Citibank moved in to buy up the $400 million First Maryland S&L, which collapsed in the run on the state's S&Ls last May. In Maryland, 25 S&Ls are still frozen and depositors can only withdraw $1,000 per month.
- One of Houston's largest S&Ls is about to close, as record numbers of families going bankrupt are forcing single-family home foreclosures.
- Internationally, South Africa on Sept. 1 announced a total debt moratorium on over $12 billion in foreign debt to U.S. banks led by Chase Manhattan.
- The Canadian government on Sept. 4 announced plans to liquidate two billion-dollar banks, the Canadian Commercial Bank and Calgary-based Northland Bank, which has assets of $992.8 million, the first forced liquidation of a Canadian bank in at least 50 years.

Fire Donald Regan

In the face of this, President Reagan's press conference of Sept. 7 announcing that the recovery has "taken off and is packing new power" was mind-boggling to say the least. To blame for such lunacy is White House chief of staff Donald Regan, the former chief executive officer from Wall Street's Merrill Lynch firm, a notorious conduit for drug-tainted dollars, who is lying to the President to maintain his control over the U.S. economy, with his masters at the International Monetary Fund.

Regan and the Commerce Department Sept. 7 announced a faked drop in the unemployment rate to 7% which made big "recovery" headlines. But BLS Commissioner Janet Norwood admitted in an interview that U.S. jobs in manufacturing fell 210,000 during January-August, "with 80% of the loss in heavy industry: primary and fabricated metals, machinery, and electrical equipment."

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Regan, Fed Chairman Paul Volcker, and the IMF are also trying to cover up the fact that their Trilateral Commission crowd has *deliberately caused* the current wave of U.S. and world bankruptcies, to attempt to destroy the productive sector of the U.S. economy and bring as much credit as possible under the control of Trilateral banks such as Citibank, Chase Manhattan, and the IMF.

IMF U.S. Director Ernesto Hernandez-Cata told *EIR* last February that thousands of U.S. farm and regional banks and savings & loans should be "allowed to collapse." The IMF man said that then Budget Director David Stockman was working with the IMF on his "farm program," which included allowing farm banks to go under so as to remove "excess credit" from farmers.

Farm sector being destroyed

On Sept. 5, it was revealed that the $74 billion U.S. Farm Credit System bankruptcy is being allowed to happen now, based on the cited recommendations made by Stockman and the IMF last spring. A White House official told the *Wall Street Journal* that in July, President Reagan accepted the recommendation of Stockman's working group that "no federal assistance should be provided to the System."

White House spokesman Larry Speakes said on Sept. 6 that "there are sufficient resources within the FCS to take care of this problem."

This is more Don Regan and IMF lunacy. The Farm Credit System (FCS) bankruptcy, which finances a third of the nation's

entire farm debt within months. FCS is a national system, the "Federal Reserve" for farmers, which has 12 regional banks, each of which has a land bank, a short-term farm credit bank, and a farmers' cooperative. Governor Wilkinson has openly predicted the system could fail totally within the next 18 months.

At least $11 billion of the system's $74 billion is known to be bad, and at least nine of the system's 37 main banks have more problem loans than capital—that is, they could fail any quarter. FCS as a whole is projected to lose more than $400 million in the third quarter, and banks are not supposed to have losses.

Wilkinson, in a dramatic turnabout from earlier assertions that things were fine, on Sept. 6 demanded a "multi-billion" federal bailout that would dwarf the $4 billion Continental Illinois government bailout. FCS's Ron Erickson said regulators want "to get something in place before everyting goes to hell."

Many of the individual members banks of the FCS are already going under, led by the Federal Intermediate Credit Banks of Wichita, Kansas, Louisville, Kentucky, and St. Paul, Minnesota. They have combined loans of about $24 billion, virtually all of it maturing in the short- or intermediate-term.

Meanwhile, the private commercial farm banks are reporting that at least 50% of their $51 billion in loans, or $25 billion, are bad, according to the FDIC. Recent FDIC reports show that the number of farm banks with more problem loans than capital—i.e. the number bankrupt—surged to 135 at the end of the first quarter, up from 89 at the end of 1984 and 60 in June 1984. The FDIC's overall list of "problem banks," those suspected of financial problems, includes 402 farm banks.

Even the mighty Bank of America lost a full $338 million in the June quarter on its $1.7 billion farm loan portfolio. The $2 billion Hawkeye Bancorp, the largest bank in Iowa, had an actual 6 months net loss this June of $6.5 million, and will likely have to close. "Things are getting worse fast enought to spin your head," Earl Hall, President of the Fairview State Bank of Fairview, Oklahoma stated on Sept. 5.

Trilateral manipulation

Wilkinson pointed out that the U.S. farm economy itself, where prices have collapsed due to lack of export demand by IMF victim nations abroad, is operating in the red and "could produce an operating loss in 1985 for the first time since the Great Depression of the 1930s. . . . If we are unsuccessful in securing the cooperation of the congress or the adminstration . . . we will begin to face the necessity of possible liquidation of portions of the farm credit structure," he told the press on Sept. 6.

Trilateral and Soviet manipulation of the world food, general commodity, and currency markets has bankrupted U.S. farmers. World commodity prices have been driven to seven year lows by lying press rumors of a gigantic fall 1985 $21
harvest, fueled by Swiss Trilateral grain cartels and Russians, seeking to lower prices at which to snap up U.S. grain. The artificially high dollar, still absurd at DM 2.80 levels, has flooded the U.S. with cheap Third World commodities. So many farms are going under and putting farm land up for sale that farm land values have dropped 6% during 1985 so far, which in turn forces banks to call in loans collateralized by land as collateral evaporates.

As LaRouche outlined in the April *EIR Quarterly Economic Report*, the danger is now that the Volcker and the IMF may try to hyperinflate their way out of the crisis. Already, Volcker's Federal Reserve has lowered the Fed's key Fed Fund interest rate from 9% to 6% this year, and reported this week that they have been gunning the money supply of cash to the banking system by a record annual rate of 12%, more than double Volcker's stated public target of 5%. The Farm Credit System is calling for the government to literally print more money and buy dozens of billions of U.S. farm debt off their books, and plans to form a cartel with private bankers to press the demand. Despite the huge banking crisis, the U.S. dollar soared from DM 2.75 before Labor Day to DM 2.94 the week of Sept. 2-7. As LaRouche put it, "the collapse might take the form of a continued skyrocketing of the dollar's exchange rate" for a period, to be followed by an even worse blow-out of the dollar and the banking system later this year or "perhaps even into 1986."