Termination with extreme prejudice

The Justice Department is preparing to sweep up bankers in Texas, to make way for the Wall Street "giants."

A federal grand jury in Dallas has subpoenaed the financial records of 300 savings and loan executives, real estate developers, and brokers who dealt with no fewer than 100 Texas S&Ls. An FBI spokesman described it as "one of the largest S&L investigations in history."

While oil-belt S&Ls are in worse condition than any others, the unprecedented harassment of financial executives indicates how grimly the financial crisis is being prepared.

The bankruptcy of the Federal Savings and Loan Insurance Corporation, which will cost the federal government somewhere between $50 billion and $100 billion to straighten out, may emerge as the decisive test for the federal budget. If the federal government picks up that sort of tab under present circumstances, it endangers its own credit.

The problem is that S&Ls are at the center of the Republican political base. It appears that the banking mafia in the Republican administration, headed at Justice by White, Weld scion William Weld, has begun a vicious softening-up operation to preempt opposition to the kind of measures Wall Street will recommend: parceling out the insolvent commercial and savings institutions, at zero equity, and with federal subsidies, to Citibank et al.

Between Jan. 1 and May 28, Texas had already had 27 bank failures, compared to a record 26 failures in all of 1986, the most failures in a state in a single year since the Depression. Texas, Oklahoma, Colorado, and Louisiana together accounted for 61% of all 1986 bank failures. Houston alone accounted for 13% of all U.S. bank failures.

During the first week of June, United Bank of Austin and First State Bank of Frisco became the 28th and 29th banks to fail in Texas in 1987, and brought the total to 84 nationally. Both were state banks. UB had assets of $207 million. No bids were received for a purchase and assumption transaction, but MBank Austin agreed to pay the FDIC $300,000 to assume UB's insured deposits, and to purchase other assets of the failed bank for $51.2 million.

"The majority of losses arose from liberal and ill-advised loans to a variety of commercial and real estate borrowers in the Austin area and to bank insiders and their related interests," according to the State Banking Department.

The First State Bank of Frisco, with assets of $40.1 million, was closed due to "substantial losses on loans to out-of-area borrowers and to principal shareholders and their associates," the FDIC said.

Citicorp's $3 billion addition to loan-loss reserves in May also puts pressure on Texas commercial banks. The top five Texas banks (MCorp, Republic, InterFirst, Texas Commerce, First City) have about $2 billion in loans to Ibero-American countries. Unlike Citicorp, they cannot afford to write off even a portion of these loans.

Over the past two years, RepublicBank has sold or swapped about $80 million of its Ibero-American loans. MCorp, in the past year, has sold about $50 million in Mexican and Brazilian loans. Government debt in Brazil and Mexico is selling for 55¢ to 65¢ on the dollar, while private debt sells from 5¢ to 85¢, according to loan brokers.

The year 1987 marks the start of interstate banking and branch banking in Texas. But even the money-center banks, eager to get a foothold in Texas, have been leery of buying troubled Texas banks. Chemical Bank of New York acquired Texas Commerce Bancshares of Houston, but the actual purchase price will be determined by the performance of TCB over the next five years, and TCB shareholders had to eat several hundred million dollars worth of bad loans, in the form of a separate, self-liquidating bank.

First Interstate of Los Angeles has announced a similarly structured acquisition of Allied Bancshares.

To prevent out-of-state takeover, RepublicBank and InterFirst decided to merge, combining two troubled banks into one bank a little too big for all but the largest money-center banks to swallow.

Only MCorp and First City Bancorp, of the top six, have remained as they were going into this year. First City is frantically seeking a buyer, with no takers so far.

The money-center banks are waiting for a scavenger's meal at the expense of Texas interests. The Justice Department's heavy artillery apparently intends to soften any possible resistance. It wouldn't be the first time that the Justice Department of the United States, populated with fellows like Weld, acted on behalf of purely private interests.