Northeastern banking collapsing

The fourth-quarter figures paint a devastating picture, and this time it's top commercial banks, not the thrifts.

The fourth-quarter figures for the U.S. banking system show that the banking crisis of which this publication has been warning is rapidly gaining momentum, and is breaking out of its "perception management" containment. The run on the banks has started.

The most glaring example is the Bank of New England, one of the nation's 20 largest banks, which is on the verge of collapse and is desperately trying to find buyers for its assets before the Feds are forced to close it. The Bank of New England posted a Texas-size \$1.2 billion loss for the fourth quarter, giving it a loss for the year of \$1.05 billion. During 1989, the bank's assets fell from \$32 billion to \$29 billion; its non-performing loans, estimated at \$500 million at the end of the third quarter, finished the year at an estimated \$2.25 billion—compared to a mid-December estimate of \$1.6 billion.

Such a rapid rise in bad loans reflects the speed at which the region's economy is collapsing. It also shows what happens when federal bank auditors comb through the books of a bank which has been reluctant to admit its real estate losses—a point which should not be missed when analyzing the financial numbers reported by other banks across the nation.

The other two big Boston banks, the Bank of Boston and Shawmut National, managed to post small profits for 1989, at least on paper.

The Bank of Boston posted a \$70.4 million profit for the year, a drop of 78% from 1988, but that figure includes \$199 million from the sale of its credit card operations and a settlement of some of its pension obligations. Without those items, the bank would have posted a substantial loss.

Shawmut posted a mere \$3.9 million profit for the fourth quarter, giving it a profit of \$201.7 million for the year. Shawmut reported its non-performing loans and foreclosed assets at \$535.6 million at the end of the year, against a loan loss reserve of \$383 million.

Such figures indicate that both the Bank of Boston and Shawmut are being less than forthcoming about the true losses in their real estate portfolios.

As the *Boston Globe* put it on Jan. 21, "The way things are going in banking here, bankers feel like breaking out champagne whenever positive integers get typed on their company's balance sheet. Enjoy it, guys. You won't be seeing many pluses for a while."

While the New England problems are getting most of the attention, the problem is actually much wider. Banks all over the Northeast are bleeding, including the titans of Wall Street. J.P. Morgan, the most aristocratic of U.S. banks, posted a \$1.27 billion loss for 1989, compared to a profit of \$1 billion in 1988. Citicorp, the nation's largest bank, lost \$784 million in the fourth quarter, giving it a profit of \$489 million for 1988, a 73% drop from 1988's \$1.86 billion profit. Manufacturer's Hanover lost \$518 million for the year, despite a \$69 million gain from the sale of its CIT Group subsidiary to a Japanese firm. Bankers Trust posted a \$979.9 million loss for the year, compared to a profit of \$648 million in 1988.

Most of these huge losses at the Wall Street banks were due to their belated admission that their Ibero-American loans are uncollectable. Their real estate losses, which they have only begun to reveal, will hit even harder.

What these figures reflect, and what the banks, the regulators, and the Bush administration are all so desperately trying to hide, is that the nation's commercial banking system is in worse shape than the savings and loans.

Take again the case of the Bank of New England. This bank is bankrupt. It is hemorrhaging from its mounting real estate losses, is undoubtedly facing serious deposit runs from institutional investors, and yet it remains open. Were it a thrift, it would have been quickly closed amid a barrage of publicity about how the people running it were crooks—but it is not a thrift, it is a major commercial bank, which lives by a different set of rules.

The federal banking regulators have said repeatedly that they will act much more quickly in New England than they did in Texas, to stem the flow of red ink. They will not, they insist, be caught "asleep at the switch" again. The actions of the regulators to force the Bank of New England to admit its real estate losses would suggest that the regulators are more active, but in what way? Are they really trying to clean up the banks, or are they just purging BNE of its bad loans so that they can sell it? If they are serious about cleaning up the banking system, then one should expect them to quickly move on to the Bank of Boston and Shawmut, and to Wall Street.

Otherwise, it's just the same old song and dance, in which the big banks are untouchable, and only the little guys get "regulated."