Banking by John Hoefle

Fascist reorganization proceeds

The asset-strippers are out to grab control of banks, and the FDIC has given them the loophole they need to do it.

While the Bush administration's banking bill is floundering in Congress, the fascist consolidation of the U.S. banking system is, like Mussolini's trains, running right on time.

The April 22 decision by the Federal Deposit Insurance Corporation (FDIC) to award the failed Bank of New England to the team of Fleet/Norstar Financial Group of Providence, Rhode Island, and Kohlberg Kravis Roberts and Co. of New York, represents a major advance in the push to allow non-bank companies to own banks, circumventing the Bank Holding Company Act, which limits ownership of a bank by non-bank institutions to 25%.

"We are delighted to see this new money coming into the banking system," remarked FDIC chairman William Seidman.

The Fleet/KKR partnership will pay $625 million for the Bank of New England, putting $500 million into the bank as capital and paying $125 million to the FDIC. In return, the partnership will get some $16 billion in deposits and 320 branches. Fleet will finance the purchase by raising $708 million, of which $283 million will come from KKR. KKR will come out of the deal owning as much as 16.5% of Fleet, and under certain circumstances could wind up owning half of the new Bank of New England.

KKR, the high-flying junk bond and leveraged blowout specialist, has been after a bank for nearly a decade. In 1983, the firm considered a bid for SeaFirst Corp. of Seattle, which was subsequently bought by BankAmerica Corp. In 1989, KKR was a front-runner for the banks the FDIC seized from MCorp of Texas, but Banc One Corp. of Ohio prevailed. At the time, Comptroller of the Currency Robert Clarke expressed doubts about KKR's suitability as a major bank investor. KKR already owns 9.9% in First Interstate Bancorp. of Los Angeles, having bought the stock on the open market. By allowing the notorious asset-strippers at KKR to buy such a large chunk of a major U.S. bank, federal regulators have effectively thrown the door wide open for non-bank corporations to move into banking—one of the goals of the Bush administration. After all, if KKR qualifies, who doesn't—as long as you have the money?

Also driving the move is the desperate situation at the FDIC.

"The bank insurance fund is nearly insolvent, and I cannot overemphasize how important it is to restore it as quickly as possible," Comptroller General Charles Bowsher warned the Senate Banking Committee on April 26. "If you don't get on top of this soon enough, then the taxpayers will eventually lose."

While the FDIC claims that the Bank Insurance Fund contained $8.4 billion in assets at the end of 1990, an audit of the agency by the GAO put the figure at between $2 billion and $5 billion, depending upon how certain insolvent banks are classified.

"This level represents an all-time low, and the fund is in a precarious state," Bowsher said. Unless the BIF is rebuilt, "it is highly probable that the fund will be insolvent at the end of 1991. We expect that the BIF fund balance at the end of 1991 will be somewhere between a high of $1 billion and a low of negative $5 billion. . . . Clearly, action must be taken right away to build up BIF and prevent its insolvency."

To reach that conclusion, the GAO examined the financial condition of 368 troubled banks, which together have about $1.8 trillion in assets—half of the total assets of the entire U.S. banking system. The study found that 71 of those banks were "already insolvent, or nearly so," and would cost the FDIC some $7-11 billion to close. Forty of those banks were in such bad shape, the GAO found, that the cost of seizing them should have been included in the BIF's net worth calculations for 1990.

"The remaining 31 banks," Bowsher said, "more likely than not, will fail without recapitalizaton, but do not meet the criteria of insolvency and therefore present accounting rules do not require the fund to reserve for these banks."

Bowsher recommended that Congress move quickly to inject $15 billion into the insurance fund, through a special assessment on the banks of 40¢ for every $100 in deposits—on top of the 19.5¢ per $100 the banks already pay the FDIC.

Since the banks only earned $16.6 billion in 1990 according to the FDIC, Bowsher's proposed assessment would wipe out nearly all of last year's reported profits.

Bowsher compared the situation at the FDIC to what happened with the now-defunct Federal Savings and Loan Insurance Corp.

"It's somewhat similar to the savings and loan situation of 1988," he said. "You don't have money to resolve problems now, so you start parking your problems and then it costs even more."

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