Banking by John Hoefle

The policymakers are bankrupt, too

The House Banking Committee identified the problems in hearings Jan. 3, but no solutions were offered.

Watching the maneuvering in and around Washington these days, one gets the distinct impression that the only thing more bankrupt than the U.S. banking system is the policymaking apparatus.

That point was driven home at the Jan. 3 House Banking Committee hearing on the recent "policy clarifications" on commercial real estate lending issued jointly by the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corp. (FDIC), and the Office of Thrift Supervision.

The purpose of these so-called clarifications was to bash federal bank examiners into helping the banks cover up their staggering real estate loan losses, thereby hiding the fact that the banks themselves, along with most of the rest of the financial and real estate sectors, are insolvent.

To make sure the examiners got the message, the regulators called them in to a Dec. 16-17 meeting in Baltimore, Maryland where they were pointedly told that their job was to "promote economic growth" by giving banks "the benefit of the doubt" about bad loans.

By ordering bank examiners to assist the banks in perpetrating this massive fraud, the administration is guaranteeing a replay of the S&L fiasco, but on a much greater scale.

Committee chairman Rep. Henry B. Gonzalez (D-Tex.) made just that point in his opening statement, calling the regulators' policy an "exact repeat" of the "timid supervision and the outright forbearance" that contributed to the collapse of the S&Ls in the late 1980s.

"It is a dangerous move, unbelievable to me, that could have long-lasting and disastrous consequences for proper supervision of the nation's financial system," Gonzalez warned. He blasted the bank examiners' conference as a "forbearance school" and accused the administration of trying to "scapegoat" the examiners.

Gonzalez also blasted the administration's new "Star Chamber" appeals process, in which bankers could make "secret appeals" directly to Washington, were an examiner to look too closely at a banks' loans. "Few examiners are going to risk these secret protests about their work," Gonzalez said. The result will be that "problems will be allowed to fester and become risks for the banks and the deposit insurance funds, and the taxpayers. The secret, back-door appeals process is a certain trip down the forbearance highway."

Gonzalez also directly attacked the administration's contention that the professional judgment of bank regulators should be subjugated to the administration's political needs.

"The regulatory agencies and their examiners are not responsible for the economy or the political fortunes of anyone," he said. "This is not their job. The greatest bulwark we have against unsafe and unsound use of insured deposits is the independent judgment of examiners. . . . Their independent judgment cannot be thrown away for short-term gains, political or otherwise."

Comptroller General Charles Bowsher, head of the General Accounting Office, warned the committee that the administration's effort to "bend the facts" to hide the condition of the banks was "very dangerous." Bowsher said he was "concerned about the health of the banking industry today. I think the fact that we've had so many banks go under; we've lost the fund literally. We've used up the FDIC fund. . . . Not since the '30s has the banking industry I think been in as serious condition as now. . . . I think we have a very serious problem here."

Several flash points were identified during the hearing.

Rep. James Moran (D-Va.) estimated that as much as $200 billion in short-term commercial real estate loans are coming due during 1992 and 1993. These short-term loans were made in the expectation that permanent financing would later be arranged, but the Federal Reserve has estimated that as much as 93% of the $200 billion will not qualify for long-term financing. Were these refinancings denied, Moran said, in Northern Virginia "we could see as much as a 30% reduction of the value of real estate, commercial real estate particularly, over the next couple of years."

Bowsher warned that the large U.S. banks and other financial institutions "could well be facing some difficult financial issues or crisis here in the next 24 months" that could have "a domino effect" on the economy. They "could get us in a lot of trouble," he said.

Rep. Charles Schumer (D-N.Y.), in opposing the concept of truth in bookkeeping, was even more blunt: "If we mark the whole banking system to market," Schumer said, "it would go bust and has been for years."

Which, of course, it is. The problem is, no one in Washington is willing to openly say so, because they haven't got a clue as to what to do about it.