NCFE: Death-Dealing Side of the Bubble

by John Hoefle

Lyndon LaRouche has long maintained that it is not just the collapse of the world's largest financial bubble that is deadly. Attempting to *maintain that bubble* is measured in lives wasted, destroyed, and lost. The bankruptcy of, and mushrooming scandal around, National Century Financial Enterprises (NCFE), provides an insight into how this destructive process works, and illustrates the consequences of failing to re-regulate industry and infrastructure, to stop such abuses.

In the aftermath of the near-meltdown of the global financial system in September 1998, the world's major central banks, led by the Federal Reserve, printed and unleashed what speculator/drug-pusher George Soros blithely called a "wall of money," in a desperate attempt to stave off a total blowout. Part of these "walls of money" pumped into the banking systems was used to carve out wider channels for existing income streams to flow into the banks' pockets. Some of these measures were legal; others were allowed only because Congress had legalized them by systematically dismantling existing protections; and some were illegal even in a fraud-friendly environment. The post-1998 policy was, in effect, to beg, borrow, or steal anything that could be stolen, and throw it into the bubble. It is this combination of monetary policy, deregulation and asset-grabbing which created the dot.com bubble, the related telecom bubble, and the Enron/energy pirates' Wall Street bubble; all of which have exploded and are now revealed as what LaRouche had said they were—scams. Now, with the bankruptcy of NCFE, another aspect of this post-1998 looting comes out of the shadows.

The Asset-Backed Securities Danger

NCFE was basically a financial "factor," advancing cash to hospitals, physicians, and other health-care facilities in exchange for their receivables—the delayed payments made by insurance companies and government agencies for patients' treatment. NCFE would place these receivables into pools, then issue derivative securities—known as *asset-backed securities*—backed by the expected insurance payments. When Federal Reserve Chairman Sir Alan Greenspan talks about how the derivatives market has saved the financial system by spreading the risk, one of the elements he has in mind, no doubt, is the asset-backed securities market, which has doubled in size since 1998. As of the second quarter of 2002, there were $1.4 trillion in asset-backed securities outstanding, according to the Bond Market Association. Of this amount, $394 billion—28% of the total—were securities backed by credit-card payments; $234 billion—17%—were backed by home equity payments; and $205 billion—14%—were backed by auto-loan payments.

Asset-backed securities account for only 7% of the $20 trillion U.S. bond market, falling well short of the $4.5 trillion in mortgage-related bonds, or the $4 trillion in corporate bonds, but they play an important role in what is politely called "risk management." Commercial banks have been quite active in recent years, converting their credit-card and other loans into asset-backed securities, which are then sold primarily to institutional investors. The effect is to take the loans off the banks' books, shifting the risk of non-payment of the loans from the banks, to the owners of the securities. In these days of soaring debts and a shrinking economy, such a method for shifting losses from banks to pension, mutual, and other publicly owned funds is no small consideration for a financier.

NCFE was basically in the business of loaning hospitals, nursing homes, and other medical facilities money to get them through the period between when they provide a service and when they get reimbursed for that service by the relevant insurance company or government agency. The more slowly they received their payments, the weaker their financial condition; since the health maintenance organizations were notorious for delaying reimbursements, the HMOs created the opening for NCFE (and others, though NCFE was the largest player in the field) to step in and fill the gap. For a fee, of course. Caught in this squeeze, more than 100 clients signed up for NCFE's services, with the company buying $15 billion in receivables and issuing $6 billion in asset-backed securities since its founding in 1991.

As a private company not required to make public filings with the Securities and Exchange Commission, much about NCFE remains shrouded in secrecy. But one can tell a lot by looking at its board, which consisted of four of the company's founders and two executives of J.P. Morgan Chase, which controls 16% of the company through its Beacon Group III private equity fund. In addition, Morgan Chase and Bank One are trustees for NCFE's bond trusts. The bonds themselves were underwritten by Crédit Suisse First Boston, the investment banking arm of Switzerland's Crédit Suisse banking/insurance giant. The top purchasers of the bonds included PIMCO, the world's largest bond fund and a subsidiary of Allianz, the world's third-largest financial institution; Alliance Capital Management, an arm of French insurance giant Axa; and ING, the Dutch insurance/banking conglomerate.

All in all, NCFE fits the profile of a looting operation, whose existence served mainly to divert a portion of the health-care income stream into the pockets of some of the biggest financial institutions in the world. Now it has collapsed, leaving a bankruptcy wave spreading among medical providers, with disastrous consequences for health-care and patients.