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First Penn in receivership, and there's more to come

by Richard Freeman

Perhaps the largest bankruptcy process in U.S. banking history began April 28, as the Federal Deposit Insurance Corporation (FDIC) poured a $1.5 billion loan and bailout package into the ailing First Pennsylvania Bank. The emergency measure was taken to forestall the biggest collapse since the Bank Holiday of 1934 boarded up U.S. banks across the country. The price tag on the rescue exceeds by far any previous such bailout.

The same day that First Penn was being rescued, in the board rooms of First Chicago Bank a decision was reached that the failures occuring there would best be resolved by a general scapegoating of the bank's chairman, Robert Abboud, who was given the boot. Not far away, in the executive suites of First Wisconsin Bank, the ticker tape reported that First Wisconsin's loans to Argentinian banks, totaling $1.5 million, might go up in smoke in the general banking crisis underway in that country.

This general atmosphere led the *Wall Street Journal* of April 28, in something of a panic, to report in an article entitled "Behind the Signs at the FDIC", that that august body might lack the funds—currently $10 billion is in its kitty—to stem a run on U.S. banks.

The FDIC action at First Penn can reassure no one as long as Federal Reserve Board Chairman Paul Volcker is at the helm. Volcker's actions in tightening credit conditions that started in October 1979, have now pushed the banking system to a point of no return. Many U.S. banks have nonperforming assets that outstrip their performing loans, but because of Volcker credit strictures have had to cut back on their bread and butter loans to industry and agriculture, which constitute their margin of profitability. First Penn's situation of watching tens of millions of dollars in its government securities portfolio get wiped out as Volcker's moves took out 20 to 40 percent of their Treasury's face value, is not atypical.

But a banking collapse, while a terrible thing, is not altogether despised in certain quarters of lower Manhattan and Washington, D.C. Such a collapse, so the reasoning there goes, provides a chance to reorganize the economy from the top down along deindustrialized Schachtian lines. Moreover, for every bank failure, there is a golden opportunity for a giant New York City bank to come in and pick up billions of dollars in assets at bargain basement prices. It is for this reason that last month an unholy alliance of ultra-liberal Rep. Henry Reuss (D-Wis.), chairman of the House Banking Committee and bank executives Walter Wriston of Citibank and David Rockefeller of Chase Manhattan joined to ram through Congress the "Depository Institution Deregulation Act." This bill, geared toward crisis periods, is intended to steer the ensuing shakeout in the banking system toward recasting the U.S. banking system along the British model—where five to 10 superbanks, operating across state lines, call the shots on the entire economy. A quick glance over one's shoulder at the wreckage known as the British economy shows how well that works.

The first Penn bailout came as the bank was about to

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The Federal Deposit Insurance Corporation was created during the depression, to insure banks against a repeat of the "Black Thursday" collapse. But today, it is an instrument for triage of selected banking institutions.

report $100 million in losses for the second quarter of this year. As part of the agreement, the FDIC put $325 million and a consortium of 26 banks put $175 million into capital debt, for a total of $1.5 billion. In addition, the 26 banks agreed to put up a credit line totaling $1 billion.

The terms of this bail-out disclose more than meets the eye. The contribution by the FDIC and 26 commercial banks is being done at a price the "rescuers" are being offered warrants, redeemable in 7 years, for 20 million shares of First Penn stock at $3 per share. This will give the FDIC and the banks 56 percent ownership of First Penn. The offered price of $3 per share is one-half the current market price of First Penn's stock and less than one third the stock's book value! Thus the FDIC and 26 commercial banks are being handed majority control of First Penn at a song.

What will the FDIC do with ownership of a bank. The answer is sell it off to another bank, once the dust has cleared. First Penn was not rescued: it was just barely held afloat. First Penn is also getting large doses of money from the Federal Reserve's discount window in the range of $500 million to $1 billion. Indeed, what is going on at First Penn is what happened in 1974 when Franklin National Bank was propped up long enough for a buyer to be found.

As for the most likely candidates to purchase a decapitated First Penn, the front-runner is the overly eager Citibank, which made the largest bail-out loan to First Penn of the 26-bank syndicate.

The FDIC is gearing itself up for further operations. Jack Guttentag, the bank expert at the Wharton School of Finance, told EIR April 30 that "the FDIC's kitty of $10 billion is not large enough for the tasks that lie ahead for it. Currently, people at the FDIC are working with Reuss and Proxmire to expand the credit line that the FDIC had with the Treasury, which is already there and implicit, into an explicit and unlimited credit line."

The cases of First Chicago and First Wisconsin may prove the first banks to be given an FDIC "rescue." First Chicago is a bank that has long been troubled by a poor bond portfolio, and directly affected by the Volcker credit crunch. Through all of 1978 and through the end of the third quarter of 1979, First Chicago's quarterly profits were in the range of $30 to $35 million. In the fourth quarter of 1979, its profits plummeted.

Capitalizing on the difficulties at First Chicago, a faction of the First Chicago board with friends in high places and connections to dirty money networks began a reorganization of the bank. Ben Heinemann, the head of Northwest Industries and a long-time member of First Chicago's board, took over control of the First Chicago executive committee, having himself appointed as its chairman. Heinemann then had Robert Abboud, First Chicago's chairman who is kown to favor industrial lending, outsted. Heinemann is a crony of both Henry Reuss and Commerce Secretary Phillip Klutznick, who has been implicated in drug-related dirty money networks run from Chicago. He is also the individual responsible for asset-stripping the Milwaukee Road which

his Northwest Industries owns.

At this point, there can be no doubt that if the First Penn's of the U.S. banking system go belly side up, the other smaller regional banks can't be far behind. This is the intention of the giant New York banks which encouraged the passage of the Depository Institution Deregulation Act of 1980, which calls for "survival of the fittest" deregulation warfare between banks. In depression conditions, this always means that the biggest with the best connections to the City of London come out on top. In addition to the already passed banking law, therefore, Citibank's Walter Wriston, who called for "streamlining the banking system" in congressional testimony this month, has supported an emergency FDIC bill, now sponsored by House Banking Committee chairman Reuss and his Senate counterpart Proxmire, to allow interstate banking, and undo the McFadden Act which forbids such interstate banking.

The granting of interstate banking is just the clearance Citibank needs to begin its own reorganization of the U.S. banking system by gobbling up the failures produced by Volcker's depression. New York's Citibank already has banks to spring into operation: it owns a $1 billion bank in Miami under Edge Act laws; a South Dakota Bank; an option to buy a Chicago bank; and 400 credit card offices in 40 states, which could start doing banking functions if permission were granted.

The bank reorganization has very high stakes. "The First Penn bail-out was just a test-case," said Richard Wanlin, the emergency coordinator at the Controller of the Currency office at the U.S. Treasury. Wanlin is the go-between the Controller of the Currency's office and the crisis management Federal Emergency Management Agency (FEMA), which is running a top-down reorganization of the economy. Wanlin is also connected with the Federal Financial Institutions Examination Council.

This council was set up in March 1979 deriving power from the Financial Institutions Regulatory and Interest Rate Control Act (PL 95/630) and its current chairman is Comptroller of the Currency, John Heiman, who is Wanlin's boss. "We are putting together powers that will bring the banking reform to a high point," he added. "Look at the emergency powers that we have. We can use Emergency Banking Regulation #1, which was passed in late 1962 during the Cuban missile crisis. Let us say there was a war between Iraq and Iran or the south is bombed. Under this regulation, we can merge banks, shift funds, do whatever is necessary."

Wanlin added that he was in Alabama during the floods there last year, when FEMA was there supposedly to help flood control. "While we were there we ran simulated tests on how to run the Birmingham banks and merge them after nuclear attack." When asked whether his work on flood control was incidental, Wanlin responded quickly "of course."

Argentina's Friedmanite bank collapse

by Mark Sonnenblick

The chain-letter collapse of Argentina's financial institutions could have major ramifications for the international banking system.

On April 25, the Navy component of the Argentine military government forced the central bank to intervene in three banks which were rapidly going under. Banco de los Andes, the largest private bank in the country, was among them.

The current panic was triggered by the March 29 announcement that the central bank was liquidating Argentina's number two bank, Banco de Intercambio Regional. As it became clear that most of the banks which had engaged in a whirlwind of speculation had their portfolios filled with bad debts of clients they had helped to bankrupt, the run began. Depositors lined up for blocks to move their funds from the local banks to less vulnerable state and foreign banks. Some banks reportedly lost 75 percent of their deposit base in a month.

Pressures from military men, many of whom had substantial stakes in the crumbling banks, forced the government to scrap its doctrinaire "laissez-faire" attitude by which the "unfit" would be allowed to die. Just to try to control the pace of the banking collapse, the central bank last week gave peso depositors full FDIC-type insurance and advanced $1 billion in emergency funds to the stricken banks. Despite the bail-out operation (which is likely to cost the austerity-ridden federal government up to $4 billion), most Argentines and the respected IBCA Banking Analysis in London expect several dozen other institutions to fold in short order.

At least one uninsured credit union, with 35,000 wheat industry employee members, had failed to gain cash to meet withdrawal demand as a result of its funds being tied up in the liquidated B.I.R. banks and depositors whose money is locked into closed banks are dumping their holdings on the stock market at any price, resulting in stock prices plummeting 30-50 percent over the past six weeks.

Deregulation and bust

Argentina's banking collapse was caused by precisely the same kind of Friedmanite "deregulation" policies exemplified by Wisconsin Rep. Henry Reuss's Banking