

Banking by Kathy Burdman

FEMA tutors the managers

The crisis agency is already guiding credit, and looking forward to panic.

The Federal Emergency Management Agency (FEMA) has announced a nationwide series of banking conferences on the theme "Emergency Management for Lenders." Officials of every major bank in the United States will be briefed on FEMA's plans to restructure the economy in a crisis.

The first of the series will be held Sept. 21-23 for the Western states in Boulder, Colorado. Invited are the leading commercial and savings banks of the 13 states, the state banking federations and the American Bankers Association and U.S. Savings and Loan League.

FEMA's emergency plans include banking programs under conditions of a limited nuclear war under the Carter administration's new Presidential Directive 59 military doctrine. There are also blueprints for managing a financial panic triggered by a political crisis in the Persian Gulf or a Third World debt crisis. "The current situation on the LDC debt front is such that we have to be prepared for any and all purely financial crises, not just natural disaster or war-related crises," a FEMA spokesman said.

FEMA, the federal agency now charged with coordinating federal response to all emergencies, was established by executive order by President Carter, without any oversight by Congress, just in time to manage the Three Mile Island nuclear sabotage in the spring of 1979.

Last November it secretly managed the freeze of Iran's \$12 billion assets in U.S. banks. That freeze almost created a world financial crisis.

FEMA director John Macy has evolved a new concept of banking for today's emergency-prone environment: don't lend wherever emergencies may appear. The first day's lead panel on "Hazard Mitigation" was conceived of in a discussion between Macy and the conference cosponsor, University of Colorado Natural Hazard Center Director Gilbert White last year. "They agreed," FEMA sources said, "that the key to reducing exposure to risk is having investors and lenders make more prudent investment decisions by being fully informed about hazards. Then they can either at least make more informed investments, or better, not invest in those areas at all."

This extremely broad concept has already been applied to the case of earthquake-prone areas of the U.S. West Coast and flood plains of the Midwest, where FEMA has been advising bankers not to make mortgage loans to "foolish people who insist on living in disaster areas," as one source put it.

The agency, in this case FEMA, which shapes these criteria could have undue influence on where credit is allocated in this country without any emergency. Indeed, "if the banks like the approach, we will try to get each bank to institute in-house training programs."

FEMA financial specialist Joseph Russo's panel on "National Security Issues for Lenders" will broaden the definition of "disaster-prone" to include most of the U.S. It will deal with "economic and financial aspects of banking in a limited war situation, and in the final situation of a nuclear attack against the U.S.," Russo said this week in an interview. Under the new PD 59 doctrine of "counterforce," "limited war could include a nuclear strike elsewhere in the world" by the U.S., Russo said.

Russo stated that under the National Security Act of 1947, FEMA has "all the residual powers of our predecessor agencies to make full plans for all emergency banking measures." Russo said plans for the following "could be triggered by the limited war scenario":

- Credit controls: "We have full plans for sharing of loss and allocating credit through the economy once the President invokes the Credit Control Act," Russo said. "We would oversee the equitable distribution of credit resources in the banking system by priority."

- Foreign asset freezes: "We could freeze the assets of any other country, including those of a defaulting Third World country which threatened the U.S. banking system."

- Foreign exchange controls: "We have full plans for whatever foreign exchange controls are necessary to protect the dollar in an emergency."

- Wage/price controls: "The President might have to go to Congress for authorization, but as to the emergency plans, we have them ready for across-the-board wage/price controls."