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**Banking** Kathy Burdman

# Conti nationalization only the first

*Manufacturers Hanover, Chemical Bank, and scores of S&Ls and regional banks are also about to go.*

Continental Illinois Bank was effectively nationalized on July 26. The U.S Federal Deposit Insurance Corporation (FDIC) bought $5.1 billion of Conti's bad loans, took on another $3.5 billion of the Federal Reserve's loans to Conti, took over 80% of the bank's stock, and replaced top management, FDIC Chairman William Isaacs announced in a Washington press conference. "Continental top management and shareholders will be treated as if the bank had collapsed," he said.

Conti's shareholders, whose stock has dropped from $35 a share to $3.50, will now receive only 20% of whatever the bank earns, if anything, in dividends. The FDIC will probably run an IMF-style austerity regime, keeping tight credit in the Midwest region. It is also committed to an infinite bailout. "If for any reason this permanent aid package should prove to be insufficient, the FDIC will commit whatever additional capital or other forms of assistance that may be required," Isaac said.

But if the British and Swiss Trilateral bankers who pulled over $15 billion in deposits out of Conti want to shut down the bank, a further deposit run is still possible. Current Conti Chairman David G. Taylor told reporters July 26 that Conti's deposits are still unstable. "It will take a number of quarters" before Conti knows whether the run is over, he stated.

The FDIC has placed top Trilateralist John Swearingen, retired chairman of Standard Oil of Indiana, and Chase Manhattan vice chairman Willard Butcher, head of the Ditchley bank creditors' cartel, as chairman and vice chairman of Conti—both Rockefeller stooges.

FDIC president Isaac told the press July 26 that the government had to bail out Conti because otherwise over 2,100 small banks throughout the Midwest with over $6 billion deposited in Conti would have collapsed as well. "You would have had scores of small bank failures if Continental Illinois had been handled differently," he said.

Worse, the Conti bailout is trying to hide the bad Latin American loans of all large U.S. banks. Half a dozen large U.S. banks such as Chemical Bank and Manufacturers Hanover have been temporarily saved from having to declare their Latin loans to be bad, by a special provision of the Conti bailout.

Technically, Conti was separated into two banks, a "bad bank" with Conti's bad domestic U.S. oil and real estate loans, which the FDIC bought out, and a "good bank," with Conti's remaining loans. But the "good bank" contains all of Conti's rotten Latin American and other international loans! If the FDIC had forced their true value (none) to be known, a score of large U.S. banks would have had to write off their Latin debt and go under.

But this is just the beginning of the bailout. America's 5,000 savings and loans (S&Ls) are giving the big money-center banks a run for who is first into bankruptcy. Fierce competition for deposits at rising interest rates may force numerous thrift institutions into liquidation before the end of August.

In May, *EIR* quoted the warning of the Swiss newspaper *Neue Zuercher Zeitung* concerning the S&Ls: "The Continental Illinois affair has led to a vanishing of confidence in the financial system. . . . Consequences are not yet calculable. . . . In case interest rates grow higher—new problems with the banks will be coming. *But much more worrisome* [emphasis in original] than the commercial banks and the savings banks is the situation with the Savings & Loans Institutions, whose balance sheets are insured by the Federal S&L Insurance Corp (FSLIC). The means of the FSLIC are much smaller than those of the FDIC at $6.42 billion, while this sector must reckon with proportionately far higher losses. . . ."

Since then, S&L stocks have fallen even more sharply than bank stocks, 27.2% in the year to July 25, versus a 17.7% average fall for New York commercial bank shares. Financial Corporation of America (FCA), the largest thrift, has taken the worst beating on the market, dropping by 54.3% in the year to date.

According to sources at FCA, the FCA is suffering a massive deposit run, as Conti did in the early stages. FCA chief Charles Knapp has just hired 400 salesman with a $2 to $4 million per month quota to halt the run, raising deposits in the form of Certificates of Deposit from large institutions. Knapp is willing to pay an effective 13.65% for three-month money, about a percentage point more than the commercial banks pay for small CDs, and half a percent more than the top banks are paying for six-month money in London. Otherwise, the FCA is reportedly considering exotic methods to raise longer-term funds, e.g., mortgaging its 4.9% share of American Express in the form of warrants attached to debentures.



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