Banking by John Hoefle

Bush's 'December Surprise'

The FDIC is expecting a rash of bank closings to hit right after the November elections.

The Bush administration is preparing a "December Surprise" for the U.S. population, by attempting to postpone the next wave of big bank failures until after the November elections. The Federal Deposit Insurance Corp. (FDIC), the banks, and the savings and loans (S&Ls) are all bankrupt, and the S&L bailout is again out of funds. Better a nasty surprise in December than before the election, the administration figures.

"Whoever the next U.S. President is, he will confront a 'December Surprise,'" a European banking source told *EIR*. "Just as Bush was hit by the postponed S&L crisis in the first weeks after his election in 1988, this time the next President will be forced to grapple with the far more serious issue of the entire commercial banking system. Don't be misled by recent quarterly profit improvements from Chase Manhattan, etc. This is being politically massaged as part of the Bush administration's 'cease-fire' on regulation. Regulators are being told to lay off forcing banks to write off the bad real estate on their books. It's simply being ignored until after November. Then the dam will start to break. U.K. and other European investment managers are getting out of the United States as quickly as they are able."

There is no question that the FDIC has slowed the pace of bank closings in this election year. For 1992, the FDIC has projected that banks with $80 billion in assets would be closed; thus far, it has closed banks with only $22 billion in assets, meaning that three-quarters of all bank failures, by assets, are expected to occur during the rest of the year. One can safely assume that the bulk of those closures will occur after Nov. 3.

FDIC chairman William Taylor, in a speech to the Iowa Independent Bankers July 17, denied that the FDIC has slowed the pace of closings due to the election, even while admitting that a rash of bank failures is expected at the end of the year.

The major factor slowing the pace of bank failures, Taylor said, has been the rapid dropping of interest rates by the Federal Reserve, which most recently dropped the discount rate to 3%. "Low interest rates may make things look better, but they will not sustain unsound institutions," Taylor said. "There a number of banks that won't survive.

"I'm here to tell you that bank failures have indeed been delayed and perhaps a few avoided by low interest rates and other factors. But there is indeed been no effort by the agencies I know to delay the closure of insolvent banks."

Under the terms of the FDIC Improvement Act of 1991, federal banking regulators have until Dec. 19 to put a rule on the books authorizing regulators to close any bank whose core capital-to-assets ratio falls below 2%. Once a bank is found to be in violation of the 2% standard, it will be closed within 90 days unless it finds additional capital.

Taylor said that about 80 banks, representing $25-30 billion in assets, already fail to meet the new standards, and estimated that banks with an additional $15 billion in deposits will slip below that threshold by December. "The December Surprise is like the surprise that comes down the chimney at the end of the year. It may be a surprise to some, but not to those who have been around," Taylor said.

As of March 31, according to the FDIC *Quarterly Banking Profile,* there were 981 commercial banks with assets of $535 billion on the agency's "problem list." That compares to 1,016 banks with assets of $528 billion at the end of 1991.

While the number of problem banks on the list peaked at 1,559 at the end of 1987, the assets of the troubled banks is on the rise. In 1985, the 1,098 banks on the list had $174 billion in assets. The 1,457 problem list banks in 1986 had $286 billion in assets, and the 1,559 banks on the list in 1987 had assets of $329 billion.

Both figures decreased in 1988, with 1,394 problem banks and $304 billion in assets, and in 1989, with 1,092 banks and $188 billion in assets. These decreases marked the end of the tidal wave of failures which struck Texas, but did not indicate that the crisis was over.

By the end of 1990, the problem list contained 1,012 banks—the smallest number in more than five years—but the assets of those banks were $342 billion. The number of problem banks grew by only four in 1991, but the assets of the banks on the list jumped by $186 billion. During the first quarter of 1992, the number of banks on the problem list declined by 35, but the assets rose by over $7 billion.

With larger banks failing, even Taylor was forced to concede that the $70 billion authorized last year for the bank bailout may not be enough. Asked what the FDIC needed to survive, he replied, "We need tenants to fill vacant office buildings." But in the current depression, that's not going to happen.

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