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Banking by John Hoefle

Fed calls for bank deregulation

Slipping back into the Bush-era mode, Greenspan wants freedom for banks to dream up more profit scams.

The Clinton administration signalled its intention to keep the banking system and the derivatives market afloat, with the mid-February approval by Deputy Treasury Secretary Roger Altman of a plan to ease some of the so-called regulatory burdens on banks. By siding with the parasitic financial speculators rather than shutting them down, the administration is foreclosing its one hope of raising the country out of the depression.

The policy of the Clinton administration toward the banks thus far, would seem essentially to be a continuation of the Bush policy of doing everything possible to pump up the speculative bubble.

Under the administration's plan, new procedures will be put into place which would allow banks to more easily challenge the conclusions of federal bank examiners, would loosen the standards for "character loans"—loans based upon the applicant's character instead of just his financial statement—and would write new guidelines reducing the liabilities faced by bank officers and directors.

The claim, made repeatedly by bankers and federal bank regulators, that Congress and "overzealous" federal bank examiners have imposed an unjustified "regulatory burden" on the banks, is ludicrous. It is also a deliberate lie, designed to cover up a massive covert bailout of the banking system, through looting the taxpayers.

"The regulatory burden on banks is large and growing," Federal Reserve Board Governor John LaWare, speaking in his capacity as chairman of the Federal Financial Institutions Examination Council (FFIEC), told the House Banking Committee's financial institutions subcommittee Feb. 18. "Banking institutions serve a vital role in the U.S. economy," LaWare said. "The regulatory burden which we have imposed, however, may now threaten their role. . . . We must be careful not to constrain our banking system."

The FFIEC, a joint venture of the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corp., and the Office of Thrift Supervision, has compiled a list of some 60 administrative measures which comprise an "important first step" in reducing regulatory burden; but "legislative changes are required . . . to reduce regulatory burden further," LaWare said.

The regulatory burden line is also being pushed by Federal Reserve Board Chairman Alan Greenspan, who told the House Banking Committee's subcommittee on economic growth and credit formation Feb. 23, that "regulatory costs" were "inhibiting" banks for making business loans. Greenspan said he hoped "we will see this psychological problem unwinding."

But characterizing a depression as a psychological problem won't make it go away, and neither will blaming the messenger, which is what the attack on bank examiners represents. By opening up the examination appeals process, the Clinton administration is continuing the Bush policy of forcing bank examiners to cover up the bankruptcy of the U.S. banking system by filing fraudulent reports.

The result of such a policy is that the examination process has become a sham, in which the government essentially rubber-stamps the banks' phony balance sheets. Most people would call this collusion. If there is a regulatory burden being placed, it is a burden on the backs of the taxpayers who will ultimately pay the price for this fraud.

The General Accounting Office (GAO), in a study on the bank examination process released Feb. 16, determined that "the examinations were too limited to fully identify and determine the deficiencies affecting [bank] safety and soundness."

"The examinations process for banks and thrifts has fundamental flaws which impede the achievement of the basic examination objective—to determine the safety and soundness of depository institutions and to identify and follow up on areas requiring corrective action," Comptroller General Charles Bowsher, head of the GAO, told the House Banking Committee Feb. 16.

"The federal banking regulators have no reliable evidence as to what is happening in the nation's banks and thrifts," responded House Banking Committee Chairman Henry B. Gonzalez (D-Tex.).

So if the regulatory agencies are already doing everything they can to prop up the insolvent banking system, then why this hue and cry about a nonexistent regulatory burden?

The answer is that, under the guise of relieving this alleged burden, federal regulators are planning to massively deregulate the banking sector. With their reduced liabilities, bankers will be free to speculate in ways which the S&L bandits never dreamed of—and with the new character loans, you can bet that a whole host of the same old characters will suddenly qualify for new loans.

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