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Just the beginning

Non-performing loans held by U.S. banks raise tough questions, as the Bank of America case shows.

The officially listed non-performing loans of major U.S. banks rose sharply in the third quarter of this year, but this is only the beginning, according to a study of U.S. lending policy soon to be released by *EIR*.

Total non-performing loans, both foreign and domestic, of the top 18 banks in the country rose to some $20 billion officially reported at the end of September, from about $18 billion at the end of June, according to my estimates based on a study of 16 banks by Warburg-Parisbas-Becker bank analyst George Salem.

Almost all of the $2 billion rise in the quarter is due to loans being officially declared non-performing in Ibero-America, most banks admit.

With the exception of Citibank and Bank of America, however, most banks do not release data on how many of their bad loans are domestic and how many are foreign.

Based on private estimates, Mr. Salem believes that most banks are reporting an average of 60 percent domestic to 40 percent foreign.

Out of the $20 billion total, that would mean the top 18 banks have at least some $8 billion in bad foreign loans to which they are officially admitting in reports to regulators, and of which most is to Ibero-America.

"Non-performing" means that a loan has not had any interest payments made upon it for 90 days or more as of the end of the quarter. Under current accounting laws of the United States, however, this does not mean that the full principal value of $20 billion in loans is going to be written off. It simply means that the offending banks are not allowed to declare any interest on that amount as if it were income for the quarter.

A declaration of $20 billion or so in non-performing loans for the third quarter works out to a loan in income of $20 billion times 13 percent average rates divided by four quarters per year, or a grand total of only $650 million in losses for all of the top 18 banks as a whole. Spread amongst them, it wasn't exactly enough to blow the whistle on Walter Wriston.

But even these paltry official numbers are beginning to point up the real picture, and what emerges is actual near-bankruptcy of the U.S. banking system.

First of all, one bank analyst I know estimates, U.S. banks now hold at least $100 billion in Ibero-American loans, with another $150-$200 billion held by European and Japanese banks, and another $50 billion held by governments in the North and non-bank corporations. Asked privately how much of that is non-performing at the moment, he said: "All of it." The top 18 banks in the country would hold about $70 billion of that bad Ibero-American debt, he added.

Generously estimated, those same top 18 banks can't have more than about $70 billion in capital amongst them; which is to say, if non-performing loans were recognized as fully "substandard" and written of, the nation's top banks would be technically bankrupt at this very moment.

Secondly, even the official figures "are going to get a lot worse in the fourth quarter," a Chicago banker warned me the week of Nov. 20. "During the third quarter most banks actually declared minimal losses. Brazil, Argentina, and Mexico all made tiny payments to make it look like they were not 90 days behind. Only Venezuelan paper had real losses taken upon it. But at this point the Brazilian and other loans have got to go into the barrel."

Bank of America in particular is trying to call the question on the bad loans, evidently in hopes of forcing a general "new Bretton Woods" type reorganization of the world debt system. While Citibank is reporting only $2.6 billion in bad loans for the third quarter, for example, Bank of America openly reported a total of over $5 billion. Bank of America is reporting foreign bad loans for the quarter of some $2.3 billion, compared to Citibank's report of only $2 billion foreign non-performing loans. Citibank is $10 billion larger than Bank of America in total size.

Bank of America vice-chairman William Bolin and adviser Jorge del Canto have been the leading advocates in U.S. commercial banking of a top-down reorganization of the bankrupt Third World debt structure. Recently, Bank of America spokesmen have been behind a plan to turn the non-performing dollar loans to Ibero-America into "blocked accounts" in local currency as a way of decoupling Ibero-America from the world banking system (see *EIR*, Nov. 29).

Is the California giant trying to force other banks to own up to their losses, in order to get its new monetary order?

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