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Texas banks burst insurance safety net

by Ron Bunnell

On March 17 the Federal Deposit Insurance Corporation pumped $1 billion into First RepublicBank, the largest bank company in Texas. Without the federal bailout, it would have collapsed. A mere three weeks earlier, on Feb. 24, both the U.S. Comptroller of the Currency, Mr. Robert Clarke, and a bank spokesman were quoted internationally denying any such bailout was in the offing. Declaring that its audit of First RepublicBank had been planned for months, Mr. Clarke "denied rumors that a study of the $33 billion bank's books being conducted by his bank examiners foreshadowed a government-backed rescue or forced merger" at a Washington news conference. Clarke further complained, "It concerns me that simply because we have examiners at a bank, its financial health is questioned."

When former Comptroller of the Currency, John G. Heimann, was reassuringly quoted in the March 17 *New York Times* saying, "I think most people agree that the Texas situation does not endanger the FDIC," it was enough to start brave men worrying.

Like a modern-day version of the "Emperor's New Clothes," the Federal Deposit Insurance Corporation (FDIC) is being presented to the public as a strong, solvent insurance fund with a net worth of over $18.2 billion. In reality it is well on its way toward breaking its previous record for bank failures—and that record was only set last year. The combined market value of the top seven Texas banks has dropped 90.3% over the past two years. More ominous is that this year the big banks that the FDIC tried to simply prop up last year will go. In fact, some already have.

On March 10, three more Houston-area banks failed, bringing the total number of bank failures in Texas in 1988 to 15, and to 37 nationally. Eight of the 15 failed Texas banks are in the metropolitan Houston area. The latest three were all declared insolvent after having been under state supervision since October 1987. In one instance, local radio stations on March 13, a Sunday, were warning Friendswood depositors that if they did not get to the bank by 3:00 p.m. that same day to pick up their FDIC payout, they would have to go through the federal bureaucracy to get it.

By March 15, things had openly gone out of control, with three of Texas's largest banking institutions either failing outright, or just inches away. First RepublicBank of Dallas had been forced to go begging to the FDIC for a bailout of $4.9 billion, after the bank couldn't check depositor runs. The FDIC-arranged tentative bailout of First City Bancorp of Texas is coming apart at the seams. A. Robert Abboud, former CEO of First Chicago and part of the Harriman wing of the Democratic Party, is running into resistance from the shareholders, who have so far refused to sell their long-term debt to Abboud and his group at discounts only dreamed of by the Third World, 35-45¢ on the dollar. This is below the price at which the bonds are trading. Abboud has demanded that 90% of all shares be tendered before he would be willing to take over First City Bancorp. Though the FDIC claims it is only putting up some $1 billion for this bailout, with Abboud's group putting up $500 million, informed sources say the FDIC's contribution will be closer to the $4 billion First RepublicBank is carrying in non-performing assets if this illusive bailout ever comes off at all.

On top of this, MCorp, one of Texas's largest and shakiest banking concerns, is trying to raise money to spin off a bank to handle its problem loans without FDIC help, by selling a data-processing unit and through a private stock offering. Its chances of successfully restructuring itself are as good as the proverbial snowball in hell—and it is close to going under officially, as well. These three banking institutions alone could vacuum out approximately $13 billion from FDIC.

Bailouts from taxpayers' pockets

The largest Texas independent banking concern, First RepublicBank Corp., ran to the FDIC March 15 pleading for a bailout right after it was leaked that it was about to receive an "E" rating—the lowest bank rating, technical bankruptcy from London's International Bank Credit Analysts. The *Washington Post* quoted Gerald W. Fronterhouse, chairman and chief executive officer of the bank saying "the decision to approach the FDIC is, in our judgment, important to providing a stable environment for First RepublicBank's customers." First RepublicBank Corp., the 13th largest bank holding company in the United States, is itself the result of a FDIC-approved merger last year of Republic Bank Corp. and InterFirst Corp. The new bank lost $656 million in 1987, and will lose an estimated $450 million this year, mostly due to bad real estate loans.

On March 2, the *Wall Street Journal* cited a report put out by the Dallas Federal Reserve, that First RepublicBank was almost pushed over the edge by a previously reported move by Keefe, Bruyette and Woods, Inc., a New York investment banking firm that rates large deposit certificates, to lower its rating of First RepublicBank's certificates to its lowest grade. First RepublicBank's average deposits shrank by almost $1 billion in the three weeks since Feb. 3, and they have lost at least that much in other branches of their operations as "some banks that use First RepublicBank to process checks in the Southwest say they have moved at least some

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of their business either to other banks or the Federal Reserve Bank of Dallas, fearing uninsured losses or processing disruptions should First RepublicBank require a federal bailout."

On March 9 the *Wall Street Journal* noted that the Dallas Federal Reserve Bank "abruptly discontinued issuing weekly financial reports" after issuing the report about First RepublicBank of Dallas. First RepublicBank admits it asked the Fed to stop issuing the report on itself and six other huge Texas banks, three in Dallas and three in Fort Worth. The Fed claims that it stopped issuing the report, which it has issued weekly for years, because "all participating financial institutions have requested that we no longer provide this service."

Industry analysts, such as James McDermott of Keefe, Bruyette and Woods, told the *New York Times*, "this is a year of big hits for the FDIC." But the big hits aren't the FDIC's only problem. Last year's record 184 bank failures cost the FDIC some $3 million in insurance earnings and interest income.

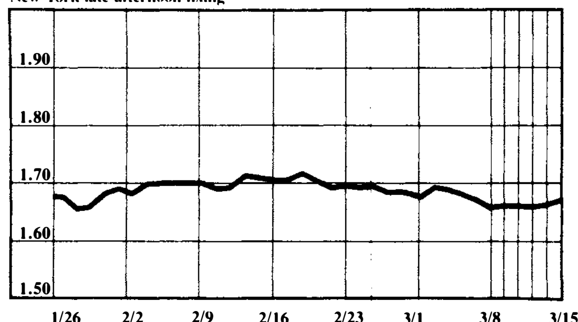
The Texas situation is, admittedly, the most serious in the country, with both the majority of banks as well as savings and loans threatening to go under because the fallen oil prices no longer buttress up either oil industry or real estate prices. But its problems are only an advanced stage of what is happening to the entire U.S. banking industry. The Feb. 2 *Wall Street Journal* let the ordinary investor know, probably too late, what the big investment institutions have been doing for the past month—they have been dumping their entire portfolio of money-center bank debt securities. This dumping has pushed some of the debt of the biggest names in banking to the levels of junk bonds. Trading in some of these banks' paper has almost ground to a halt as buyers become scarce, and those who didn't know enough to sell before now are reluctant to sell since it would mean taking a huge financial loss. On Feb. 18 the *Journal* reported that "Moody's Investors Service Inc., in a sweeping downgrade of the creditworthiness of money-center banks, lowered credit ratings for eight major banking concerns including J.P. Morgan and Co., the last major triple-A-rated U.S. bank holding company."

Now some industry people seem to be convinced that the banking industry is so strong that it should support the thrifts. With a straight face they suggest that the Federal Deposit Insurance Corporation and the Federal Savings and Loans Insurance Corporation be combined so that the "solvent" banking industry can prop up the savings and loans. *EIR* warned when FSLIC was recapitalized some seven months ago for $10.8 billion, which was supposed to be enough money to last for three years, that it would not be nearly enough. Now industry, regulators, and financial experts are formulating contingency plans for a second bailout which may come as early as later this year—and out of taxpayers' pockets directly.

Currency Rates

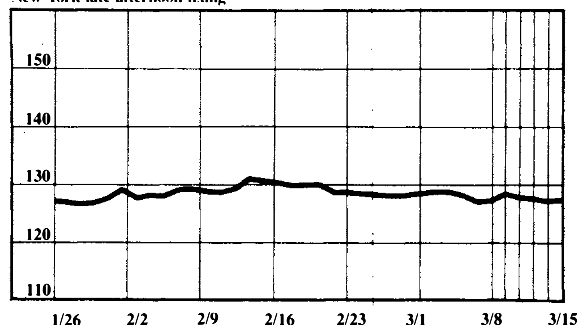
The dollar in deutschemarks

New York late afternoon fixing



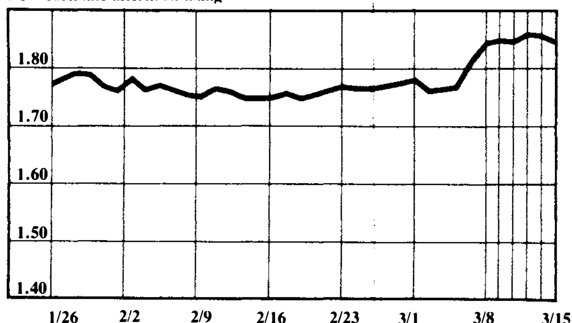
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing