A bad fourth quarter

The year-end figures for 1989 show the banking collapse picked up speed, and no end is in sight.

The accelerating collapse of the nation's banking system was further demonstrated by the fourth-quarter results recently released by federal regulators.

For all of 1989, according to Federal Deposit Insurance Corporation statistics, the nation's banks earned an aggregate $16.3 billion, down 34% from the $24.8 billion they earned in 1988. While a drop of over one-third is incredible, that figure—as high as it is—is still deceptively low. For the year, banks added $30 billion to their loan loss reserves—nearly twice the 1988 figure—and wrote off another $22 billion of loans, meaning that their admitted losses were greater than their reported profits. And that's only for the loans they *admit* are bad. It does not include the billions more of bad loans which have yet to be conceded.

Five of the ten largest banks in the country—Chase Manhattan, Morgan Guaranty, Manufacturers Hanover, Bankers Trust, and Chemical, all of New York—lost money last year, largely as a result of increasing their reserves for Third World loan losses. Write-offs of foreign loans totaled $7.6 billion in 1989, compared to $5.5 billion in 1988. Most of these write-offs occurred in the third quarter.

The FDIC's statistics purport to show that the crisis is being contained. A smaller number of banks, 11.6%, recorded losses in 1989, compared to 14.6% in 1988 and 20.7% in 1986, the FDIC reported. The total number of banks fell to 12,700 in 1989, down from a 1984 peak of almost 15,000. The number of banks of the FDIC's "problem" list dropped to 1,093 at the end of 1989—the smallest number since 1984—from 1,394 at the end of 1988, mainly because the worst banks from the previous wave of collapse have already either failed or been acquired, or are too large to be listed as problems. Moreover, whereas Texas was a unit banking state where even the big holding companies owned dozens of individual banks, most states—including California, New York, and the New England states, have branch banking systems. Thus, whereas a First RepublicBank of Texas would show up as some 70 troubled banks, a Bank of New England would show up as a mere handful. Same trouble, different count.

Total bank assets stood at $3.3 trillion at the end of 1989, with real estate loan growth accounting for half of the $168 billion increase from the previous year. That means that one out of every two dollars in new loans went into the already-deflating real estate sector, an ominous sign of trouble to come.

The inherent danger in this rush to real estate is shown by the increasing rate at which real estate loans are going bad. "Non-current" real estate loans—those loans that are 90 days or more past due or for which the banks aren't earning interest—doubled to 3.8% of all real estate loans in the Northeast in 1989, compared to 1.89% in 1988. In the Southeast, non-current real estate loans accounted for 1.8% of all real estate loans at the end of 1989, compared to 1.38% at the end of 1988. In the Southwest, where the real estate bubble has already popped, non-current real estate loans stood at 7.76% at the end of 1989, down from 8.21% at the end of 1988 but still dangerously high.

The fourth quarter was a disaster in its own right, as banks managed to turn a mere $2.7 billion profit, a 56% drop over the $6.1 billion in profits from the fourth quarter of 1988. While it was, in terms of net profit, not as bad as the third quarter's $744 million loss, it was worse in many respects. The nation's banks set aside a record $8.4 billion as reserves for domestic loan losses in the quarter, mainly due to bad real estate and consumer credit loans. Total additions to loan loss reserves, including provisions for foreign loan losses, were nearly $10 billion for the quarter. Total write-offs for the quarter were $9.2 billion, over three times the nominal profit.

The bad news was not limited to commercial banks, either, as the savings and loan system had a terrible year, too. Depositors withdrew $73.6 billion more from S&Ls than they put in in 1989, according to statistics released recently by the Office of Thrift Supervision. However, thanks to redeposited interest payments, the total on deposit fell by only $16 billion. Depositors withdrew a net $8.8 billion in December, the 18th month of the past 19 in which net deposits dropped.

Thanks to the failure of several thrifts with large junk bond holdings, the Resolution Trust Corp. now holds some $4 billion in junk bonds. The RTC is preparing to sell these bonds, according to RTC chairman William Seidman, who wisely declined to speculate on who would want to buy them.

All in all, 1989 was a disaster for the nation's banks and thrifts. Unfortunately, compared to 1990, it will soon be considered "the good old days."