Trump empire totters, with banks not far behind

by John Hoefle

The looming bankruptcy of billionaire junk real estate financier Donald Trump has significance well beyond the pleasure one takes in the self-destruction of one of the nation's icons of yuppie greed and self-aggrandizement, and serves as a prime example of the crisis facing the U.S. banking system.

Donald Trump is one of the big players in New York City's highly speculative real estate market, the most important real estate market in the nation. Trump's penchant for paying outrageous prices to collect real estate properties—he calls them "trophies"—played a key role in pumping up the New York bubble, which in turn allowed banks and investors to book billions in phantom profits.

Trump's entire business empire is based on borrowed money. The $2.3 billion in debt he is estimated to have incurred over the past decade, cause his debt payments to run as high as $250 million a year. His putative net worth has dropped dramatically. *Forbes* magazine startled many in April when it stated that Trump's net worth had dropped from $1.7 billion to a mere $500 million, taking him out of the exclusive ranks of billionaires. The *New York Post* did even better than that on June 5, citing one insider as saying that Trump was worth zero, if not less—a candidate for Chapter 11 bankruptcy.

Debt, and more debt

Trump has always been a front-man, a creation of the networks and institutions behind the scenes that loaned him the money to finance his acquisitions, rather than the self-made man he pretends to be. He got his start as a celebrity in the early 1980s as a real estate developer, turning the Commodore Hotel into the Grand Hyatt and building the Trump Tower commercial and residential complex.

In 1984, he made his first foray into the gambling world, joining with the Holiday Corp. to open what is now called the Trump Plaza casino in Atlantic City, New Jersey. In 1986, Trump floated a bond issue and bought out his partner. Trump also acquired a casino from Hilton Hotels Corp., which was denied a gaming license after they built their new Atlantic City casino. Trump also began speculating in the stock of publicly held casino companies, buying it and selling it later at substantial profits.

The timing of Trump's arrival in Atlantic City is curious. The New Jersey Casino Control Commission had undergone a "reform" when one of its original members was tainted in Abscam, the notorious, politically targeted sting operation run by the Justice Department against congressmen and others, and several applicants for gaming licenses had been rejected by the commission for possible ties to unsavory characters. As one former regulator told the *New York Times*, speaking of Trump, "He was emerging as a celebrity in New York. He was just beginning to be noticed. In our mind, he was one of the good guys. We had just disqualified two chief executives, and here was this young, vital guy." Trump's gaming license was approved after a one-day hearing.

Trump's activities became even more curious in 1987, when he bought a chunk of Resorts International from its founding family for $238 million. Resorts, which opened the first casino in Atlantic City in 1978 and was in the process of building a huge new casino, was identified in *EIR*'s book *Dope, Inc.* as a key player in the international narcotics mafia. Resorts was later acquired by Coca-Cola's Merv Griffin, but Trump wound up with the new casino and $64 million in cash, giving him three casinos in Atlantic City.

With debt payments running in the $250 million per year range, Trump needs a substantial cash flow from his investments. Unfortunately for him, the decline in New York real estate and the Atlantic City gambling business has severely cut that cash flow. According to the *New York Post,* Trump does not have the money to meet a $30 million payment on Trump Castle bonds due June 15, and is negotiating with his bankers to borrow enough funds to meet the deadline.

Banks are scrambling

That the four major Trump creditor banks—Citibank, Chase Manhattan, Manufacturers Hanover, and Bankers Trust New York—would even consider loaning the overextended playboy more money to pay off debt, shows that they are themselves in desperate straits. They are throwing money down the Trump sinkhole because they cannot afford to let him go under, due to their own insolvency.

Many of the country's largest banks, including Citicorp, Chemical, the Bank of Boston, Fleet/Norstar, and the Bank of New England, have had their credit ratings downgraded in recent weeks by Moody's Investors Services and Standard & Poor's, due to their real estate losses. Standard & Poor's banking analyst Robert Swanton has publicly stated that banks in the Mid-Atlantic corridor are facing downgrades, as the real estate crisis in the Northeast spreads down the coast. In the staid world of banking, this is the equivalent of pushing the panic button. Citicorp chairman John Reed, in a May 30 speech in London, predicted a wave of mergers among the major money center banks, and said his bank would have to sell non-strategic assets to build up its capital base.

As the depression has deepened over the past several years, and traditional industrial and manufacturing lending has dried up, the nation's banks turned increasingly to fast-buck real estate speculation to try to make up the difference. Bank real estate loans stood at $884 billion at the end of 1989—25% of the assets of the commercial banking system. In 1986, real estate loans accounted for only $496 billion—17%—of bank assets. While the amount of real estate loans nearly doubled during that period, the amount of bad real estate loans and repossessed property more than tripled, from $13.2 billion to $42.7 billion. And that's what they admit to, which is a drop in the bucket compared to actual bad real estate levels.

According to *USA Today,* a total of 540 U.S. banks have bad assets—nonperforming loans plus repossessed property—exceeding their capital plus loan loss reserves. Three hundred and sixty-one of the nation's banks have problem real estate loans and property which exceed their capital. Nationwide, bad assets were 30% of capital plus reserves. In Texas, that figure was 84%, followed by Arizona at 71%, New Hampshire at 52%, Connecticut and Massachusetts at 49%, Louisiana at 43%, and New York at 42%. Furthermore, according to the Federal Reserve Bank of New York, since 1986, charge-offs for bad loans have exceeded income at the nation's 10 big money center banks. In 1989, those 10 banks charged off $38.4 billion, compared to net income of $27.4 billion. These figures will only get worse.

The collapse of the nation's banking system will wipe out the savings and capital of millions of American citizens and businesses. Their deposits, protected in theory by the FDIC's Bank Insurance Fund, will be lost, because the FDIC simply hasn't got the money to pay them back when the banks, with $2.5 trillion in government-guaranteed deposits, collapse. Were the true extent of banking insolvency admitted, the FDIC's $14 billion insurance fund would evaporate immediately.

The Federal Reserve Board's Advisory Council met on May 3 with the governors of the Federal Reserve System, to discuss the problems of the banking system. The council, made up of the heads of 12 of the nation's major money center and regional banks, warned the Fed that not only must the banks be allowed to continue to carry bad real estate on their books, but that capital requirements must be eased. In other words, the bankers said, "We're bankrupt."

Since that meeting, U.S. bank stocks have reversed their steady decline and have begun to rise, indicating that a secret agreement has been made to overlook the losses. The Bush administration has chosen once again to ignore the problem, to try to bully its way through the crisis, rather than take effective action. This fools' paradise will not last. Reality has a way of upsetting the delusions of those who ignore it.

That reality is also hitting hard at the British real estate market and banking system. On June 7, British Land became the second large British real estate company in less than a week to announce a sharp drop in the value of its office investments. It said that its net asset value had plunged 7% in the last year, while its pretax profitability dropped 35%. Its properties in the City of London and the posh West End have declined in value 10% and 8%, respectively. Earlier the same week, Great Portland Estates announced a 17% drop in the value of its City of London office portfolio.

It didn't have to happen

None of this had to happen. *EIR* and its contributing editor Lyndon LaRouche have warned repeatedly over the years that the economic policies of the Anglo-American financial establishment were leading the nation to certain ruin. Instead of heeding this warning, the Establishment mobilized to attempt to destroy the LaRouche movement, eventually throwing LaRouche and several of his associates in jail on trumped-up charges.

As LaRouche recently said, "Many people, most people in this country, are going to suffer as a result of what the Bush administration's policy toward me is and has been." The real cost of the collapse of the banking system will not be measured in dollars and numbers of failed banks, however. It will be measured in the human misery and death it will bring to the American people, and people around the world.