Wall Street Analysts Warn: New York Banks on the Brink

NEW YORK, Oct. 29 (IPS) — The Rockefeller banking empire is teetering on the brink of catastrophic collapse, according to top Wall Street financial analysts reached here yesterday. One reputable source turned over to IPS the list of blue-ribbon New York banks that will blow on the basis of a New York City default alone. In the order they will go under, they are: Marine Midland, Chase Manhattan, and Bankers Trust. According to the source, First National City, Morgan Guaranty, and Manufacturers Hanover are **relatively** safe for the moment. The failure of three small regional banks in the last two weeks was just the foretaste of the massive bank bankruptcies to come.

This same source -- a top analyst at the internationally renowned investment bank which handles many of the Rockefeller family's personal accounts -- warned: "The crisis of confidence resulting from a New York City default at this stage of the game would be absolutely uncontrollable. The only thing that will save the banking system now is a straight Fed discount window operation" — low-cost emergency loans from the Federal Reserve to the banks **— "so bad is the cash inflow situation of the major banks."**

He confirmed that the collapse of the banks' high-profit speculative operations in the last two weeks and the snowballing of bad loans to Third World countries, REITS, tanker concerns, New York, and bankrupt corporations are now closing in on the banks from all sides.

The situation is so desperate that in his second public address in the space of a week --unprecedented in the postwar period-- David Rockefeller laid bare the tip of the iceberg of his bank's loan losses before an audience of 200 securities analysts at One Chase Manhattan Plaza yesterday. David Rockefeller's willingness to come out of the closet and reveal even one-fiftieth of his loan losses indicates the problem has passed the point where it can be concealed and that his family wants a Federal bail out of the banks or else.

Pull The Plug

Another well-placed inside banking source spelled out what the "or else" is: "The banks have not pulled the plug on the rest of the economy yet. They will see to it that there will be a holocaust before the banks allow themselves to go under." He recalled a recent conversation with a Chase Manhattan banker on the tanker loan situation — one of the boom areas of banking activity before the oil hoax bubble burst: "Even if you imagine the worst-- say that 8 years from now 70 per cent of tankers are still idled in port. If you strip down the tankers and sell off the scrap metal, then you can recover 40 per cent to 50 per cent of the original loan." Our source agreed that this banker overlooked one problem: there has to be someone left to buy the scrap metal!

Because the ruthless Rockefeller banking interests will stop at nothing to ensure that they come out on top—even of a pile of bankruptcies — the political opposition to Rockefeller must formulate a policy of containment with respect to the New York banks; cut out the cancer before it willfully spreads itself!

Meanwhile, the panic is already on, the latest issue of Money Manager reports that "scared money" is leaving New York bank CDs (deposits of $100,000 and up, the major source of cash for the New York banks) for safer regions and safer instruments such as Treasury bills, while Unilever, one of the largest multinationals in the world, speculates openly about withdrawing "several hundred million dollars" in CDs from New York banks in the current New York Magazine. On the news of President Ford's speech, U.S. bank branches in the Eurodollar market hiked up their interest rate an unprecedented half a per cent in order to attract deposits.

How It Happened

The crisis of confidence in the New York banks was precipitated by a convergence of developments: just as bad loans started popping up everywhere, the ability of the banks to hide their non-accruing assets collapsed. Starting in approximately mid-August the prestigious New York banks began to depend on high-risk gambling operations for day-to-day operating income. With the help of their friend and protector, Fed Chairman Arthur Burns, the New York banks borrowed low cost Federal funds (the excess reserves of the banking system which banks lend out among themselves on an overnight basis) and relent to the U.S. Treasury at a handsome 2 per cent profit. When this arbitrage operation fizzled — essentially because the crisis of confidence in the banking system provoked a rush into Treasuries, pushing down the rate and reducing the spread to virtually nothing--the banks moved into another riskier gamble. They borrowed Fed funds in the U.S. and made six-month interbank loans on the London-based Eurodollar market, earning a 2.5 per cent spread.

However, around Oct. 15 the banks had to pull funds back to the U.S. to shore up their liquidity in preparation for a New York City default. The banks are now borrowing one and two-month Eurodollars to be able to lend them out for six months to the shakiest banks on the market to make a measly one per cent spread. This is how desperate the banks are. The banks are betting that the one and two-month rate stays below the six-month, however the two rates are rapidly converging.