EXCLUSIVE

First Chicago Corporation: The Hot Air Bank Of The Windy City

"As the Medicis and the Fuggers would no doubt agree, if there is any common thread throughout the history of banking, it is the insidious snare of lending to sovereign governments."

William Curran, managing director,
First Chicago Ltd., London

First Chicago Corporation likes to be known as "first" in everything: the flagship bank of the Midwest, the leader of consumer banking services, pioneer of branch banking, the first in community involvement. It is also first in several other areas among the top ten bankholding companies:

— First in non-performing loans as a proportion of total loans.

— First in loan losses as a proportion of total loans.

— First in its loan reserve as a percentage of impaired assets.

In short, First Chicago is one of the most vulnerable and exposed of U.S. banks, rivalling Chase Manhattan, Bankers Trust, and the other major New York basket cases as Jimmy the Greek's odds-on favorite to be the first to file a Chapter 11 bankruptcy petition.

Table 1

First Chicago Corporation: Deposits

(MILLIONS OF DOLLARS)

	DOMESTIC DEPOSITS			OVERSEAS DEPOSITS				
	AMOUNT	INCREASE/ OR DECREASE	% CHANGE	AMOUNT	INCREASE/ OR DECREASE	% CHANGE	TOTAL DEPOSITS	% DEPOSITS OVERSEAS/ TOTAL
1965	3,849	---	-----	216	---		4,065	5.3
1966	3,994	145	3.8	465	249	115.0	4,459	11.4
1967	4,472	478	12.0	649	184	39.6	5,121	12.7
1968	4,861	389	8.7	894	245	37.8	5,755	15.5
1969	4,200	-661	-13.6	1,446	552	61.7	5,647	25.6
1970	4,587	387	9.2	1,701	235	17.6	6,289	27.1
1971	5,199	612	13.3	1,989	288	16.9	7,188	27.7
1972	6,465	1,266	24.4	2,342	353	17.7	8,807	26.6
1973	8,605	2,140	33.1	3,436	1,094	46.7	12,042	28.5
1974	9,990	1,385	16.1	5,309	1,873	54.5	15,298	34.7
1975	9,294	- 696	- 7.0	4,899	- 410	- 7.7	14,192	34.5
1976	8,305	- 989	-10.6	5,759	860	- 17.6	14,063	40.9
AVERAGE PERCENT INCREASE / YEAR 1965-1976			9.7			38.6		
AVERAGE PERCENT INCREASE / YEAR 1970-1976			14.5			25.6		

NOTE: INCLUDES CONSOLIDATED SUBSIDIARIES

Source: *Annual Reports*

Not to be outdone by the incompetence of Chase's David Rockefeller and First Pennsylvania's John Bunting, First Chicago named A. Robert Abboud as its chairman in 1974. A corpulent five-foot one-inch son of a Lebanese peasant family, Abboud has been throwing his weight around Chicago to such an extent that he is widely regarded as the laughing-stock of the Chicago banking industry. While pro-development industrialists associated with First Chicago have been clamoring for some sanity in banking operations, Bob Abboud has been busily increasing First's ties into the Rockefeller-Rothschild banking and political networks. For example, on the local level, he procured Neil Hartigan, a key political figure who was the Democratic candidate for Lt. Governor of Illinois, as President of a real estate front operation of the bank. Edwin Yeo, the former Treasury Undersecretary whose major accomplishment was to increase the worthlessness of the dollar through speculative international operations, was appointed head of the important Asset and Liability Management Committee. And to add insult to injury, Abboud has broken a long-standing bankers' rule. Instead of refraining from *open* political alignments in city politics, he became the most outspoken advocate of the recently elected mayor, Michael Bilandic, thus exposing Bilandic as the "bankers' boy" and giving wide credibility to the candidacy of the U.S. Labor Party's Gerry Rose.

First Chicago's problems, however, are merely exacerbated by the likes of Abboud and Yeo. Fundamentally, the bank is unsound — and virtually bankrupt. Like the New York banks, First Chicago has drastically shifted major proportions of its investments, deposits, and loans into international speculation. As Tables 1 and 2 show, overseas deposits since 1965 have increased from 5 percent to 40 percent of all bank deposits, while overseas loans have increased from less than 2 percent to 30 percent of all loans during the same period. The vast majority of this money represents sheer speculation on the Eurocurrency markets and, in various ways, on the commodities boom. It is money sucked out of the domestic economy to take advantage of the huge multiplier of the unregulated Eurodollar market and the (until recently) large spreads in interest differentials (see Table 3).

Table 2

First Chicago Corporation: Loans

(MILLIONS OF DOLLARS)

	DOMESTIC LOANS		OVERSEAS LOANS		TOTAL LOANS		
	AMOUNT	% CHANGE	AMOUNT	% CHANGE	AMOUNT	% CHANGE	% LOANS OVERSEAS/ TOTAL
1965	2,759	---	45	---	2,804	---	1.6
1966	2,894	4.9	75	66.7	2,969	5.8	2.5
1967	3,146	8.7	182	142.7	3,328	12.1	5.5
1968	3,434	9.2	294	61.5	3,728	12.0	7.9
1969	3,600	4.8	636	116.3	4,236	13.6	15.0
1970	3,842	6.7	685	7.7	4,527	6.9	15.1
1971	4,363	13.6	1,094	59.7	5,457	20.5	20.0
1972	5,710	30.9	1,371	25.3	7,081	29.8	19.4
1973	7,774	36.1	1,589	15.9	9,363	32.2	17.0
1974	9,409	21.0	2,984	87.8	12,393	32.4	24.1
1975	8,691	- 7.6	3,206	7.4	11,897	- 4.0	26.9
1976	8,212	- 5.5	3,508	9.4	11,720	- 1.5	29.9
AVERAGE PERCENT INCREASE / YEAR 1965-1976		11.2		54.6			
AVERAGE PERCENT INCREASE / YEAR 1970-1976		14.8		34.3			

SOURCE: ANNUAL REPORTS

Table 3

Eurodollar Yield Curve

SPREAD BETWEEN EURODOLLAR RATES

	3 MOS. VS 7 DAY	6 MOS. VS 1 MONTH	6 MOS. VS 3 MONTHS
1974 JAN.	+ .31	- .06	- .06
MARCH	+ .56	+ .12	+ .06
JUNE	+ .80	- .62	0
SEPT.	+1.06	+ .38	0
DEC.	+ .81	+ .44	0
1975 MARCH	+ .82	+1.00	+ .62
JUNE	+ .44	+1.06	+ .68
SEPT.	+1.33	+1.75	+ .81
DEC.	+ .62	+1.25	+ .82
1976 MARCH	+ .56	+1.31	+ .69
MAY	+1.00	+1.00	+ .69

SOURCE: UNITED STATES MULTINATIONAL BANKING: CURRENT AND PROSPECTIVE STRATEGIES, SALOMAN BROTHERS

Table 4

Maturity Of Liabilities Of U.S. Banks In The London Eurodollar Market Aug. 18, 1976

	% OF LIABILITIES MATURING IN	LIABILITIES AS % OF CLAIMS OF GIVEN MATURITY
LESS THAN 8 DAYS	26.0%	125%
8 DAYS TO LESS THAN 1 MTH	19.4	130
1 MTH TO LESS THAN 3 MTHS	26.4	115
3 MTHS TO LESS THAN 6 MTHS	17.0	100
6 MTHS TO LESS THAN 1 YR	6.2	93
1 YR TO LESS THAN 3 YRS	3.9	56
3 YRS AND OVER	1.0	10

SOURCE: BANK OF ENGLAND QUARTERLY BULLETIN

To take the deposits situation first (Table 1), notice that the average annual rate of increase since 1970 of overseas deposits is 10 percent higher than the comparable figure for domestic deposits. Since 1965 the difference in rates of increase is even more striking — 30 percent. 1969 was the watershed year. In that year, First Chicago Corporation — the holding company of First National Bank of Chicago — was formed; and in 1969, with domestic interest rates sky high and loan demand soft under Milton Friedman's monetarist remedies, several hundred million dollars of domestic deposits were transferred overseas. Domestic deposits at First Chicago *fell* 13.6 percent, while overseas deposits more than doubled. All in all, First Chicago had a net swing from domestic to overseas deposits of nearly $1 billion — over 10 percent of all its deposits. Note also that while domestic loans essentially stagnated that year (Table 2), overseas loans doubled, such that 1969 showed a higher rate of increase for total loans than 1968!

Although overseas loans and deposits triple and quadruple from 1970-74, the speculative real estate boom provided a temporary domestic outlet for funds. In this period, domestic loans and deposits more than doubled before sputtering out in the recession of 1974-76. In 1974 overseas deposits and loans shot up 55 percent and 88 percent respectively, maintaining the incredible 30 percent plus level of total loan and deposit increase of the 3-4 year period. But when the bottom fell out of the real estate investment trusts (REITs) and other real estate speculation, First Chicago kept right on going with overseas speculation, albeit at a slower pace. Last year saw a nearly $1 billion decline in domestic deposits and a nearly equal increase in overseas deposits — a net swing of almost $2 billion. First quarter figures for 1977 show the trend continuing.

Although bankers and investments analysts like to publicly pretend that it will always be September 1929 in the Eurocurrency markets, October is fast approaching. All the banks, including First Chicago, will not release figures on their non-performing Euro-market loans for obvious reasons. But the handwriting is on the wall. Last year First Chicago wrote off $12.5 million of its overseas loans — a 145 percent increase over 1975. Inside banking sources reported that already Zaire is in default of over $200 million to First Chicago, a major portion of its outstanding debt to the bank. With the failure of the North-South conference, the virtual default of Turkey, and the generalized impossibility of rolling over Third World debt in the third quarter, First Chicago will undoubtedly be right in the middle of the ensuing panic. As one investment analyst who deals with First Chicago said, "They have one big mess of exotic foreign loans."

First's Euromarket operations have relied on shorter and shorter-term money, with a rising percentage of borrowed funds maturing in eight days or less, paralleling those in Table 4 (see also Table 5). In the last two years, they have shed about 40 percent of their high-interest longer-term domestic business deposits — much of this being certificates of deposits — in favor of low-interest overnight federal funds purchases, which immediately go into overseas deposits and then into short-term loans or loan rollovers. The success of the whole operation depends on the interest rate spread between money loaned and money borrowed. In 1975, First Chicago played the Eurodollar roulette wheel just right negotiating shorter and shorter term international loans to take advantage of cheaper and cheaper borrowed money, and thus increasing their spread and earnings. In 1976 they began to run into trouble. As interest rates on Eurodollar loans dropped, the spread decreased from 1.60 to 1.26 percent and has held near this level through the first quarter.

The "brilliant" 1975 strategy of using short-term cheap funds, like fed funds, is now royally backfiring. To prevent a collapse, the dog must keep chasing its tail at an accelerating rate; First Chicago, like its New York counterparts (see last week's issue), has to throw more and more quick cash into the Eurodollar market to realize comparable earnings. Robert Abboud was not kidding when he wrote in the 1976 annual report:

> "...(The) International Department continue(s) to provide procedures and new technologies for corporate cash management on a world wide scale. Much depends on the speed and efficiency of the money transfer and payments mechanism in foreign jurisdictions and in the United States...The Corporation is presently in the forefront of this new and evolving technology and intends to remain there."

But First Chicago is losing the war. Since 1974 its net federal funds purchases have tripled from $1 billion to $3 billion, its domestic deposits and loans have collapsed by 17 percent and 13 percent respectively, its overseas deposits and loans have increased 10 percent and 17 percent respectively, and its international earnings fell over 50 percent (see Table 6). Any additional increase in the recent 1 percent rise in federal funds rates may even be enough to make Robert Abboud lose weight, let alone sleep. Furthermore, as documented last week, the high prime rate and low bond market rates are pulling corporate financing away from bank loans into securities markets. First Chicago has no choice but to sink or swim in the Eurodollar crap game — and it isn't swimming very well.

Table 5
First Chicago Corporation: Maturity Distribution of Loans

	DOMESTIC		OVERSEAS		TOTAL	
	1975	1976	1975	1976	1975	1976
1Yr. or Less	57.8%	61.5%	37.3%	43.6%	52.0%	56.2%
1-5 Yrs.	31.4	29.6	39.6	45.4	33.8	34.3
Over 5 Yrs.	10.8	8.9	23.1	11.0	14.2	9.5

Source: *Annual Reports*

Table 6
First Chicago Corporation: International Earnings
($ millions)

1971	1972	1973	1974	1975	1976
Net Income Before Securities gains or losses					
$4.6	$8.6	$11.0	$3.0	$35.9	$15.8
International Net Income / Net income					
7.0%	11.0%	12.0%	2.9%	34.0%	17.0%
International Gross Revenues / Total Gross Revenues					
N.A.	28.0%	29.0%	30.0%	32.0%	33.0%

Source: *Annual Report*

The Real Estate Debacle

For the past five years, international operations have grossed a rising percentage of income (Table 6), and last year's sharp drop in net income (Table 7 Column B) is in large part attributable to the shortfall in international earnings. But this increasing reliance on overseas speculation is in no small part due to the utter collapse of real estate speculation. While First Chicago refuses to divulge its good and non-performing real estate loans and related speculative ventures, and lists only a few sweeping loan categories and charge-offs, it is nevertheless, possible to get a fair idea of its incredibly rotten picture.

Several Wall Street bank analysts concur that approximately 75 percent of First Chicago's real estate loans are impaired. This would mean that *at least* 80 percent of their non REIT real estate assets are *bad*, and would include a good number of speculative commercial ventures. The figures for REITs are the only ones released in detail, however, and from the looks of these, there is no doubt why First Chicago doesn't want its full real estate story out.

Despite First Chicago's crowing that is has cleared away 28 percent of its REIT loans during the past two years and is now over the hill, two key figures indicate it still has a mountain of bad debt ahead of it (see Table 8). In 1976 the percentage of non-performing (cash basis) REIT loans to total REIT loans actually increased 2.5 percent, from 58 percent to 60.5 percent — and the average REIT interest rate sharply fell to a pitiful 3.8 percent from 5.4 percent in 1975. Of the retired REIT loans, 21 percent were written off as losses, and 20 percent involved takeover of non-profitable property that carry expenses with them. One hates to imagine how bad it is for the *unreported* real estate "assets."

Of even greater importance is the impact of the write-offs on First Chicago's net income and corporate solvency. As mentioned in the beginning of this report, First Chicago is the worst of the largest 15 banks in terms of bad investments.

—Loan losses as a proportion of total loans amounted to 2.03 percent in 1975 and 1976, far above the average of 1.29 percent for the top 15 (Table 9).

—Non-performing assets comprise the highest percentage (10.4 percent) of total loans and double the average of the top 15 (5.1 percent — see Table 10).

—Its loan loss reserve as a percent of impaired assets (8.3 percent) is the lowest of the top 15 and less than half the average of 18.5 percent (Table 11).

Table 7 — First Chicago Corporation

(MILLIONS OF DOLLARS)

	A EARNINGS BEFORE LOAN LOSS PROVISION AND SECURITIES GAINS/LOSSES	B EARNINGS* BEFORE SECURITIES GAINS/ LOSSES	C LOAN/LOSS PROVISION	D NET CHARGE-OFFS (LOAN LOSSES)	E LOAN LOSS RESERVE**
1973	114.8	91.4	23.4	17.4	77.3
1974	157.6	104.8	52.8	40.3	83.3
1975	224.0	105.5	118.5	92.9	95.8
1976	219.4	92.9	126.5	145.8	121.4
1977	-----	-----	-----	-----	102.0
CASE A: 1977	210.0	80.0	IF 130.0	IF 130.0	102.0
1978	-----	-----	-----	-----THEN	102.0
CASE B: 1977	210.0	100.0	IF 110.0	IF 130.0	102.0
1978	-----	-----	-----	-----THEN	82.0
CASE C: 1977	210.0	80.0	IF 130.0	IF 150.0	102.0
1978	-----	-----	-----	-----THEN	82.0

* COLUMN A MINUS C

** AMOUNT FOR EACH YEAR ROUGHLY EQUALS COLUMN E + C — D FOR THE PREVIOUS YEAR

NOTE: COLUMN E IS FOR BEGINNING OF YEAR

SOURCE: ANNUAL REPORT

Table 8

First Chicago Corporation: REIT Loans

($ millions)

	1975	1976
Total Loans Beginning of Year	788	693
Non-Performing (cash basis) Loans	402	343
Non-Performing / Total	**58.0%**	**60.5%**
Amount Reduced	95	126
Netcash payment	66	65
Real Estate takeover	18	26
Charge-offs	11	35
Total Loans End of Year	693	567
Average REIT Interest Rate	**5.4%**	**3.8%**

Source: *Annual Reports*

Table 9

Comparison of Net Loan Losses, 1975 and 1976

($ millions)

	1975	1976	1975-76 Total	1975-76 Loan Losses To 1976 Total Loans
Bank America	$148.6	$ 119.2	$ 267.8	.75%
Citicorp	299.4	290.9	590.3	1.44
Chase Manhattan	251.0	269.0	520.0	1.69
Manufacturers Hanover Trust	70.0	83.3	153.3	.87
J.P. Morgan	82.9	52.4	135.3	.97
Chemical N.Y.	128.2	116.1	244.3	1.70
Bankers Trust N.Y.	97.7	81.9	179.6	1.58
Continental Illinois	68.9	72.7	141.6	1.10
First Chicago	**92.9**	**145.8**	**238.7**	**2.03**
Total Top 15 Banks	1,520.2	1,531.1	3,051.3	1.29 (AVERAGE)

Source: *Loeb. Rhoades*

Table 10

Non-Performing Loans, 1976

(MILLIONS OF DOLLARS)

	NON-ACCRUAL LOANS	RENEGO-TIATED LOANS	OTHER REAL ESTATE OWNED*	TOTAL NON-PER FORMING LOANS	TOTAL LOANS	NON-PER FORMING ASSETS % OF TOTAL LOANS
BANKAMERICA	289	262	35	586	35,448	1.7
CITICORP.	1,728	303	175	2,206	40,917	5.4
CHASE MANHATTAN	1,386	325	280	1,991	30,663	6.5
MANUFACTURERS HANOVER TRUST	295	202	91	588	17,610	3.3
J.P. MORGAN	363	54	77	494	13,960	3.5
CHEMICAL N.Y.	543	467	75	1,085	14,375	7.5
BANKERS TRUST N.Y.	569	413	118	1,100	11,347	9.7
CONTINENTAL ILLINOIS	457	216	178	851	12,904	6.6
FIRST CHICAGO	976	152	96	1,224	11,720	10.4
AVERAGE OF TOP 15 BANKS						5.1

NOTE: *TAKEN OVER THROUGH FORECLOSURE, ETC., ESSENTIALLY NON-PERFORMING

SOURCE: LOEB, RHOADES

—Its loan loss provision, despite reaching a record high last year, was proportionately the third worst of the top 15 banks, at 10.3 percent, and the only one of the top 10 with losses greater than the provision (Table 11).

—Returns on assets have declined every year since at least 1971 — 30 percent in all.

Putting on his vapid Jimmy Carter grin, Robert Abbound fantasizes that First Chicago has turned the corner:

> "1976...(was) a year of consolidation and redirection...However...the results confirm that the fundamental earning power of the Corporation remains strong...We have successfully passed through a very difficult period of loan restructuring..."

Abboud is banking on sharply reduced loan losses, high spreads in the Eurodollar market, and a continuation of the real estate boomlet. What he is going to get is quite the opposite. First Chicago has consistently underestimated its loan losses for years. Last year they had to inject an emergency $12.5 million into the loan loss provision beyond the $114 million already allocated as losses exceeded estimates. This year they are praying to reduce the provision markedly. Table 7 shows why. Assuming only a modest decline of earnings before the loan loss provision, if loan losses amount to $130 million — a decrease from last year — Abboud will have the uncomfortable choice of either maintaining the loan loss reserve at approximately present levels and take a further loss in earnings (Case A), or augmenting earnings and further erode his exposed position in the reserve (Case B). If however, loan losses exceed last year's even modestly, say to $150 million, he is in real trouble (Case C). He will then take both sharp earnings and loan loss reserve cuts. Losses in excess of $150 million — as we indicate will indeed occur — will threaten the existence of the bank. As one prominent bank analyst said, "We aren't even bothering to estimate

First Chicago's earnings — who knows what the hell is going to happen to them!"

Meanwhile, little Bob Abboud continues to run all over Chicago, promoting himself as the modern version of the "Renaissance Banker." It is rather ironical that his big kick now is to promote use of the VISA credit card; one wonders if he is considering a fast exit to some third world country where, according to him, "There are no debt problems." For those bankers who know Abboud as the incompetent he really is, it is high time to write him off as a total loss and begin deliberations on Lyndon LaRouche's private development bank proposal.

Table 11

Comparisons of Loan Loss Reserves and Provisions, 1976

(MILLIONS OF DOLLARS)

	TOTAL NON-PERFORMING ASSETS	LOAN LOSS RESERVE	RESERVE AS % OF NON-PERFORMING ASSETS	LOAN LOSS PROVISION	PROVISION AS % OF NON-PERFORMING ASSETS	NET LOAN LOSS
BANKAMERICA	586	272	46.4	147.1	25.1	119.2
CITICORP.	2,206	311	14.1	305.5	13.8	290.9
CHASE MANHATTAN	1,991	324	16.1	310.2	15.6	269.0
MANUFACTURERS HANOVER TRUST	588	150	25.5	91.6	15.6	83.3
J.P. MORGAN	494	150	30.4	68.2	13.8	52.4
CHEMICAL N.Y.	1,085	157	14.5	128.0	11.8	116.1
BANKERS TRUST N.Y.	1,100	107	9.7	100.0	9.1	81.9
CONTINENTAL ILLINOIS	851	163	19.2	75.0	8.8	72.7
FIRST CHICAGO	1,224	102	8.3	126.5	10.3	145.8
AVERAGE OF TOP FIFTEEN			18.5		14.0	

SOURCE: LOEB, RHOADES