

## Banking by Kathy Burdman

### The last straw

*Volcker's new push for interstate banking may backfire right at the Fed chairman himself.*

**F**ederal Reserve Chairman Paul Volcker and Comptroller of the Currency John Heimann have announced that they will only help save the nation's savings and loans from bankruptcy as part of a new banking legislation package to set up interstate banking.

The new interstate drive, which would hand the nation's banking system over to Citibank and the other major New York and California banks, seems to have been the last straw for the U.S. League of Savings Associations. The U.S. League, which has carefully refrained from attacking Volcker, is now preparing an offensive against the Fed and its high interest rates.

The nation's savings and loans (S&Ls) face a "disaster scenario," Comptroller Heimann told the press April 14, in which a "Prolonged period of high interest rates . . . could force some to fail." He explained that while the Fed will likely keep their interest rates close to 20 percent for some time, most S&Ls are locked in to mortgages paying them about 9 percent.

The Comptroller announced that the Fed, Comptroller, Federal Home Loan Bank Board, and other regulators are therefore introducing legislation into the Senate and House Banking Committees later this month "to facilitate mergers" of failing S&Ls into other banks. The key feature of this distress sale plan is that it would allow out-of-state savings banks to buy S&Ls,

and further would allow "cross-industry" mergers in which commercial banks, both in and out of a state, could buy S&Ls.

While the McFadden Act and Douglas Amendment currently bar commercial banks from branching or buying subsidiaries across state lines, there is no such law regarding S&Ls. Legally, regulatory sources say, all it would take is a Federal Home Loan Bank Board ruling to allow one S&L to purchase another interstate, or a Fed ruling to allow a commercial bank to buy an S&L.

Volcker and Heimann want legislation enshrining the right of all banks to go interstate to buy S&Ls "as a legal foot in the door for legalization of full-fledged interstate banking," sources close to Heimann say. "Soon Citibank and other big commercial banks will then ask, 'Why can't we buy commercial banks, and have branches across state lines, too?' and they are right. Interstate banking is the wave of the future."

This would mean turning the banking system over to the "top 100" banks with the capital to buy other banks nationwide, which would then drastically cut back service to local industry, homebuilders, and consumers. Such an interstate banking reorganization would hasten America's plunge into the "postindustrial" society.

A similar law, called the Emergency Bank Acquisition Bill, was introduced last year by the Comptrol-

ler, but died in committee. Now, "Volcker and Heimann think there is enough of an S&L bankruptcy emergency to scare the new bill through," my sources say.

"We're going to play this as a bill to save the S&Ls," said one source. "We don't dare admit publicly that it's a bill for interstate banking. That might kill the bill," he said.

The Senate Banking Committee's chairman, Jake Garn (R-Utah), a foe of interstate banking who also supports the S&Ls, "will have to swallow the bill," predicted the source. "He won't be happy, but his free enterprise ideology leaves him no choice. He can't bail the S&Ls out, so he has to allow deregulation." Comptroller Heimann will present his plan before the Garn Committee in April 28 hearings.

However, the U.S. League's Executive Vice-President William B. O'Connell finds the Fed/Comptroller plan is outrageous. Mr. O'Connell this week opposed the plan on the grounds that in practice only big commercial banks would buy up S&Ls, and turn them from their tasks of local home mortgage lending, which would destroy both the S&Ls and American homebuilding. "The American financial system is based on diversification and decentralization of financial institutions," he told reporters.

"The real cause of our problems is the Federal Reserve and its high interest rates," said a source close to the U.S. League. "But we've held off attacking Chairman Volcker because we wanted to give the Reagan administration a chance. If this is their only plan to help us, we are going to come out soon with a major attack on the Fed."