Banking by Kathy Burdman

Regan in new conflict of interest?

Does the former Merrill Lynch chairman stand to gain by the cartelization of the U.S. banks?

The British-style cartelization of the U.S. banking system began Nov. 1, when the U.S. Treasury's comptroller of the currency, C. Todd Conover, told Citibank, Chase Manhattan, and 11 other large banks they could set up 30 branches in more than nine states, taking over little banks.

One of my readers charged this week that Treasury Secretary Donald Regan is covering up the bad loans of the major international banks so that they can carry out the scheme. A U.S. Senator is investigating.

Citibank will open branches in Ohio, Pennsylvania, Florida, and seven other states. Chase will open in Minnesota and Pennsylvania, Irving Trust is moving into Minnesota, New Hampshire, and Vermont, and the Mellons are moving into Ohio and Colorado. Conover said Nov. 1 that he will approve almost all of the 332 applications pending for interstate banks immediately.

Conover acted as the front man for Fed chairman Paul Volcker and his boss, Regan, who have to okay the move. Regan urged Conover to move without congressional approval. And while Volcker said on Nov. 1 that he is "reluctant" to do that, he endorsed four new banks immediately.

The Volcker regulators' action produced screams from the House and Senate banking committees and many states, who charge the new regulations were speeded up to prevent Congress and the states from writing laws against them.

"The comptroller's actions are totally unwarranted and clearly contrary to the intent of Congress," even the Senator from Mellon Bank, John Heinz (R-Pa.), complained Nov. 1. They "not only undermined the federal laws that prevent geographic expansion of banks, but also negate the states' power to determine which banks can best service its citizens." As *EIR* predicted last week, the Nov. 1 events show that Conover and Volcker will have the entire system cartelized by the time Congress reconvenes next year.

Conover had announced Oct. 15 that regulators will permit nationwide banking, which will largely develop as big New York banks take over thousands of failing domestic U.S. banks. Farm belt, oil-related, and other domestic banks on Conover's list of 797 "problem banks" will be easy prey.

Regan has a lot to gain by this cartelization scheme. First, his former company Merrill, Lynch can set up its own national bank operations under the new loopholes. More importantly, as one of my readers charged in a recent letter to Regan himself, he has been covering up the bad earnings of the largest banks, which will now try to cover those losses by stealing the business of regional bankers.

"The 10-12 largest banks in the U.S. are publishing false statements, false earnings, and paying dividends out of earnings not received," my reader wrote. "They are fooling the public, the depositors, and bank stockholders.

"You did not wake up the comptroller of the currency and have the President instruct him to have all bank examiners in the country thoroughly examine all of the big banks. If the banks are found technically bankrupt, they should cut their dividends. If irregularities are found, call the FBI and do not hesitate to cross-examine management.

"Of course you did nothing, and I know why. You would not because it would hurt you financially through your holdings in Merrill, Lynch. You would not act to deprive Merrill, Lynch of a great deal of [bank stock] business. You made decisions favorable to yourself and against the 235 million citizens who look to you for protection. You should be charged with neglect of duty and relieved of your position. . . ."

My reader has had his charges substantiated by a U.S. Senator from his state. "I have reviewed the letters that you have been writing to me and to the President," the senator wrote back. "They make a great deal of sense. I am sorry to see that the President does not appear to be reading your messages, and that neither Paul Volcker nor [FDIC chairman] William Isaac seem to be heeding your concern. Even so, I think you should keep it up, because when the house of cards eventually caves in, you will be able to say that you have been proven right."

Regan and Volcker's license to New York megabanks to eat up smaller banks providing credit to industry and agriculture helps explain why the regulators are cracking down on the small banks, while letting the New York banks' rotten Ibero-American loans go scot-free. They have forced domestic-oriented U.S. banks like Continental Illinois and dozens of smaller banks to take major losses. Conover told the American Bankers Association convention Oct. 24 that his fearless examiners are "getting even tougher" on domestic "energy, agriculture, and real-estate loans."