# More bank failures in 1988 than in all of 1987

by Joyce Fredman

Despite the efforts of the Federal Deposit Insurance Corporation (FDIC) and its chairman, William Seidman, to obfuscate the reality with falsified statistics, *EIR* can now prove that as many as 220 banks have already failed in 1988. The last official figure from the FDIC on bank failures for the year to date was 62. Is this new math, or perhaps a different number system? Unfortunately, it is simply the latest scheme by a bunch of desperate swindlers to hold on to their dwindling power.

But the wool that is being pulled over the eyes of the American public is becoming transparent. It belongs to the sheep's clothing in which George Bush and his cronies have been parading around Washington, D.C. The depositors of the banks of this country are beginning to ask—as well they should—if their money is secure, or in a sinkhole. And when the real statistics on bank failures are minimally three times those being reported, one has reason to pause. The manipulation of numbers has become so blatant and ridiculous that even the FDIC can't make up its mind.

Admittedly, it is difficult to keep track of their figures, as the criteria for exactly what constitutes a bank failure for the FDIC keep changing, as do the dates which the FDIC gives for when any particular bank has failed. This recent innovation in counting is only two years old. Prior to 1985, the FDIC had lumped all failures and "assisted transfers" into one category. Not surprising, since in essence they are failures. All an assisted transfer amounts to, is fast maneuvering to find a new buyer and credit, so that the institution does not have to appear to have failed.

When William Seidman took charge, things began to change. There are now three categories of difficulty for banks: 1) failures, 2) assisted transactions, 3) assisted banks. These dubious distinctions are completely artificial and, as shall be seen, arbitrary in application. The only purpose they serve is to allow the FDIC to report a portion of the figures (category 1) as opposed to the total. Rather than sheer incompetence, however, these are the ruses of the Bush League, a calculated attempt to manage the financial chaos until the November election.

The pathetic efforts of these swindlers would be laughable, were they not so expensive. For in the end, it is the American taxpayer who is expected to fill the empty coffers of the bankrupt agencies. *EIR* intends to expose this, as well as provide regular updates on the actual number of bank collapses.

## 'Bushmen' and Texas

Not surprisingly, the most blatant discrepancies found so far occur in Texas, both because of the general economic blowout that has devastated that state, as well as the peculiarities of Texas banking law. And a good number of the cast of characters involved in this fraud call Texas home, beginning with Vice President George Bush himself, as well as James Baker III, Robert Clarke, George Strake, Jr., and Robert Mosbacher.

One of the vehicles for undercounting of failures is bank holding companies—corporations, by the way, which in themselves are not banks. Yet, when any of these companies gets a bailout, one entity is listed as a failure, as opposed to the various banks involved. This bright idea came to the FDIC in 1987, when it assisted the Hallwood Group in its takeover of the troubled BancTEXAS Group, Inc., a bank holding company which owned 11 separate banks (*not* branches).

The FDIC counted this in their annual statistics as 11 assisted banks—a euphemism, meaning that the FDIC runs in and changes ownership, keeping them out of the failed category. This, according to the FDIC, was the first situation in modern times wherein a group of banks belonging to a holding company needed simultaneous assistance. They decided in retrospect, however, that perhaps such a transaction should be counted as a single event, rather than multiple events, thus preventing any "misleading impressions."

Until 1987, the Texas Constitution prohibited branch banking. For example, if a downtown Houston bank wanted to open an office on the southwest side of town, it would have to either buy an existing bank in the target area, or charter an entirely new bank. Therefore, it was not unusual for a major holding company to have a dozen or so separately-chartered banks in a city like Houston or Dallas. As a result, the major Texas bank holding companies each owned in the neighborhood of 50-70 separate banks, each with its own charter, its own board of directors, its own loan committees, etc. Hence, even though they share many services and practices with the holding company and their sister banks, each bank is a distinct legal entity.

Many of these holding companies were created in 1971, when banking laws were changed. The existing major banks created holding companies as umbrellas, then started expanding. The major bank which spawned the holding company became the flagship of the holding company, often accounting for 40-50% of the holding company's assets, and typically benefiting from substantial deposits of its little sister banks.

However, an important point is that, since the sister banks in a holding company are so interlocked, a failure of any one of them has repercussions on the rest; hence, were the holding company or the flagship to fail, the likely result would be a chain-reaction collapse of the entire grid.

The FDIC is not empowered to assist holding companies; it exists to help banks. Accordingly, the money goes to the troubled banks of the holding company. Then, how does this get counted as a single transaction?

To Seidman and his ilk, this is all inconsequential. The main point, as one spokesperson for the FDIC put it, is not to let the figures "appear skewed," i.e., underreport. So the lesson of BancTEXAS was put to use with two biggies, First City Bancorp of Houston and First RepublicBank Corp. of Dallas.

First City Bancorp. with its 61 member banks was granted FDIC assistance as a condition of its takeover by Robert Abboud in September 1987. Depite the number of banks involved, only one is listed as a failure.

## When to count

The next big idea was *when* to count it. Even though it was listed as an assisted transfer in the FDIC's official totals for 1987, nothing is written in stone for them. For some reason, the FDIC transaction was not completed until April of 1988; therefore, the FDIC has decided to remove the event from last year's happenings, and add it to this year's.

A similar situation is that of First RepublicBank Corp. It has 73 member banks and has already received $1 billion from the FDIC as well as billions more from the Federal Reserve. Rumor has it that the figure could go as high as $5 billion from the FDIC. However, First RepublicBank appears on neither the failure nor the assisted transaction list. This despite the fact that it was $344 million in the hole after the first quarter of 1988.

Writing off its bad real estate, which is what finally sent the figures soaring, was conveniently put off until after Super Tuesday, at which point the $1.5 billion bailout was announced. Then, why is the failure statistically nonexistent as of now? The deal isn't over and it's not clear when it will be. So, despite all those headlines, folks, as far as the FDIC is concerned, nothing has happened yet.

What immediately comes to mind is MCorp, which is two-thirds the size of First RepublicBank, but declared only $58 million in losses after the first quarter. After someone decides its time for them to write off their bad real estate, the losses could easily be twice that, and as much as an order of magnitude more!

The idea that these decisions are in some way politically motivated has crossed many people's minds. George Strake, Jr., the chairman of the Republican Party of Texas, sits on the board of First RepublicBank. Texas Commerce Bancshares, the family bank of James Baker III, picking up on the disastrous situation in Texas, sold out to Chemical Bank. Robert Mosbacher, who sits on its board, is the national finance chairman for the Bush for President Campaign.

Adding up to . . .

For the year 1987, the FDIC official failures are listed as 184. *EIR* calculates that the actual total is closer to 220. As of May 10, 1988, the official FDIC number of failures is 62. The acceleration of the crisis is brought into graphic relief in calculating the actual totals for this year, which *EIR* estimates could already be as high as 250. There are 160 in Texas, 10 in Oklahoma, 3 in Colorado—not including the 14 industrial banks that are insanely grasping for FDIC protection; presumably they'll soon be on the list once they maneuver their way in—7 in Kansas, and the list goes on. Some states, are not included, however; it's a fair guess that they're too busy "disappearing" their labor statistics and haven't gotten to the banks yet.

In other words, in the first four months of this year, or as James Baker III would say, the latest four months of the 67-month-long recovery, the United States has undergone more banking collapses than in all of 1987, the record-breaking year.

These figures include 160 bank failures in Texas alone this year so far, giving it 80% of the nation's failures. But only because the devastation in that state has been so severe, has it been possible to put together the numbers. What lies behind some of the other states' numbers only time will tell. The FDIC certainly isn't talking. After all, that would mean adding up the billions of dollars for which they would be liable, at a time when they're already in the red. No one expects William Seidman to count that high.