

Banking by John Hoefle

Is Citicorp the next merger candidate?

America's largest bank is bankrupt, but is there anyone around who is big enough to buy it?

Citicorp is "technically insolvent" and "struggling to survive," House Energy and Commerce Committee chairman John Dingell (D-Mich.) stated at a hearing of his committee's Telecommunications and Finance Subcommittee on July 31.

On Aug. 2, two days after Dingell's bombshell, Standard and Poor's dropped their Citicorp rating "to negative from stable to reflect concerns about asset quality." In more ordinary times, were a senior congressman to publicly state that the largest bank in the United States was insolvent, and S&P to nod, the result would be pandemonium on the markets. Bankers and the press would accuse the congressman of everything from incompetence to beating his dog, and the FBI would investigate him and S&P.

But these are not normal times, and the lack of outcry gives credence to *EIR* reports that the Federal Reserve is running an operation for the Bank for International Settlements (BIS), to put America's biggest banks under quiet Fed receivership in an insane attempt to stop an uncontrolled crash.

The BIS says the number of banks must be reduced, and merger is one quick answer. Did the BIS and Fed make a shotgun wedding of Chemical and Manufacturers Hanover, and Sovran and NCNB? Is Citibank being softened up for a megamerger, and with whom?

Citicorp, of course, quickly denied Dingell's statement. "Congressman Dingell's statement is irresponsible and untrue," the company insisted. "We have \$18 billion of Tier I and Tier II capital. Our ratio of Tier

I and Tier II capital is 8.16%, all of which is a matter of public record."

A plethora of banking analysts chimed in to defend Citicorp's honor.

"Technically, if you marked Citicorp's balance sheet to market, someone might be able to have the opinion that they're insolvent," admitted Tucker Anthony analyst Gerard Cassidy. ("Marking to market" means counting assets at current market value, as opposed to speculative "book" value.) Cassidy added that marking to market "doesn't fall under generally accepted accounting principles," and does not take into account the future value of the banks' loans.

Federal Deposit Insurance Corp. chairman William Seidman stated, "I don't believe it is insolvent under any standard."

Standard and Poors have long worked as private raters for the BIS central banks. "The major concern centers on the domestic real estate portfolio," S&P said. "This portfolio has experienced a slowdown in addition to loans on non-performing status. However, given the deteriorating conditions in real estate markets, particularly in California where Citicorp has significant exposure, there is a potential for non-performers to reach substantially higher levels, which could prompt a rating downgrade. . . . Reserves appear low for the current level of problem assets."

Citicorp is also in trouble with its New York real estate. "New York City, like other areas, has plunged into one of the worst real estate slumps in history," the *Wall Street Journal* admitted. "Rents on many New York

properties are being renegotiated severely downward" as vacancy rates climb "ominously" in "the depressed New York market."

With the nation in a deepening depression and the real estate bubble having popped, things will only get worse. The banks and thrifts have hundreds of billions of dollars in overvalued real estate and real estate loans on their books, and the Resolution Trust Corp. has another \$150 billion or more of assets to unload. Under these conditions, Citicorp and the other big U.S. banks are bankrupt several times over.

Citicorp's problems are not limited to real estate, either. London banking sources told *EIR* that Citicorp now also faces a major threat from the crisis of the U.S. insurance sector in the wake of the collapse of Mutual Benefit Life Insurance of New Jersey in July.

Citicorp is the largest U.S. bank dealing in what are known as "asset-backed" securities. In this particular financial innovation, the bank takes a pile of its real estate loans or credit card loans and "bundles" them into a new bond which it sells to a pension fund or other large investor. It guarantees the revenue of the mortgage or credit cards contained therein by an added "enhancement," in the form of an insurance policy insuring against default on the underlying mortgage.

Mutual Benefit and other companies downgraded by Moody's have made a huge business in such "credit enhancement" underwriting. As this now is called into doubt, it will hit Citicorp and stymie their major technique for meeting the 1992 Basel BIS's bank capital adequacy standards.

A German source told *EIR*, "All indications I have are that the U.S. authorities are in a state of near panic, that the entire system is on the verge of being illiquid."