

## Banking by John Hoefle

### The Riggs Bank fire sale

*The D.C. bank's decision shows Bush doesn't have to go far to see the effect of his policies on the banking system.*

Ten dollars isn't what it used to be, and neither is the bank on the back of the \$10 bill. Riggs National Bank, the Washington, D.C., bank sitting behind and to the right of the U.S. Treasury building on the \$10 Federal Reserve Note, recently announced a fire sale of more than \$200 million in distressed real estate.

"At some price, there will be buyers," proclaimed Riggs chairman Joe L. Allbritton Oct. 9. "Whatever it takes, that's what we'll have to do."

"We ain't seen nothing yet," Allbritton had warned in June. "The full impact hasn't even begun. . . . The economy has not done even the slight turnaround that I predicted at the beginning of the year. I would have thought it would have leveled off by now, but it hasn't. It's still going down in all categories."

Allbritton should know. As of Sept. 30, there were \$410 million—13%—of Riggs' total loans officially classified as non-performing, up 313% from \$131 million one year earlier.

The biggest problem for the Washington banks, Riggs included, is real estate. According to the FDIC, 17 of the 24 banks headquartered in the nation's capital lost money during the first half of 1991, and more than 20% of their real estate loans are either delinquent or have already been foreclosed.

The District of Columbia led the nation with a staggering 502% jump in non-performing loans in 1990, compared to an already high 25.5% rise nationally, according to Sheshu-

noff Information Services of Austin, Texas.

Yet even as the real estate market blows out across the country, banks are continuing to expand their real estate lending. U.S. banks had \$848 billion in real estate loans outstanding at the end of the second quarter, compared to \$804 billion a year earlier and \$829 billion at the end of 1990. Commercial and industrial loans, by comparison, peaked at \$623 billion in the first quarter of 1990 and have declined ever since, to \$589 billion June 30.

The banks are caught between the proverbial rock and a hard place. If they cease to lend to already-overextended real estate borrowers, those borrowers will go bankrupt and the banks will have to eat the losses. But if they continue to expand their real estate lending, they take more of the poison that is already killing them. Either way, they lose.

The Riggs fire sale is a desperate move. By liquidating its real estate holdings, the bank will effectively lower the market value of its own properties and those held by other banks and the general public.

The Riggs move is also quite unusual in the world of banking, where bankers—with the help of the Bush administration—are doing everything they can to hide the extent of their loan losses.

To make this deception possible, the Bush administration recently issued a set of guidelines for banks and bank regulators which effectively order them to ignore their bad loans.

"Income producing property loans

are to be assessed on the income-producing capacity of the properties over time," the Treasury Department stated Oct. 8. In other words, ignore the fact that real estate prices and occupancy rates have collapsed, and calculate property values as if the depression did not exist.

"Banks with real estate concentrations should not automatically refuse new credit to sound real estate developers or to work with existing borrowers," Treasury said. In effect: So what if you're already swamped by non-performing real estate. Go ahead and make more real estate loans anyway.

And, just in case a bank examiner should, despite Treasury's instructions, have the temerity to declare a loan non-performing, the new guidelines allow the banks to complain directly to "senior officials" of the Treasury or the head of their regional Federal Reserve Bank.

To further protect the banks from economic unpleasantness, the administration wants to liberalize the definition of residential real estate. Currently, that term applies to one-to-four family residences, the loans for which require less money to be set aside as capital than do commercial real estate and other types of loans.

By such creative license, one can easily imagine the administration declaring all office buildings as residences, since some employees stay in them overnight. Since people sleep overnight in hotels, hotels are residences. Since people often gamble all night in casinos, then casinos are also residences. Pretty soon, every bar, bowling alley, and warehouse in the country could be declared a residence. So could all the highway overpasses, sidewalks, dumpsters, and vacant lots inhabited by the millions thrown out of work and home by the administration's heartless and incompetent economic policy.