Conti Illinois under receivership

The nation's number-eight bank is the first to go; more major U.S. bank losses to come.

The Federal Deposit Insurance Corp. (FDIC) has for all practical purposes taken Continental Illinois Bank, the nation's eighth-largest bank holding company, into federal receivership. Continental Illinois Corporation disclosed June 4 in a filing with the Securities and Exchange commission that the FDIC has placed sharp limits on Conti's management and ordered the bank to suspend all dividend payments to shareholders.

The FDIC takeover was in fact completed in return for the FDIC's bailout of Conti with $2 billion in FDIC subordinated notes last month, which bolstered the bank's capital and which, together with a huge Federal Reserve and private bank bailout fund, kept the bank from openly folding.

But even the FDIC's takeover has been used by the same Anglo-Swiss financial circles who created the run on Continental as a chance to complain that U.S. banks should simply be made to take their losses. Large U.S. banks should not be "bailed out" by the government, but either made to take huge write-off losses or sold off to investment banks such as American Express, AMEX spokesmen said.

The FDIC has taken hands-on management of the bank. The Conti filing revealed that Continental's directors were forced to sign an agreement with the FDIC giving it the right to request any director's resignation at any time. The FDIC also has discretion to fire any Continental officer or director at the Senior Vice President level or above, the filing states.

The same accord also prohibits the company's Chicago headquarters from any new hiring, appointments, or reappointments of any personnel at the Senior Vice President level or above.

The FDIC has furthermore taken total control over whether Conti will be merged with another institution or acquired, and has suspended the bank's independent right to negotiate such matters.

The bank has also agreed that it will not sell, transfer, or otherwise dispose of all or a significant amount of its assets in any way, "without prior written consent of the FDIC."

Continental, however, will merely be the first in a long line of banks to go into such virtual receivership. The real losses from bad loans to Latin America have yet to be taken by the banks. Up through the first quarter of this year, most losses by Conti, Manufacturers Hanover, and others were from bad domestic real estate and agriculture loans. With Argentina and other debtors ready to reduce or halt interest payments at the end of June, bank runs are just starting.

Meanwhile, the same Anglo-Swiss investment bankers who first pulled their deposits out of Conti are now insisting that large U.S. banks must be forced to take their losses. As Goldman, Sachs senior partner Henry Fowler, former U.S. treasury secretary, put it to a journalist recently when asked about the run on Continental, "It doesn't concern me. I'm an investment banker and I don't take deposits."

It should be remembered that it was American Express, via its Swiss controller Edmond Safra, who first began pulling deposits out of Conti on May 11, precipitating the current banking crisis. American Express, Lehman, Goldman Sachs, and other "financial supermarkets" run out of London and Switzerland want a crisis of the commercial banks to drive President Reagan from office.

They also are not above using the opportunity of weakness to insist on buying up commercial banks to expand their own vast empires. American Express chairman James D. Robinson III, who is aware that his institution helped pull the plug on Conti, was nominated for the *EIR* Chutzpah of the Year Award June 6 when he denounced the FDIC bailout:

"The political pendulum seems to have swung from de-regulation back to re-regulation," Robinson said, insisting that banks must be policed harder by the regulators. "A number of events have proven frustrating to the public and Congress. . . . The loudest single event, of course, has been the Continental Illinois crisis, with its accompanying need for total FDIC support. . . . How can we justify letting them [small banks] fail when the big guys are not allowed to. . . . The chips the FDIC is having to play will certainly raise the specter that our federal insurance agencies may have to knock at the taxpayers' door. . . . Federal deposit insurance was intended as a safety net for banks and thrift institutions, not as a trampoline that would allow them to bound into new areas of business."

House Banking Committee Chairman Fernand St Germain (D-R.I.), liberal scion of Swiss banking circles, plans to demand harsh Congressional oversight of the banks after the Conti debacle to "prevent further illegal bailouts of big banks."