Banking Kathy Burdman

Run on U.S. banks continuing?

Now Manufacturers Hanover is reportedly suffering a deposit run and has been forced to borrow from the Fed.

European depositors may be fleeing Manufacturers Hanover as they did Continental Illinois in May. *EIR* has heard from several reliable market sources in New York and from bankers in Texas and throughout the South that Manufacturers Hanover has needed help from the Fed, as much as $3 to $4 billion.

"Manufacturers Hanover of New York, which like Continental Illinois doesn't have a large consumer deposit base, also has been borrowing from the Fed," reported *Chicago Tribune* columnist Bill Neikirk on Aug. 27.

If Manny Hanny has borrowed, it can only mean that it, like Continental Illinois and Financial Corporation of America (FCA), is having a run on deposits.

As Neikirk pointed out, Manny Hanny, like Conti, is heavily dependent on large certificates of deposit borrowed, not from local folks, but from large European and other international banks in the offshore Eurodollar market. Continental went under when these depositors pulled out.

The Fed's published figures on New York District banks' Fed discount borrowings bear out the story. At the end of the two-week reporting period on Aug. 15, there was over $4 billion in discount window borrowings outstanding from the New York district banks as a whole—compared to the average 1984 figure of below $1 billion.

By the Aug. 29 Fed report, the $4 billion had apparently been repaid to the Fed, but only because resorting to the Fed had already given Manufacturers a bad name.

The run on Continental Illinois is continuing despite the U.S. government takeover last month, an action which has apparently not impressed foreign depositors. The Chicago Federal Reserve reports that banks in its district—i.e., Continental Illinois—still have over $7 billion outstanding in Fed discount-window borrowings.

The problem for Manufacturers Hanover revolves around Sept. 15, by which date Argentina must make a $750 million payment. As a top Chase Manhattan source said Aug. 28, it's not clear that Argentina can make that payment.

Manufacturers Hanover took a $21 million loss at the end of June when it had to declare almost half its Argentine loans non-performing.

Meanwhile, Manny Hanny is planning some major personnel layoffs in a bid to cut costs on its domestic U.S. consumer operations and maintain its challenge to Citibank for the domestic consumer market. NCR Corporation reported on Aug. 28 that Manufacturers Hanover has made a $7.1 million order for branch automation equipment and mainframe computers, and noted that the bank is planning to "automate most of its branches," i.e., make layoffs.

The bid is probably doomed to fail, and the new expenditures will likely mean more red ink for the bank, which could hurt its stock and depositor standing.

The deposit drain also continues at FCA, the largest American thrift organization with $33 billion in assets. Major institutional depositors, including European ones, with $15 billion in FCA paper coming due at the end of September, are demanding a guarantee on deposits from the regulators.

But the regulators have not yet agreed, and it is likely that they will not. FCA's entire management, including Chairman Charles Knapp, was replaced on Aug. 28 in what looks like another Federal takeover on the Continental model. A top administration official, who in mid-August said regulators would let FCA collapse, said on Aug. 30 that the regulators have just taken over the S&L.

New management includes three S&L executives who "are also former presidents of Freddie Mac," the Federal National Mortgage Association, he noted. Even the *New York Times* noted on Aug. 29 that the appointment of one of the three, William J. Popejoy, to head FCA, was "strongly endorsed by the Federal Home Loan Bank Board."

In fact, the FHLBB issued a statement saying, "We are assured to our satisfaction" that Popejoy would direct FCA "with operating strategies that are consistent with sound management principles," i.e., as the government directs.

"However," said the administration official, the run on FCA isn't over yet. "The real problem is not the regulators [i.e., whether the government will bail out the bank or not] but the depositors."

If there is more trouble at Manufacturers Hannover, say, or at other commercial banks, a general fall in bank confidence "could mean that the depositors won't roll over" the $15 billion in deposits at FCA which are due for rollover Sept. 30.

Meanwhile, Swiss financial sources consider the likelihood of a general U.S. banking crisis quite grave (see *Foreign Exchange*).