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Banking by Kathy Wolfe

S&L, regional bank crisis spreads

Volcker and James Baker III's Treasury Department crack down—on their competition.

After having sold President Reagan the line that the Ohio savings and loan bank crisis is an "isolated incident," Federal Reserve Chairman Paul Volcker and the Baker Treasury Department are engaged in a regulatory crackdown against S&Ls and regional banks which will reduce their profits and render them vulnerable to runs and shutdowns. Nationally, Fed and Treasury regulators are forcing S&Ls and regionals to declare substandard loans, crack down on loose accounting practices, and downgrade their financial paper.

S&Ls and banks in Maryland, Massachusetts, Texas, Oklahoma, California, and other states face runs by frightened depositors.

Volcker and Baker's Comptroller of the Currency, for example, placed a page one article in the March 21 *Wall Street Journal* charging that all S&Ls are shoring up their profits with phony stock dividends. The industry used $600 million in dividends from the Federal Home Loan Mortgage Corp. to "cook up" half the S&Ls' 1984 $2.1 billion in profits, the article charged, noting that "some accountants" don't think this should have been counted at all. Half the rest of the S&Ls' 1984 profits "were generated by questionable accounting practices in the tradition of Lewis Carroll," an S&L analyst at Wall Street's Sanford Bernstein investment house is quoted.

Ohio is just the beginning. The draconian regulations being applied from the Fed and Treasury put many other small banks in peril. According to the *Washington Post* on March 21, Maryland S&Ls are paying some of the highest rates nationally, in a desperate bid to keep depositors, because Maryland's state-chartered S&Ls, like Ohio's, are not insured federally, but privately—nearly two-thirds of them by the private Maryland Savings Share Insurance Corp. To keep depositors, reports *Savers Rate News*, the Baltimore banks of Custom Savings, Merritt Commercial, and Old Court S&L are paying the highest rates in the United States. The *Savers Rate News* report implies that runs could start at these Maryland S&Ls.

Meanwhile, in Massachusetts some privately insured S&Ls are threatened with runs, and are taking steps to get federal insurance. The Federal Deposit Insurance Corporation reports a "dramatic" increase in inquiries from Massachusetts S&Ls—from zero to 15 the last week of March. Mutual Savings Banks in the state are usually insured by the Mutual Savings Central Fund, and S&Ls ("Coops" in Massachusetts) by the Coop Central Bank Reserve Fund. "People like to see the letters FDIC on the door," said one banker.

In Oklahoma, State Bank Examiner Empe announced March 21 that 25% of Oklahoma's 310 state banks have substandard loan portfolios. This is about to become a serious problem, he implied. The region's banks are heavily loaned in the troubled areas of oil and farm debt.

Texas banks' stocks and deposits are also threatened. First City Bancorp of Houston, one of the biggest energy lenders in the state, disclosed on March 23 that internal controls and lending policies at three of its largest bank subsidiaries were deemed "inadequate" by the Federal Reserve and Treasury. First City Holding Co., with assets of $17.3 billion, disclosed in its annual report that the Comptroller of the Currency had taken disciplinary action to force two subsidiaries to write down problem oil loans, and the Fed had taken action against a third: First City National of Houston, First City Bank of Dallas, and First City National of Midland.

The regulators' actions are likely to affect stock and bond ratings of the banks and holding company, said analysts. In late March, the state's leading energy lender, Texas Commerce Bancshares, Houston, disclosed that the Comptroller is investigating loans, including those made to the bank's directors on favorable terms.

Then, on March 20, Standard and Poor's downgraded its ratings on several BankAmerica Corp. securities, including corporate bonds of the bank's holding company. Standard and Poor's cited the holding company's declining earnings and falling profitability over the past four years. BankAmerica said it "strongly disagrees" with the S&P decision.

While S&Ls in Ohio are gradually reopening, the crisis could break wide open again at any time. On March 21 Ohio Thrift Superintendent Thomas Batties began allowing a few S&Ls to reopen, under the requirement that they demonstrate that they meet the criteria for Federal Savings & Loan Insurance Corp. insurance, and were applying for same. Others reopened March 22-25, and rules were set up allowing depositors to make limited withdrawals up to $750 to take out emergency cash.

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