'Rolling' bank crisis: California next?

Bank of America's second quarter losses have prompted Paul Volcker to begin printing money.

The banking crisis which has been rolling from state to state, threatening to destroy President Reagan's defense buildup with a depression crash, may be about to hit California with a vengeance.

The savings & loan crisis which hit Ohio and Maryland this spring was no "isolated incident," and has begun to strike commercial banks as well as S&Ls. Ohio's savings & loans, closed last March, remain closed. Maryland's, closed in May, also remain shut. Pennsylvania and Massachusetts are bracing for a run on their state-insured S&L systems. Meanwhile, seven small farm banks failed May 31 in Nebraska, Minnesota, Arkansas, and Oregon, and had to be taken over by the FDIC.

Now, Bank of America, with $120 billion in assets, has announced that its second quarter after-tax income will tumble to almost *zero*, "near the break-even point," as Chairman Samuel Armacost put it on June 5. That means that the nation's second-largest bank is almost in the red.

The losses are being forced by Federal Reserve Chairman Paul Volcker, the Carter holdover who pulled the plug on S&Ls in Ohio and Maryland, in order to sabotage President Reagan's budget, and "Hoover-ize" him. Fed and U.S. Treasury regulators have been cracking down on S&Ls and banks nationwide, to force them to take big losses now. Bank of America's Armacost reported that Volcker had sent in regulators who were "especially hard-nosed." As a result, Bank of America will be writing off all its bad loans at once instead of over the year.

This has not happened to a bank this big since the 1930s Depression; the biggest recent collapse on record was the $20 billion collapse of Continental Illinois last year, which almost brought down Manufacturers Hanover and other giants in New York.

Already, Standard and Poor's has responded by downgrading commercial paper of BankAmerica, the holding company, from A – 1 – + to A – 1, and Moody's bond service has threatened to lower BankAmerica's bond rating. BOA stock fell $2.05 to $19.62 at the news.

Bank of America had to cut officers' salaries by 5%, and take other austerity measures.

Some depositors are already reported withdrawing their savings, but it is not clear when the profit collapse could result in a run on banks in California. Since April, two major S&Ls in California with assets totaling over $5 billion, Bell and Beverly Hills S&Ls, have failed.

Volcker is engaged in a "selective regulatory crackdown." While seeking to cause significant losses to hurt the President, he is not trying to actually shut down the "megabanks" like Bank of America, but merely to "clean house." He *does* want to shut thousands of S&Ls and smaller banks.

Loans to U.S. farmers, and to real estate are being killed.

Fed and Treasury regulators are taking the meat axe to the megabanks' foreign loans in particular, forcing them into major writeoffs, especially of the Third World, in the March-June quarter. The Fed ruled May 31 that Citibank may not put its bad foreign loans into a subsidiary, as they have been, but must begin to actually write them off, "in a move which could have wide implications for banks," one banker complained. Many megabanks will now be forced to take losses.

Meanwhile, however, Volcker is massively flooding the megabanks with cash through the other window, by printing money and pumping it into the New York banks at alarming rates, bringing Fed funds down to a seven-year low of 6.75%. The Fed may drop the discount rate again to 7%, and the banks plan to put the prime down from 10% to 9%. The Fed's printed cash transfuses the megabanks to replace the bad blood being leeched out.

The net result is that the smaller banks go under, the large banks are "housecleaned" and bailed out—and the defenses of the United States are destroyed.

The big losses for Bank of America and Citibank also mean that Volcker and Treasury are engaged in a new genocide offensive against Bolivia, Mexico, and the rest of the Ibero-American debtors being written off. Killing off Bank of America's loans to Bolivia, just one week after Bolivia, among other of Bank of America's victims, was forced into another massive devaluation of its currency, means the regulatory agencies are now saying that these debts are not being paid, and will not be paid.

Such a shift in the handling of the debt crisis would tions, signaling that Volcker and his henchmen are battening down for the emerging next phase of crisis in the international credit system. It would augur a further round of intensified genocidal austerity against the debtor nations themselves, on the basis of the hideous debt-for-equity scheme associated with George Shultz and Donald Regan, among others.