Fed takes desperate measures

The schemes are getting wilder, from the Fed lowering reserve requirements to the FDIC issuing stock to bankrupt banks.

Sometimes you don't know whether to laugh or to cry. Such is the case with the latest round of insane proposals emanating from the highest bastions of American authority these days, as their "controlled disintegration" explodes in their faces. The Federal Reserve, which, under the direction of Paul Volcker, set out to deliberately destroy the American economy (and has done a darn good job of it), has now decided to ease up a bit.

With banks failing right and left, the Fed announced Dec. 4 that it was going to *reduce* the amount of capital that banks are required to hold in reserve on their deposits. The Fed has waived the 3% banks must hold in reserve on short-term corporate certificates of deposit and on Eurodollar CDs.

Said the Fed: "The [Federal Reserve] Board took action at this time in response to mounting evidence that commercial banks have been tightening their standards of creditworthiness and the terms and conditions for many types of loans. While much of this tightening has been welcome from a safety and soundness standpoint, it has in recent months begun to exert a contractionary influence on the economy."

Naturally, the beneficiaries of this move are the very biggest banks in the country, since they're the ones holding the bulk of the corporate CDs. The move gives the big banks another $13 billion or so to lend, and serves to funnel that money into coffers of the biggest corporations.

Meanwhile, over at the White House, the fate of Comptroller of the Currency Robert Clarke is being debated. Clarke, who once jokingly described himself as "the regulator from Hell" because of the anguished howls his bank examiners have drawn from the bankers, is currently in limbo. His term expired Dec. 2, but his promised reappointment has not come through. The word is that White House Chief of Staff John Sununu and Commerce Secretary Robert Mosbacher want Clarke replaced with someone who will be more responsive to Republican credit needs.

The fact is, federal banking regulators have barely scratched the surface of the bad loans being held by the banks—Clarke has done a yeoman's job in hiding the size of the banking hole. But the Republicans are feeling the depression, so the power play is on.

The Federal Deposit Insurance Corp. is planning some pretty wild moves of its own, to try to stave off its impending bankruptcy. The FDIC's problem is simple: the banks it is protecting are bankrupt, which means the FDIC is bankrupt, too. So all it has to do is raise enough money from the bankrupt banks to cover their losses.

The wizards at the FDIC have several ideas on how to do this, all of which are insane. The most ludicrous of the schemes is for the banks to buy preferred stock in the FDIC. Forcing the banks to buy 50¢ in FDIC stock for every $100 in insured deposits would allegedly raise $14 billion for the FDIC's Bank Insurance Fund; some bureaucrats would rather make it an even dollar, raising $28 billion. In return, the banks would a get dividend-earning stock certificates. The banks would be allowed to count these stock certificates as bank capital, and the FDIC would get to count the money as FDIC capital. So both the FDIC and the banks get to count the same money as an asset. Some people would call that fraud.

Meanwhile, over at the Resolution Trust Corp. (RTC), the losses are piling up. The latest Government Accounting Office estimate of the cost of the administration's so-called S&L bailout is $370 billion, and that doesn't include the interest payments. From August 1989 through September 1990, the RTC has managed to sell $110 billion in assets, but still had more than $142 billion in assets on its books.

The RTC used to claim that it would not sell property at less than market value. But the RTC soon discovered that there were very few buyers for its portfolio of overpriced junk, so it began lowering the prices. Some of the better properties sold, leaving the agency with the dogs. Periodically, the RTC would announce grand plans to unload this inventory, but nothing ever happened.

The latest RTC marketing brainstorm is to offer 100% financing on some of its holdings. Pretty soon it will be taking out ads on late-night television, just like the used car dealers, screeching about "no money down" and "no offer refused."

Combine all this with Felix Rohatyn's plan to pump $50 billion of government money into the big banks, and you have the perfect scheme.

The Fed will buy the banks. The banks can take the money they get from the Fed and buy the FDIC, which can then cover the banks' losses. All this economic activity will start another real estate boom, allowing the RTC to unload its holdings. Voilà, an economic boom.

None of this will work, of course, but that hasn't bothered these fools for a long, long time.