Gonzalez stalling Bush bank plan

The House Banking Committee puts the President's domestic agenda—for reorganizing the banking system—on hold.

The House Banking Committee delivered a serious blow to the timetable of President Bush's fascist banking restructuring proposal April 11, when committee chairman Henry B. Gonzalez (D-Tex.) and ranking member Chalmers Wylie (R-Ohio) agreed to temporarily shelve the Bush bill and concentrate on shoring up the depleted FDIC Bank Insurance Fund instead.

Adminstration officials like Nicholas Brady at the Treasury Department had earlier been demanding rapid action on the banking reorganization now. Brady went so far as to threaten Congress, when he said that there won't be any need for a bailout of the commercial banks, if Congress passes the bill before it.

The administration's bill has drawn fire from all sides, first, because, in the name of deregulation, it establishes a consolidated national banking system, protecting mega-banks like Citicorp and Chase; and second, because it proposes recapitalizing the Federal Deposit Insurance Corp. (FDIC), using means which not so long ago would have landed the perpetrators in jail: borrowing money to use as equity to borrow nine times more money.

Now, Gonzalez has slowed the pace.

"It is critical that the needs of deposit insurance not be left until the last minute and not be buried underneath volatile and controversial issues which will take months to resolve," Gonzalez said in a press release. "We want to let the American public know quickly that the insurance fund is safe and that the commitments to individal depositors will be kept.

"The preliminary indications suggest there is widespread concern about the deteriorating condition of the Bank Insurance Fund and a feeling that the committee must move with some speed in resolving the problems," Gonzalez continued. This is in sharp contrast to the administration's "borrow to borrow more" approach.

While the opposition of the Democratic Mr. Gonzalez could—wrongly—be discounted as partisan politics by the Bushmen, the opposition by the Republican Mr. Wylie cannot. For a Republican congressman to help derail a bill the administration once touted as the centerpiece of its domestic agenda, is a clear sign of trouble.

Gonzalez has more on his mind than recapitalizing the Bank Insurance Fund (BIF). The recapitalization, he said, should include some additional regulatory requirements that will "ensure that new funding will not be lost."

"I hope the committee would look very closely at unifying regulation, requiring the least costly resolution of any bank failures, early intervention by regulators before banks become a drain on the insurance fund, and other changes that could help limit risks to the fund," he said. "The General Accounting Office [GAO] will testify before the committee on April 23 and at that time may recommend some badly needed improvements in accounting practices at banks."

Comptroller General Charles Bowsher has attacked the more egregious fiduciary irresponsibility of the Bush banking plan as "accounting gimmicks," while the GAO recommends that bank assets be carried on the books at market value, that banks be audited more stringently, and that their accounting practices be revised to more accurately reflect the true condition of their balance sheets. That's just the opposite of the administration's fantasy approach.

FDIC chairman William Seidman dropped a bombshell of his own in testimony before the House Banking Committee April 11, when he called on Congress to clamp down on real estate lending by the banks.

Seidman called for Congress to reinstate laws repealed in 1974 and 1982 which prohibited banks from making loans on raw land, blocked construction loans on projects unless the builder contributed at least a 25% equity interest, and limited overall concentration in real estate lending by national banks.

"Many of the loans that have cost the FDIC the most money would have been illegal prior to 1974," Seidman said. "It's time for insured institutions to return to old-fashioned standards of safe and sound banking. The restrictions lifted by Congress in 1974 and 1982 should be lifted."

"Both in Texas and in New England," Seidman reflected, "if those laws had been in place, the kind of losses we are observing now would not have taken place."

Seidman also called for greater regulatory powers for the FDIC which, under the Bush plan, would have most of its authority transferred to the Treasury Department.

Meanwhile, 12 real estate groups held a joint press conference to demand that regulators *loosen* their standards for real estate development and encourage banks to loan *more*.

While the developers let out a howl at Seidman's proposal, Gonzalez, who had opposed lifting the restrictions in 1982, endorsed it.