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Bankers fear 'systemic' crisis

U.S. fourth quarter economic growth is zero, as the Group of Seven convenes in Washington in emergency session.

The U.S. government called an emergency meeting of the Group of Seven industrial nations in New York City on Dec. 14, according to an article in the *Independent* newspaper of Britain on Dec. 12, "to consider the growing risk that the world economy could slide into recession."

While federal bank regulatory agencies are trying to cover up real estate losses and are still talking about "the recovery," the higher levels of the financial elites are beginning to be aware of just how bad things really are.

"The U.S. Treasury and the Federal Reserve believe that the U.S. economy will have failed to grow at all in the fourth quarter," according to the *Independent*. "Several countries are worried that the American economy will slip into recession again." In addition, "officials increasingly believe that the collapse in asset values in the U.S., Japan, and Britain might ultimately pose 'systemic' problems for the world economy. Ailing banks could restrict credit, setting off a deflationary chain reaction hurting the real economy." A too-optimistic International Monetary Fund prediction of a 2.8% growth rate for the world as a whole is rejected by these officials, who were expected to produce "new assessments" at the New York meeting.

But while this scramble to come up with a policy is under way, the Bush administration is still trying to deny that the depression is at hand.

Rather than closing bankrupt banks like Citicorp, and thus admitting the insolvency of the banking system, the administration has instructed federal bank examiners to pretend that the crisis does not exist.

In a Nov. 7 document entitled "Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans," the four federal banking regulators—the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp. (FDIC), the Federal Reserve Board and the Office of Thrift Supervision—issued new guidelines to bank examiners "to ensure that supervisory personnel are reviewing loans in a consistent, prudent, and balanced fashion."

These guidelines effectively order the examiners to ignore the collapse of real estate values and the corresponding losses to the banks.

"The focus of an examiner's review of a commercial real estate loan, including binding commitments, is the ability of the loan to be repaid," the regulators stated. "Appraisal assumptions should not be based solely on current conditions that ignore the stabilized income-producing capacity of the property. Management should adjust any assumptions used by an appraiser in determining values that are overly optimistic or pessimistic."

By instructing examiners to look at the supposed ability of the loan to be repaid, rather than the current market value of a property, the regulators take the loan out of the realm of economic reality and into the realm of the mythical recovery.

The regulators say: "A discounted cash flow analysis is an appropriate method for estimating the value of income-producing real estate collateral. . . . This analysis should not be based solely on the current performance of the collateral or similar properties; rather, it should take into account, on a discounted basis, the ability of the real estate to generate income over time based upon reasonable and supportable assumptions."

Naturally, the "reasonable and supportable assumption" is the Bush recovery, in which property values and real estate values will rise.

What if the current market value of a property held as collateral for a loan is significantly less than the outstanding balance on the loan?

No problem, say the regulators: "As a general principal, a performing real estate loan should not automatically be classified [as troubled] or charged-off solely because the value of the underlying collateral has declined to an amount that is less than the loan balance."

In short, federal regulators have decreed that there are no more bad real estate loans. Therefore, banks do not have to charge-off these loans, or increase their loan loss reserves, or cut their reported income. If the borrowers come up short on their payments, the banks are free to roll over the loans, throwing more good money after bad.

Naturally, this only applies to the big banks, the so-called "too big to fail" banks. Armed with another $130 billion in taxpayers' money, federal regulators are planning to close some 400 smaller banks and thrifts during 1992.

The FDIC projects it will close as many as 240 banks with $116 billion in assets next year, while the Office of Thrift Supervision projects savings and loan closings this year will reach 170 institutions.

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