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**Banking** by John Hoefle

# They're not banks any more

*The "record profits" of the U.S. banks come from federal subsidies, unreported losses, and wild speculation.*

Commercial banks in the United States posted record profits of $32.2 billion in 1992, and judging by the reports coming in for the first quarter of 1993, they're in for another big profit this year. At least they would be, were these income reports not lies, designed to hide the massive losses of the bankrupt U.S. banking system. Despite these happy numbers, and the ongoing covert federal bailout, the banking system is sinking fast.

The banks piled up an impressive number of full-year and quarterly records in 1992. The claimed net income for the year was 30% above the previous record of $28.4 billion in 1988, and 80% above the $17.9 billion of claimed profit for 1991. The first quarter's $7.6 billion profit was the highest quarterly profit on record, easily topping the $7.3 billion reported in the first quarter of 1989. The second quarter was even better, at $7.9 billion, and the third quarter better still, at $8.5 billion, or nearly half the full-year 1991 profits. The string was broken in the fourth quarter, when banks reported $8.2 billion in profits, but it was still the second-best quarter ever.

"The numbers also tell a story of strong, clear, undeniable improvement in earnings, capital loan losses, charge-offs—all the vital signs," Federal Deposit Insurance Corp. (FDIC) Chairman Andrew Hove insisted in a press release announcing the 1992 results.

How does it happen that the banks can claim to do so well in a year in which the economy sank deeper into depression, personal and business bankruptcies hit new highs, real estate values continued their plunge, and unemployment soared?

The answer is that, in many respects, the biggest U.S. banks have ceased to be banks and have become speculators, using money provided by the U.S. taxpayers to gamble in international financial markets, while lying about the deterioration of their assets and loan portfolios.

The taxpayer funds come in the form of loans from the Federal Reserve to the big banks. The banks use these loans, for which they pay some 3% interest, to buy U.S. government-guaranteed securities which pay interest rates in the range of 7%. The result is a federal subsidy of some 4% or so.

Thanks to what the FDIC termed an "unusually wide" spread between short- and long-term interest rates, the banks' 1992 net interest income of $133.5 billion was up $12.6 billion over 1991.

On top of that, the banks do not have to set aside any reserves for their holdings of U.S. government securities, whereas they must set aside reserves for any loans they make.

No wonder the banks are pouring money into government securities instead of making loans.

During 1992, the dollar value of loans held by U.S. banks fell by $27 billion, to $2,032 billion, while their holdings of government securities soared. Commercial banks' holdings of U.S. government securities rose by $99 billion during the year, to $661 billion from $562 billion, according to the Federal Reserve. At the same time, the banks' business loans dropped $15 billion, to $603 billion from $618 billion.

Meanwhile, the banks' reported levels of non-performing loans have dropped for seven consecutive quarters. From a peak of $83 billion at the first quarter of 1991, non-current loans and leases fell to $62 billion at the end of 1992. This magical decrease in bad loans has allowed the banks to reduce their reserves for loan losses and their charge-offs of bad loans. The banks charged off a net $25.5 billion in bad loans in 1992, compared to $32.8 billion in 1991, for the first year-to-year decline since 1978.

With a guaranteed income from the federal government and the illusion of improving loan portfolios, the banks have been free to rush headlong into the derivatives markets.

According to Salomon Brothers, the U.S. commercial banks' notional principal holdings of derivatives instruments jumped from $2.2 trillion in 1986, to $8.3 trillion in 1989, and $15.2 trillion in 1991. As of June 30, 1992, Salomon reported, Citicorp had a total notional value of derivatives instruments of $1,426 billion, seven times its $213 billion balance-sheet assets; Chemical Banking Corp. had $1,296 billion of derivatives, or nine times its $140 billion in assets; J.P. Morgan had $1,014 billion, or ten times its $103 billion in assets; Chase Manhattan had $837 billion, or nine times its $96 billion in assets; Bankers Trust had $958 billion, or 13 times its $72 billion assets; First Chicago had $387 million, or eight times its $49 billion in assets; and Continental Banking had $136 billion, or ten times its $14 billion in assets. BankAmerica was conservative by comparison, with $795 billion in derivatives, or just four times its $181 billion in assets.

Overall, banks reported securities gains of $4 billion in 1992, compared to $3 billion in 1991.



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