Banking by John Hoefle

Lies, damned lies, and statistics

The huge profits that are being claimed by the U.S. banking system simply do not exist.

Four times a year, the Federal Deposit Insurance Corp. releases financial statistics for the U.S. banking system. Each quarter, the FDIC's numbers stray further into the realm of fantasy, in a foolish attempt to hide the insolvency of the U.S. banking system as a whole, and of the major banks in particular.

According to the latest FDIC Quarterly Banking Profile, U.S. banks turned a record profit of $10.9 billion for the first quarter of 1993. That income, the FDIC said, "shattered" by $2.4 billion the previous quarterly record of $8.5 billion set in the third quarter of 1992, and topped by $3.3 billion the $7.5 billion in income reported for the first quarter of 1992.

Over the last five quarters, the banks have broken quarterly earnings records four times, and the one quarter they didn't, the profit was still the second highest on record at the time.

Were the banks to continue to report income at the current pace, they would earn more than $43 billion for the year, easily surpassing the record $32.1 billion claimed for 1992, which was itself 79% higher than the $17.9 billion in income claimed in 1991.

Thanks to these record profits, the equity capital of the banking system as a whole has skyrocketed. Equity capital rose a record $10.1 billion in the first quarter of 1993, the highest quarterly increase in equity since the FDIC began keeping quarterly balance-sheet data in 1973. That brought the equity capital-to-assets ratio to 7.79%, the highest ratio since 1963. Over the past five years, equity capital has risen by 50%, from some $180 billion at the beginning of 1988 to $274 billion as of March 31.

"The recovery in the banking industry is continuing nicely," said FDIC Chairman Andrew Hove, in a press release touting the first quarter results. "The vital signs are reassuring, and barring an unforeseen setback, the prognosis for the near future is excellent."

Given the amazing numbers reported above, one must wonder what Hove, and other regulators such as Federal Reserve Chairman Alan Greenspan, are talking about when they refer to a "recovery" in banking.

The answer to that question is simple: the FDIC's statistics have been doctored to hide the collapse of the banks. That's not entirely the FDIC's fault, since the agency calculates its totals based upon call reports filed by the banks. But the statistics are outright lies, and the bankers and regulators know it.

One of the ways the banks overstate their income, is by hiding the extent of their bad loans. According to the FDIC, "troubled assets" of commercial banks fell for the fourth consecutive quarter, to $84.3 billion, the lowest level since the middle of 1990. That figure includes loans and leases more than 90 days past due of $59.3 billion, and "other real estate owned," mostly foreclosed property, of $25.1 billion, but excludes the $34.2 billion in loans and leases 30-89 days past due, and the $11.6 billion in restructured loans.

Thanks to this alleged drop in nonperforming loans, banks have been able to reduce the amounts of loans they charge off, and reduce the size of their reserves for loan losses.

The banks charged off $4.4 billion of bad loans in the first quarter, or 31.5% less than the $6.4 billion charged off in the first quarter of 1992. For all of 1992, the banks charged off $25.6 billion, down 22% from the $32.9 billion charged off in 1991.

Had the banks merely maintained their already woefully inadequate 1991 level of charge-offs for 1992, their reported capital would have dropped $7.3 billion, and were they to have charged off in the first quarter of this year an amount equal to that of a year earlier, capital would have been reduced by another $2 billion.

Furthermore, had the banks' reported level of troubled assets remained the same between the first quarter of last year ($101.9 billion) and the first quarter of this year ($84.3 billion), the $35.5 billion in profits claimed during the 12-month period would have dropped by $17.6 billion, a fall of 50%.

These capital and profit reductions are tiny, compared to what would occur were the banks to admit the full scope of their losses. Were the banks to file even remotely honest financial statements, the banking system would collapse overnight.

But this criminal coverup of the state of the banking system is only part of the problem.

To keep these insolvent banks afloat, federal regulators are running perhaps the biggest covert bailout in world history, through manipulation of interest rates and currencies, as well as direct lending to the banks themselves. That hand you feel in your pocket, is the banks grabbing your money.