

## Banking by Kathy Wolfe

### FDIC caught in 'Bank-gate' scandal

*Some say that Donald Regan is using the federal agency as "political plumbers."*

**B**ankers and businessmen around the country are providing evidence that White House Chief of Staff Donald Regan and Federal Reserve chairman Paul Volcker are using the Federal Deposit Insurance Corp. (FDIC) to financially and politically aggrandize the Republican National Committee (RNC) and its cronies by bankrupting thousands of small banks.

Sources report that Jake Butcher and others were bankrupted because they were Democrats. But as a report issued by *EIR* in 1983 noted, the broader motive is that Dope, Inc.'s largest institutions, like Regan's Merrill Lynch and David Rockefeller's (and Volcker's) Chase Manhattan, planned to cover their own bankruptcy by absorbing regional institutions at bargain prices.

The "Bank-gate" scandal, first exposed in *EIR*'s 1983 Special Report, "The Coming Reorganization of U.S. Banking," has now grown into a multi-billion dollar version of Watergate. Regan's FDIC spent some \$1 billion in taxpayers' money in each of a dozen bank closings, it charges, much of which was kicked back to RNC cronies in Republican-run "survivor" banks.

Tennessee industrialists say that the Regan FDIC's "dry-out" of Jake Butcher's United American Bank of Knoxville, Tennessee (UAB) was "pure politics." The FDIC shut the bank in February 1983 without even a minor depositors' run. "There is no doubt the regulators intended to stick it to the Butchers," locals said then.

The RNC moved in when Jake Butcher in November 1982 challenged their control over the state and won,

backing Democratic candidates against not only Republican Gov. Lamar Alexander, but even against the daughter of Republican Senate leader Howard Baker. "Baker, a top member of the Trilateral Commission, said 'That's it for Butcher!'" one source stated. "He put the word out to the RNC, starting with RNC chairman Bill Brock, another Trilateral from Tennessee, and to Governor Alexander.

"After the FDIC closed UAB, they brought in a Republican bank, First Tennessee, from 390 miles west in Memphis, turned over UAB's assets to them, and made payoff. Instead of encouraging First Tenn to help UAB's borrower companies, like mine, the FDIC paid them to bankrupt \$458 million in perfectly good loans to the corporate borrowers of UAB. The FDIC paid First Tenn 40¢ on the dollar—over \$183 million in taxpayers' money.

"The FDIC made First Tenn into bounty hunters—just because they were a Republican bank. First Tenn could only earn 12-15% interest on the loans—versus the 40% they were paid off for bankrupting us!

"They actually shut down the entire economy of eastern Tennessee doing this. You figure manufacturers with \$458 million in loans were put in involuntary bankruptcy, each of whom owed their vendors 3 to 5 times that, and you've put all of Knoxville into a 10-year depression.

"Mike Edwards, the liquidator for the FDIC, told me personally in front of my lawyer, 'I'm going to break you. . . . No one will ever do business with you again,' he said.

"The FDIC and the FBI down here

have made it perfectly clear to the Democrats involved that if we say a word to anyone, they'll put us away.

"I heard a man from Washington tell the FDIC guys that they had created a 'billion tax-dollar bubble' from nothing. He added it up: \$458 million in lost loans, plus \$183 million payout to First Tenn, plus \$70 million in lost interest, plus eight years paying the FDIC and FBI on the case."

The Butcher case "is the model for what is going to happen to small banks all over the U.S.," Barry Putman at the Washington Federal Reserve told *EIR* in February 1983. "It's time for a shakeout."

Meanwhile, across the farm belt today, "the Comptroller of the Currency and the FDIC are coming in and simply shutting down many banks," a Minnesota farm banker said May 30. "If you quote me, they'll finish me off.

"The way it's done is that the Republicans in Washington, like Senator Boschwitz and Senator Durenberger, both Republicans from Minnesota, tell us farm bankers that they want us to show forbearance to the farmers, not to collect or close the loans. So we stretch the loans out. Then, wham, the Comptroller or FDIC examiners come in and classify the loans substandard and kill us, make us write them off.

"My bank in particular has been turned from a viable bank into a wreck by this. In late 1984, we were negotiating with a St. Paul bank to buy us up, so we could get more capital and clean out these loans. The Fed approved it in December 1985, but then the Regan Treasury's Comptroller refused and in March 1986 they finally told us no. Well, during that time they had bled our loans down to the point where no one would buy us out now, and we can't get new capital.

"The only thing I can conclude is that they wanted the bank just shut down."