

The Vice President's bailout of the Texas banking system

by EIR Staff Reporters

The editors of the *New York Times* set the queasy stomachs of some a-fluttering on Monday, March 29, when they included Texas Commerce Bancshares in the list of Texas banks which have already gone, as they called it, "belly-up." The next day's correction, prominently displayed on the editorial page, attracting further attention to the gaffe, did little to allay the queasiness.

What the editors of the *Times* had done was to draw attention, in a new way, to the political side of what's being fought out, right now, around what is called the "Crisis of Texas Banking." On the one side, given the insolvency of the U.S. banking system as a whole, the insolvency of Texas banking threatens to spill over, actually quite quickly, into a generalized insolvency crisis for the banking system as a whole. The Texas crisis brutally forces onto the agenda, of even the most wishful of self-deluded illusion-peddlers, the reality that insolvent banks cannot be put through bankruptcy liquidation without tearing down the entirety of the speculatively inflated book values of the real estate-related assets on which the banking system's credit generation has come to depend.

On the other side, politically, they drew attention to the reality that it is the financial power behind George Bush which is thus put on the chopping block, and that cronies of Bush, like Treasury Secretary James Baker, are now using that power, in the name of the crassest political cronyism and venality, to try to prop up the tottering financial power base of the Bush family and its Establishment backers.

Is Chemical next?

Of the top four Texas commercial banks, two, First RepublicBank Corp. of Dallas and First City Bancorporation of Texas, are already in line at the public trough, the Federal Deposit Insurance Corporation. A third, MCorp of Dallas, is on its way to that trough. MCorp's rating with the International Bank Credit Analyst in London is shortly to be downgraded to "E," technical insolvency. The fourth, Texas Commerce Bancshares, was traded off to New York City's Chemical Bank last year, when the Texas banking crisis actually erupted.

Now the word in New York is that money-loser Texas

Commerce is threatening to pull Chemical Bank down the tubes, too. That's why the upset over the *New York Times* editorial. Chemical's stock, like other bank stock, was cut almost in half last year, from about \$48 per share to \$25. Losses ongoing at Texas Commerce are fueling new worries among shareholders, according to Prudential Bache, which sees Chemical as "the least attractive" of money center banks.

In Texas, however, the leadership of the cited banks, now asking for federal aid and succor, is also the political leadership behind George Bush, and his Washington stooges like James Baker. Without the bailout they are demanding, one wonders what will happen to Bush's national aspirations. With the bailout they are demanding, one wonders again, what about the national banking system, which they have brought to the verge of collapse?

However, as the case of Chemical Bank implies, this isn't, either financially, or politically, an in-house Texas affair, even if it does turn out to be the biggest bank bust in U.S. history. New York's Chemical Bank is part of the family base of the Oyster Bay, Long Island Roosevelts, out of which family comes Susan Roosevelt Weld, wife of the punk scion of the White Weld financial interests, interfaced both with the high and mighty of Boston Brahmin finance, typified by the First Boston, Bank of Boston combo, and with the Walkers, the family of George Bush's mother, whose St. Louis interest was bought out by White Weld in 1974.

The link between the Roosevelt crowd in New York banking, and the failing Texas banking system, is personified, not only by George Bush, but also by the national finance chairman of his electoral campaign, Robert Mosbacher.

Like Bush, Mosbacher is from a Connecticut family—of two brothers, one, Robert, went to Texas; the other, Emil, went into New York banking to rise to the board of directors of Chemical Bank. Robert Mosbacher is now on the board of directors of Texas Commerce Bancshares, the number-three ranked Texas bank. Texas Commerce became a subsidiary of Chemical last year, after U.S. banking laws were changed to permit such out-of-state takeovers. Perhaps the changes in banking law which made the takeover possible proceed from the same kind of venal political cronyism that is now seen in

the bailout plans for the banks that have gone under.

The takeover was arranged as the first wave of collapse hit Texas banking during 1987, when First Republic and First City Bancorp. actually went under. That takeover was no doubt part of someone's desperate effort to save what they thought of as their assets. Funny, isn't it, that during the week the latest phase of the crisis broke, Archie Roosevelt and his wife Selwa showed up in Houston for a lunch hosted by Mosbacher to celebrate the publication of Archie's book, *Lust for Knowing*.

On the board of Texas Commerce, too, are some of the big luminaries of the Texas elite, like Robert Shelton (one of the King Ranch heirs), Ladybird Johnson, and many others.

If Texas Commerce is the tie-in nationally, First RepublicBank of Dallas is part of the base of Bush's local Republican operation. The tie is through George Strake, a supposed "independent oil man and investor," a board member of the bank. Strake is also chairman of the Texas Republican Party.

Bush's oil company, Zapata Oil, deeply involved in "Old Boy"-type intelligence work in Central America (there's a specific Venezuelan connection), banks with insolvent First City Bancorporation in Houston. Zapata Oil and First City Bancorporation, the number-four ranked Texas bank, share common directors. George Bush's Zapata Oil's law firm is Baker & Botts. Baker & Botts is the family law firm of Treasury Secretary James Baker III, though under the firm's anti-nepotism rule, he wasn't allowed to practice with the firm. The Baker & Botts connection runs through each of the top four banks, including William Harvin of Texas Commerce and George Jewell of MCorp.

A binge on real estate

The four biggest banks in Texas share their political ties with George Bush, and they share something else. Over the period 1982-87, real estate loans have accounted for half the growth of the banks' asset base. One out of every two new dollars that the Texas banks lent in the five years between 1982-87, went into speculative real estate operations, fueled by high oil prices and by Reagan's 1981 tax reforms. The otherwise ludicrously incompetent New York banking crowd didn't dare to do the same. The percentage varies a bit: Republic Bank, as it was before its shotgun merger, put 58.2% of its new loans into real estate between 1982 and 1986; Texas Commerce Bancshares 57%; First City Bancorp. 52%, and MCorp—the "M" stands for Momentum—a low 48.6%.

The overextended real estate portfolio is the part that has gone really bad—to the point, for example, that all of the banks are actually money-losers. Texas real estate values, collateralized speculatively against the expectation of higher, and perhaps higher-still oil prices, collapsed as the oil price collapsed. San Antonio, Dallas, and Houston are one, two,

and three in the nationwide ranking of areas with empty office space. In the first two, it is estimated that rather more than 30% of all office space stands empty. In the third, it's rather less than 30%. As the estimates go, it would take about eight years to absorb all the empty office space in Dallas and Houston, assuming no new space were brought onto the market. Some say there's enough empty space in Dallas and Houston combined to take care of the entire work-force of the Atlanta metropolitan area.

As the oil price went sour, the real estate loans went bad, and the banks went under. By the end of September 1987, there were \$12 billion worth of foreclosed real estate loans out there, with another \$18 billion more than 60 days delinquent. By now, a sizable chunk of the \$18 billion will have shifted into the foreclosed category, and still more will have entered the ranks of the delinquents.

What's the bottom line?

The government is being used by the Bush crowd to try to hold things together until buyers can be found, as Chemical was found for Texas Commerce, to take over the ailing banks and thrifts. The FDIC and the Federal Reserve are providing funds as stopgap measures in the meantime.

This is where the political cronyism and venality comes in. The idea is that if you can sell off a bank or banks to a purchaser, then you don't have to put it through bankruptcy and into liquidation. By such means, it is intended to actually shore up the real estate market, such that the losses that would be incurred if titles to property were to change hands at what the market will bear, rather than the imputed book value of the property, wouldn't have to be taken.

Thus, for example, the Dallas Federal Reserve District has ceased issuing the traditional weekly reports on the status of money flows within the district. Some say they are doing it to disguise the amounts of money leaving. Others, probably closer to the mark, think it is to cover up the money that is being pumped in, estimated at \$1.7 billion a day for First RepublicBank. At the same time, the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation are being encouraged to do what's required to keep the system afloat.

The bottom line could be anywhere from \$25-50 billion, for Texas alone. But it won't stop there. To open up the spigots in one part of the country, to protect the book value of assets that are actually worthless, is clearly to open up the facility to everyone. What then? \$100-125 billion to be pumped into supporting the worthless assets of the banking system over the next weeks and months. Who knows if the people who do the thinking for George Bush have worked the numbers out? Huge though that amount might be, it's not the bottom line of what it would cost to keep the financial system together in the way Bush and Baker intend. The bottom line would be the destruction of the financial system they are so committed to defending, and them along with it.