The Phyllis Schlafly Report

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Will The Taxpayers Bail Out The Big Banks?

Over the last ten years, a handful of the biggest, richest banks in America, including such giants as Citibank, Chase Manhattan, Morgan Guaranty, and Bank of America, made very large loans to Communist and Less Developed Countries (LDCs). Those loans could never have been justified by customary commercial criteria.

The vast majority of American bankers refused to make such bad loans to foreign countries because they recognized them as bad credit risks. Most bankers practice a generally conservative management. (Conservative is used here in the sense of a very careful handling of other people's money.)

Any American businessman or farmer who borrows from a bank for business purposes knows what kinds of information he must supply, supervision he must accept, collateral he must provide, and high interest rates he must pay. The Communist and LDCs could not or would not meet those standards, but the Big Banks lent the money anyway.

The amount of money involved in these bad foreign loans is staggering. It now totals about $80 billion. The roll call of insolvent, unstable, often unfriendly foreign countries who were the beneficiaries of these loans includes Mexico, Brazil, Argentina, Bolivia, Bulgaria, Yugoslavia, Rumania, Poland, and Hungary.

For more than a decade, one could have read warnings in small conservative publications about the financial folly of U.S. banks' lending billions of dollars to Communist and Third World countries. Those little publications predicted that the loans, granted under easy terms which no American borrower could get, would eventually be a huge loss to the U.S. banks.

The liberal media elite, usually so eager to expose and exploit any mishandling of a few thousand dollars by public or business officials, generally failed to report this largest dollar amount of mishandling of other people's money in the history of banking.

Now it is impossible any longer to conceal from the American public the fact that the loans are uncollectible, that the borrowers are bankrupt, and that the financial losses incurred by the Big Banks are of truly staggering proportions.

What brought the issue out into the open after years of cover-up was the fact that the Communist and Less Developed Countries not only cannot pay back the principal of their loans, they cannot even meet their interest payments! Banks will frequently "roll-over" a loan to another date in the future — but ONLY if the borrower meets his interest payments regularly. However, the Communist and LDCs are so broke they cannot even do that.

When a borrower fails to make his interest payments, it is simply impossible to maintain the fiction that the loan is a good "asset" in the bank's portfolio, and the loan is exposed as a loss.

So the Big Banks, which are among the most powerful financial forces in the United States, have cooked up a scheme to bail them out of their dilemma. They are asking Congress to appropriate $8.4 billion to the International Monetary Fund, which will then give that money to the bankrupt Communist and LDCs, which in turn will pay the interest due to the Big U.S. Banks. The Big Banks want to make the long-suffering American taxpayer absorb the losses for the Big Banks' mistakes.

Some 25,000 businesses failed last year and thousands of farmers lost their farms through foreclosure. The taxpayers didn't bail them out. They got lots of sympathy, but no cash. Our government's attitude was: the private enterprise system is a profit-or-loss system, and you have to swallow your own losses.

Under the law, the Federal Reserve is supposed to supervise the banks. During the last five years, the federal bank examiners have closed or forced into merger some U.S. banks and savings and loan institutions because of loans that proved later to be losers, but which, when made, were not a fraction as risky or irresponsible as the loans to Communist and Less Developed Countries.

Do not be misled by the extravagant and emotional arguments that our nation's banks will all crumble unless the taxpayers dole out $8.4 billion. The responsibility is on the Big Banks' stockholders and the directors they hired — and THEY can make the payments out of their capital and profits. The Big Banks made the mistakes, and they should pay for them. There is absolutely no reason why the American taxpayers should bail them out.

THE BIG BANK BAILOUT OF 1983

25,000 businesses closed their doors last year — went bankrupt and terminated jobs. Did the taxpayers repay the losses of the investors? NO!

Thousands of farmers faced foreclosure last year — the loss of their land and equipment when the bankers demanded that loans be repaid. Did the taxpayers rush to their rescue and pay off the loans so the farmers could keep their land? NO!

Now today, 10 Big U.S. Banks are on the brink of a financial crisis. Are they taking their losses and their lumps like other Americans do in the private enterprise system? NO!

The reason why the Big Banks are in financial trouble is that, over the last 10 years, they lent $80 billion in unsecured loans to insolvent, unstable Communist or Less Developed Countries (LDCs) such as Mexico, Brazil, Argentina, Bolivia, Bulgaria, Yugoslavia, Rumania, Poland, and Hungary.

Anybody with common sense would have known that those were bad loans when they were made. Those foreign borrowers didn't provide the financial statements, the information, or the security that American businessmen and farmers have to provide when they apply for loans.

Now, the foreign loans are coming due and it is clear that the Communist and LDCs cannot pay them back.

But that's not all. Banks often "roll-over" loans IF the borrower can pay the interest due on the loan. (Roll-over means that the borrower gets more time to pay back the principal.) But the foreign countries are so bankrupt that they can't even pay the interest!

When that happens to a U.S. businessman or farmer, that's the end of the line. That means bankruptcy — or foreclosure. You are wiped out! You get sympathy from your neighbors — but the taxpayers don't come to your rescue and pay off your loans and debts.

The Big Banks think they are a specially privileged class. They are demanding a Big Bank Bailout — straight out of the pockets of the long-suffering American taxpayers.

This should be called "The Big Bank Bailout of 1983." It isn't a robbery OF a bank — it is a rip-off OF the U.S. taxpayers BY the Big Banks.

The Big Banks have worked out a clever scheme through a middleman in the hope that most Americans won't realize what a ripoff this is. The Big Banks are asking that the U.S. Treasury give $8.4 billion to the International Monetary Fund (IMF); *then* the IMF will give the $8.4 billion to the deadbeat Communists and LDC governments; *and then* those foreign governments will give the $8.4 billion to Citibank, Chase Manhattan Bank, Bank of America, and the other Big Banks to cover the overdue interest payments.

And who picks up the tab? YOU DO — because the U.S. Treasury gets all its money from the American taxpayers.

Do you know how YOUR U.S. Senators and Congressmen will vote on the Big Bank Bailout of 1983? You had better get in touch with them fast because the pressure is on to rush this appropriation through before the American people find out what is happening.

There's lots more to the Big Banks' Bailout plan — $8.4 billion is only the beginning. American banks have made $80 billion in bad loans to foreign borrowers. In order to conceal from the American people what they are doing, the Big Banks are pressuring their auditors to continue the bad loans on the Big Banks' financial statements as "assets." Will the auditors go along with this scheme?

The other part of the coverup involves the Federal Reserve which, under the law, is supposed to supervise the banks. But the Fed has been pressuring the banks to make MORE bad loans to those same bankrupt foreign countries in order to keep the interest payments coming. Apparently, the Federal Reserve has passed the word to its bank examiners to give the banks a hard time UNLESS these banks INCREASE their bad loans to foreign countries.

The American taxpayers must NOT be forced to pay for the mistakes of the Big Banks. Those mistakes were made by identifiable men in identifiable Big Banks and THEY must be held responsible. The financial loss must fall on the directors of the Big Banks and on the stockholders who hired them. The interest payments on the bad loans can and should be made out of the Big Banks' capital and earnings. This will NOT affect the depositors' money.

The $8.4 billion appropriation to the International Monetary Fund must be defeated! Stop the Big Bank Bailout of 1983!

Letter to the President

To: President Ronald Reagan
The White House
Washington, D.C.

It is wrong - wrong - wrong to give a taxpayer-bailout to the Big Banks to cover their foolish foreign loans. The taxpayers do not bail out local businesses when they fail, or farmers when the banks take away their land and equipment.

The Big Banks' stockholders should pay for the blunders of the directors they hired. Let the Big Banks take the $8.4 billion out of their 1981 and 1982 bank profits - NOT out of the pockets of American taxpayers. The losses from the bad foreign loans should be covered by the men who made the mistakes.

If and when more money is needed, just turn the problem over to the Federal Reserve. Under the law, the Fed has the responsibility for supervising American banks. Since the Fed allowed the banks to make the bad loans, let the Fed itself cover the losses.

Sincerely, _____

Letter to U.S. Senators and Congressmen

To: Hon. _____

_____ *Office Building*

Washington, D.C.

When local businesses in our state went bankrupt, and farmers couldn't meet their loan payments, the taxpayers didn't bail them out. The businessmen and farmers lost their life savings and their workers lost their jobs.

Don't vote for any bailout of the Big Banks through an appropriation to the International Monetary Fund (or any other way). It is wrong - wrong - wrong to make the taxpayers pay for the mistakes of the Big Banks.

The bad loans made by the Big Banks to Communist and Less Developed Countries (LDCs) are the financial responsibility of the directors of the Big Banks and the stockholders who hired them. Let them use the Big Banks' and stockholders' capital and profits to pay the interest on the bad loans. Don't sock it to the taxpayers.

Sincerely, _____

Letter to Local Bankers

To: _____

I know that your bank would never make bad loans to Communist or Less Developed Countries, because I know you have too much respect for the good will of your depositors. But I am writing you because of my concern about the proposed taxpayer-bailout of the Big Banks.

The reputation of the banking community stands to suffer because of the Big Banks' bad foreign loans. The Big Banks made those loans at the same time that American businesses and farmers needed money at reasonable rates and couldn't get it. Now the foreign countries cannot even pay the interest, much less the principal.

I urge you to lobby the U.S. Senate and House Banking Committees to vote NO on the proposed appropriation to the International Monetary Fund. Please tell me that you oppose a taxpayer-bailout of the Big Banks.

Sincerely, _____

Letter to Local Auditors and Accountants

To: _____

I know that you are probably not an auditor for the Big Banks. But you may belong to professional associations whose members include auditors for the Big Banks.

I am writing to tell you of my serious concern that the entire auditing profession will suffer a loss of credibility and reputation if national auditing firms allow the Big Banks to continue to include their bad loans to Communist and Less Developed Countries as "assets" on their balance sheets. It is well known that those loans are worthless - the foreign countries can never repay the principal and cannot even meet their current interest payments.

I urge you to protect the good name of the auditing profession by making sure that auditors do not participate in a coverup of the bad foreign loans made by the Big Banks.

Sincerely, _____

The America Lasters' Sellouts

"America Last" is an expression I coined two decades ago to describe those influential persons whose list of priorities (political, legislative, economic, and financial) ranks the United States last of all. The America Lasters are those who promote the spending of U.S. tax funds for foreign aid to a hundred other countries around the globe, for low-interest and unsecured loans to foreign governments, for giveaways of U.S. rights and property to international organizations such as the World Bank, and for shipments of precious U.S. technology to Soviet bloc countries.

The America Lasters are always trying to submerge U.S. rights in some international outfit. Thirty-five years ago, blind devotion to the United Nations was their pseudo-religion; in the wake of disillusionment with the UN, the America Lasters now want to make the United States subservient to a world authority created by the Law of the Sea Treaty.

The America Lasters dramatically demonstrated their political power when they forced President Carter and the 1978 U.S. Senate to give away our Panama Canal over the objections of the big majority of Americans. The America Lasters bared their knuckles again when they forced President Reagan to reverse himself and allow U.S. technology to build the Siberian gas pipeline.

Now, the America Lasters have pulled a maneuver that exposes better than anything else just why they deserve that name. In the same week when banks were foreclosing on farms and auctioning them off at less than their value to the same banks that held the mortgages, the Federal Reserve was quietly pressuring U.S. banks to expand their unsecured, uncollectible loans to insolvent Less Developed Countries (LDCs).

Does the Federal Reserve have enough clout to "pressure" banks into making bad loans? You bet it does; the federal bank examiners hold the power of economic life or death over the banks. In polite language, that's called having "broad power to review the quality of loans in bank portfolios."

Jerry L. Jordan, a former member of Reagan's Council of Economic Advisers, let the cat out of the bag in a speech on January 14. He said that the Federal Reserve has passed the word that its examiners would give a hard time (his words were "closer scrutiny") to banks which have made bad loans to foreign countries *unless* those same banks *increase* their bad loans to foreign countries.

This mailed-fist-in-the-velvet-glove message to the banks is clear. The Federal Reserve policy requires banks to be hard-nosed and to foreclose immediately on any American farmers or businessmen who can't repay their loans; but when foreign countries can't make their payments, banks are ordered to forget about the principal completely and to extend new loans to enable countries in default to make their interest payments.

Professor Allan Meltzer of Carnegie-Mellon University, who addressed the same January 14 forum, said that Fed Chariman, Paul A. Volcker, wrote to the presidents of the regional Federal Reserve banks instructing them to transmit this message to bankers in their districts. When reporters asked for Volcker's comment on Meltzer's statement, Volcker was conveniently unavailable for comment; but Fed spokesmen confirmed Volcker's policy that new loans to foreign countries in financial trouble "should not be subject to supervisory criticism" and that the recent unsecured $5 billion loan the Fed gave to Mexico was "intended to set a precedent for other loans to countries having debt repayment problems."

When American farmers and businessmen go bankrupt, the America Lasters say: Tough, that's just a risk you take in the private enterprise system. But when the bankers send money overseas never to return, the America Lasters say: Just keep the loans going; we'll cover up your mistakes and unload the losses onto the backs of the American people.

Dipping A Toe In The Water

My eye was caught by a striking color advertisement in the Asian edition of a popular U.S. news magazine. It showed a strange item that could have been a piece of anatomy, an animal, or unidentifiable piece of modern art.

Closer examination showed it to be an artist's conception of the sole of a muscular foot under water, with all five toes curled down. The advertiser was proud of the art work; it was conspicuously marked at the bottom "Copyright 1982 Citibank."

The headline read, "What every international trader needs is advice on when not to dip a toe in the water." The body of the ad continued: "When you trade in Asia with the rest of the world, you need reliable, accurate and fast information. A false move can mean lost business, or worse. Citibank's trade finance specialists can help you decide when to make a big splash, to test uncharted waters, or to keep clear of the alligators." The ad concluded with the boast that Citibank has "offices in 16 countries, plus a network of 93 country operations around the world."

Citibank's advertising department must be badly out of touch with its loan department. The eyecatching appeal and metaphorical ingenuity of the ad are exceeded only by its inappropriate timing. The financial pages of U.S. newspapers currently provide abundant evidence that Citibank itself made "a big splash" in "uncharted waters," and is now on the verge of taking a multi-million-dollar bath, and dragging with it many of the smaller banks that trusted Citibank's financial judgment.

Braniff and Revere Ware are two of thousands of American businesses that have gone bankrupt in the last couple of years because they couldn't meet the terms under which U.S. banks are willing to lend them money, or to roll-over their existing loans.

Citibank has been the U.S. leader in the game of lending billions of dollars of unsecured, uncollectible loans to Communist and Third World Countries. In the words of Citibank's own advertising department, Citibank couldn't keep itself "clear of the alligators."

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