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Bankers Want to Roll the Dice Again

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By MICHELLE MEIER

IN Washington, amnesia is an occupational hazard. Only a few short years ago, policy makers were expressing outrage at the way the go-go deregulatory environment of the 1980's had spawned a rash of bank failures that cost taxpayers dearly and spiked the deficit to new highs.

But now banks are pleading to loosen banking reforms, which were put in place to prevent another $500 billion taxpayer bailout. They've already won some concessions from President Clinton, who released the details of his "bankers' relief" plan at the end of March.

But the bankers, never short of chutzpah, want more, much more. Emboldened by the Clinton initiative, they are stepping up their campaign to win additional regulatory rollbacks. And, shockingly, even though taxpayers haven't yet finished paying for the savings and loan bailout, lawmakers are listening. Thirty-two senators sent a letter on March 31 calling for legislative changes to Robert Rubin, chairman of the National Economic Council, Treasury Secretary Lloyd Bentsen and Federal Reserve Chairman Alan Greenspan.

Under the Clinton proposal, banks will be able to make character loans based on a borrower's reputation, loosen real estate collateral requirements and allow bankers to stall enforcement efforts with agency appeals.

Diluting regulations now is like removing a patient from antibiotics when he still has a serious infection. In fact, the Federal Deposit Insurance Corporation says that for the rest of the decade it expects bank failures at *higher*-than-usual rates.

When listening to bankers' carping, lawmakers should consider this: You don't help the economy by encouraging bankers to be riverboat gamblers. In fact, risky lending only weakens the economy because it takes a big bite out of the Federal budget and leaves banks too weak to lend. Banks could have helped more in pulling the economy out of recession if they hadn't depleted their capital with risky lending.

So after the S.& L. debacle, Congress wisely told regulators to make sure shaky institutions had a plan to build up capital. Accounting gimmickry that let banks hide ailing balance sheets was outlawed. Regulators were told to stay alert.

Efforts to toughen regulation and supervision are paying off. The number of problem banks has shrunk from 1,559 in 1987 to 956 at the end of 1992.

Still, bankers have placed these rules high on their hit list.

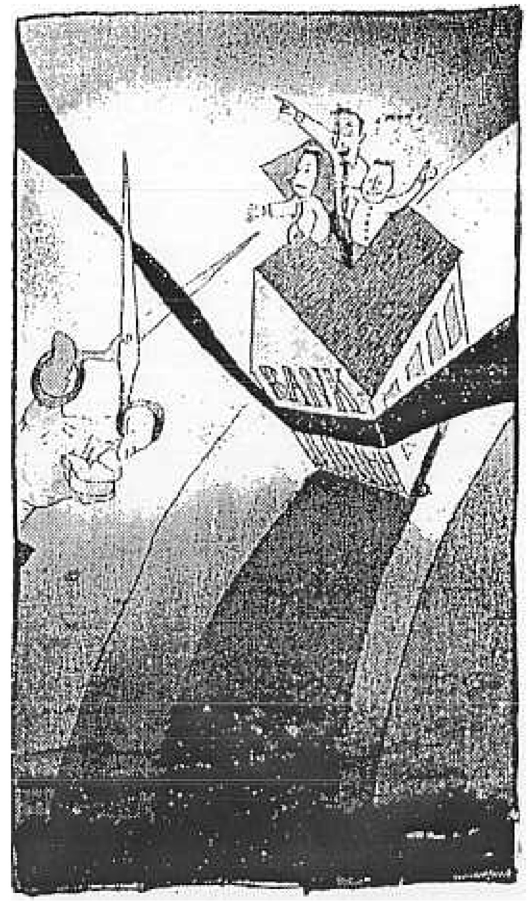
The Administration took the first step toward opening the deregulatory floodgates when it told bankers they could bypass normal channels and carry informal appeals directly to top levels of regulatory agencies. This Government-sanctioned cronyism could bring effective supervision to a halt as bankers appeal to friends in Washington.

BANKERS are now asking Congress to keep examiners away altogether by exempting most banks from the annual audit requirements just put on the books. Without regular scrutiny, how can an examiner tell whether a bank is on the brink of insolvency?

Also, how will a borrower's character protect a bank when a borrower can't repay a loan? Spurred on by bankers' complaints about excessive paperwork, the Administration has said: Not to worry. A borrower's reputation is guarantee enough.

As one person put it recently, "It's all those characters who got the banks in trouble in the first place." In fact, character loans can be the banking equivalent of bungee jumping. Under the President's plan, four-fifths of the nation's banks will be allowed to make small-business loans without getting proof that the loans are likely to be repaid.

This is what got banks in trouble in the 80's. But that isn't stopping bankers from peddling an even more extreme "trust me" approach. They're asking Congress to again let them get away with smoke-and-mirrors accounting. If a character loan falls in value, bank officials won't even have



to note the loan's market value on balance sheets.

The President says his plan is a relatively painless way to pump money into the economy. The plan won't spark another massive round of 80's-style bank failures, he says. But taxpayers beware: Las Vegas-style banking is headed for a revival if bankers win their case on Capitol Hill. ■

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