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Franklin, No Relation of Ben

A Commentary

By Nicholas von Hoffman

At 3 p.m. on Tuesday October 9th they shot the old Franklin National Bank down at a cost to the public of the stupendous sum of at least $1.75 billion. The final reckoning, if we're ever told it, may be $2 billion, which would equal ten Lockheed deals or all the money middle income taxpayers are expected to pay should President Ford's 5 per cent surtax win the approval of Congress.

The Franklin failure is the largest single such shipwreck in our history, but during the months and months the carcass was taking water and going down no candid explanation has been offered as to why the Federal Reserve pumped the $1.75 billion into it to keep it afloat and caused private banks to lend the hulk another $225 million controlled by the Federal Reserve. By way of explanation we've been entertained with tales of sinister Italian financiers, insubordinate clerks and desperate gambles in foreign exchange speculation.

Lately the excuse has been that Franklin was an extraordinarily badly managed enterprise, and that's saying something for an industry which has a reputation for profligate overhead and expensive inefficiency. A closer look at Franklin suggests that the bank took an enormous beating on tax exempt municipal bonds. The possibility that Franklin may have bought these bonds as a result of questionable relationships with the politicians sponsoring them doesn't seem to have been investigated.

In any event these securities are currently enjoying a market value only slightly higher than bonds issued by the last Czar of Russia. Yet another reading of what went on at Franklin inspires the thought that hundreds of millions were lost on bad business loans.

These could, conceivably, have been sweetheart deals between borrower and lender, or these bad loans may even have been made at the behest of the Federal Reserve Board itself. We know that in other instances Dr. Arthur Burns, the board's chairman, has admitted he has "encouraged" (read "pressured") banks to lend money to those notoriously high risk/low yield enterprises called Real Estate Investment Trusts.

Nevertheless there is an officer of the United States government who is supposed to audit and oversee nationally chartered banks to make sure they aren't allowing their greed and foolishness to bring the roof down on them and us. His name is James E. Smith and he is and has been the Comptroller of the Currency for the last 15 months. Nothing on the record shows that Mr. Smith did anything about Franklin until it was belly up in red ink.

It was then that Dr. Burns began moving hundreds of millions into Franklin at subsidized interest rates. A call at the time to the board's public relations office elicited the statement that we shouldn't worry, that only high grade securities were being accepted as collateral for these monsterous loans. No, they said, it was un-

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ethical, illegal, improper, inappropriate and fattening to reveal what even the general nature of this collateral might be.

It turns out it was junk. The successor bank which wants to take over the remains of Franklin—with a $150 million government loan at subsidized interest rates—has told the Federal authorities they can keep most of it. Thank you, and the new bank will also pick through this trash can of bad paper and pluck out the few decent loans left in Franklin's portfolio.

These gyrations weren't executed to protect the small depositor. On the day that Franklin went blup it had 620,000 depositors, all but 6,000 of whom were fully insured up to the $20,000 maximum by the Federal Deposit Insurance Corporation. Who were the other 6,000 with the interest bearing certificates of deposit, the ones who are being saved by this operation?

We don't know. Rep. Henry S. Reuss (D-Wis.) has been pressing a reticent Dr. Burns for the names. If they are ever made public, in all likelihood they'll turn out to be uninsured corporate accounts which have been receiving very high interest rates, probably around 14 per cent.

The reason that they do get interest rates—unlike most of us with our small checking accounts—is that they aren't insured and are supposed to be taking a risk in putting so much money in the bank. The Federal Reserve, however, wasn't created to save corporations from the consequence of gambling to get high interest rates from unsound banks. By doing so Dr. Burns has signaled companies everywhere to throw prudence out the window and play roulette because all bets will be covered by Washington.

Now the last shocker. This mess of biodegradable bonds and uncollectable loans has been dumped on the Federal Insurance Deposit Corporation, the agency that is supposed to protect the small investor. To his honor and credit the rumor in banking circles is that FDIC Chairman Frank Willie has fought a losing battle against Dr. Burns from the start. He lost and we lost because Franklin will cost the FDIC approximately two-fifths of all the money it has been setting aside for years to cover small depositor loss in case of bank failure.