Frank Gaffney (00:25):

Welcome to Securing America with me, Frank Gaffney, the program that's a kind of owners manual for protecting the country we love against all enemies, foreign and domestic, to the glory of God and His kingdom. We are privileged, roughly this time each week, to be able to visit with Bill Walton, a man who knows his way around both the financial sector and the mundo politico, as they call it, the political world.

(00:52):

Notably, he has served as a CEO of the Allied Capital Group, a six or so billion dollar operation on Wall Street, and as the President and CEO of a terrific organization I've been proud to be a member of, and that would be the Council for National Policy. Bill, as always, it's good to see you. I have been proud to see you on your Bill Walton Show recently, as well as on ours, and it's always great to be able to catch up with you. Welcome back, sir.

Bill Walton (01:26):

Great as always talking with you, Frank.

Frank Gaffney (01:29):

Thank you.

Bill Walton (01:29):

A lot to talk about.

Frank Gaffney (01:30):

A lot to talk about. I thought I might start with a financial sector issue, and that is the meltdown of yet another regional bank, this one, First Republic. Jamie Dimon's JP Morgan has stepped into the breach we're told, and it will only cost taxpayers $13 billion or thereabouts. Give us a sense of what is going on here, Bill, and whether what's really afoot is much bigger than just these three banks that have now failed, and First Republic the most recent among them.

Bill Walton (02:07):

Well, we saw what, five, six weeks ago, Silicon Valley Bank failed, and the regulators took it over, FDIC, and managed to merge it with a smaller bank in the Carolinas. The next shoe to drop has been First Republic, and this has been hovering near the abyss for, oh gosh, it's been on life support now for the last couple of months.

(02:32):

And there are lots of individual reasons why these banks got into trouble. But the general reason is that the Fed's monetary policy, which kept interest rates near zero, got the banking industry hooked on zero interest rates payments on deposits, which meant they had essentially free capital. And since the Fed has began raising rates in the last six months aggressively, about as rapidly as they've ever done it in my memory, has put tremendous pressure on these banks to figure out how to make money. And they really can't.

(03:07):

The thing that they did was, in addition to their loan book, because they had a major investment in Treasuries, and Treasuries purchased at a time when they were yielding 1%, 1.5%, and of course, as

Treasury rates have gone up, the value of those bonds has gone way down. And they've also got a commercial real estate portfolio, and that's the next big shoe to drop. About half of the commercial real estate industry is going to be refinancing itself in the next 12 to 24 months. And most of those buildings are worth a lot less than they were before pandemic lockdowns.

(03:44):

But in First Republic's case, the regulators, as always happens, they had a dramatic weekend. There's always a weekend involved in most of these deals, and they wanted to put something together before the market opened this morning, Monday. They did. And Jamie Dimon's JP Morgan, unsurprisingly, was the bank it went to. Unsurprisingly to me, because they're probably the best potential, most capable acquirer, and I'm pleased that it ended up there. There were some other candidates, but I don't think they've got the half that JP Morgan... The left's charge against this deal will be that you're making a big bank like JP Morgan even bigger. But in the end, I think this is a good outcome for taxpayers.

(04:30):

This is not over though. The interest rate pressures that Silicon Valley and First Republic faced, all the regional banks are facing more or less the same things. And so, we're going to have to watch this very closely to see which next problem pops up, and it will.

Frank Gaffney (04:50):

Yeah, no doubt about it. There's another one that was in the middle of those two, Signature Bank in New York, I think that was subjected to-

Bill Walton (04:57):

How easily we forget. Yeah, exactly.

Frank Gaffney (04:59):

... similar kinds of problems.

Bill Walton (05:00):

Yeah.

Frank Gaffney (05:00):

And Bill, I guess just on this First Republic business, as I recall, there was a huge effort by the banking industry to bail it out, to sort of stabilize it, and some $30 billion or so was poured into it. Am I correct about that?

Bill Walton (05:00):

Well, that-

Frank Gaffney (05:19):

And how does that play in all of this, if it's now worth $13 billion?

Bill Walton (05:24):

To this finance guy, that was mystifying, because they didn't put any capital in to shore up the balance sheet; that is, put in any equity or long-term preferred debt. Instead, what they did is they put $30 billion into the deposits of First Republic, which I don't think really did anything except cosmetically show that deposits were still holding up. They weren't holding up. And I don't have the exact numbers, but I think they saw deposits drop from like $170 billion to $40 billion over the course of two, three months. So it was a rush to the exits there, not as quickly as Silicon Valley, but the same forces at work. But that $30 billion deposits really didn't do anything to give it a stronger balance sheet.

Frank Gaffney (06:13):

Well, if Jamie Dimon picked it up with $13 billion, that's, I guess, a killing for his purposes, Bill.

Bill Walton (06:19):

He's pretty good at that.

Frank Gaffney (06:21):

Yeah. Let me just ask you, for those in our audience, myself included, who have money in small regional banks, should we be frightened that this is really going to continue to unravel there and to the benefit of the big guys like JP Morgan?

Bill Walton (06:39):

Well, I think certainly, if your deposits in the banks are under $250,000, you will be okay. There's a real commitment on the part of the Feds to support the small depositors. Of course, we've seen in the last three bailouts, they're not only supporting people with deposits of $250 and under, but everybody. And in Silicon Valley's case-

Frank Gaffney (06:39):

In those selected banks, right.

Bill Walton (07:05):

In selected banks. So I wouldn't run for the exits if you have money in your local bank and it's well under the $250,000 cap. I think the bigger concern we have is that as banks begin to have trouble with their commercial real estate portfolios, we're going to see liquidity dry up for real estate finance, and we're going to see a big impact on the economy. So I'd keep your savings rate high and your debt low.

Frank Gaffney (07:38):

That's advice generally.

Bill Walton (07:39):

And that's one of the ways you can survive this, yeah.

Frank Gaffney (07:40):

But I guess the question that occurs is, is the Federal Deposit Insurance Corporation a solvent operation if in fact there are these, well, as they sense Star Trek perturbations in the force, or Star Wars rather?

Bill Walton (07:57):

Well, it's solvent in the sense that the last time I looked, they had $170, $180 billion in the insurance fund, so it's certainly able to handle something like First Republic Republic. But compare that to the $17 trillion in deposits that are system-wide, and it's really a drop in the ocean. So we're really looking at a federal backstop beyond the FDIC fund. And technically, the taxpayers aren't going to have to pay for it because banks are required to pay fees and to maintain the fund. But ultimately, the consumer pays.

Frank Gaffney (08:41):

Not if they're in trouble.

Bill Walton (08:43):

Not if they're in trouble.

Frank Gaffney (08:44):

Right.

Bill Walton (08:45):

So I think there's-

Frank Gaffney (08:46):

So it's the confidence in your government as much as anything then, I guess, is operating.

Bill Walton (08:49):

Well, yeah. I think that's the exact... So I don't think it's time to run for the exits, but it's certainly a good time to batten down the hatches.

Frank Gaffney (08:56):

Yeah. Well, know where these exits are, that's for sure.

Bill Walton (08:59):

Yeah, yeah.

Frank Gaffney (08:59):

Let me turn to a guy who is assuring us that there's no reason to be concerned about the exits with respect to China. And that is a fellow we talk about with you frequently, a former, I guess, colleague in the financial sector, Ray Dalio. Bill, who is this guy, and what is he saying at the moment about China? Very quickly, and then we'll take a short break.

Bill Walton (09:22):

Well, Ray Dalio is a very interesting case. He founded Bridgewater Associates almost 50 years ago, and founded it in his apartment, a bedroom of his apartment, and really made it into something that was incredibly successful, $120, $130 billion hedge fund with a-

Frank Gaffney (09:40):

All right. Well, you set the stage. He's an interesting guy. We're going to find out more about what he's saying about China on the other side of this very short break. Bill Walton is in the house, star of the Bill Walton Show, and also, of course one of ours here at Securing America. Stay tuned for more right after this.