

Banking by John Hoefle

How big will bank bailout be?

The big commercial banks claim they want to protect the public, but plan to bleed taxpayers for trillions.

With one week to go before the President's annual State of the Union address, the Bush administration has yet to release the Treasury Department's proposals on restructuring the U.S. banking system, the centerpiece of the President's domestic agenda.

A major reason for the delay is the considerable disagreement among bureaucrats and bankers over what to do with federal deposit insurance.

Everyone knows the Federal Deposit Insurance Corp. (FDIC) is broke and desperately needs more money, but that's where the consensus ends. The big banks and the government would like to do away with federal deposit insurance altogether, but that is not politically feasible at this point. Nor is it economically feasible, as the runs which triggered the Rhode Island bank emergency and the failure of the Bank of New England have demonstrated. Large numbers of depositors no longer trust the banks. Without federal deposit insurance, these depositors would abandon the banks in droves, rapidly blowing out the system.

To recapitalize the FDIC's Bank Insurance Fund, which is projected to fall to \$4 billion this year, FDIC chairman William Seidman has proposed a special one-time assessment for all FDIC-insured banks, equal to 1% of their insured deposits. This plan would raise \$25 billion for the insurance fund.

The problem with Seidman's plan is that the banks can't afford it. They're already broke—the FDIC wouldn't be bankrupt unless the banks already were—and the \$25 billion

represents over 10% of total commercial bank equity capital. It also represents, in the very best case, at least two years' profit for the banking system as a whole—and that's using the banks' own fictitious profit figures. In reality, the banking system is losing money, and the \$25 billion would just drive it deeper in the hole, causing more failures, and thereby costing the FDIC even more money.

Mindful of the enormous economic and political costs of the S&L bailout, the government and the bankers are proclaiming that the banks will take care of the problem themselves, at no cost to the taxpayer.

But they're lying.

There are a number of schemes floating around Washington and Wall Street, in which various factions plan to stick it to other factions. But the one thing all these schemes have in common is that, in the end, the taxpayer is stuck.

The most brazen of these schemes comes from the Association of Bank Holding Companies, an organization dominated by the biggest U.S. banks. The ABHC wants the banks and the FDIC to jointly create a new FDIC-administered fund. The money in this fund would be invested in selected weak banks—we can easily guess which banks—to prevent them from failing. These favored banks would be permitted to sell their non-performing assets to private investors, with the new fund protecting these investors from loss. Relieved of their bad loans and other assets, and bolstered by the money from the sale, the banks would

then be better able to attract private investors, the ABHC says.

The plan would, in effect, change the FDIC's mission from protecting bank depositors to bailing out the owners of the biggest U.S. banks.

The arrogance of these bankers boggles the mind. On the one hand, they plan to dump their losses on the taxpayers and get paid for doing so. On the other hand, they say we should trust them, that they'll look out for the public's best interests once the Bush Plan megabanks are created.

The Independent Bankers Association, which represents some 6,000 community banks, is understandably opposed to the big banks' plan. The IBA would rather see the big banks pick up more of the tab for the bailout, and would like to see the Federal Reserve pay interest on the money the banks keep on deposit with the Fed. Considering that the very existence of community banking is at stake, that's a pretty wimpy position.

The American Bankers Association, whose membership includes most of the nation's 12,000 banks, is reported to be leaning toward borrowing the \$25 billion from the Treasury or from private markets. Since the private markets would be unlikely to lend the money without government guarantees, the taxpayer would get stuck either way. The ABA is also considering the ABHC's plan.

Only a fool would believe that bankrupt banks will be able to bail themselves out without taxpayer help, and only the gullible would believe that the big banks would put the interests of the public before their own.

When the Bush thrift plan was passed in 1989, the administration promised it would cost only \$50 million for the first three years, and \$166 billion over ten years. For 1991 alone, the administration is now seeking \$80 billion for the S&Ls.