

We Need to Fix Our Banking System, But...

- The Treasury Department (under Hank Paulson and now Tim Geithner) are engaged in a **massively expensive and risky Bank Bailout** program which threatens to burden taxpayers with many Billions (even Trillions) in new debt and raise taxes for Years.
- No matter how we tackle this problem, it will be expensive. The Big Problem is that Treasury is **throwing money at the problem in a huge rush**, without consulting successful commercial bankers:
 - [Obama Not Recruiting Smart Bankers to Run the Bailout \(Adobe PDF\)](#)
- The whole a process is being tightly-controlled by **Wall Street**, as Simon Johnson explains in the Bill Moyers video
 - [Geithner and the Banking Oligarchs](#)
 - [The Quiet Coup \(new article in Atlantic Monthly\)](#)
- As you read further, you will learn more about:
 - **Why Some of Geithner's Proposals are Bad for Taxpayers**
 - **What Congress Can Do to Fix it**
 - **How YOU can help Right Now!**

What Should Regular Citizens Do About This?

- Face facts! We Cannot Leave this to the Experts !! When they start Giving Away Big Bucks, Don't just accept that it's necessary.
- Would you just **TRUST** them with a **new \$2 Trillion program foreign aid or weapons system**? Use your Gut to guide you. This is NOT Rocket Science, no matter who tells you otherwise !!
- If you need inspiration to get serious about all this, check out these excerpts from Bill Moyers interview with Simon Johnson (“the financial system is playing us for chumps...”)
 - [Playing us for Chumps](#)
- Act Quickly! **Obama's 2009 Budget** includes \$750 Billion for the Bank Bailout that must be modified to avoid disaster!

What Should Regular Citizens Do About This? (more)

- Learn the basics about the problem and what the Government is doing.
- Don't try to do it in one sitting, but start getting educated right now! To get started now, click the link below
 - [Zombie Banks and the Bailout \(Paul Krugman, Nobel-winning economist\)](#)
- **Key Note:** The whole issue of **private jets, executive bonuses, and golden parachutes** is a sideshow that will distract you from the really Big Ripoff, which is the reality that Taxpayers are **going to be fleeced to protect bank stock and bond holders from their own HUGE losses.**
- Learn more about the most efficient way to restart the flow of credit in America, i.e. the **Main Street Credit Act** and the Wall St. Journal article (by Paul Romer) that inspired it, later in this presentation.

Why Can't We Just Trust the EXPERTS??

- The potential taxpayer costs are really staggering, as much as \$2 TRILLION or more. This is approximately **THREE times what we have spent on the wars in Iraq and Afghanistan.**
- **Many Billions have probably already been lost.** We have to be vigilant for **our own future and that of our grandkids.**
- The potential is BIG to waste many MORE tens of Billions, bleeding off money that's needed to fix the financial system or just to support the important government functions (health care, veterans, the environment, etc etc).
- Too many of **the key policy advisers handling this are from the same Banks and Investment Banks who helped create this mess.**
- There is a **very disturbing** coincidence between **recent vast campaign contributions** (made by bailout recipients and **much bigger chunks of Treasury bailout money** received by these same banks
 - [Bailout Recipients and Political Contributions- Ctr for Responsive Politics](#)

What is the Government Probably Doing Right?

- The **TALF** (Term Asset Backed Lending Facility), a Federal Reserve/Treasury program to restart securitization, a form of lending that helps provide credit for credit cards, auto loans, student loans, and SBA-backed small business loans.
- Obama's **Homeowner Affordability and Stability Plan**, which seeks to make existing mortgages more affordable for 9 million mortgages which are at risk of default, even if the mortgages are underwater. Taxpayers need to understand that this plan **has the potential to save billions of our tax dollars** by reducing the default risk on hundreds of billions of mortgages which are already guaranteed by the government.
- Various efforts to shore up finances of **Credit Unions**
- A new glimmer of light is a bill sponsored by Christopher Dodd (the **Depositor Protection Act of 2009**), giving the FDIC a \$500 Billion Credit Line for protecting depositors at failed banks, and strengthening the ability of the FDIC to protect depositors and **preventing bank runs**.

What's Going on with the Bank Bailout?

- Last September, Treasury Secretary Paulson got the **Troubled Assets Relief Program (TARP)** thru Congress (\$700 Billion in two chunks).
- Originally, Paulson wanted to spend the **TARP** money to buy **Toxic Assets** from shaky banks, but instead invested the first chunk in **preferred stock** in hundreds of banks, which DID help prevent a collapse of our financial system.
- After Congress grudgingly gave the OK to release the second chunk of the \$700 Billion, incoming Treasury Secretary Tim Geithner took over responsibility for fixing the mess (although he was deeply involved from the days before Obama took office)
- The two most expensive pieces of Geithner's current plan are the **Toxic Assets buyout plan** and the **Capital Assistance Program**.
- The **Toxic Assets Buyout** plan creates the greatest possible opportunity for looting the Taxpayer in the whole program, although the **Capital Assistance Program** also needs to be much more tightly controlled.

What ARE Toxic Assets, and Why Does the Government Want to Buy them?

- They are assets which have questionable value, typically **mortgages and CDO bonds backed by mortgages**.
- Many of the assets are **mortgages on properties which are worth less than the face value of the mortgage**, or on which the borrower is **delinquent**.
- If a bank has **too many of these bad assets on its balance sheet**, relative to its loan loss reserves, FDIC standards **prevent it from making new loans**.
- If a bank already has **too small a reserve to cover the bad loans** it already has, we say that it is **Insolvent**. Historically, the FDIC has usually intervened to take over insolvent banks (a process called **Receivership**) to protect depositors and taxpayers against losses.
- Geithner (and Paulson previously) want the Government (in partnership with private equity firms) to replace the Bank's toxic assets with good assets (cash or Treasuries), hoping that it will free the Big Banks to start making loans again.
- This idea is fraught with opportunities for Waste, Fraud, and Abuse!

Why Don't We Want the Government to Buy the Toxic Assets?

- Geithner doesn't want to pay "market value" for the assets, because **their market value is so low that the banks would have to sell them at huge losses**, which would “tell the world” that they are **insolvent**.
- If Geithner buys the assets at the (above market) price at which the bank carries them on its books (so called “book value”), he will be **handing over huge amounts of new taxpayer money** to the banks.
- Nobel laureate economist Paul Krugman calls this plan **CASH FOR TRASH**. Most independent and informed economists agree with his opinion (e.g. Joseph Stiglitz, Simon Johnson, Roubini).
- As expected, the Treasury’s newest plan **has structured their toxic assets buyout plan to put the taxpayer at maximum risk for over 90% of the losses on the bad assets**.
 - ◆ [Paul Krugman about toxic zombie assets](#)
 - ◆ [Plan Could Rob the Taxpayer](#)
- If the assets were really worth what the banks say they are worth, then our gut tells us that **we ought not to need a government program to get other people to buy them**.

Different Rules for Big Banks

- The most important **Liabilities** of a Bank include the **Deposits** which have been entrusted to the Bank. The rules are clear that **the Depositors are always first in line to be repaid** if a bank gets in trouble.
- The Big Banks have borrowed large amounts of money by **selling corporate bonds** to mutual funds, big money investors, and other corporations. After the depositors get their money, the bond holders are next in line to be repaid if there's any money left for them.
- Informed observers believe that **the Treasury is bailing out the Big Banks so that the owners of the Banks' bonds won't lose any of their investment**. This would represent a **massive transfer of wealth from Taxpayers to stockholders and bondholders of Big Banks**.

The FDIC and the History of Failed Banks

- In the past, the FDIC has prevented bank runs and protected depositors by **putting insolvent banks into Receivership**. The **FDIC** has had the authority to do so at least as far back as the Thirties. Apparently this fate is just fine with Paulson and Geithner for banks like **Washington Mutual**, as well as lots of smaller banks, but they are **spending and risking vast sums of taxpayer money to prevent this fate for banks like Citigroup**.
- *“The misguided policy response from Washington **has focused almost exclusively on squandering public money and burdening our children with indebtedness in order to defend the bondholders of mismanaged financial institutions** (blame Paulson and Geithner – I've got a lot of respect for our President, but he's been sold a load of garbage by banking insiders)... Simply letting an institution unravel is quite different from **taking receivership, protecting the customers, keeping the institution intact, replacing management, properly taking the losses out of stockholder and bondholder capital, and issuing it back into private ownership at a later date**. This is what it would mean for these banks to “fail.” Nobody is advocating an uncontrolled unraveling of major financial institutions or permanent nationalization as if we've suddenly become Venezuela”*

*fund manager **John Hussman** 3/9/09*

Is the Bailout Fair or Effective?

- Is it Likely to **Restore the Availability of Credit** to Businesses and Others?
- Does it **Avoid Rewarding Bad Behavior** (I.e. avoid creating Moral Hazard)?
- Does it **Help Create Jobs/Strengthen Working Families?**
- Minimize creation of new bureaucracies?
- Avoid ripping off taxpayers for the benefit of special interests?

- **No significant improvement in lending.**
- Same bad actors are running the banks that are getting hundreds of billions (**Bad Moral Hazard!**)
- **Economy and Jobs are contracting fast !** (worst since 1932)
- **Huge sums being transferred from taxpayers to Wall Street and the Big Banks**, protecting their bondholders in the process.

How Can Congress Fix It?

- We need to **restore access to credit** while we **stop the senseless payoffs to the Big Banks** and the **holders of their stocks and bonds**.
- **Recommendation:** Amend the 2009 Budget to **delete the Toxic Assets Buyout**. If you can't do that, then slow it to a crawl by requiring LOTS of federal oversight and studies to ensure we aren't overpaying for assets, and by severely limiting the amounts available this year.
- **Recommendation:** The **Main Street Credit Amendment** (to the Federal budget) provides the best way to protect taxpayers and quickly get our economy growing again.

Why is the **Main Street Credit Amendment** our Best Solution?

- We need to **quickly expand the supply of available credit** in a way that supports **responsible lending** (i.e. does not more create more loan losses for the future). The best way to do that is to work with American bankers **who have good track records in making sound loans and enabling them to make more good loans**.
- We also need to **quickly reduce the cost of credit** to America's businesses and consumers by **ensuring a healthy level of competition**. The most effective way to do that is to **foster a growing number of strong banks** in every part of the country.

Why is the **Main Street Credit Amendment** our Best Solution (part 2)?

- **Main Street America** has over 8000 banks, and the vast majority of them are **Clean Banks** (they have **clean balance sheets** with **no toxic assets**). Some of them are quite large, but most of them are small and medium sized institutions. Most of these have accepted no Bailout money.
- If we **invest new money** into established **Clean Banks**, we can make a **big and immediate impact** in their ability to make more good loans and enable businesses to hire people again.
- In fact, if the federal government invested \$100 billion in new capital into such banks, (out of the \$750 billion already proposed in Obama's 2009 budget), **Clean Banks could immediately and safely make at least \$1 TRILLION in new loans.**
- This kind of "Good Bank alternative" to Geithner's bailout has been endorsed by many well-informed economists, including Stanford's Paul Romer in his article in the Wall Street Journal.
 - [Let's Build Good Banks \(by Stanford economist Paul Romer\)](#)
- To learn more about how Congress can quickly put this into action and **get our economy moving again**, go to the last page (**What We Can Do**), and click the link for the **Main Street Credit Amendment**.

What Else Needs to be done?

- **Recommendation:** Those banks which are most insolvent should be taken into receivership, stripped of their banking licenses, and should **function strictly as caretakers of their existing assets** until their fate is resolved by the FDIC (restructured, broken up, sold off, etc).
- **Recommendation:** Ensure that when the FDIC puts insolvent banks into receivership, it is done **without guaranteeing the interests of shareholders OR bondholders**. Those who invest in the bonds of failed banks are in the same boat as any other bond investor. We have no obligation to prevent losses by those who made huge bets (on bonds issued by insolvent banks) and assumed that the Taxpayer would foot the bill if their bets went wrong.

What We Can Do

- Top Priority: Learn more about how Congress can quickly restart credit in America by clicking the link below
 - [Main Street Credit Amendment](#)
- Tell your friends about **www.stopbailout.org** (also read the suggested web articles, and spread the word)
- Call the Capitol Switchboard (202-224-3121). Ask the operator to connect you to your Congressman and Senators, as well as **Senator Bernie Sanders. Keep calling** until you can talk to a staffer or can leave a message. Call them once a week until the unemployment rate drops back to 6%.
- Urge them to read this presentation at **www.stopbailout.org**
- Urge them to Amend the 2009 budget to:
 - ◆ **Invest \$100 billion of the budget's bank bailout money** in common stock of **Clean Banks that have no toxic assets** (as described in the **Main Street Credit Amendment**)
 - ◆ **Eliminate** or Reduce the **Toxic Assets Purchase** program
 - ◆ **Prohibit the Treasury from using federal funds** to protect Bank bondholders and shareholders against losses