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Bankers have gone bonkers

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- In the past several months, amidst the financial meltdown, a lot of people have wondered, “are bankers going bonkers?” With the passage of the \$700-billion Troubled Asset Relief Program (TARP) and President Obama’s signing of the \$787-billion economic stimulus package, the bankers have gone bonkers, not for lack of money but for having too much money in their pockets. Indeed, the government bailout has created a “windfall” for the banks that they can use any which way they want.

Basically, TARP is a program of the US government to purchase “toxic” assets from financial institutions that were acquired through unregulated subprime mortgage programs. Passed during the waning days of the Bush presidency, TARP was intended to prevent the country’s financial sector from collapsing. However, in its ardent desire to keep the financial institutions from going belly up, Congress haphazardly enacted TARP with no specific conditions on how the recipients should use the bailout money. In essence, it’s a giveaway money with no strings attached. They were given carte blanche on how to use the money.

Of the \$700 billion in TARP funds, \$185 billion went to four of the largest financial institutions: AIG (\$70 billion), Bank of America (\$45 billion), Citigroup (\$45 billion), and Wells Fargo (\$25 billion). The rest of the TARP funds were distributed to smaller financial institutions. While the government had acted in good faith, a lot of the financial institutions -- particularly the big ones -- did not respond in a manner that would be consistent with the legislative intent of TARP.

At a congressional hearing last February, lawmakers

grilled Wall Street CEOs over their use of TARP funds. The CEOs’ responses were identical. When asked what they’re going to do with the bailout money, they responded that “the shareholders -- not increased lending -- are their utmost concern.” As a matter of fact, many of the banks have tightened their lending standards after TARP was signed to law.

According to a recent report by The Wall Street Journal, it was revealed that 10 of the 13 largest TARP beneficiaries’ lending fell even after they received \$148 billion in TARP funds. The report said that these banks’ outstanding loan balances declined by a total of about \$46 billion, or 1.4%, between the third and fourth quarters of 2008. The question is: where did their TARP money go?

It is interesting to note that some banks were using TARP funds to buy out banks who were in trouble and who didn’t qualify to receive TARP bailout. There were also some banks who applied for TARP bailout but did not have any use for it. They claimed that they applied out of “civic duty.” If that is the case, shouldn’t it be their “civic duty” to return them to the government?

But some financial institutions have used the bailout money not for “civic duty” but for greed. Take the case of AIG. After reporting a \$61.7 billion quarterly loss, they asked the government for an additional \$30 billion on top of the \$40 billion already received. When AIG got the extra bailout money, they gave bonuses to some of their employees!

A few days ago, Attorney General Richard Blumenthal of Connecticut revealed that documents he

subpoenaed from AIG showed that it paid a total of \$218 million in bonuses, \$53 million more than what it previously disclosed. He said that “bonuses were showered like confetti” on AIG employees.

It is sad that while Congress took the unusual step to bail out the distressed financial institutions, the banks’ modus operandi remains “business as usual”; that is, to maximize profits for their investors and stockholders. In other words, they continue to be driven by “greed” even in these uncertain times.

Wells Fargo CEO John Stumpf said it bluntly: “We make money when we make loans. That’s our business. Not every borrower that needs money can get it today. We have to be prudent.” But Stumpf wasn’t prudent enough to underwrite “toxic loans” when things were looking good and business was profitable. And now that things are looking bad, he suddenly has the temerity to say, “We have to be prudent.” It is interesting to note that Wells Fargo received the lion’s share of TARP’s \$27.6 billion bailout for California’s 67 banks -- a whopping \$25 billion!

At the end of the day, the taxpayers are being screwed by the banks. Indeed, the banks are frying the homeowners with their own fat. And at the rate that homes are being foreclosed, it is estimated that one million children will be homeless by the end of 2009. And come to think about it, it will be these one million children who will be paying back the bailout money that they never benefited from. Meanwhile, the banks would be raking in profits from

the \$700 billion “windfall” they received -- with no repayment plan required -- from their parents.

With the economy in the brink of deflation, the magnitude of which has never been seen before, the bankers couldn’t fathom the depth in which they brought America -- and by extension, the world -- to its worse economic recession since the Great Depression.

There is only one rational explanation to the bankers’ irrational behavior: they have gone bonkers. It’s time for President Obama to rein in the bankers and bring sanity to the banking industry. It’s also time for President Obama to redirect government resources from bailing out banks to helping homeowners avoid foreclosures.

Yesterday, March 23, President Obama did just that. In his boldest move in his 60-day old presidency, he unveiled a new three-part plan -- the Public-Private Investment Program -- that could buy up to \$2 trillion in “toxic” real estate assets from troubled banks. As part of this plan, up to \$100 billion from TARP funds would be used as equity. But a big part of this plan is for the US Treasury -- through a joint venture with the Federal Reserve -- to pump approximately \$1 trillion more into purchasing “toxic” assets from banks. This program is called the Term Asset-Backed Securities Lending Facility (TALF).

Finally, Obama is back on track to doing exactly what he promised the voters last year; that is, to create a foreclosure prevention fund for homeowners.