THE NAME SPEAKS FOR ITSELF: A 'BAD BANK'

Left, Right and Center - Opposition to a Trillion Dollar Taxpayer-Funded Government-Run Bank Grows

A GOVERNMENT-RUN "BAD BANK" WILL FURTHER JEOPARDIZE TAXPAYERS

Sandler O'Neill financial group: "Price too high and the taxpayer bears too much risk; price too low and banks face capital issues." (Reuters, 1/29/09)

Associated Press: "If the government pays too much, it will waste taxpayer dollars. If it pays too little, not enough banks will want to participate and the program won't do any good." (2/2/09)

U.S. News & World Report: "What a 'bad bank' would most likely do is over-pay for bad assets. ... Meredith Whitney [said] ‘The bad bank is a covert way to recapitalize banks by paying more for the assets than the market would. Then the banks might be able to write up the value of the securities. This would give them, on paper, more tangible equity. In theory they would look stronger.'" (1/30/09)

New York Times: "Inflated values would bail out the companies, their shareholders and executives at the expense of taxpayers, who would swallow the losses if the government could not recoup what it had paid." (2/2/09)

New York Post: "Pricing [assets] too high would increase the odds that taxpayers would suffer losses on their $4 trillion investment." (Op-Ed, 2/1/09)

New York Daily News: "The plan is likely to be a titanic taxpayer hand-out." (Op-Ed, 2/2/09)

Forbes: "Price [assets] too high, and taxpayers wind up with socialized losses while banks benefit with private gains." (1/29/09)

James Keller, former UBS head of structured products: "There is no price that can both help the banks and protect taxpayers." (RealClearMarkets, 2/4/09)

PRICING TOXIC ASSETS WILL BE NEARLY IMPOSSIBLE

Max Holmes, NYU's Stern Graduate School of Business finance professor: "The proposals along these lines being bandied around Washington would all be prohibitively expensive and probably ignite inflation." (New York Times, 2/1/09)

Goldman Sachs: "How would assets be priced? ... There is no clear sign of how this would work in practice." (Reuters, 1/29/09)

Associated Press: "It is extremely difficult to determine how much the government should pay for these assets, since there is no market for them right now." (2/2/09)

Los Angeles Times: "It's well-nigh impossible to determine the right price to pay for [illiquid securities]." (Editorial, 2/1/09)

U.S. News & World Report: "Nobody is sure how to go about setting prices." (1/30/09)

CNN: "Potential hurdles include the pricing of the assets ... and the prospect of saddling taxpayers with the baggage from poor investment decisions made at privately owned institutions." (1/30/09)

Forbes: "Price [assets] too low, and banks had no incentive to participate." (1/29/09)

James Keller, former UBS head of structured products: "The question of what price remains unresolved. Market prices? Model prices? Made up prices?" (RealClearMarkets, 2/4/09)

A "BAD BANK" WILL NOT NECESSARILY INCREASE LENDING

Bloomberg: Oppenheimer & Co. analyst Meredith Whitney: "Simply removing ‘toxic' assets from bank balance sheets will not directly cause banks to increase lending." (1/29/09)

Associated Press: "Accounting rules state that all asset prices have to be set at the current market value. That means that without rule changes, any lowball prices the government offers could be applied to assets the banks choose not to sell - forcing them to take massive write-downs that would reduce their overall worth, threatening their survival." (2/2/09)

New York Times: "Placing too low a value would force institutions selling and others holding similar investments to register crushing losses that could deplete their capital and make it harder for them to increase lending." (2/2/09)

New York Post: "If the Treasury Department or the Federal Deposit Insurance Corp. prices the assets too low, the move could bankrupt some banks, as they would be caught without sufficient capital. ... Buying so much stock also could trigger a de facto nationalization of the banks." (Op-Ed, 2/1/09)

Forbes: "There is no way a ‘bad bank' will induce banks to lend." (1/29/09)

James Keller, former UBS head of structured products: "If the big banks cannot be saved, money spent pumping up their capital, or purchasing their bad assets at inflated prices, will never trickle down into new lending." (RealClearMarkets, 2/4/09)

NEWS OUTLETS, SOROS, AND EVEN SCHUMER REJECT THE "BAD BANK"

Los Angeles Times: "‘Bank bank' is a bad idea ... There's the moral hazard. Even if the government managed the assets deftly enough to avert losses, most of the financial gains that resulted from the maneuvering would go to the banks that were liberated from their mistakes. Giving taxpayers a preferred stake in any institution that sells toxic assets to the government could mitigate the problem, but that might drive off investors by raising fears of a total government takeover." (Editorial, 2/1/09)

The Appeal-Democrat (CA): "A profoundly bad idea; you can bank on it ... The notion is simply absurd that politicians and bureaucrats can direct investment better than those who actually have a personal stake in how those investments turn out. ... As [Lawrence H. White, the F.A. Hayek Professor of Economic History at the University of Missouri] put it, nationalized banks will ‘divert money to the most vote-productive uses rather than the most economically productive uses.'" (Editorial, 1/29/09)

The Wall Street Journal: "Mr. Schumer argues that a huge federal ‘bad bank' is too expensive, and he's right. That could put taxpayers on the hook for trillions of dollars in more outlays, especially if housing and other asset values keep declining." (Editorial, 2/5/09)

George Soros: "It would be a mistake to take the ‘bad bank' route. ... The Obama administration out to resist this." (Wall Street Journal, 2/4/09)

Sen. Chuck Schumer (D-NY), Joint Economic Committee chairman and member of the Senate Banking and Finance Committees: "The bad-bank option is prohibitively expensive and could value the securities at too low a level, spurring a wave of bankruptcies. ... It would probably be ‘very expensive,' costing as much as $4 trillion. ‘Second, it's very hard to value those assets,' and the prices could be set ‘so low that every other bank would go bankrupt.'" (Bloomberg, 2/3/09)

A "BAD BANK" IS FISCALLY RECKLESS

New York Times: "The bond analyzed by S.& P. is just one of thousands that the government might buy or guarantee should it go forward with setting up a ‘bad bank' that would acquire $1 trillion or more of toxic assets from banks."

(2/2/09)

New York Post: "A bad (bank) idea ... The prospects of the Obama administration creating a $4 trillion ‘bad bank' stocked with the toxic assets of the country's ailing banks are, well, bad." (Op-Ed, 2/1/09)

New York Daily News: "While government reports suggest the bad bank will spend $1 trillion to $2 trillion to buy toxic assets, Goldman Sachs estimates that $4 trillion may ultimately be needed. And banks are likely to sell their most toxic trash to the bad bank, meaning the public's losses will be massive - certainly hundreds of billions of dollars, based on current fair value estimates. ...Bailing out banks - not to mention borrowing $1 trillion to fund "stimulus" and endless money-printing by the Fed - are not solutions." (Op-Ed, 2/2/09)

Forbes: "Providing guarantees on pools of banks' toxic assets might be termed the ‘lazy man's bailout.' ... The Treasury can just circle some assets, name a price, slap on a premium and--voila!--Uncle Sam to the rescue." (1/30/09)

CSMonitor: "The costs of reviving the economy, including the bank rescues and a stimulus plan now moving through Congress, are reaching gargantuan proportions." (1/30/09)