
Wall Street Journal Editorial: "An Offer Banks Can Refuse"

A deal with Dick Durbin could come back to haunt them.

"Cramdown would be terrible for banks and the rule of law";

EDITORIAL; Thursday, April 16, 2009

As we went to press last night, Arizona Senator Jon Kyl still had enough votes to defeat a plan allowing judges to break mortgage contracts. So-called cramdown legislation, allowing bankruptcy judges to change the terms on some mortgages, has never gained political traction. But bank lobbyists are threatening to snatch away Mr. Kyl's looming victory.

Cramdown would be terrible for banks and the rule of law, but in the current crisis banks also favor an expansion of the FDIC's line of Treasury credit to \$500 billion from \$30 billion. That extra credit might ease the FDIC's proposed deposit-insurance fee increase for banks, as well as assist its toxic-asset purchase plan. We're told that Senate assistant majority leader Dick Durbin is telling banks that if they want that extra credit-line for the FDIC, they'd best sign on to cramdown. A spokesman for Mr. Durbin denies threatening banks, but we also know he refuses to give the FDIC credit increase a stand-alone vote.

Citigroup

CEO Vikram Pandit has already rolled over on cramdown -- not coincidentally after Citi became the largest recipient of federal assistance. Now we hear the politicians are leaning on J.P. Morgan Chase and CEO Jamie Dimon. A Morgan spokesman declined comment, which isn't a good sign.

Banks

aren't popular on Capitol Hill or anywhere else these days, and they should be wary of alienating the few allies they have. Cramdown looked like a sure thing only a few weeks ago, but it has stalled thanks to Mr. Kyl's principled stand and coalition building. If the banks cut a deal with Mr. Durbin now, they may live to regret it when they look for friends to save them from Barney Frank and Chris Dodd on re-regulation.

NOTE: Click [HERE](#)

to view this editorial online. Click [HERE](#)

to read more editorials opposing 'cram-down'.

###