

A new cure for banks

by *The Milwaukee Journal Sentinel*

The Obama administration now says it may not need additional money for the nation's largest banks after all.

If only it were true.

White House and Treasury officials, largely for political reasons, are hoping to stretch what's left of last year's \$700 billion bailout fund rather than ask a reluctant Congress for another check.

To make the money go further, the administration may convert the government's existing loans to the nation's largest banks into common stock. Doing so would free up capital on the banks' balance sheets and give the government a sizable stake in the banks on the cheap.

In some ways, that's a good thing: It certainly would give taxpayers more control over the banks during a sensitive period and help ensure that the taxpayer investment is used wisely. But it also gives politicians more control over them, raising concerns about political meddling and whether government-controlled banks have an unfair advantage over private institutions.

Worries about the nation's 19 largest banks have arisen again after statements by Treasury Secretary Timothy Geithner over the weekend and as the government finishes its "stress tests," which were designed to evaluate whether the biggest banks could survive a severe downturn. Essentially, the tests will indicate which banks are solvent and which are not.

Geithner said he was certain that the "vast majority" of the nation's banks are solvent. So are we. But what about the ones that aren't? And are some of those the nation's top 10 banks, which collectively hold about 58 percent of all banks assets in the country?

If some of these big banks are not viable, the government should do what it has been doing for years. It should seize them, reconstitute their healthy parts as a new entity, warehouse the unhealthy parts in some sort of "bad bank" or try Geithner's public-private plan to jump-start the market for toxic assets.

The administration is probably right that its allies in Congress have had just about enough of bailing out the banks. The government wasted some of that initial \$700 billion by forcing it on institutions that didn't need it.

But the fact is, more bailout money probably will be needed. By dealing transparently with insolvent banks, one at a time, while treating only those that need the medicine, perhaps the price tag can be limited.

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