

GRADING ON A CURVE

The Obama Administration has reversed its approach from earlier this week and last, and decided it will reveal the results of stress tests. But it warns that it will be grading on a curve to make sure all the zombie banks can pass into the next grade and eventually graduate (rumor has it that JP Morgan Chase also wants to be cleared to play football).

The administration has decided to reveal some sensitive details of the stress tests now being completed after concluding that keeping many of the findings secret could send investors fleeing from financial institutions rumored to be weakest.

While all of the banks are expected to pass the tests, some are expected to be graded more highly than others.

Understand, though, at least as David Sanger tells it, the Administration is not revealing the results of the stress test because it decided transparency is good. Rather, it is doing so because Goldman Sachs and Wells Fargo forced its hand.

The administration's hand may have been forced in part by the investment firm Goldman Sachs, which successfully sold \$5 billion in new stock on Tuesday and declared that it would use the proceeds and other private capital to repay the \$10 billion it accepted from the government in October.

That money came from the Troubled Asset Relief Program, or TARP, and Goldman's action was seen as a way of predisclosing to the markets the company's confidence that it would pass its stress test with flying colors.

[snip]

Citigroup and Bank of America made positive statements about the current quarter weeks ago, and last week, John Stumpf, the chief executive of Wells Fargo, said the bank was in good shape and expected a \$3 billion profit this quarter. The Wells Fargo statement appeared to frustrate some Treasury officials, and regulators clearly fear it will be more difficult for them to issue negative assessments of banks that have already proclaimed that they are in good shape.

A Wells Fargo spokeswoman, Janis Smith, said the company would not comment on interactions with its regulator.

At this point, the Obama Administration needs to realize something else about their plans to bring back the banking industry. These banksters believe they will be and can be immune from regulation. They are treating their gravy train and regulator like a doormat.

So it's probably a good idea to impose the new regulations now, before doling out more money in PPIP. Because until that happens, these banks will be doing nothing but gaming the system.

Update: See Yves at Naked Capitalism on this. She's particularly impressed that the Administration planted a story to blame this all on Goldman Sachs.