THE BIG BANKS' FDIC BOONDOGGLE

In her post on the changing plans to release stress test results, Yves congratulated the Administration for planting a story that blamed everything on Goldman.

> Back to the New York Times:
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> > While all of the banks are expected to pass the tests, some are expected to be graded more highly than others. Officials have deliberately left murky just how much they intend to reveal — or to encourage the banks to reveal — about how well they would weather difficult economic conditions over the next two years….
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> Yves here. That means this is being negotiated. Wonder if the Times story was leaked to box the banks in and (as you will see later) blame it on Goldman. If so, this crowd would be playing a much smarter game than I have given them credit for (the "Goldman made us do it" part, the leak alone is a more predictable move). And this story was clearly planted. The Times reports it came from "senior officials"; as we noted, the Journal also has a story up.

Keep that in mind as you review coverage—both in Sanger's story on the stress tests, and in a completely separate story—of FDIC backed lending. Sanger sort of throws the reference in at the precise point most designed to blame Goldman Sachs for forcing the Administration's hand on the stress tests.

> The Goldman move also puts pressure on the administration to decide what

> conditions will apply to institutions that return their bailout funds. It is unclear if Goldman, for example, will continue to be allowed to benefit from an indirect subsidy effectively worth billions of dollars from a federal government guarantee on its debt, a program the Federal Deposit Insurance Corporation adopted last fall when the credit markets froze and it was virtually impossible for companies to raise cash. In ordinary times, regulators do not reveal the results of bank exams or disclose the names of troubled banks for fear of instigating bank runs or market stampedes out of a stock. But as top officials at the Treasury and the Federal Reserve Bank focused on the intensity with which the markets would look for signals about the nation’s biggest banks at the conclusion of the stress tests, the administration reconsidered its earlier decision to say little.
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> “The purpose of this program is to prevent panics, not cause them,” said one senior official involved in the stress tests who declined to speak on the record because the extent of the disclosures were still being debated. “And it’s becoming clearer that we and the banks are going to have to explain clearly where each bank falls in the spectrum.”

Shorter Anonymous Senior Official: "Goddamn it Goldman, you risk starting a panic here! And as punishment, we’re going to reconsider the terms of that FDIC backing."

And to explain what that means, the NYT provides the accompanying story (and the handy graphic, which shows up in both stories online).

Goldman Sachs, you see (and Bank of America, and JP Morgan Chase, and Citi, and Morgan Stanley, and Wells Fargo) have been benefiting from higher credit ratings than they themselves merit because the FDIC has been backing their loans to the tune of billions of dollars.

> Banks have been benefiting from an indirect subsidy adopted by the federal government at the height of the financial crisis last fall that allows them to issue their debt cheaply with the backing of the Federal Deposit Insurance Corporation.
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> That debt — more than $300 billion for the banking industry so far — helped otherwise cash-strained banks to keep their businesses running even when it was virtually impossible for other companies to raise funds. The program will continue to bolster scores of banks through at least the middle of 2012.
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> [snip]
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> Rather than relying on a direct infusion of taxpayer money, the agency is helping the banks raise debt from private investors by endowing them with the equivalent of an AAA rating. If any of the banks relying on the guarantees ran into trouble, the F.D.I.C. would make good on those bonds.

Gosh. The ability to access credit with an artificially high credit rating? I bet Chrysler would love that boondoggle right about now, huh JP Morgan Chase (and note, three of the other beneficiaries—Citi, Morgan Stanley, and Goldman Sachs—are also Chrysler creditors)?

The story on the FDIC boondoggle quotes Goldman CFO David Viniar trying to downplay the benefit of the FDIC backing, along with others calling it an "invaluable" subsidy from the government. It’s worth it to click through and see Viniar squirm, really it is.

Now, frankly I’m most interested in this from the same perspective that Yves is. These two stories, taken together, appear to be a welcome new tactic from the Administration, to start laying out all the value the government has given the banksters. It’s time to make these banks squirm with the recognition that they’re deadbeats for a change.