THE WALL STREET JOURNAL.

**July 28, 2009**

## WSJ: Banks Profit from US Guarantee

By Trader Mark

Thank you Wall Street Journal for actually putting a number to this FDIC guarantee. I have mentioned many times that our financial oligarchs (which apparently now include General Electric

(GE)) are benefiting in a massive way from the FDIC backstopping their debt. I just never had a number. I have been chuckling to myself after troubled bank after troubled bank - including our lovely Citigroup (C) extols they are able to raise money. First with the FDIC guarantee, and then lately without.

Look oligarchs - I could take someone with FICO 300 (does it go that low?) and she can raise money as long as the government backstops it.

To which you argue ... but Mark, some of this debt has been floated without FDIC debt. The problems are almost over and its back to normal. To which I say dear sir (or madam) - this is our new normal. Every major bank in the United States is now Fannie Mae and Freddie Mac. Two institutions which for many years were never EXPLICITLY backstopped but everyone assumed if push came to shove it would happen. Push came to shove last year, and the US taxpayer came to the rescue.

In return for this IMPLICIT backstop Fannie and Freddie could undercut the free market competitors and raise capital at lower rates. Which is obviously damaging for anyone who would ever wish to compete against them.

Now extrapolate that to every major large financial firm in America. We have institutionalized too big to fail. Our largest oligarchs now have the implicit backstop of YOU. Even when the FDIC backstops go away we have demonstrated during this episode that when push comes to shove anytime in the coming 20, 50, 100 years our financial chieftains will be covered. So they will CONTINUE to have an advantage - just as Fannie and Freddie did for all these years. They will ALWAYS have a lower risk profile than SMALLER competitors. Because the government won't save the small guy. So they will be able to progressively squeeze out profit margins at the small and medium banks - because of you. Even if you are not willing. Because that is part of the American bargain. You are here to backstop banks.

So as we saw, this policy worked wonders at Fannie and Freddie - the 2 largest political donors for many years. Accounting scandals, poor performance, and eventual failures. Now all the large banks are under that umbrella. And most of America simply is oblivious to what has happened - after all its barbecue season.

With that said, this COST will only be with us for a short period of time - until the FDIC backstop goes away. But the BENEFIT will be into perpetuity... as I explained above. Because in "free market capitalist America" when the going gets tough, the losses get shifted the peasants.

As would happen in any free market system. Dogma baby. Dogma. I would just like to ask if I can skip the middle man and not send my check to the IRS each year, but directly deposit it into JPMorgan's, Wells Fargo's, Goldman Sach's, or Bank of America's account directly. Preferably to a high level (C level if I am lucky) executive who is benefiting. This way we could out a lot of layers and the efficiency of America improves. So who wants my first check (or I can direct deposit)? Mr. Dimon? Pandit? Lewis?

Before we get going on the rest of the post, I will repeat these statistics for every bank post go forward so you see how concentrated US assets have become in a few of the largest lobbyists on the globe - and how large the gulf is after the "big 4".

Heck, I haven't even touched on GE (parent network of CNBC)...

It is the gift that keeps on giving. The government's guarantee since November on new debt issued by financial firms such as Citigroup Inc. and General Electric Co. will save those companies about $24 billion in borrowing costs during the next three years, according to an analysis by The Wall Street Journal.

In the second quarter alone, the eight largest issuers of corporate debt under the Federal Deposit Insurance Corp.'s Term Liquidity Guarantee Program cut their interest costs by about $2.2 billion, increasing their profits and delivering an extra jolt to the stock market's two-week rally.

So let's stop there. Do you see how it works? Handout money that we (don't) have - stolen from future generations to keep "free market capitalism working". Banks receive. Aside from running high frequency trading programs to front run the market, and raising massive wads of fees for dilutive offerings of their brethren after a "stress test" which they could negotiate the terms of with "regulators" [May 9, 2009: WSJ - Banks Won Concessions on Stress Tests], they pad their bottom line with cost savings from "taxpayer backstopped" debt. And the market goes up... as we forget to mention all these facts above.

p.s. did I mention Paulson snuck in a tax provision at the last moment in the original TARP that was a massive windfall. aka green shoots. [Nov 13, 2008: Washington Post - A Quiet Windfall for US Banks] I think people think I'm cracking jokes when I say these are our oligarchs. No folks, this is like Russia - replace oil for banks.

Citigroup saved nearly $600 million in the latest quarter on the $44.6 billion in medium-term FDICbacked debt it has issued, or about 14% of its overall profit of $4.28 billion.

Goldman Sachs Group Inc., which posted record quarterly profit of $3.44 billion, is cutting financing costs by roughly $205.5 million every three months by selling corporate debt through the government-assistance program instead of on its own.

And if someone needs help, it is Goldman Sachs. But again, because they are too big to fail they can "walk away" and say we are "government free" as they are doing now and the trick on American peasants is... no they are not.

They never will be. Only Sheila Bair in our entire government thinks companies should never be too big too fail. But she doesn't require a PAC committee to keep her job, so she can say such outlandish things. So keep this in mind as financial after financial declares itself government free in the quarters and years to come. It's a lie.

**"You can't ignore the TLGP when you look at bank earnings," says Daniel Alpert, managing director at investment bank Westwood Capital LLC. "It has reduced their cost of funding and ensured that the market has the kind of liquidity required so that trading revenues have been so high."**

The guarantees were dangled after credit markets seized up last fall, giving financial institutions a way to float short-term debt at low interest rates. Since then, about $339 billion in corporate debt of all durations has been issued under TLGP. Without federal assistance, companies that rely on short-term financing to fund operations would have been unable to roll over their debt without paying exorbitant interest rates.

But the bonanza could be fresh ammunition to critics who say taxpayers are subsidizing runaway earnings -- and bonuses that are on track to rebound sharply this year -- at financial firms that are at least partly to blame for the financial crisis and recession. The lower corporate-financing costs will last until debt issued through the government program matures, typically two or three years.

The rest of the article is examples of how banks (and GE Finance) are benefiting with numbers - instead of posting them one by one, let me give you just Government Sachs example.

One example of the lower financing costs made possible by federal assistance: On Nov. 25, Goldman issued $5 billion in debt maturing in June 2012. The debt has an annual interest rate of 3.25%.

On the same day that the government-backed bonds were sold, outstanding Goldman debt maturing in September 2012 was yielding 8.51% in the open market.

Based on the gap between the two interest rates, Goldman will save about $754 million over the life of the FDIC-guaranteed bonds. It will reap lower interest costs of about $2.33 billion for all the corporate debt sold under the government program.

Rinse. Wash. Repeat. For all your oligarchs. And don't forget to pat your "top 6" banker on the back and share a rousing "Heckuva job Goldie!"

I cannot stress again, the one thing the article was missing is even AFTER the FDIC backing goes away we have given an advantage to these largest firms an advantage in cost of capital in a perpetual manner. Anyone who lends money to them now knows the US taxpayer is eventually on the hook. That is something your mid market regional bank simply will never have as a feather in their cap, hence will always be at a disadvantage.

Just as it should be in "free market capitalism".

In advance of comments, my solution for the mess last year was to guarantee every depositors money 100% up to whatever amount they had. Every single penny. Then let the free market reign.

The vessels that house these deposits, despite being among the largest political contributors in our era, are meaningless. All that matters is the money was backstopped. The bond holders, the equity, the firms themselves... never should of been. After the government would of had to quasi nationalize all the bankrupt firms they could of sold them in pieces over the coming year to medium sized firms who did not have the issues and acted responsibly... and we'd all still be here. With our money. It would of been dramatic - but we'd be of been fine. The end.