Banks race to profit from US bailout

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The announcement of a virtually open-ended government bailout of Wall Street has set off a frenzied competition among the biggest banks and financial firms to grab the lion's share of the super profits to be reaped from the program.

Banks, brokerage houses, insurance firms, mortgage lenders, private equity companies and asset managers are furiously lobbying the Bush administration and Congress to make sure that the legislation authorizing the bailout gives them the biggest possible share in the spoils. Behind the public speech-making and posturing by administration officials, presidential candidates and congressmen, a sordid campaign of influence-peddling and vote-buying is under way, which will determine the details of the bailout law that is expected to be passed either this week or next.

Tens of billions of dollars in corporate profits and billions more in personal windfalls for senior executives and big investors are at stake. The plan drawn up by Treasury Secretary Henry Paulson not only allows the biggest financial firms to rid themselves of virtually worthless assets that are driving down their stock and slashing their profits, it provides vast opportunities for the winners in the money race to realize huge gains from the management of the program and the ultimate resale of the assets by the government.

The entire program is so rife with "conflicts of interest" that the term does not begin to capture the level of corruption and criminality it entails.

The *New York Times* on Monday carried an unusually frank article, which began, "Even as policy makers worked on details of a $700 billion bailout of the financial industry, Wall Street began looking for ways to profit from it.

"Financial firms were lobbying to have all manner of troubled investments covered, not just those related to mortgages.

"At the same time, investment firms were jockeying to oversee all the assets that Treasury plans to take off the books of financial institutions, a role that could earn them hundreds of millions of dollars a year in fees.

"Nobody wants to be left out of Treasury's proposal to buy up bad assets of financial institutions."

The article quoted Bert Ely, a financial services industry consultant in Alexandria, Virginia, as saying, "Of course there will be fierce lobbying. The real question is, Who wouldn't want to be included in the package?" The plan was so open-ended, Ely said, it could be interpreted to mean that the US government was open to buying "any asset, anywhere in the world."

The *Wall Street Journal* on Monday quoted Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable, which consists of chief executives of the nation's most powerful banks, brokerages and insurers, who said of the industry lobbying campaign, "This is the Super Bowl and New Year's Eve of legislation."

Key issues in play include: Which institutions will be covered by the plan; what kinds of assets will the government buy; how much will it pay; how will the assets be valued that are palmed off to the government; which financial firms will get the franchise to manage the program and thereby cash in on fees and the eventual resale of the assets?

The *Times* article noted that within one day of the presentation on Saturday of the initial Treasury Department proposal, major changes had been made at the behest of big banks and Wall Street lobbying organizations. The changes dramatically widened the scope of the bailout.

Foreign-based financial firms that do business in the US, initially excluded, were given a place at the trough; the range of institutions qualifying for the program was broadened to include insurance companies, mortgage lenders and other non-banking firms; and the type of assets to be off-loaded to the government was widened from “mortgage-related assets” to include “any other financial instrument.”

As the *Times* article put it: “There were signs of the industry’s fingerprints on drafts of the legislation released over the weekend.... Securities firms were initially excluded but were included in a version released Sunday afternoon.”

Among the changes being called for by various industry lobby groups are:

* Pushing back the date of purchase of assets which the government will accept. The Treasury proposal released Saturday set the cut-off date at September 17 of this year. Some bankers are demanding that the date be changed to December of 2007, and, according to the *Financial Times*, some industry groups are lobbying for a clause that would “allow banks selling assets to the fund to account for any losses realized over a number of years.”

* Small banks are urging the government to buy loans they made to homebuilders and commercial developers.

* Some bankers are pushing for government support for municipal securities.

* The banking industry, according to the *Wall Street Journal*, “has gone directly to the SEC (Securities and Exchange Commission) demanding a letter changing US accounting rules that require banks to state the value of their assets at the market price.” They instead want their rotten assets to be valued at their price at the time of purchase—a change that would cost the government additional hundreds of billions in taxpayer money.

To put it bluntly, the American financial industry is preparing to deliver to the US Treasury every bad debt it accumulated over the years of reckless speculation and financial manipulation that generated super-profits and multimillion-dollar compensation packages for its top executives. And it is insuring that the American people pay super-inflated prices for their financial junk, so that they can launch a new and even bigger orgy of speculation.

The announcement of the bailout plan has set off a particularly ferocious competition for inclusion among the financial companies that are to be hired by the government to manage the operation. This plum job could, according to the *Times*, earn the winners $1 billion a year in fees.

Among the firms in the race is the asset management company BlackRock. Morgan Stanley, the Wall Street investment bank, is also running hard for the prize.

Another firm reportedly in the running is the private equity company Blackstone Group. It has expressed interest in buying up the assets when they are put back onto the market by the government. Blackstone made a fortune by betting against these very same assets early last year.

Bank of New York Mellon is also campaigning for a spot, as is JPMorgan Chase, the giant commercial bank that made a windfall in the rescue of Bear Stearns last March, in a takeover deal that was subsidized by the Federal Reserve Board to the tune of $29 billion.

All of these firms played major roles in creating the financial disaster from which they now seek to profit. They all are deeply involved in speculation on the assets that are to be bought by the government, and some, such as Morgan Stanley and JPMorgan Chase, have billions of such assets on their books.

Another figure who would like to be a Treasury Department asset manager is William Gross, chief investment officer at the bond management firm Pimco. The *Times* article noted, in passing, that Gross “is among the financial executives Mr. Paulson... has regularly consulted with since the financial crisis began.”

Gross made a cool $1.7 billion earlier this month in the government takeover of mortgage finance giants Fannie Mae and Freddie Mac, after having bet on the firms’ demise and publicly agitated for a government buyout of the companies. In recent weeks, he has been campaigning for precisely the type of government plan to buy the banks’ bad debt that is now being implemented.