

# Obama administration allows big banks to repay TARP funds

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The US Treasury Department on Tuesday approved the requests of 10 of the country's biggest banks and financial firms to repay the bailout cash they received last year under the \$700 billion Troubled Asset Relief Program (TARP).

The one-page announcement released by the Treasury did not name the banks, but put the combined total of money to be repaid at \$68 billion. This is about one quarter of the total in cash infusions to more than 600 banks under TARP.

Press reports listed the firms as JPMorgan Chase, Goldman Sachs, Morgan Stanley, American Express, Bank of New York Mellon, State Street, US Bancorp, Capitol One Financial, BB&T Corporation and Northern Trust.

Last month, when the Treasury and the Federal Reserve released the results of their "stress tests" on the 19 biggest bank holdings companies, they declared that 9 of the banks had sufficient capital to withstand a deeper recession, paving the way for them to repay their TARP funds and thereby free themselves of executive pay limits and restrictions on dividend payments and stock buy-backs. The remaining 10 were ordered to raise a total of \$74.6 billion in additional capital.

Eight of the 10 firms that were given the OK on Tuesday to repay their TARP funds were among those deemed not to require additional capital. Morgan Stanley, which was ordered at the time to raise \$1.8 billion in new capital, was given permission to repay its \$10 billion in TARP funds, having already raised more than its required capital cushion in private markets. Northern Trust, a large custodial bank, was not included in the stress tests, which applied to bank holding companies with \$100 billion or more in assets.

With the exception of Citigroup and Bank of America, each of which has received multiple bailouts and was ordered to raise billions of dollars in additional capital, the big banks have been clamoring for permission to repay their TARP funds. The Obama administration resisted their demands for a time, knowing that it had rigged the stress tests to provide a rosy picture of the banks' finances and fearing that the same banks might soon require another rescue.

The \$68 billion being returned is more than double the administration's initial projection of some \$25 billion being paid back this year. The money is also being returned much earlier than the government originally intended.

The banks' motives in repaying the TARP handouts are entirely self-serving. Their campaign to return the money began in earnest last February, when Congress attached a provision to the administration's stimulus package limiting executive bonuses at firms holding TARP funds to one third of base salary. Wall Street was outraged, and getting out from under TARP became a central preoccupation of the banking elite.

Banks that repay their TARP cash also stand to save billions of dollars in dividend payments on preferred shares they were required to give the government in return for the taxpayer money.

More fundamentally, repaying the TARP funds is seen as a major step in shedding the increased government oversight that came with the bank rescue operation and resuming at full throttle the speculative practices that generated huge profits and executive compensation packages, until they led to an implosion of the US and global financial system last year.

The campaign to repay TARP is of a piece with a political offensive being waged by the big banks on a series of fronts to block any serious increase in

government regulation and weaken some existing regulations. (See: “Wall Street on the Offensive,” June 8, 2009).

The Obama administration has worked to facilitate this effort. It has repeatedly stressed its support for capitalism and private ownership of the banks, opposed serious limits on executive pay, and tailored its industrial policy to the interests of Wall Street, most notably in its decision to force Chrysler and General Motors into bankruptcy. The banks have applauded the downsizing of the auto industry and slashing of workers’ jobs and wages as a means of turning the companies into sources of profitable investment.

Obama has declared on numerous occasions that he will do “whatever it takes” to rescue the banks, implying that there is no limit to the use of public funds to cover the bad debts of the bankers. The TARP cash infusions are only a relatively small part of the trillions of dollars that have already been devoted to protecting the wealth of the financial aristocracy.

The stress tests allowed the government to declare the banking system “fundamentally sound,” despite the existence of at least a trillion dollars of bad debts on the banks’ balance sheets. They were designed to provide a further boost to the banks.

Since the results were announced on May 7, the banks have raised almost \$90 billion through offerings of common stock and bond issuances. Bank stocks have continued to soar, with big-bank stocks rising 87 percent since their lows in early March.

By allowing most of the biggest banks to repay their TARP funds, entirely on the banks’ terms, the administration is essentially giving them a clean bill of health and providing a rationale for rejecting any serious regulation of their activities. Tuesday’s Treasury announcement sets the stage for the administration’s release of its financial regulatory proposals, set for next week.

The Treasury Department statement on the TARP repayments quoted Treasury Secretary Timothy Geithner as saying, “These repayments are an encouraging sign of financial repair, but we still have work to do.” Later Tuesday, Obama similarly hailed the TARP paybacks as a sign of growing financial stability and sought once again to reassure Wall Street by saying he had no interest in managing the banks.

Tuesday’s events underscore the Obama

administration’s role as a political instrument of the most powerful sections of the financial elite. They make clear that there is to be no structural reform of the banking system, despite the criminality and fraud that pervade Wall Street. Nor is there to be any public examination of the activities that led to the deepest economic crisis since the Great Depression. None of the banking moguls whose reckless pursuit of personal wealth contributed to the financial collapse are to be held accountable. Nor will there be any restitution of the trillions of dollars in wealth that was essentially plundered.

In its announcement, the Treasury Department said that the TARP money it recouped would go not to the taxpayers, but would instead go back to the Treasury, to be used for further subsidies to the banks.

One major consequence of the government’s approval of TARP repayments by the relatively stronger banks is a further consolidation of the banking system. This has, in fact, been a major objective of the bank bailout since it was launched under the Bush administration.

Those banks, such as Citigroup and Bank of America, that are not able to repay their TARP funds will find themselves at a huge disadvantage. The drive to further monopolize of the country’s financial life was spelled out in an editorial published Tuesday on the TARP repayments by the *Wall Street Journal*, which called for the breakup or liquidation of Citigroup.

The crisis precipitated by the depredations of Wall Street is being exploited, with the aid of the Obama administration, to place the American people even more tightly in the grip of a financial oligarchy.



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