

In bid to escape pay restrictions

## US banks move to repay bailout loans

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Citigroup is negotiating with regulators in an attempt to pay back its government bailout funds before the end of the year. The bank's drive to repay its loans comes a week after Bank of America announced that it had repaid the \$45 billion it received under the Troubled Asset Relief Program (TARP).

Citi's push to repay its loans has sown divisions between regulators, with the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve arguing that the bank is not yet healthy enough to repay its loans, and Treasury Secretary Timothy Geithner pushing for repayment as soon as possible. The bank posted a \$3.2 billion loss in the third quarter, following two consecutive quarterly profits.

Of the \$45 billion in bailout funds Citigroup received last year, \$25 billion has been converted to common stock, leaving \$20 billion in outstanding loans. The US government can sell its \$25 billion in shares, which gives it one-third ownership of the bank, whenever it chooses, and the *Financial Times* reported Wednesday that the government is "likely" to sell the stock over the next "year or so." The government also guarantees \$301 billion of the bank's assets.

By virtue of the fact that Bank of America and Citigroup received "exceptional assistance" from the government, over and above the funds made available to the other big banks, they were placed under the purview of Kenneth Feinberg, the Treasury's special master for executive compensation. Feinberg's remit initially covered seven firms—American International Group, Citigroup, Bank of America, General Motors, Chrysler and the financing arms of the two auto makers.

Earlier this year, after intensive negotiations with the seven firms, Feinberg announced modest restraints on their pay awards to top executives. However, Wall

Street considers any form of government oversight an impermissible infringement on the right of the banks to pay seven-and-eight-digit compensation packages to top executives and traders.

The timing of the repayment scramble is significant. The banks are seeking to get out from under government pay restrictions in preparation for paying year-end bonuses, and to attract new executives with multi-million-dollar signing perks. Bank of America, in particular, has had difficulty finding a replacement for outgoing CEO Kenneth Lewis. The need to offer a "competitive" bonus package is one of the reasons cited by commentators for the bank's rush to repay its TARP loans.

Andrew Ross Sorkin of the *New York Times* made this point Monday in an article entitled "Bailout Refund Is All About Pay, Pay, Pay." Sorkin wrote that people within the Treasury Department told him "the No. 1 reason offered by the firm [Bank of America] during weeks of back-and-forth—even when it was discussed indirectly—was compensation." He summed up the policy of the Obama administration toward Wall Street by citing a research note from Standard and Poor's which, he said, "suggested the \$45 billion repayment didn't really matter, because if the bank got in trouble again, taxpayers would be there with another bailout."

This was underscored Wednesday, when Treasury Secretary Geithner, citing the threat of further financial problems, announced that the White House will extend TARP through October of 2010.

Citigroup and Bank of America were hit harder by the financial crisis and recession, and have taken longer to recover, than competitors such as JP Morgan Chase, Goldman Sachs and Morgan Stanley, which repaid their TARP loans on June 17. The latter have been able to reap bumper profits through speculative trading in

stocks, bonds, currencies, commodities, derivatives and other complex and murky investments—the very types of parasitical and debt-driven practices that precipitated the financial crash of 2008.

That any of these banks, which lost billions in 2007 and 2008, are able to even consider repaying their government handouts is a testament to the unprecedented plundering of the Treasury carried out by the Bush and Obama administrations in order to rescue the financial aristocracy and protect its wealth. Aside from the trillions provided to the banks—in the form of TARP cash, cheap loans, subsidies, government guarantees of debt and assets, etc.—the Federal Reserve has carried out a policy of near-zero interest rates and the printing of billions of dollars in order to inflate stock prices and make possible a new surge in speculative profit-making.

Meanwhile, nothing has been done to address the underlying insolvency of the banks. Instead, the government has assumed their bad debts, undermining global confidence in the US dollar and raising the specter of state insolvency. No reforms have been carried out to limit the speculative activities of the banks, and none are in the offing. Nor are any of those chiefly responsible for the financial debacle and resulting social disaster to be held to account.

Instead, the policy of the Obama administration is to use mass unemployment to drive down the wages and living standards of the working class, and carry out a program of austerity to slash spending for social programs. On this basis, the ruling class intends to make the working class pay for the bailout of Wall Street.

All of the major banks continue to hold on their books billions in “toxic” assets, including mortgage-backed securities and loans, commercial real estate assets, credit card loans, and other consumer credit assets that continue to plunge in value as unemployment rises and defaults and bankruptcies increase. The banks refuse to write down these assets or sell them, in order to avoid recording the resulting losses. The government has already obliged by watering down accounting standards so as to allow the banks to value these assets far higher than their market price. The big banks are confident that, in the end, the government will step in either to make them whole or rig the markets so as to allow them to sell off these

assets at artificially high prices.

At the same time, the banks continue to reduce their lending to small businesses and consumers, finding it more profitable to speculate on the financial markets. When TARP was passed in October of 2008, it was justified to the public by Bush, and backed by Obama and congressional Democrats, as the only means of getting the banks to start lending again.

In his *New York Times* article, Sorkin noted data showing that Bank of America’s new loans actually fell from \$942 billion in the second quarter to \$914 billion in the third. For the banking system as a whole, total commercial and industrial loans fell from \$1.36 trillion in June to \$1.28 in September, according to a recent report by the FDIC.

Among nearly all of the major banks, the lending arms have been hemorrhaging money, while the securities and commodity trading operations have been responsible for the vast majority of profits. Citigroup is a case in point. In the third quarter, the bank’s credit card and mortgage units lost \$9.4 billion, offsetting profits at its trading arm.

Those banks furthest removed from the consumer sector have returned to profitability the fastest.

In his speech on economic policy Tuesday, Obama defended the Troubled Asset Relief Program and hailed the fact that it has cost the government \$200 billion less than anticipated. In fact, TARP was the spearhead not only of a transfer of public funds to private banks without historical precedent, it also established and institutionalized the principle of government bailouts of the banks. It is only a matter of time before the current inflation of asset values results in a new crash, and an even bigger government rescue of the financial elite.



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