

Bank of America Threatens Fed, Demands More Cash From Taxpayers

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Bank of America fell a whopping 18.43% today, hitting a new 52 week intraday low of \$7.35 on concerns it is not going to easily be able to digest the merger with Merrill Lynch. I suggest Bank of America has easily bitten off more than it can chew and said so at the time, on September 15, 2008 in [Market Votes "No Confidence" In Merrill, Bank of America Merger](#).

Bank of America (BAC) was hammered a whopping 21% for its ridiculous offer for Merrill Lynch (MER). Clearly the market thinks Bank of America overpaid and so do I. Merrill Lynch which gapped up to \$21 (the offer was for \$29), gave every penny of it back and closed at \$17.06. It is highly likely that Merrill Lynch would have fallen to \$14 or \$15 (if not a lot more) in the wake of the bankruptcy of Lehman (LEH).

CEO Lewis had to know that, and he had to know there would be enormous pressure on Merrill to do something today if only he waited one day. If he did not know that, then Lewis is incompetent.

By the way, there is one other possible explanation for this foolishness: Lewis was in a mad rush to enhance his Ego. This merger (if it goes through) would create a behemoth that would rival Citigroup (C) in terms of assets under management. Lewis, in an impatient state did not care what he paid to achieve that fame.

The action in Bank of America (BAC) today is a stern warning to JPMorgan (JPM) to not get cute and buy Washington Mutual (WM) even though that is exactly what the Fed would like to see.

The moral of this story is: The strong swallow the weak until the strong become weak.

What Really Happened With That Offer?

Assuming for a second that Lewis had his mental capabilities with him at the time, there is yet another explanation for that ridiculous offer. Please consider [Another Shotgun Marriage: Bank of America and Merrill Lynch](#).

Bank of America (BAC) agreed to pay \$44 billion for a company that would have been worth \$18 billion on Monday's open, assuming a \$5 markdown on Monday to \$12. Why?

I sense a shotgun wedding sponsored at gunpoint by the Fed.

A shotgun wedding at a purposely ridiculous price with an agreement from the Fed to pick up the pieces later if necessary sounds just like what the doctor ordered. Of course it could be pure incompetence by Lewis, or a pure gamble by Lewis that the Fed (taxpayers) would pick up the pieces if it all came crashing down.

One point to remember is that the Fed is desperate to buy time. The Fed seems willing to lie, threaten, postpone, and usurp authority to buy that time. Time is up for this maneuver.

Bank of America Threatens The Fed

Please consider [BoFA in talks for \\$15 billion capital plus guarantees](#).

Bank of America Corp is in talks with the U.S. government to receive about \$15 billion in additional capital from the Treasury Department's Troubled Asset Relief Program, plus government guarantees, according to a financial policy source familiar with the talks.

President-elect Barack Obama and President George W. Bush have both signed off on additional aid for Bank of America, the source said.

Bank of America has already received \$25 billion of TARP money. The source said Bank of America has threatened to walk away from the Merrill deal if it did not receive more government aid.

More Details

Bloomberg has additional details of the taxpayer ripoff in [Bank of America May Get U.S. Aid for Merrill Lynch](#).

Bank of America Corp., the biggest U.S. bank by assets, may get more aid from the government to help absorb losses tied to this month's acquisition of Merrill Lynch & Co., three people familiar with the matter said.

Details are likely to be disclosed on Jan. 20, the people said. That's when Bank of America may post its first quarterly loss in 17 years as it digests the purchases of Merrill Lynch and Countrywide Financial Corp. The combined company has already received \$25 billion from the U.S.

Bank of America, based in Charlotte, North Carolina, told regulators in December the takeover might be abandoned because of Merrill's worse-than-expected results, said the people, who declined to be identified because the talks are private. The government insisted the transaction proceed because its collapse would create new turmoil in the financial system, they said.

"Bank of America has all kinds of problems with its acquisitions," said Gary Townsend, president of Hill-Townsend Capital LLC in Chevy Chase, Maryland. "They've been so acquisitive, they find themselves with very little in tangible equity."

Bank Of America Is Insolvent

Gary Townsend nails it with his statement: "They've been so acquisitive, they find themselves with very little in tangible equity". Let me simplify matters a bit with this

statement. “Bank of America is Insolvent”.

Congress, the Fed, and the Treasury are proposing that insolvent and overburdened taxpayers should bailout insolvent banks. The idea is of course cannot possibly work, but the bureaucrats would rather believe in the Keynesian Free Lunch theory, than common sense.

Huddling Under The TARP

Inquiring minds are reading Andrew Jeffery’s column, [Bank of America Huddling Under TARP](#).

To quote a recent op-ed in the Journal, which likened the government response to the current financial crisis to the circumstances described in Ayn Rand’s Atlas Shrugged...

“Politicians invariably respond to crises — that in most cases they themselves created — by spawning new government programs, laws and regulations. These, in turn, generate more havoc and poverty, which inspires the politicians to create more programs . . . and the downward spiral repeats itself until the productive sectors of the economy collapse under the collective weight of taxes and other burdens imposed in the name of fairness, equality and do-goodism.”

The similarities are so striking, it almost seems like regulators are using Atlas Shrugged as a playbook for their policy response to the crisis. They must not have waded through all 1,000 pages to see how the story ended.

Atlas Shrugged: Fiction To Fact

The Wall Street Journal article that Jeffrey quoted is [Atlas Shrugged’: From Fiction to Fact in 52 Years](#). Here is another snip.

The current economic strategy is right out of “Atlas Shrugged”: The more incompetent you are in business, the more handouts the politicians will bestow on you. That’s the justification for the \$2 trillion of subsidies doled out already to keep afloat distressed insurance companies, banks, Wall Street investment houses, and auto companies — while standing next in line for their share of the booty are real-estate developers, the steel industry, chemical companies, airlines, ethanol producers, construction firms and even catfish farmers.

With each successive bailout to “calm the markets,” another trillion of national wealth is subsequently lost. Yet, as “Atlas” grimly foretold, we now treat the incompetent who wreck their companies as victims, while those resourceful business owners who manage to make a profit are portrayed as recipients of illegitimate “windfalls.”

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