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Geithner's Hog-wallow: the US Treasury's Cash Giveaway Bonanza

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There's depressing news this week that the big banks are up to their old shenanigans again. This time they've zeroed in on Geithner's cash giveaway bonanza, the "Public Private Investment Partnership" (PPIP). As expected, Bank of America and Citigroup have angled their way to the front of the herd, thrusting their pig-heads into the public trough and extracting whatever morsels they can find amid a din of gurgling and sucking sounds. Here's the story from the New York Post:

"As Treasury Secretary Tim Geithner orchestrated a plan to help the nation's largest banks purge themselves of toxic mortgage assets, Citigroup and Bank of America have been aggressively scooping up those same securities in the secondary market, sources told The Post…

But the banks' purchase of so-called AAA-rated mortgage-backed securities, including some that use alt-A and option ARM as collateral, is raising eyebrows among even the most seasoned traders. Alt-A and option ARM loans have widely been seen as the next mortgage type to see increases in defaults.

One Wall Street trader told The Post that what's been most puzzling about the purchases is how aggressive both banks have been in their buying, sometimes paying higher prices than competing bidders are willing to pay.

Recently, securities rated AAA have changed hands for roughly 30 cents on the dollar, and most of the buyers have been hedge funds acting opportunistically on a bet that prices will rise over time. However, sources said Citi and BofA have trumped those bids."("Double Dippers; Citi and B of A buy laundered loans at lower rates", Mark DeCambre, New York Post)

Thus begins the next taxpayer-subsidized feeding frenzy featuring all the usual suspects. The race is on to vacuum up as much toxic mortgage paper as possible so it can be dumped on Uncle Sam at a hefty profit. Nice. These are the same miscreants the Obama administration is so dead-set on rescuing. It's crazy to try to help people who use the cover of a financial crisis to fatten their own bottom line. It's better to let them sink from their own bad bets.

How is it that industry rep Geithner couldn't see that his latest round of corporate welfare would create incentives for the bank scoundrels to game the system again? Naturally, if the government goes into the business of buying crap-loans from teetering financial institutions, the speculators and snake oil salesmen will follow. And so they have. Citi and B of A are just the first to respond to Geithner's pigwhistle. Next will be the hedgies and the Private Equity porkers, all nuzzling up to the Treasury's burgeoning feedbin hoping to sink their teeth into whatever tasty nuggets bob to the top of the trough.

Geithner's plan is a disaster from the get-go. It jacks up the price of garbage assets, rewards the misallocation of capital, invites rampant fraud, and prolongs the recession. Worst of all, it transforms the FDIC into a hedge fund putting individual bank deposits at greater risk. Economist Jeffrey Sachs sums up Geithner's "public-private" boondoggle in his article "Will Geithner and Summers suceed in raiding the FDIC and Fed?":

"Geithner and Summers have now announced their plan to raid the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve (Fed) to subsidize investors to buy toxic assets from the banks at inflated prices. If carried out, the result will be a massive transfer of wealth — of perhaps hundreds of billions of dollars — to bank shareholders from the taxpayers (who will absorb losses at the FDIC and Fed)…

The FDIC is lending money at a low interest rate and on a non-recourse basis even though the FDIC is likely to experience a massive default on its loans to the investment funds….In essence, the FDIC is transferring hundreds of billions of dollars of taxpayer wealth to the banks…The public will not accept overpaying for the toxic assets at taxpayers' expense. Thus, it is very likely that the Administration will attempt to avoid Congressional oversight of the plan, and to count on confusion and the evident "good news" of soaring stock market prices to justify their actions. ….

Other parts of the plan support subsidized loans from the Treasury and, even more, from the Fed. The Fed is already buying up hundreds of billions of dollars of toxic assets with little if any oversight or offsetting appropriations. Since the Federal Reserve profits and losses eventually show up on the budget, the Fed's purchases of toxic assets also should fall under the Federal Credit Reform Act and should be explicitly budgeted. ("Will Geithner and Summers suceed in raiding the FDIC and Fed?", Jeffrey Sachs, Huffington Post)

As Sachs points out, the Fed's liabilities will eventually be shifted onto the taxpayer. But that hasn't stopped Bernanke from writing checks on an account that is overdrawn by $11 trillion. Nor has it compelled Geithner to seek congressional authorization before he leverages the FDIC up to its eyeballs. These decisions are all being made by a small coterie of bank loyalists who operate independent of any oversight or government supervision. They do what's best for their constituents and let the chips fall where they may.

Earlier this week, Geithner asked Congress for additional powers to take over insolvent non-bank financial institutions. According to the Washington Post:

"The Obama administration is considering asking Congress to give the Treasury secretary unprecedented powers to initiate the seizure of non-bank financial companies, such as large insurers, investment firms and hedge funds, whose collapse would damage the broader economy, according to an administration document."

Geithner must think he's a shoe-in for the new "systemic regulator" post because of the exemplary way he handled the AIG bonus scandal.

Of course, in the bizarro world of Washington–where failure typically catapults one to higher office–it’s only logical that Geithner would be elevated to Uber-Regulator, not only controlling the public purse, but using his own peerless grasp of the marketplace to decide which institutions pose a systemic risk and need to be sidelined, and which need stepped-up government support via limitless capital injections. (aka-“Freebies”)

Prediction: If Geithner is granted these special powers by the braindead Congress, the country will undergo the greatest period of bank consolidation in its 230 year history. This is a blatant power grab by a shifty character who has risen to his present pay-grade by nosing his way up the political stepladder. Congress had better get its act together and put an end to this nonsense or the nation will continue its fast-paced metamorphosis into a feudal oligarchy run by the Bank Mafia and Wall Street racketeers. The first step, is to give Geithner, Summers and any other of the Rubin-clones a full-body bacon-rub followed by a few brisk dunks in the shark tank. Then, hose down Treasury and bring in a whole new team.

Nobel Prize winning economist Joseph Stiglitz summed up Geithner’s “public-private” fiasco like this:

“Quite frankly, this amounts to robbery of the American people. I don’t think it’s going to work because I think there’ll be a lot of anger about putting the losses so much on the shoulder of the American taxpayer.”

Geithner has got to go. Now.