

NATIONALIZING BANKING

by [Steve Brown](#)

To put it succinctly, banking is taking a beating. Lately we have been feeling like we have been walking around with a rabid chipmunk in our undershorts - it has been that painful. Bank failures, regulatory pressure and bad press are just the tip of the iceberg and the recent BofA/Thain scandal doesn't help. When Saturday Night Live runs a skit on "North American Savings Bank," where they have the tag line of "Your deposits are safe because we don't make loans" (they require 90% down payments for their mortgages) and you are the only one in the room not laughing, it is time for a long vacation. The latest not-so-funny idea comes from this concept of nationalizing banking.

If you dismiss nationalizing banking as a crazy concept, be careful, because many people thought recycling food waste, paying the IRS to electronically accept taxes and Arnold Schwarzenegger as Governor were crazy - but they came to pass. With more than 8,400 banks in this country, it is not possible to nationalize the entire banking industry. However, the government could conceivably nationalize the top 20 banks. The only reason to do this is to control management and lending. On both counts, the government would be woefully misguided.

For starters, it doesn't need to do this. Having TARP money invested in 300+ banks, combined with additional regulatory oversight, gives the government enough control. Let's face it, when you have the government as a co-owner, you will always be the junior partner. If the government really wants banks to make home loans to non-creditworthy borrowers by taking collateral that is dropping in value 1% per month, it has better ways of accomplishing this than taking over the banking industry. Bankers are plenty motivated to control costs and excesses. The additional TARP reporting requirements, combined with the scorching limelight of the press, will also control costs.

At the end of the day, there is very little reason to nationalize banking. The reality is that the government couldn't run banks any better. They are not doing such a great job with the Post Office (also insolvent), DMV (probably the most inefficient institution on the face of this earth) or Social Security. This is to say nothing of the performance of Fannie and Freddie, also quasi-gov't controlled entities. Banking certainly has problems because it was at the heart of the economic bubble. A bubble not caused by banks, nor banking excesses, but by lower interest rates and subsidized home mortgages. If the media is looking for blame, it can start with the US Gov't.

The mere talk of nationalization scares us, not because it will come to pass, but because it is undermining confidence and capital. Should the Gov't ever seriously consider coming in and wiping out shareholders in a Citigroup or BofA, it will be the death sentence to a great many banks. Such a decision would result in monumental wealth destruction and would severely hurt the US.

Hopefully, the thought of nationalizing banks will die quickly and be recognized for what it is - a macabre fantasy. This is similar to a new movie coming out called "The International." In it, a big bad bank attempts to control the world. Give us a break - we are not sure how it is at other banks, but at ours, we have difficulty just controlling the heat in our building, let alone the world.

TARP CPP S-CORP CAPITAL MODEL

The release last week of the S-Corp TARP Term Sheet has prompted us to update our TARP capital model. The cost and structure of the S-Corp capital is similar to Private Bank terms with the exception of the fact that it does not create a second class of stock. For S-Corp banks that are interested in calculating the all-in cost of the capital, please click to complete the registration and receive this complimentary model: <http://www.zoomerang.com/Survey/?p=WEB228QBLNKURF>

BANK NEWS

Bank of America Change

The former CEO of Merrill, John Thain, has been pushed out of BofA. Heat increased on Thain after BofA was hit with unexpected losses at Merrill and after it was made public that Thain ran up a \$1.2mm bill remodeling his office a year ago (which included \$35k for a "commode on legs" and more than \$1k for a garbage can.

More TARP

The Treasury reported it distributed an additional \$1.5B to 39 banks, raising the total amount dispersed to \$293.8B at 300 banks.

Sage Words

Billionaire investor Warren Buffet said in an interview that while he did not think the recession would be short, the credit crisis had eased in the past month. Unfortunately, he also indicated consumer activity at the businesses he runs had "really slowed down." Overall, he called the economic situation "a little better," but saw the rate of business decent as "alarming."

New Year's Resolution

Forget exercise, according to a TD Ameritrade survey, here are the top 3 resolutions this year; 1) Save more money 2) spend more time with family 3) pay off debt.

Dividends

US companies are reducing dividends at the fastest rate in over 50 years. Companies in the S&P cut \$41B.

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