

Bailout This!

The Stabilization of the Financial Sector: The Holy Grail of Economic Salvation

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Idiocy is usually described as “endlessly repeating the same process, hoping for a different result”. Lawrence Summers, Timothy Geithner, Nancy Pelosi, Joe Biden et al are [straining at the leash](#) to get the Bailout Ball rolling once again. The stabilization of the financial sector, as elusive as it has been so far, has become the Holy Grail of Economic salvation. [That makes \\$8.5 Trillion worth of trying](#) and [\\$0 of result](#). The Knights of the Oval Table are gathered to plan their mission as their beleaguered subjects are trying to batter down the castle gates. It’s no small wonder that Geithner wants to get the money out the door as soon as the end of this week.

The most recent [report](#) from the Comptroller of the Currency seems to have gone unnoticed in Washington and the press. If banks are not lending because of increased capital requirements in the face of Credit Default Swaps, other derivatives and loan defaults then the report goes a long way in describing exactly why.

Credit Exposure to Capital ratio. Amounts in \$Millions

Bank

Assets

Derivatives

Credit Exposure to Capital Ratio

J.P. Morgan Chase

\$1,768,657

\$87,688,008

400.2

Citi

\$1,207,007

\$35,645,429

259.5

Bank Of America

\$1,359,071

\$38,673,967

177.6

HSBC

\$181,587

\$4,133,712

664.2

The assets comprise largely of Real estate, residential mortgage, student, car and credit card loans. With the rise in defaulting mortgages, delinquent credit card and other debt the problem can only get worse. To recapitalize the banks to the point where exposure is low enough to encourage lending would take trillions and that's before any more fallout from the collapsing economy. Lending also requires creditworthy borrowers, the number of which is in a nosedive. The \$165 Trillion in notional derivatives and the associated credit risk related to \$15 Trillion in Credit Default Swaps illustrated below is the poison apple that the taxpayer has been forced to bite into.

Bank

Total Credit Derivatives

J.P. Morgan Chase

\$9,177,731

Citi

\$2,939,783

Bank Of America

\$2,480,672

HSBC

\$1,152,948

When the "credit crunch" began and Washington began the rush to solve the problem with taxpayer cash, no accounting of this derivative nightmare was ever brought to bear. In all the deliberations and press releases there was not a single mention of the fact that the primary cause of the bank collapse was due to these "[instruments of mass destruction](#)". It was widely discussed in the blogosphere but, like the real reasons for invading Iraq, never made it in to the mainstream media. As with Iraq, one would have to assume that the reason was to obfuscate the facts and cajole a shocked public in to accepting as a remedy

whatever was proposed by Paulson, Bernanke and Bush. The latter had to be completely aware of the OCC data at the time and to assume that they did not is simply not credible. It would have been completely obvious that \$700 Billion would do absolutely nothing to alleviate the crisis. As witnessed in the ensuing months since the TARP bill, how the money was used has been [obfuscated and concealed](#). This was always a scam.

Even as the economic indicators broke one record after another, the recipients of the TARP funds were [selling Credit Default Swaps](#) to each other, betting on each other's downfall. They knew the game was up and wanted to profit on the way down as much as they had on the way up. All the major Banks on Wall St. are seeing [mounting losses](#) and the failure of one will increase the losses of the other. They are joined at the hip and will fall like a house of cards.

The question begs to be asked, and this is where the cynic in me dominates, what's the plan? When they do fall will the Government nationalize the last one standing *for the good of the country* and socialize even more of the losses? This would be the coup of the millennium and give birth to a new Governmental paradigm. To have this complete before the economy and society have *completely* broken down would be a good reason to declare a real National Emergency and declare [Martial Law, the legislation, executive orders and infrastructure of which are already in place](#). How can one not be a cynic when we reflect on what has happened so far?

The numbers are in and the scam stands exposed to those who will look. Which way the story unfolds from here is anyone's guess. But I am ready to bet that Congress will not include the OCC data in the upcoming debate on the next round of cash for the Banks.

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