

Obama's Toxic Asset Plan

The Plan will leave the same Amount of Toxic Assets In the System, but with Taxpayers now liable for most of the Losses

By [Washington's Blog](#)

Theme: [Global Economy](#)

Global Research, April 04, 2009

[Washington's Blog](#) 4 April 2009

The most succinct description of what is wrong with Geithner's PPIP toxic asset plan comes from the [Financial Times](#):

Critics say that would leave the same amount of toxic assets in the system as before, but with the government now liable for most of the losses through its provision of non-recourse loans.

That's exactly right. American banks that have received billions in bailout funds, [including Citigroup Inc, Goldman Sachs, Morgan Stanley and JPMorgan Chase & Co, are considering buying toxic assets to be sold by rivals under the Treasury's trillion dollar plan](#) (and Bank of America - another big bailout recipient - is [buying toxic assets as well](#)).

The amount of toxic assets isn't going to be meaningfully reduced - the assets will just be shuffled from one bailout buddy to another.

But the government is guaranteeing 85% of the value of the toxic assets.

So the taxpayers (who anteed up for the bailout funds which the banks are now using to purchase the assets) will again pick up the tab when the assets turn out to not be worth as much as the banks are paying for them.

But why would the banks overpay for the other guy's toxic assets?

Some financial writers have speculated that these banks are giving each other kickbacks under the table. But we don't even have to go there.

If all of the big banks holding the lion's share of toxic assets (about 5 banks, as discussed below) have a gentleman's agreement to overpay for the other guy's toxic assets, then they will end up in the same position as if they had all paid fair market value. You overpay for mine, I'll overpay for yours . . .

But since they can then say that they naively overvalued the assets, the government will pay them back for their "losses".

Get it?

It is well-known that [JP Morgan, B of A, Citigroup, HSBC and Wells Fargo have by far the largest derivatives holdings](#) (and see [this](#)). Their derivatives exposure - especially credit

default swaps – are the core [type of toxic asset](#) (and one of the main causes of the financial crisis). These are really the players which would need to agree to play this game for it to work.

The original source of this article is [Washington's Blog](#)
Copyright © [Washington's Blog](#), [Washington's Blog](#), 2009

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Washington's
Blog](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca