

Where's My Bailout? Local Communities Need a Bailout Too

The bailout of our nation's financial system is an historic moment that has a profound impact on every state in the country. Many of the large national banks that have gotten billions of tax dollars from the federal government have not used this money to increase the availability of financing to households facing foreclosure or small businesses struggling to stay afloat. Instead they have used it for bonuses, corporate jets and lobbying the government for more lenience.

There were 66,795 foreclosure filings in Colorado during 2008, the fifth highest in the country, according to RealtyTrac. Despite the staggering amount being spent by the federal government to stop the economic slide, foreclosure rates continue to soar.

What have these banks done with this money to help local communities? Have smaller, local banks been able to get federal aid if they need it? What have the large national banks that have branches in Colorado done to ease the credit crunch in the local communities they serve?

The few examples below of how the large national banks have used the government's money during this financial crisis should be a wakeup call to public officials at every level of government. State and local government have a role to play during this financial crisis: holding both local banks and local branches of national banks accountable for how they are spending our tax money. The economic collapse began with American households and communities, and it needs to be treated as much like a local problem as a national one.

Where did all the money go?

The federal government's response to the crisis was to pass the Emergency Economic Stabilization Act of 2008 (EESA), better known as the "bailout." The act authorized the Treasury Department to spend \$700 billion, in two allocations (the second only if necessary), to stabilize the financial system in a way that would protect homes and family savings, preserve homeownership, and provide public accountability.¹ The program was called the Troubled Asset Relief Program (TARP) because, originally, Treasury's strategy was to use that money to buy troubled mortgage-related assets. But in the following two months the Department changed course to instead invest the money directly in financial institutions by purchasing preferred stock.

As of January 30, the Treasury had directed almost \$200 billion to 320 banks.² The financial institutions based in Colorado have received \$77 million in federal funds as part of the bailout.

But to what end? Actually, nobody knows. Both the Department of the Treasury and the banks that have taken most advantage of the taxpayers' largesse have been either unable or unwilling to share the most basic of information about what has been or is being done with the money, whether it is doing anything to help the American people, and how the institutions that are getting the money are being chosen. Treasury has failed to conduct the most minimal oversight and has required next to no information from the banks that would enable them, on the behalf of the public, to monitor use of public funds. Not surprisingly perhaps from what information can be gleaned, the money is not being used to address the mortgage crisis, the original impetus behind the bailout and the law that underlies it, and is not doing anything measurable to assist American families hardest hit by this economic crisis.

No Strings Attached

The Associated Press contacted 21 large banks that received at least \$1 billion in government money and asked four questions: How much has been spent? What was it spent on? How much is being held in savings, and what's the plan for the rest?

None of the banks provided specific answers...Some banks said they simply didn't know where the money was going...Nearly every bank AP questioned – including Citibank and Bank of America, two of the largest recipients of bailout money – responded with general public relations statements...No bank provided even the most basic accounting for the federal money... Most banks wouldn't say why they were keeping the details secret.³

A few weeks later, it came to light that the amount of lending by the biggest recipients declined after they got the money! According to the Federal Reserve, loans from U.S. banks fell by 1 percent in the last three months of 2008, and the decline was more than twice as large among banks that accepted money.⁴ Ten of the biggest beneficiaries of the bailout, including Bank of America and Citigroup, “saw their outstanding loan balances decline by a total of about \$46 billion, or 1.4 percent, between the third and fourth quarters of 2008, according to a *Wall Street Journal* analysis.” As the *Journal* noted, “The fact that loan portfolios are shrinking at many of the largest recipients underscores how few strings Treasury Department officials attached to the infusions. That has made it hard to prevent banks from using the money to pay dividends, make acquisitions, and fund bonuses for top executives.”⁵

Who Gets Government Money?

Transparency issues also arose around how the Treasury was deciding which banks to provide government funding to through the TARP program. Even banks and regulators themselves have complained about the complete secrecy surrounding the process. Inevitably, political leverage seems to have trumped merit in some cases. “I think there is a suspicion among a large number of our members that it's who you know rather than the merits of the application,” said Camden

Fine, chief executive of the Independent Community Bankers of America. “I don't know that to be a fact, but I know there is a strong undercurrent of suspicion among my members that you have to have some sort of connection before you get the golden touch or the blessing from Treasury to get money.”⁶

There are indications that Treasury has been influenced by lobbying and personal interference by members of Congress as it has decided which banks to save. “‘It’s totally arbitrary,’ says South Carolina Governor Mark Sanford. ‘If you’ve got the right lobbyist and the right representative connected to Washington or the right ties to Washington, you get the golden tap on the shoulder,’ says Governor Sanford, a Republican.”⁷

Especially shrouded in mystery is the bases upon which Citigroup and Bank of America were given vast additional sums. The Treasury Department publicly stated they were only providing TARP funds to “healthy banks” under the program. In point of fact, both banks were on the brink of collapse. So the Treasury, without public explanation, set up new, special programs for these institutions. The Inspector General of the TARP program has started to investigate this. As he said in a recent congressional hearing, the question is, “Were similar banks all treated the same?”⁸ Community bank executives and industry officials are of the belief that “while Bank of America and Citigroup executives are able to dial up senior officials at the Treasury and the Federal Reserve and quickly receive tens of billions of dollars in federal aid, the heads of midsize and smaller institutions must wait months.”

So, where did that money go?

Financial companies rewarded themselves for their dismal 2008 performances to the tune of \$18.4 billion, the sixth biggest amount in history. Merrill Lynch alone, right before it was acquired by Bank of America distributed between \$4 billion and \$5 billion in bonuses, a matter that is now being investigated by the New York State Attorney General.⁹ Citigroup rewarded its executives with \$4 billion in bonuses, despite the fact that the company lost \$18 billion in 2008 and the government – the American people – had to come to its rescue.¹⁰ And not only did executives get bonuses despite the wreckage they had helped create, the average performance-based bonuses for top executives at the biggest companies increased by 14 percent over the year before to \$265,594.¹¹ In a speech on the Senate floor, Senator Claire McCaskill said an average of \$2.6 million dollars was paid in bonuses to executives from the first 116 banks that got TARP money.¹²

As the country sank further into an economic crisis the likes of which has not been seen since the Great Depression, the CEO of Merrill Lynch, John Thain, spent \$1.2 million in company money to redecorate his office. Citigroup arranged to acquire a \$50 million corporate jet, and later balked.¹³ Wells Fargo, which received \$25 billion in federal funds, was planning a series of “employee recognition outings” in Las Vegas luxury hotels.¹⁴

How the Secrecy and Lack of Oversight Have Hurt Colorado Families

The failure of the Treasury Department to carefully set out public criteria for which institutions would be bailed out and rigorously monitor how they were spending the money is more than a failure of process. It has resulted in the continuing financial suffering of millions of Americans in need of assistance immediately. It is only now that we are learning that the institutions in which we have invested billions of dollars are not using them in ways to help people refinance their mortgages, lift up communities, and provide lifelines to citizens teetering on the edge. They've been using it in ways that help them, not us. And this could have been avoided with a process that was clear to the stakeholders and the public and overseen by conscientious public officials who would have demanded constant answers from the banks and demonstrations of concrete progress in helping our country climb out of this economic mess.

Going Forward

As mentioned, state and local government have a role to play during this financial crisis. Not only are people losing their homes, but the effect these foreclosures have on the budgets of local governments can be devastating. All over the country, cities and states are cutting funding for education and civil services like police and firefighters.

While the House Financial Services Committee puts the leaders of these big banks in the hot seat, Colorado officials should demand how bailout dollars are being used locally. Public officials should also call for voters and taxpayers to share their stories of how the bailout has – and has not – worked to help with foreclosures and credit locally. Common Cause has already heard from thousands of members and supporters who have been hurt by this crisis and the credit crunch that has resulted.

There are basic principles that should be followed with these bailouts that will also be important for the economic recovery dollars that will soon flow through each state: the American people should know in detail how their money is being used and why, institutions that receive that money should be monitored and held accountable by the public and political leadership for their performance, and public money should be spent in the public interest. Now is the time for state and local officials to position themselves for an open and trusted process spending of the stimulus dollars, and holding the bailout dollars accountable locally is the place to start.

¹ Congressional Oversight Panel, "Questions About the \$700 Billion Emergency Economic Stabilization Funds," December 10, 2009, p.6

² "Participants in Government Investment Plan," Wall Street Journal, January 30, 2009

³ Matt Apuzzo, "Where'd the Bailout Money Go? Shhhh, it's a Secret," AP News, December 22, 2008. On February 3, 2009, Citigroup finally announced its intentions with respect to the federal money. It said it had approved \$36.5 billion in loans at the end of 2008, including \$25.7 billion in U.S. residential mortgage activities. However,

“only \$8.2 million was earmarked for making actual mortgage loans to families and individuals with good credit histories.” See David Ellis, “Citigroup Comes Clean on TARP Spending,” CNNMoney.com, February 3, 2009. Citigroup also pledged that “TARP capital will not be used for compensation and bonuses, dividend payments, lobbying or government relations activities related to advertising and corporate sponsorship.” See Madlen Read, “Citigroup to Deploy \$36.5 Billion to Boost Lending,” Associated Press, February 3, 2009

⁴ Binyamin Appelbaum, “Despite Federal Aid, Many Banks Fail to Revive Lending,” Washington Post, February 3, 2009

⁵ David Enrich, “Lending Drops at Big US Banks,” The Wall Street Journal, January 26, 2009

⁶ David Cho and Laura Montgomery, “Delays in Bank Aid Spur Frustration,” The Washington Post, January 23, 2009

⁷ Damian Paletta and David Enrich, “Political Interference Seen in Bank Bailout Decisions,” Wall Street Journal, January 27, 2009. The new Treasury Secretary, Timothy Geithner, has promised to reign in lobbying and political influence over the TARP program. See Charlie Savage, “Geithner Limits Lobbying for Bailout Money,” The New York Times, January 27, 2009. Congressional action is also possible.

⁸ Jeff Grath, Citigroup, Bank of America Bailouts Will Get a Hard Look,” Pro Publica, February 5, 2009

⁹ Ben White, “What Red Ink? Wall Street Paid Hefty Bonuses,” The New York Times, January 29, 2009

¹⁰ Eric Dash and Louise Story, “Getting Theirs Cuts Both Ways on Wall Street,” The New York Times, January 30, 2009

¹¹ Ben White, “What Red Ink? Wall Street Paid Hefty Bonuses,” The New York Times, January 29, 2009

¹² Susan Cornwell, “White House, Senate Take Aim at Wall Street Pay,” Reuters, January 30, 2009

¹³ Greg Farrell and Francesco Guerrera, “Thain Admits \$1.2 Million Office Refit ‘Mistake,’” Financial Times, January 27, 2009

¹⁴ Maureen Dowd, “Well, That Certainly Didn’t Take Long,” The New York Times, February 4, 2009