

Bay Area bankers fret over 'bad bank' idea

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Federal officials put the finishing touches Monday on plans to create a "bad bank" for toxic assets such as foreclosed homes and failed mortgages, but some Bay Area bankers warn that such an entity could torpedo a housing market that's struggling to stay afloat.

The Obama administration is expected to announce today a bailout gambit designed to lure big investors into buying more than \$1 trillion in troubled assets from banks, according to anonymous sources quoted by wire services.

If lenders can banish financial gremlins such as foreclosed loans and other bad investments, Washington hopes banks will resume lending at normal levels, which could spur the economy.

The plan, as reported, is similar to the Resolution Trust Corp. that from 1989 to mid-1995 swallowed foreclosed assets — primarily commercial real estate properties and mortgages — of savings and loans that had collapsed. But an RTC-style "bad bank" could create new woes.

"Did the RTC work? Yes. Did it destroy the commercial real estate market? Yes. Could this new proposal destroy the residential real estate market? It could," said Brian Garrett, president and chief executive of Oakland-based Community Bank of the Bay.

But the plan could also produce crucial benefits.

"You would see a slow, deliberate unfreezing of the credit markets," said Steven Buster, chief executive officer of Richmond-based Mechanics Bank. "It will be a gradual improvement. But it will not happen immediately."

Why are some bankers worried? Seeking to create a return for taxpayers and other investors, "bad bank" executives could dump numerous foreclosed assets on the market in a relatively short period of time.

That could send residential property values into a fresh nose-dive, warned Stephen Andrews, president and chief executive of Alameda-based NorCal Community Bancorp, whose principal unit is Bank of Alameda.

"There would be a lot of disruption for the marketplace if things are sold at a discount," Andrews said.

That creates new questions, said David Greiner, president and chief executive of San Ramon-based Tri-Valley Bank. Would the "bad bank" sell assets swiftly or spool out the failed properties more gradually?

"In the short-run, this will accelerate setting a bottom for the housing market," Greiner said.

San Francisco-based Wells Fargo & Co. was tight-lipped about its reaction to a potential "bad bank" ahead of congressional testimony that is scheduled for Wednesday. The top bosses of Wells Fargo and other big banks are due to testify before Congress.

"It would be premature for us to comment at this time," Wells Fargo spokesman Chris Hammond said. "We're closely monitoring" the situation.

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JPMorgan Chase & Co., which recently bought Washington Mutual, a major force in Bay Area banking, said it likes the concept of a "bad bank," as Jamie Dimon, JPMorgan's chief executive, put it during an interview with CNBC. Dimon also said during the Jan. 30 interview that a stimulus package and new actions to spur lending by the Federal Reserve could complement a "bad bank."

"All of those things are going to help ease the capital markets," Dimon said.

President Barack Obama and his aides also hope to coax big players such as private-equity companies and hedge funds to provide funding for bailout efforts.

Despite the possible hazards, several bankers say the government must undertake a bailout, including a creation of a "bad bank."

"Something has to be done," Garrett said. "The credit markets are frozen. Trust has totally gone out of the marketplace. Doing nothing is not an alternative."

Mechanic Bank's Buster agreed. "We want to see a better, thriving economy that can return to growth," Buster said. "We have to address these toxic assets."

One key issue: the sheer size and intricate web of assets the "bad bank" would have to absorb. Some of the banks and economists interviewed for this story place the price for the failed portfolio at about \$2 trillion.

"If you round up a couple of trillion dollars and give the banks that money, problem solved," said Christopher Thornberg, an economist and co-owner of Beacon Economists. "But you have to go back to the taxpayers and ask them to come up with \$2 trillion."

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