

## Cost of Bank Bailouts Reaching Frightening Proportions but FED Fighting Release of Data

September 16, 2010 - If you think that the federal government's \$700 Billion bank bailout, known as TARP, was expensive then you'd better sit down. Since the TARP legislation passed in late 2008, the federal government has continued to meddle in financial markets using your tax money. When Bloomberg News decided to pencil out the actual costs of the bailouts, it came to the conclusion that the government had put taxpayers on the hook for the staggering sum of \$12.8 Trillion. And that figure doesn't include the takeover of Fannie Mae and Freddie Mac, which committed the government to another \$5.5 Trillion, or other more recent programs. But when Bloomberg tried to find out where all that money was actually going, the FED told them to take a hike. Taxpayer money or not, the government does not want you to know how your money is being spent.

```
(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();
```

The ways in which the government is actually committing tax dollars to private banks is quite disturbing. For instance, when a bank fails and is taken over by the FDIC, the FDIC tries to get other lending institutions to take over the one that failed. Any bad loans on the failed bank's books get a federal guarantee even if the original loans weren't guaranteed. That means that any bank taking over a failed bank is guaranteed 80% of the loan's value from the FDIC. This does a couple of things.

First, let's say that you own a home and are trying to get an approval for a short sale of it through the bank that is failing. And let's just say that the fair market price for that home is 50% of what you purchased it for. The bank that takes over your old lender is not going to approve the sale. Why? Well if they do approve the sale they will only get 50% of what you owe on your home. But if they foreclose, they are guaranteed 80% of what is owed. That difference is going to be made up with taxpayer dollars. It is also wreaking havoc in real estate markets. Astoundingly, if you haven't been able to make any mortgage payments for several months, and if you had an Option ARM loan and were only making minimum payments during the time that you were able to pay, then the 80% guarantee can actually work out to be worth more than the original loan amount!

Going back to the Bloomberg case, Bloomberg's response to the FED's position was a law suit. Bloomberg sued the FED in federal court and has won at every turn, but the FED has appealed these verdicts. The appeals have been enough to prevent the data from being released so far.

Watch the full episode. See more [Need To Know](#).

What the FED claims to be worried about is that if taxpayers are able to find out which financial institutions are borrowing from them, then taxpayers will know which institutions are having financial problems. This could cause consumers to move their accounts to other banks. Imagine the horror of that. The free market system working as it should! Allowing consumers rather than the government to determine the winners and the losers.

The reason for the FED's fear is that the FED is the lender of last resort for the banking industry. The only banks that borrow directly from them are banks that can't secure funds elsewhere. But perhaps these lending institutions would do a better job of selecting those that they make loans to if their FED borrowing was made public. Just perhaps, this type of disclosure would be the best medicine to prevent another banking meltdown. It would also help to shine a very bright light on how government policies, regulations and laws encourage or force banks to make risky loans at times. Laws like the Community Reinvestment Act. If banks are getting into trouble because of federal regulations, it is time that the taxpayers knew about it.

The FED is supposed to work for taxpayers. Its employees are certainly paid by taxpayers. It is the only organization that can legally create money and it does so with little or no oversight. Bloomberg's experience proves that oversight of the FED is sorely lacking. Given the fact that the FED's policies have the potential to cause great harm to all Americans, it is time that the FED was audited annually and the results made public. In these hard financial times, all American consumers have had to adjust their spending habits. The same is true with businesses. We are all being forced to more closely monitor our spending habits. It is not too much that we demand the same thing of government. After all, it is our money that they are spending.

byJim Malmberg

Note: When posting a comment, please sign-in first if you want a response. If you are not registered, [click here](#).  
Registration is easy and free.

Follow me on Twitter: