KiplingerBusinessResourceCenter
FORECASTS AND ADVICE FOR LOOKING AHEAD AND STAYING AHEAD

Banks Getting Weaned Off Government Help

Breaking up can be hard to do, but Washington is determined to pull back from its involvement in financial markets.

By Renuka Rayasam

September 24, 2009

Look for federal regulators to gradually dismantle the props it put in place a year ago to hold up the banking sector. Officials will move carefully, and they're convinced it is necessary and confident it will go smoothly.

The first big test will come after Oct. 31, when the Federal Deposit Insurance Corporation (FDIC) ends a program that allowed banks to issue government backed debt for a fee. The measure was an important step in preserving liquidity. As a safeguard, for at least six months, the FDIC will still offer emergency guarantees for new bank debt -- but only on a case by case basis with approval from FDIC Chairman Sheila Bair.

"I think the desire [of regulators] is to get out of the financial system as quickly as possible," says Jaret Seiberg, senior vice president at the Washington Research Group. "But they still want to leave a mechanism in place so that they can bring in help quickly if the economy goes in the wrong direction."

Officials think the banking system is ready to stand on its own. In fact, many banks are already issuing debt without government guarantees. So far this quarter, the FDIC has guaranteed eight deals, down from 60 in the first quarter. All told, the FDIC has backed about $300 billion in loans. "It seems like as good a time as any" to unwind these support measures, says Dean Baker, codirector of the Center for Economic and Policy Research. "It's hard to imagine that we will be in a meltdown again."

The next piece of bank scaffolding to go will be the Treasury's capital purchase program, which put $218 billion into shaky banks. It is set to expire Dec. 31. "If the credit markets are OK, Treasury will be under a lot of pressure not to extend the program," says Mark Calabria, director of financial regulation studies at the Cato Institute.

So far, 38 banks have forked over $70 billion in principal plus nearly $10 billion additional proceeds from dividends, fees, interest and warrants. Over the next 12 to 18 months, Treasury says that it expects about $50 billion more in principal repayments.

For weekly updates on topics to improve your business decisionmaking, click here.
