Obama urges 'fat cat bankers' to help

They took billions in bailout cash. Now America's banks must do more to help rebuild the economy, President says

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They took billions in bailout cash. Now it's time for the “fat cat bankers of Wall Street” to give something back.

U.S. President Barack Obama called for a new deal between society and its big banks, imploring them to help jump-start the sputtering economy by dramatically boosting lending and dropping their objections to a vast overhaul of financial regulation.

The banks, in turn, desperately want out from under the watchful eye – and the pay restrictions – of the U.S. government, which spent hundreds of billions to bail them out at the height of the crisis.

By using unusually inflammatory language, Mr. Obama is signalling that he's willing to continue using the bully pulpit to prod and cajole banks to better serve Americans – even after they're off the government dole. In essence, they owe a debt to all Americans, Mr. Obama said.

“America's banks received extraordinary assistance from American taxpayers to rebuild their industry and, now that they're back on their feet, we expect an extraordinary commitment from them to help rebuild our economy,” he said after meeting yesterday at the White House with the 12 chief executives of the largest banks in the United States.

The banks, he said, have a “greater obligation” to help in the recovery.

Mr. Obama's public prodding came on the same day that two of the last banks receiving bailout cash announced they are paying it back.

Citigroup and Wells Fargo took steps to become the last banks to repay their bailout loans.

Beyond the rhetoric, however, the government may be sending conflicting messages to the country's banks. Regulators want banks to shore up their capital reserves and avoid the kind of risky lending that got them in trouble in the first place.

In the end, Mr. Obama's attacks on the banks may have as much to do with politics as policy. At the meeting, he scolded the CEOs for causing the financial crisis, soaking up billions in taxpayer bailouts, paying bloated bonuses, not lending enough and thwarting “common sense” financial reforms.

The frosty tone is a measure of how badly the financial crisis has damaged the U.S. economy, along with Mr. Obama's own political prospects.

The recession is over, but unemployment remains stuck in double digits. Even creditworthy businesses can't get loans. And the vaunted financial reforms, designed to ensure this kind of crisis never happens again, are moving unusually slowly through the U.S. Congress in the face of fierce industry lobbying.

Right now, banks can borrow money at next to nothing and lend it out to the cash-strapped U.S. government at a yield of about 3.5 per cent (the yield on a 10-year Treasury bill), pointed out Gerald O'Driscoll, a former economist at the Federal Reserve Bank of Dallas as well as Citigroup.

“Why would the banks make risky loans when they can make risk-free loans at 3.5 per cent?” he asked. “Unless you take the riskless bet off the table, you won't get the banks lending again.”

Experts also disagree on whether the ongoing credit crunch is solely a function of banks' unwillingness to lend, or less demand for credit from businesses worried about the uncertain economic climate.

Mark Calabria, director of financial regulation studies at the Washington-based Cato Institute, said it's no mystery why Mr. Obama would want to publicly shame the banks, which bitterly oppose the creation of a new consumer financial regulator to watch over credit cards, mortgages and the like.

“The President is feeling tremendous political pressure, given the unemployment situation,” Mr. Calabria said. “A lot of this is trying to distract from the anger of the bailouts.”

White House spokesman Robert Gibbs summed up the discussions as frank. “The President didn't hand out awards.”

Mr. Obama told reporters that Americans expect “extraordinary commitment” from the banks to help rebuild the economy. And he warned them not to thwart the reforms.

“The way I see it, having recovered with the help of the American government and the American taxpayer, our banks now have a greater obligation to the goal of a wider recovery, a more stable system and more broadly shared prosperity,” he said.

But the Obama administration said it won't impose specific lending quotas, relying instead on moral suasion. For their part, the bankers pledged to expand credit, particularly for small businesses. They also insisted they support a regulatory overhaul.

One executive at the meeting – Bank of New York Mellon CEO Robert Kelly – pointed out that it's sometimes tough for bankers to find good customers in shaky economic times.

“Not everyone is creditworthy in today's world,” Mr. Kelly, a former Toronto-Dominion bank executive, told CNBC. The U.S. economy is recovering, Mr. Kelly said, “but it's really fragile.”

Mr. Kelly was reported to be a front-runner to head Bank of America, which has been looking for a successor for CEO Ken Lewis since he announced plans in September to retire on Dec. 31. But Mr. Kelly said in an e-mail to Bank of New York Mellon employees yesterday that he “firmly concluded” he will stay put, according to an Associated Press report.

Meanwhile, banks continue to get out from under government influence by paying back their loans. The latest bank to move is Citigroup, which yesterday said it would issue about $20-billion (U.S.) of capital as the bank looks to end the executive-pay restrictions that came with the funds.

Wells Fargo said it would repay its entire $25-billion in bailout aid by using the proceeds of a $10.4-billion stock sale.