business

Financial experts not applauding

Many believe we must take the medicine, but some call it a stopgap or say institutions should face consequences.

By Aldo Svaldi
The Denver Post

Article Launched: 09/29/2008 12:30:00 AM MDT

Local bankers and economists greeted news that Congress would move forward with a $700 billion bailout of financial institutions with relief but not necessarily applause.

"I liken it to taking bad-tasting medicine. You don't like it a bit, but you need the medicine," said Don Childears, president and chief executive of the Colorado Bankers Association.

Although Colorado-based banks didn't make many of the toxic mortgage loans plaguing the financial system, the credit crisis has left them and consumers in the state vulnerable, he said.

"A bailout was absolutely necessary," said Barbara Walker, executive director of the Independent Bankers of Colorado. "Without this bailout, you could have a significant domino effect that stretches from Wall Street to Main Street."

Don A. Childears, President/CEO of Colorado The Bankers Association. (John Prieto)

Bankers were pleased that Democratic proposals to allow bankruptcy judges to restructure first mortgages were not included.

"In essence, that introduces a great amount of uncertainty. You would have less lending at higher rates," Childears said.

Investment manager David Prokupek, CEO of Consumer Capital Partners in Denver, said the 106-page package scheduled to go to a vote this week is better than the three-page bill that Treasury Secretary Henry Paulson started with.

But he described it as a stopgap measure at best, one that might prevent a collapse but doesn't move the economy forward.

"While they are taking bad loans off the books, there is no fresh money for banks to start lending again," he said. "If you are a CEO in one of these companies and you had a near-death experience, the chance you will go out and lend aggressively are low."

Strong public opposition remains to the proposed package, and that's one reason taxpayers were given an equity interest and executive compensation limits were put in place.

Mohammed Akacem, an economics professor at Metropolitan State College of Denver, said he opposes the bailout package

Mohammed Akacem, professor of economics at the Metropolitan State College of Denver. (Digital | Jerry Cleveland) on several fronts despite recognizing the risk to the financial system of not passing it.

"There has to be a cost and a consequence to bad actions. If we don't have that, we are sending the wrong signal," he said.

The bailout is a rebuke to every taxpayer who made mortgage payments on time, limited his or her borrowing and lived within his or her means.

But Gary Horvath, an economist with the University of Colorado's Leeds School of Business, said few people appreciate how close the financial system came to a total failure.

"We were not far away from the credit cards being shut down, to where you couldn't make purchases on credit cards," Horvath said.

One provision in the bailout package should help boost the amount of money in the financial system.

Starting Wednesday, banks will be able to collect interest on their bank reserves from the Federal Reserve, which will lend out those reserves to other banks at low rates. That will help solve the problem of banks being reluctant to lend money to one another, which causes liquidity shortfalls.

Even with the federal government stepping into the private economy in such a massive way, there will still be plenty of pain to go around, Horvath said.

"There is nothing that will be instant about the fix or nothing that will be gratifying. It will be longer and more painful than anyone wants," he said.

Aldo Svaldi: 303-954-1410 or asvaldi@denverpost.com

-

> Mohammed Akacem, an economics professor at Metropolitan State College of Denver, said he opposes the bailout package on several fronts despite recognizing the risk to the financial system of not passing it.
>
> "There has to be a cost and a consequence to bad actions. If we don't have that, we are sending the wrong signal," he said.
>
> The bailout is a rebuke to every taxpayer who made mortgage payments on time, limited his or her borrowing and lived within his or her means.

This is a perfect summation of the hundreds of thousands of protests, complaints, and pleas to representatives to not pass the "bailout". We can't afford the $1.7 Trillion in bailouts. Yes, I said $1.7 Trillion. Let's not forget about AIG, WaMu (bad debts were absorbed by the government), Freddie Mack, Fannie Mae and the others already bailed out or seized by the government.