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President Obama Blasts Banks Over Bailouts & Bonuses

SUSIE GHARIB: President Obama scolded Wall Street today. He said paying top executives \$18 billion in bonuses, while seeking taxpayer help, was quote, the height of irresponsibility. In a meeting with Treasury Secretary Geithner this afternoon, the president said his administration will tell financial executives they have to quote, show some restraint.

BARACK OBAMA, PRESIDENT OF THE UNITED STATES: At a time when most of these institutions were teetering on collapse and they are asking for taxpayers to help sustain them and when taxpayers find themselves in the difficult position that if they don't provide help that the entire system could come down on top of our heads, that is the height of irresponsibility. It's shameful.

Will the Government Take Away the Toxicity on Bank Books?

PAUL KANGAS: Before banks get back to making money, many will have to take losses. And, as we've reported, the Obama administration is considering using taxpayer money to clear out the toxic assets on bank books so lending can begin again. The key question is how to value those assets, so Darren Gersh asked it, to a professor who was all set to help the Treasury do just that.

DARREN GERSH, NIGHTLY BUSINESS REPORT CORRESPONDENT: Anyone who's bought anything on eBay will find what's going on at professors Peter Cramton and Larry Ausubel's lab pretty straightforward. This is an auction. These Ph.D. students are offering toxic securities for sale. The only difference from eBay, instead of one seller, there is one buyer, theoretically the U.S. government. Cramton says the goal is to solve the banking crisis and save taxpayer money.

PETER CRAMTON, ECONOMICS PROFESSOR, UNIVERSITY OF MARYLAND: It wouldn't be perfect, but it would be definitely much better than what we have right now, which is, still, no information about what things are worth.

GERSH: This auction software was designed for the Treasury and would have been rolled out in late October, but for a last minute change of plans by the Bush administration.

CRAMTON: Today we're going to auction eight securities.

GERSH: Cramton says it would have worked and still can work, because it forces banks to compete against each other to sell assets to the government. He says the auction software would give taxpayers the best deal and the markets the best idea of what bank assets are really worth.

CRAMTON: We get cash into the hands of the banks, which is increasing liquidity. We do more auctions, we get more information. Everything is positive reinforcement which takes us out of the crisis.

GERSH: But some fear Treasury-sanctioned auctions would force thousands of banks to write down assets to fire sale prices, throwing many out of business. Analysts say that could happen, unless the government promises to buy a large enough share of the market to increase demand and raise prices. Cramton thinks the auctions will also bring in other buyers, keeping assets from falling below their true value.

CRAMTON: If Warren Buffett knows that something is being sold for \$0.10 that's worth \$0.40, you can be sure that Warren Buffett is going to participate in the auction as a buyer, which pushes the price up.

GERSH: It would take time to get the auctions up and running and it also could require the government to buy trillions of dollars in bad loans, leading to inevitable losses. Another option is for the

government to essentially issue insurance policies guaranteeing assets won't fall below a certain level. That could be done quickly and the government has made money in the past on deals insuring the debt of companies like Lockheed and Chrysler. In theory, that insurance could be priced using auctions, but Cramton says it's not a good idea.

CRAMTON: We need to price the assets, not price insurance to guarantee the assets.

GERSH: In the end, there is no getting around the bottom line. Banks now need more cash than private investors are now willing to offer. So the Treasury can make up that difference either through direct cash injections or indirectly by buying up or insuring assets at the right price, whatever that might be. Darren Gersh, NIGHTLY BUSINESS REPORT, Washington.