Team Biden slings bank BS — but you can’t spin this debacle

By Charles Gasparino

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Charles Gasparino discusses why the US economy needs strong leadership in Washington during a time of multiple bank collapses.

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It’s a funny but sad spectacle that Joe Biden & Co. are trying to turn the mess at Silicon Valley Bank — and the crisis engulfing the banking system — into a political win.

Funny because the BS is working about as well as their spinning of the transitory nature of inflation, or how well they handled the alarmingly chaotic pullout from Afghanistan.

Sad because it underscores the downright stupidity of our political class as they face very serious issues about the banking system and the economy that can’t be spun away.

Of course, the final word has yet to be written on the collapse of SVB, Signature Bank, the near-collapse of First Republic Bank, and whatever else implodes by the time this column is in the paper.

But one thing I know for sure is that banking crises demand leadership from Washington — stuff that’s so obviously lacking at a time when it’s so desperately needed.

Back in 2008 we had Treasury Secretary Hank Paulson working day and night putting out multiple fires and leveling with Congress and the American people about the severity of the situation. Today we have Sleepy Joe Biden, his equally asleep Treasury Secretary Janet Yellen announcing that bank bailouts aren’t really bailouts because taxpayers aren’t involved.

Really?

Treasury Secretary Janet Yellen reportedly said that bank bailouts aren't really bailouts because taxpayers aren't involved.

AFP via Getty Images

The government just handed SVB a blank check to cover all its depositors, mainly lefty Bay Area venture capitalists. That means all accounts are covered with FDIC insurance, even those above the limit of $250,000.

He says with a straight face the money is coming from the big banks who contribute to the FDIC insurance pool. OK, but if the banks are financing the fund, they will pass on those costs to depositors. That means everyone with a bank account, which means just about every American taxpayer, will be making whole those wealthy VC dudes.

Duh.

Not very 'stress'ful

Biden and Yellen then say the watering down of the banking law known as Dodd-Frank meant that midsized banks like SVB were spared the so-called stress tests that would have uncovered its weaknesses. They appear to ignore (or most likely have no clue) the dirty little secret that such exams are known derisively in banking circles as "feather tests" because even big risk-management-challenged basket cases like Citigroup seem to pass them.

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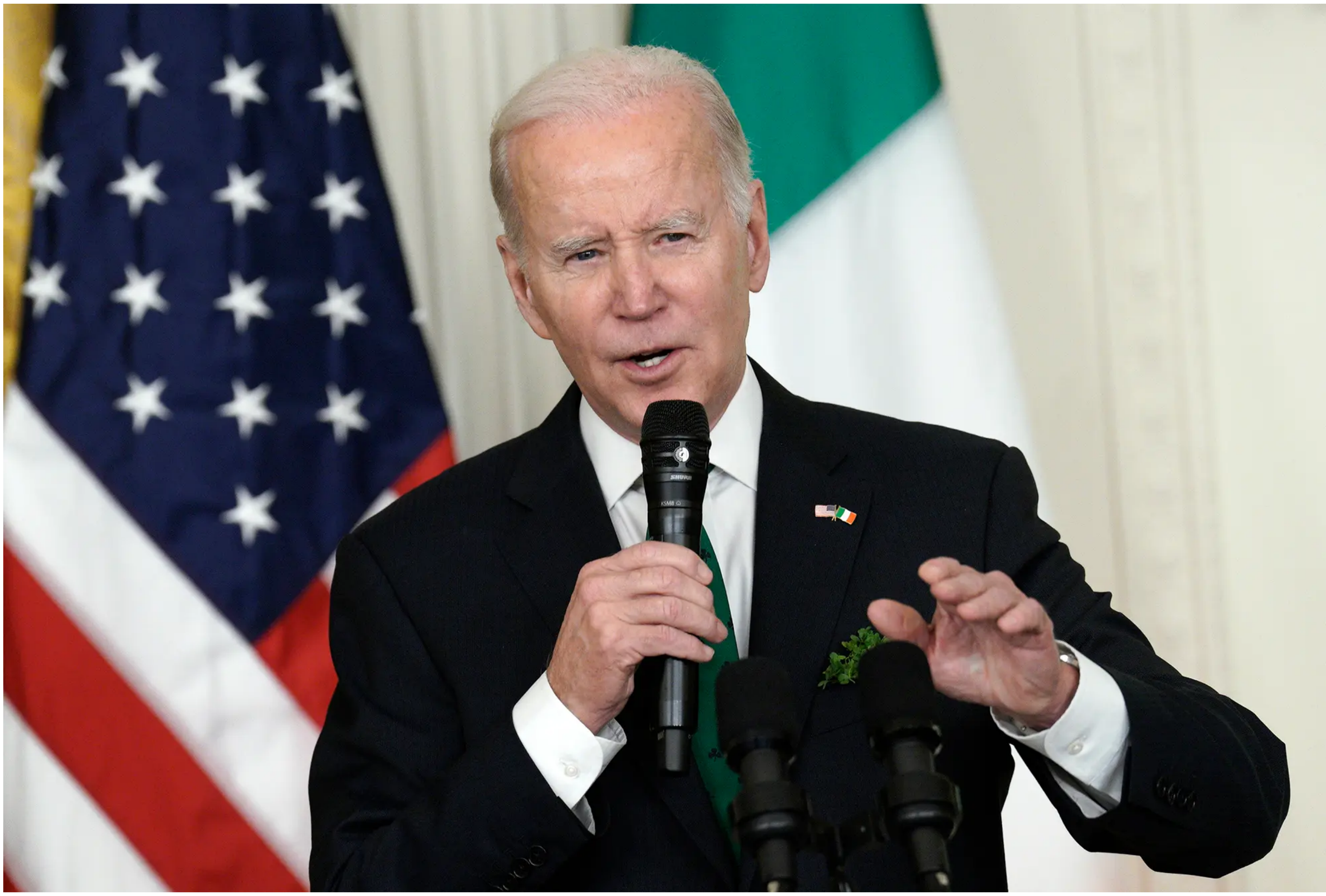
Another whopper: Biden and Yellen want us to believe that the San Francisco Fed had no idea what was happening in its backyard with a bank that grew exponentially in three years before it sank.

Again, don't believe it. SVB's CEO was on the board of his local Fed bank. Everyone who should have known what SVB was up to did. And by many accounts they were too busy making sure the banks they regulated lived up to ESG standards and embraced so-called social-justice remedies to care about SVB's obvious risk taking. One of my sources worked at SVB until about a year ago, and here's how he described the bank's business model: "Loans to VC-backed companies that made no money, asset-based credit lines to PE funds and little else. It should never have been given FDIC insurance. This wasn't a place that made loans to construction companies and took deposits from your aunt."



Biden said the watering down of Dodd-Frank meant that SVB were spared the so-called stress tests that would have uncovered its weaknesses.

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Yes, FDIC insurance was supposed to protect smallish depositors like your aunt, not dice-rolling tech millionaires who banked at SVB and knew it was a risky business. Those tech millionaires (like the SF Fed) either knew or should have known that a hiccup in the economy like rising rates could doom this bank and maybe others.

As I first reported last week, the big banks are now freaking out about another midsized bank also in San Francisco about to succumb to market forces named First Republic. (See a pattern here?) They chipped in with $30 billion to stabilize the bank at least for the time - being.

That's because I also hear the bank could be sold in the coming days to one of the bailout participants. The reason they're doing this is not necessarily because they think First Republic is a great business — rather they're seriously worried about economic contagion that policy makers have no clue how to handle.

Remember 2008?

The bill is coming due for the unserious economic policies of the past two-plus years: The wildly unprecedented spending by the Biden administration to turn the US into a quasi-socialist European welfare state and money printing by the Fed to make that happen.

Every top bank executive I speak to says the current troubles in the financial system could lead to something on the scale of what went down in 2008. They're also seriously worried the banking tumult is yet another example of Sleepy Joe & Co. not being up for the job.

Or as one remarked to me: "Where's Hank Paulson when you need him?"