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Will The Banker Bashing Never End?

By: Bob McTeer **September 24, 2012**

In last Sunday's New York Times (9/23/12), columnist Thomas L. Friedman, whom I admire and usually agree with, gave President Obama credit for daring to lead without fearing the politics. Among his examples of such leadership was ". . . saving the banks rather than throwing all the bankers in jail, which they deserved."

Leaving aside the detail that the banks (most of them anyway since there were many bank failures during the crisis and its aftermath) were saved by Hank Paulson's TARP and Ben Bernanke's monetary policies, what got me was Friedman's statement that all bankers deserved to be thrown in jail. What a reckless thing to say.

Prior to the crisis there were over 8,000 banks in the country, most of them community banks serving the small businesses and citizens of their local communities. Many of those that failed did so because they had purchased AAA-rated mortgage-backed securities thought to be both sound and liquid investments. Others that survived, some with TARP assistance, were also weakened by those investments. Most all of the 8,000 plus banks in the country were victims of the subprime crisis and had nothing to do with creating the crisis. It's hard for me to understand why they deserve to be thrown in jail.

The toxic subprime loans were made primarily by nonbanks outside the bank regulatory framework. Virtually all the packaging of those loans into MBAs was done by Wall Street Investment Banks such as Bear Stearns, Goldman Sachs, Morgan Stanley, Lehman Brothers, and Merrill Lynch. A few Wall Street banks that had merged with or acquired investment bank arms such as Citi and J.P. Morgan Chase were culpable, but those can probably be counted on the fingers of one hand.

Thomas Friedman probably didn't intend his sweeping statement to be taken literally, but he said it, and he is influential. Misinformation like that has consequences. All banks, virtually all of which are innocent of wrongdoing, get to share in the backlash. They get to enjoy the burdens of the massive and mostly-beside-the-point Dodd-Frank law and the beefed-up and also mostly-beside-the-point Basil III rules. New FDIC Director Tom Hoenig has rightly called for those latter rules to be scrapped and replaced with something simpler, especially for community banks. Fixing Dodd-Frank will have to await regime change.