

Fixing the US Banks. A Recipe For Disaster.

When a champion of the free market like Alan Greenspan starts to advocate the nationalization of banks, you know you are in trouble. Since we have his blessing, let's cook up our very own Recipe For Disaster.

1. Create a bad bank. This entity will buy the non performing assets from the banks.
2. Create a buy out fund. This is the nationalization vehicle of the USA.
3. Capitalize the bad bank with US Treasuries, newly issued.
4. Participating banks can exchange their assets with the bad bank in return for US Treasuries. The non performing assets are purchased at slightly inflated prices. Participating banks compensation schemes will be restructured for multi period risk reward optimization.
5. The buyout fund will nationalize any non participating banks.
6. The bad bank makes a one time write down from which the performance of the bank is based. Such performance to form the basis of calculation of a performance fee for management.

Note that step 4 is a de facto nationalization and step 5 is a formal nationalization and together they imply a wholesale nationalization. The rehabilitated banks will have healthy balance sheets and be in a position to resume normal lending, albeit the restructured compensation schemes will encourage management to consider longer term risk and reward.

So, who can and wants to borrow?