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## The Invisible Subsidy for Big Banks

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In June 2009, the Treasury Department granted 10 of the nation's largest financial institutions permission to repay \$68 billion the government had loaned them during the recent financial crisis under the Troubled Asset Relief Program (TARP). It was a big day: The financial crisis was averted, the government got its money back and taxpayers were made whole. (Some smaller banks have yet to repay their TARP loans, but the big banks have.)

Pundits and commentators undoubtedly will debate for years to come whether the TARP bank bailout was necessary, and to what degree it paid for itself. But one thing seems clear: The nation's biggest financial institutions benefited from the federal government's determination that they were too big to fail. More than 300 small and midsized deposit-taking institutions have gone under in the past two years, but none of the big banks have suffered extinction, even though it was their massive risk-taking that nearly capsized the financial system. (Lehman Brothers, which did go broke, was an investment bank, not a deposit-taking institution.)

The Citigroups and the J.P. Morgans may have paid back their TARP funds but no one is asking them to recompense the federal government for its implicit guarantee to stand behind them during a financial crisis. As it turns out, investor faith that Uncle Sam will bail out the big banks when they get into trouble is worth a lot of money.

In a new study, "Size Anomalies in U.S. Bank Stock Returns: A Fiscal Explanation," UCLA professors Priyank Gandhi and Hanno Lustig contend that the implied federal guarantee against disaster risk amounts to \$4.7 billion per large bank on average. Write the authors in the paper, which has been published by the National Bureau of Economic Research:



An advertisement for Heatherfield of Naperville homes. On the left is a small image of a blue house. The main text reads "HEATHERFIELD OF NAPERVILLE" in a serif font, followed by the "KJ Homebuilder Homes" logo. Below that, it says "Single Family Homes from the low \$600s". On the right is a small image of a dining room with red chairs and a table. There are small navigation icons (play and close) in the top right corner of the ad.