Banks got $114B from governments during recession

Support for banks 'more substantial than Canadians were led to believe': CCPA report

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An analysis by CCPA senior economist David Macdonald found that Canada's major lenders were in a far worse position during the downturn than has ever been previously believed. (Canadian Press)

Canada's biggest banks accepted tens of billions in government funds during the recession, according to a report released today by the Canadian Centre for Policy Alternatives.

Canada's banking system is often lauded for being one of the world's safest. But an analysis by CCPA senior economist David Macdonald concluded that Canada's major lenders were in a far worse position during the downturn than previously believed.

Macdonald examined data provided by the Canada Mortgage and Housing Corporation, the Office of the Superintendent of Financial Institutions and the big banks themselves for his report published Monday.

It says support for Canadian banks from various agencies reached $114 billion at its peak. That works out to $3,400 for every man, woman and child in Canada, and also to seven per cent of Canada's gross domestic product in 2009.

The figure is also 10 times the amount Canadian taxpayers spent on the auto industry in 2009.

"At some point during the crisis, three of Canada's banks — CIBC, BMO, and Scotiabank — were completely under water, with government support exceeding the market value of the company," Macdonald said.

"Without government supports to fall back on, Canadian banks would have been in serious trouble."

During October 2008 and June 2010, the banks combined to report $27 billion in profits on their balance sheets.

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CMHC mortgage program aided banks

One of the most well-known ways in which policymakers helped the banks during the crisis is through a $69-billion CMHC program whereby the housing agency took mortgages off the balance sheets of big Canadian banks. In contrast with other support facilities, all of the funds granted by the CMHC were through selling assets (in this case mortgages) to the housing agency. They were not funds that had to be paid back.

The CMHC has provided the aggregate total of how much was given out, but has yet to release specifics on which banks sold how much to them, and when, the CCPA says.

When asked for comment in reaction to the CCPA report, the Canadian Bankers Association noted that the $69 billion that Canada's big banks sold into the CMHC program is in fact only 55 per cent of what was allocated for the program.

"Many of the mortgages were already insured and therefore, created no additional risk for the government," the CBA noted in an email to CBC News. The CMHC estimates that by the time the program is wound up, it will have generated $2.5 billion in profit as those mortgages are paid off, the bankers' group noted.

Calling the CCPA report "completely baseless," Department of Finance spokesperson Chisholm Pothier noted that the mortgage program has already generated more than $1.2 billion in net revenues for the CMHC's coffers.

But Canadian lenders also dipped into a program set up by the U.S. Federal Reserve aimed at providing cash to keep American banks afloat. CIBC and BMO took almost $3 billion each out of the fund, RBC and TD took out $8 billion and Scotiabank drew down almost $12 billion, the CCPA report found.

That data came from the U.S. Federal Reserve, which released it publicly. But Macdonald's analysis found that Canadian banks got a comparable amount — $41 billion — from Bank of Canada facilities, an agency that has been far less transparent in sharing information.

> 'These funding measures were not put in place because banks were in financial difficulty.'
>
> —Canadian Bankers' Association

"Despite Access to Information requests for the data, the Bank of Canada refuses to release it," the CCPA report states.

"The federal government claims it was offering the banks 'liquidity support,' but it looks an awful lot like a bailout to me," says Macdonald. "Whatever you call it, Canadian government aid for the country's biggest banks was far more indispensable than the official line would suggest.

"The support for Canadian banks was much more substantial than Canadians were led to believe," Macdonald said.

The Canadian Bankers Association disputes the notion that the funds in question were any sort of bailout, arguing they were routine transactions aimed at keeping the financial system liquid.

"These funding measures were put in place to ensure that credit was available to lend to businesses and consumers to help the economy through the recession," the CBA said. "These funding measures were not put in place because banks were in financial difficulty."

Since the start of the recession, the CBA notes 436 U.S. banks have failed. No Canadian financial institution went under, but Canada's banking sector was hit by an overall crisis of confidence in the banking sector that caused some of the banks' normal lending sources to dry up, the CBA says.

Canadian banks get about two-thirds of their funding from consumer and business deposits, but the other third comes from credit markets.

"It was these markets that were seizing up. Funding was less available," the CBA says. "Canadian banks continued to lend and increased their lending after some non-bank lenders pulled out of the Canadian market."

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While some of the funding came from government sources such as the Bank of Canada, the bankers' association points out that the central bank itself says Canadian banks needed less official central bank liquidity support than their foreign counterparts.

"The credit was extended at competitive interest rates to protect taxpayers," Pothier said. "Financial institutions accepting this credit paid interest on the loans."

To show the scale of the funding, the CCPA report contrasted the total value of the support Canadian banks took against the bank's total value at the time. Under that comparison, CIBC received $21 billion in support — almost 1.5 times the value of the company at the time. BMO maxed out at $17 billion or 118 per cent, Scotiabank peaked at $25 billion or 100 per cent of its value, while TD and RBC maxed out at $26 billion and $25 billion — good enough for 69 and 63 per cent, respectively, of the total value of those companies at the time.

"It would have been cheaper to buy every single share in these companies," Macdonald said.

But the CBA disputes those numbers too, saying comparing a bank's value to the level with which it participated in a liquidity program aimed at boosting confidence in the market is "an apples to oranges comparison as the two factors are not at all related."

"The Oxford dictionary defines bailout as 'financial assistance to a failing business or economy to save it from collapse," the Canadian Bankers Association noted.

"That definitely was not the case here: not one bank in Canada was in danger of going bankrupt or required the government to buy an equity stake under taxpayer-funded bailouts."

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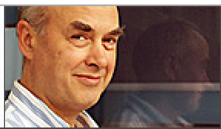
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