

# **The 'Good Bank' Plan**

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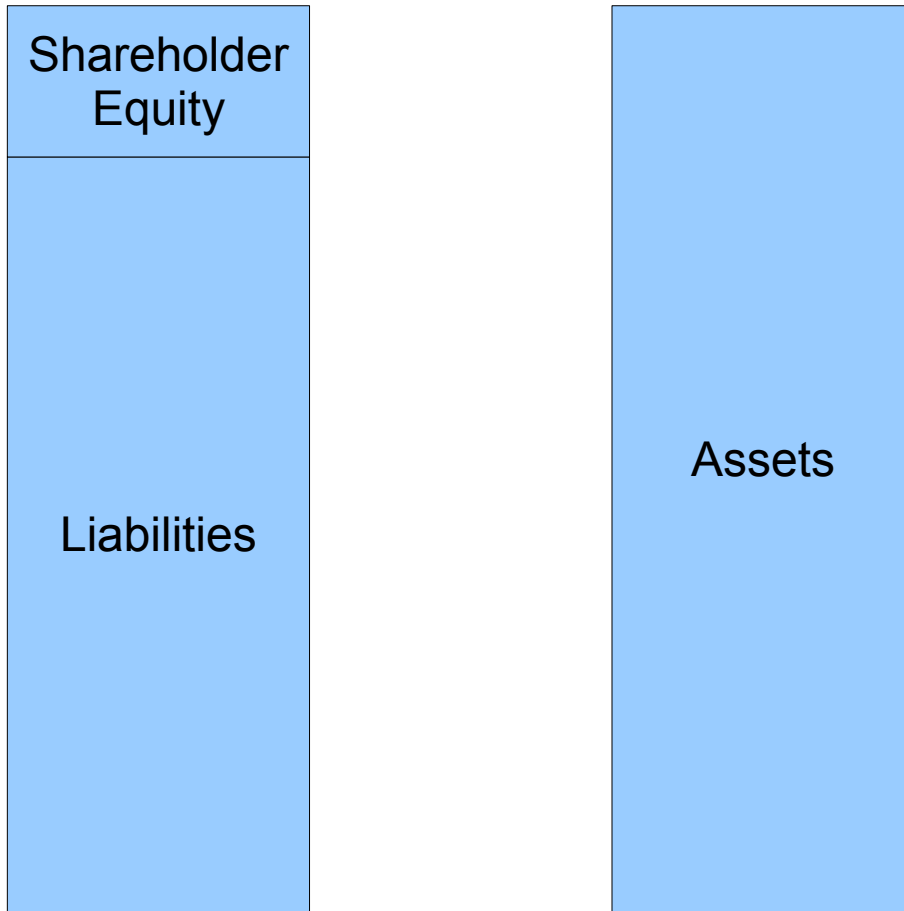
# Objectives of the Plan

1) Increase finance to companies and individuals, and increase the amount of 'good' money in the economy

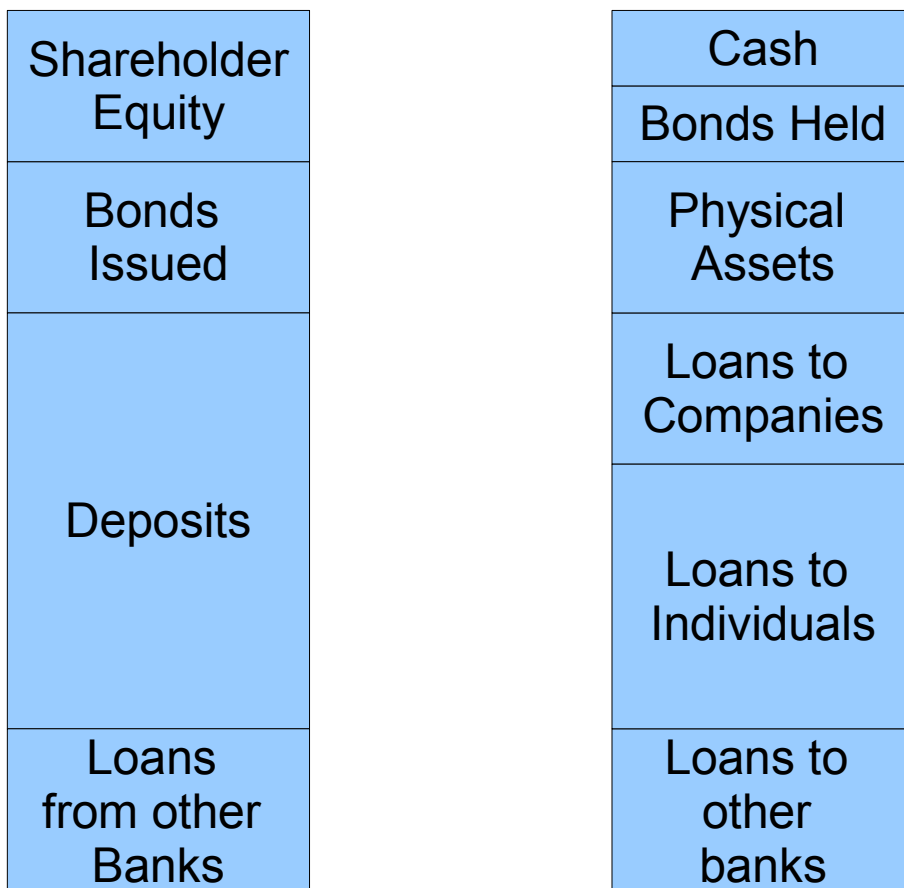
2) Make concrete implicit guarantees of private domestic & other bank deposits

3) Limit the potential liability of the sovereign / taxpayer; and avoid the socialization of private losses & risks

# A Bank's Balance Sheet

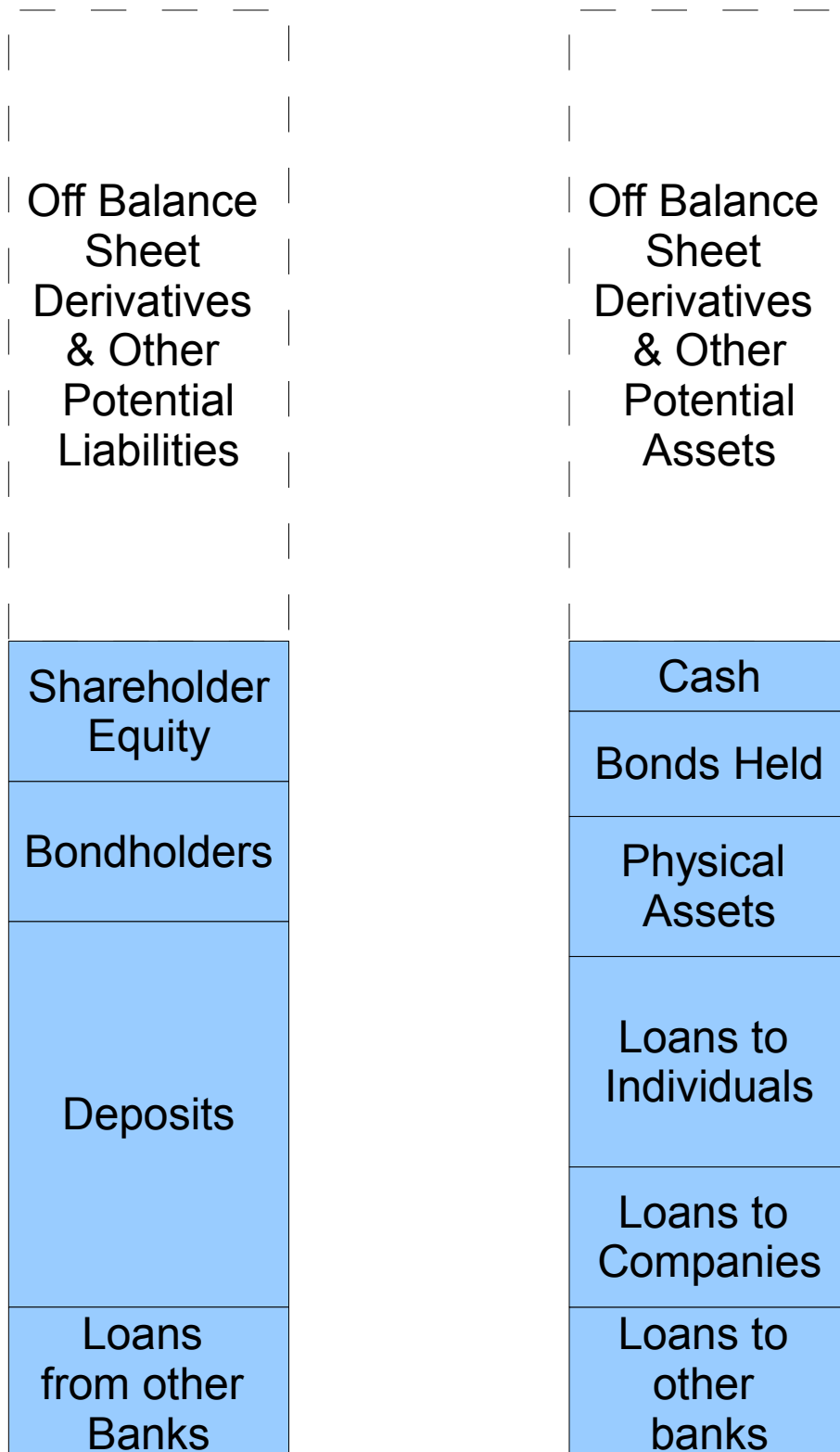


## Composition of Bank's Balance Sheet



# Possible 'Off Balance Sheet' Liabilities and Assets

It is possible that banks will have off-balance sheet potential assets and liabilities that are not shown on their balance sheet. For example, derivatives contracts often have potential liabilities greater than that in the balance sheet.



# Some of the bank's assets are impaired ('bad') or will be ('perishable')

## Liabilities

Off Balance Sheet Derivatives & Other Potential Liabilities (NB Money for Lawyers if Bankruptcy)

Shareholder Equity

Bonds Issued

Other Depositors

Private Domestic Depositors

Loans from other Banks

## Assets

Off Balance Sheet Derivatives & Other Potential Assets

Bad Debt

'Perishable' Debt

Good Debt

Govt Bonds

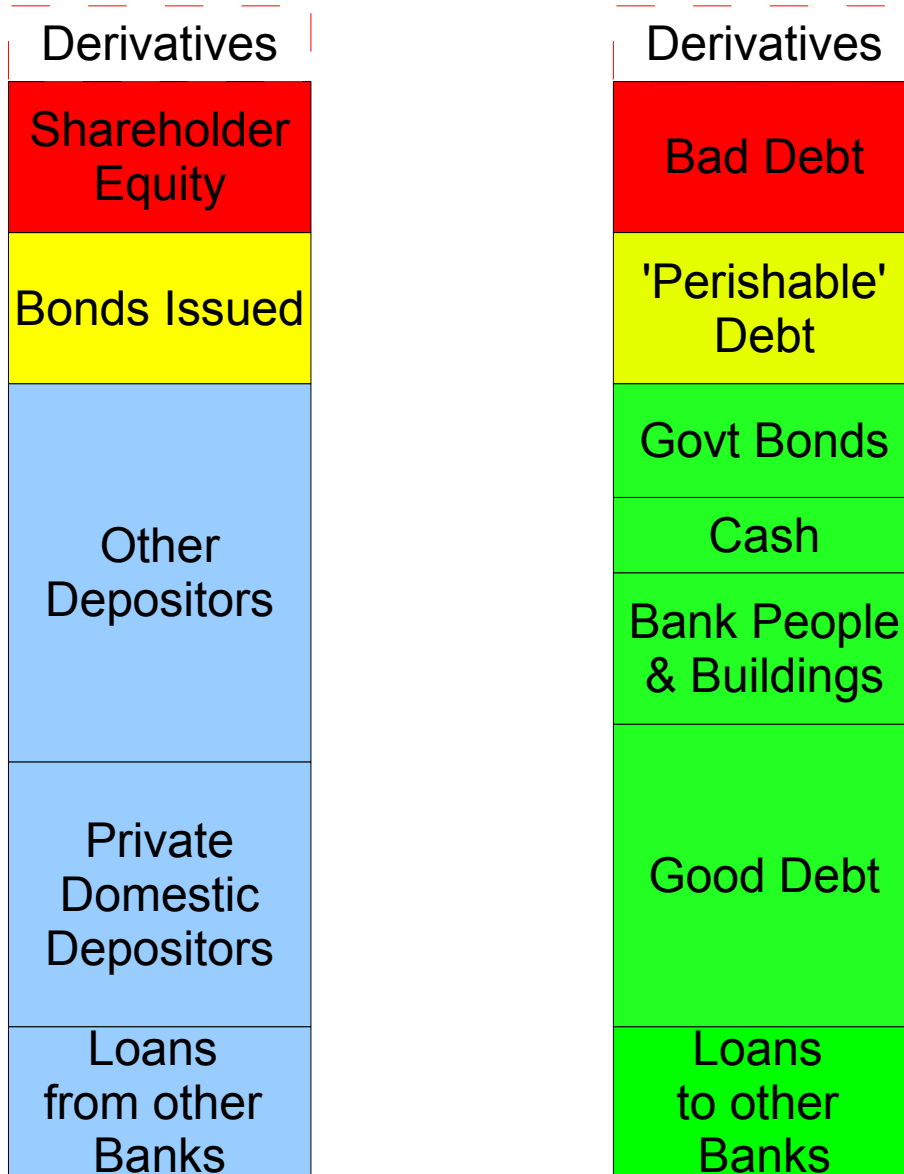
Cash

Bank People & Buildings

Loans to other Banks

# Setting Up A Government-Backed 'Good Bank'

## Old Bank (Private)



## New 'Good' Bank (Initially Public)



# Option A: New Good Bank Lends; Old Bank Left Intact

## Old Bank (Private)

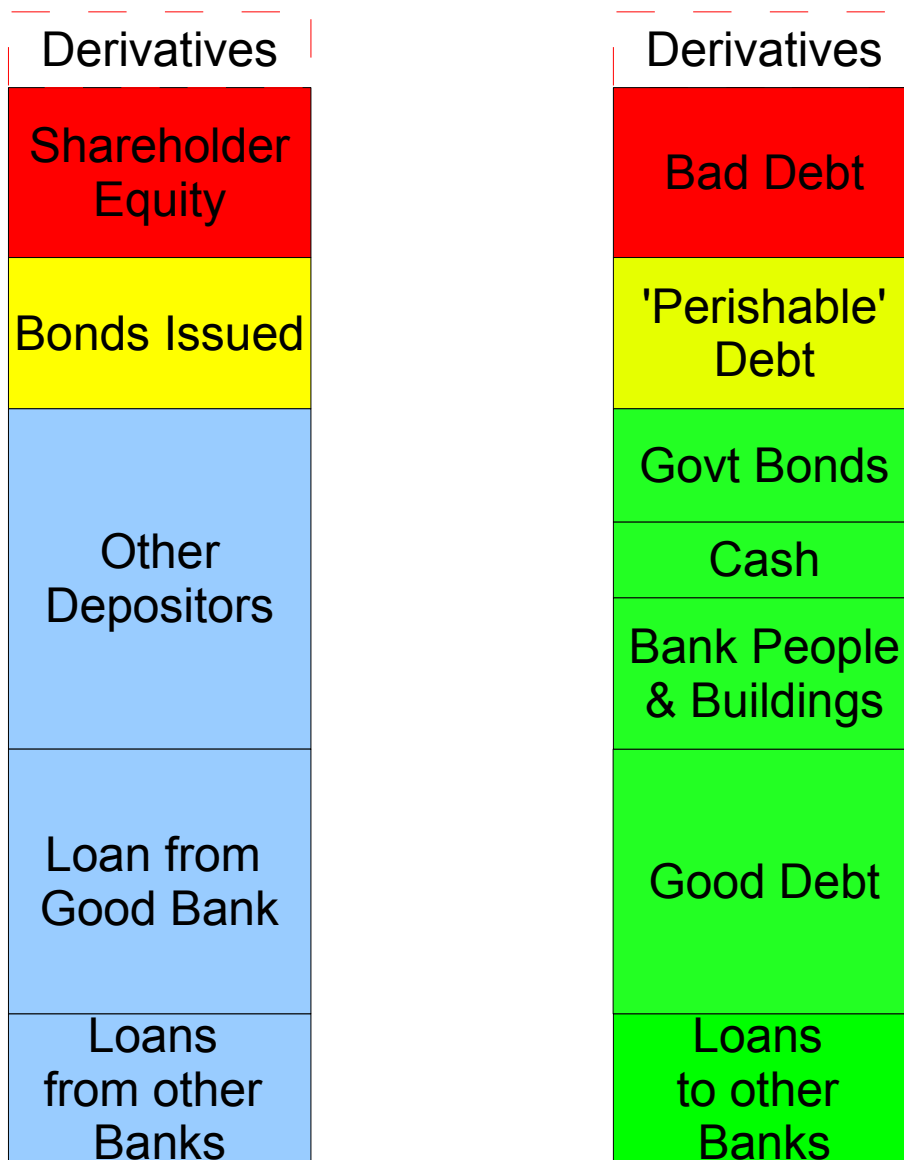
Derivatives	Derivatives
Shareholder Equity	Bad Debt
Bonds Issued	'Perishable' Debt
Other Depositors	Govt Bonds
Private Domestic Depositors	Cash
Loans from other Banks	Bank People & Buildings
	Good Debt
	Loans to other Banks

## New 'Good' Bank (Initially Public)

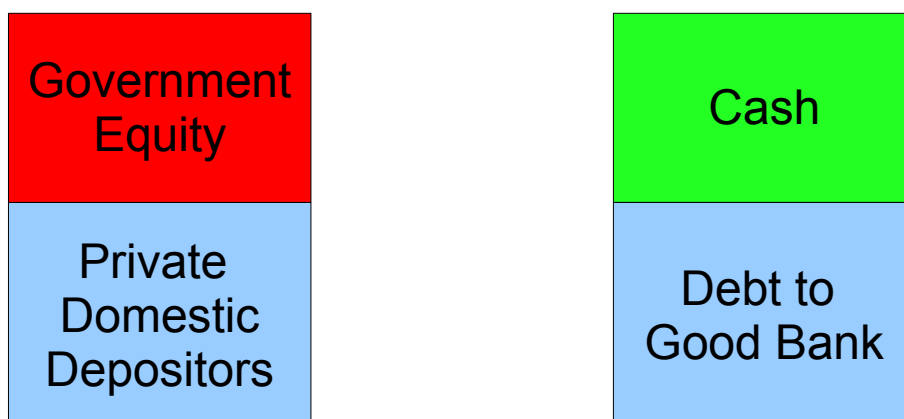
Government Equity	New Debt (Lending to Public)
Borrowed from Central Bank	
Bonds Issued	

# Option B: Move Depositors to Good Bank

## Step i: Transfer of Private Depositors to Good Bank

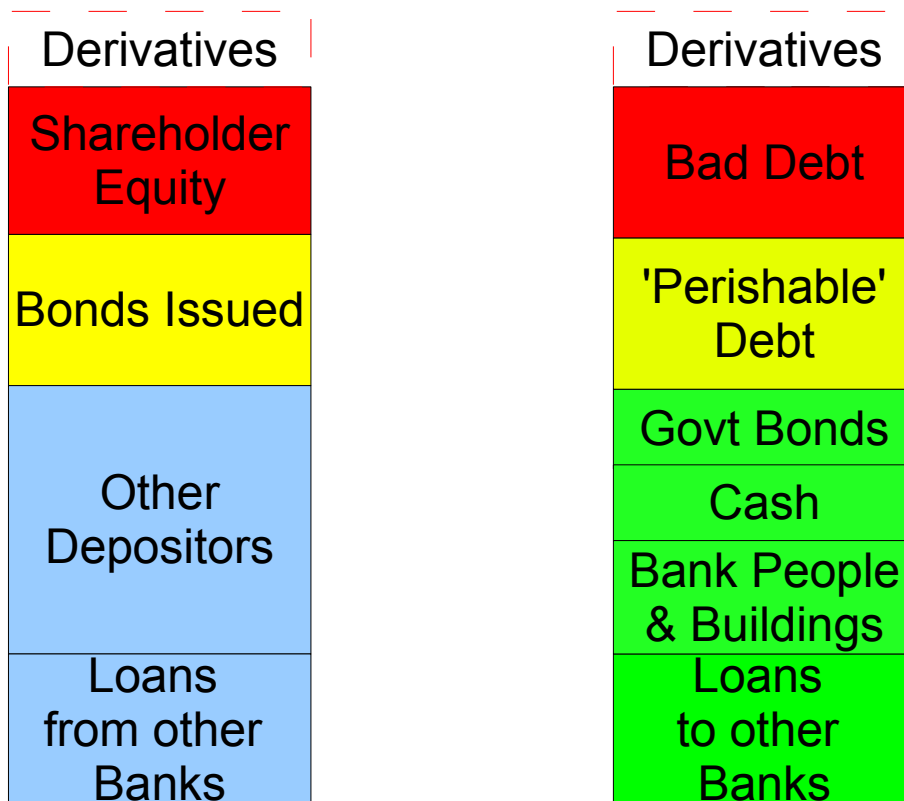


## **New 'Good' Bank (Initially Public)**

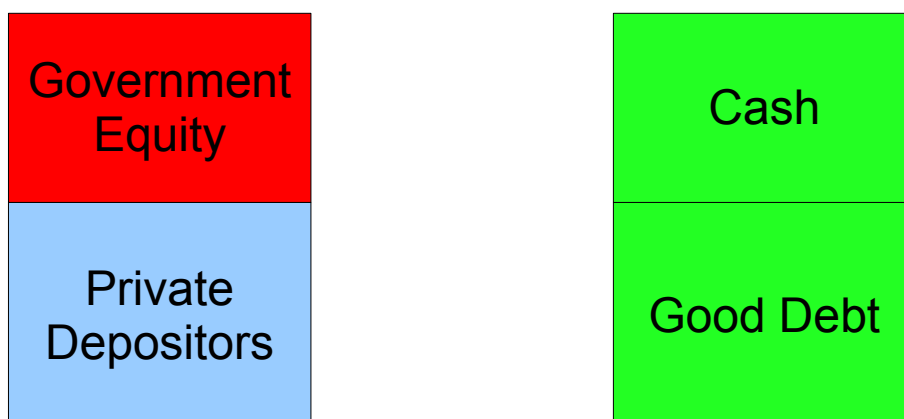




## B: Step ii: Good Debt bought by Good Bank



## **New 'Good' Bank (Initially Public)**



## B: Step iii: Transfer and netting off of interbank lending

### Old Bank (Private)

Derivatives
Shareholder Equity
Bonds Issued
Other Depositors

Derivatives
Bad Debt
'Perishable' Debt
Govt Bonds
Cash
Bank People & Buildings

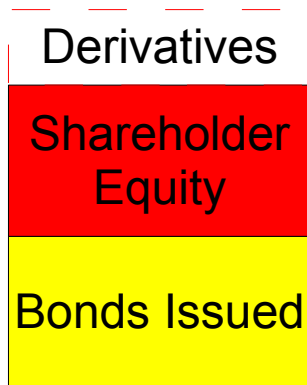
### New 'Good' Bank (Initially Public)

Government Equity
Private Depositors
Loans from other UK Banks

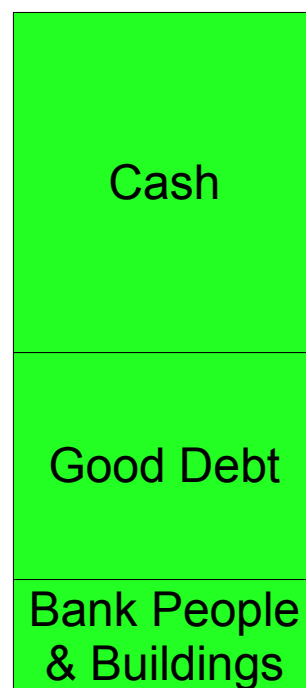
Cash
Good Debt
Loans to other UK Banks

# B: Step iv: Transfer of Remaining Deposits in Exchange for Other Assets

## Old Bank (Private)



## New 'Good' Bank (Initially Public)



# B: Step v: Restructuring Old Bank: Debt for Equity Swap

## Old Bank (Private)

Derivatives
Shareholder Equity
Bondholders now Equity

Derivatives
Bad Debt
'Perishable' Debt

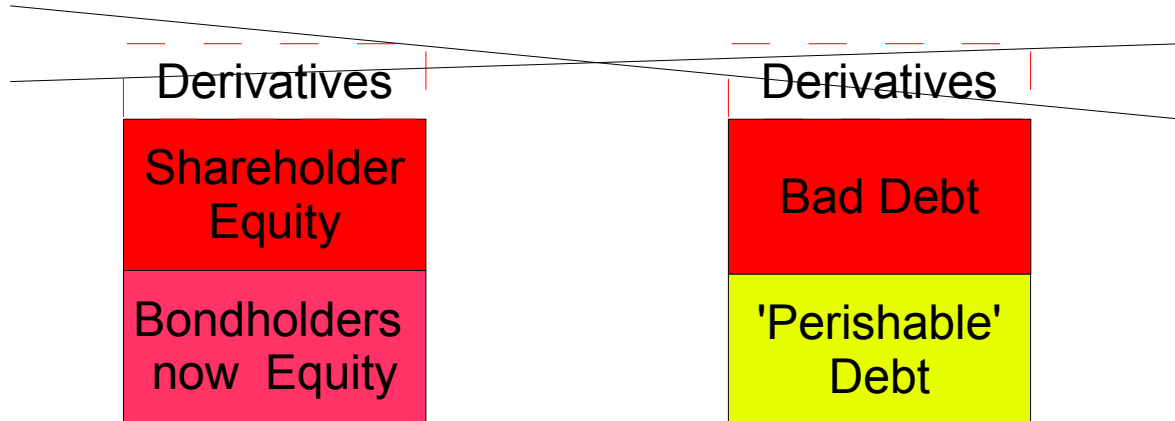
## New 'Good' Bank (Initially Public)

Government Equity
Private Depositors
Other Depositors

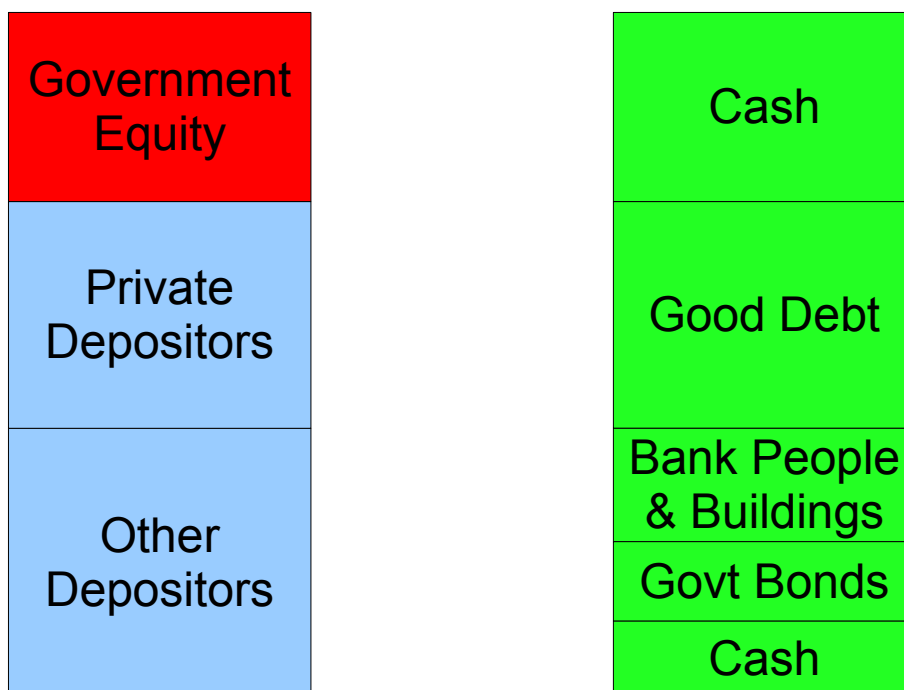
Cash
Good Debt
Bank People & Buildings
Govt Bonds
Cash

# B: Step vi: Derivatives Positions Unwound

## Old Bank (Private)



## New 'Good' Bank (Initially Public)



## B: New Good Bank Lends More

### Old Bank (Private)



### New 'Good' Bank (Initially Public)

