

The 'Good Bank' Plan

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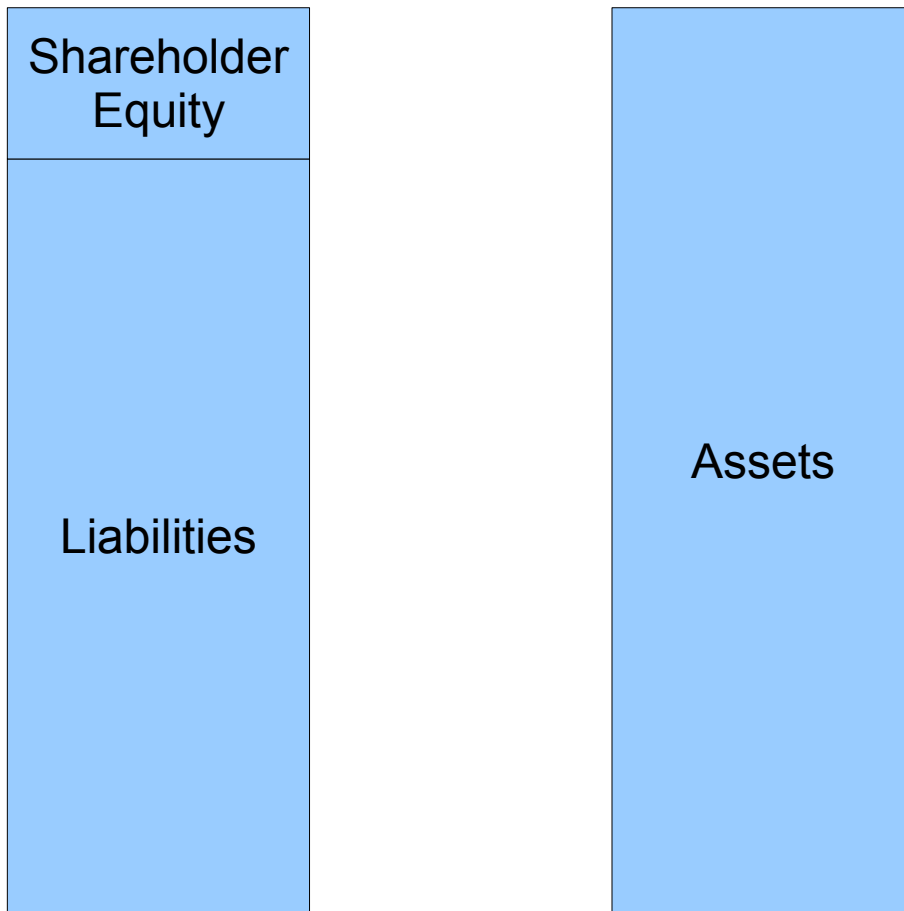
Objectives of the Plan

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

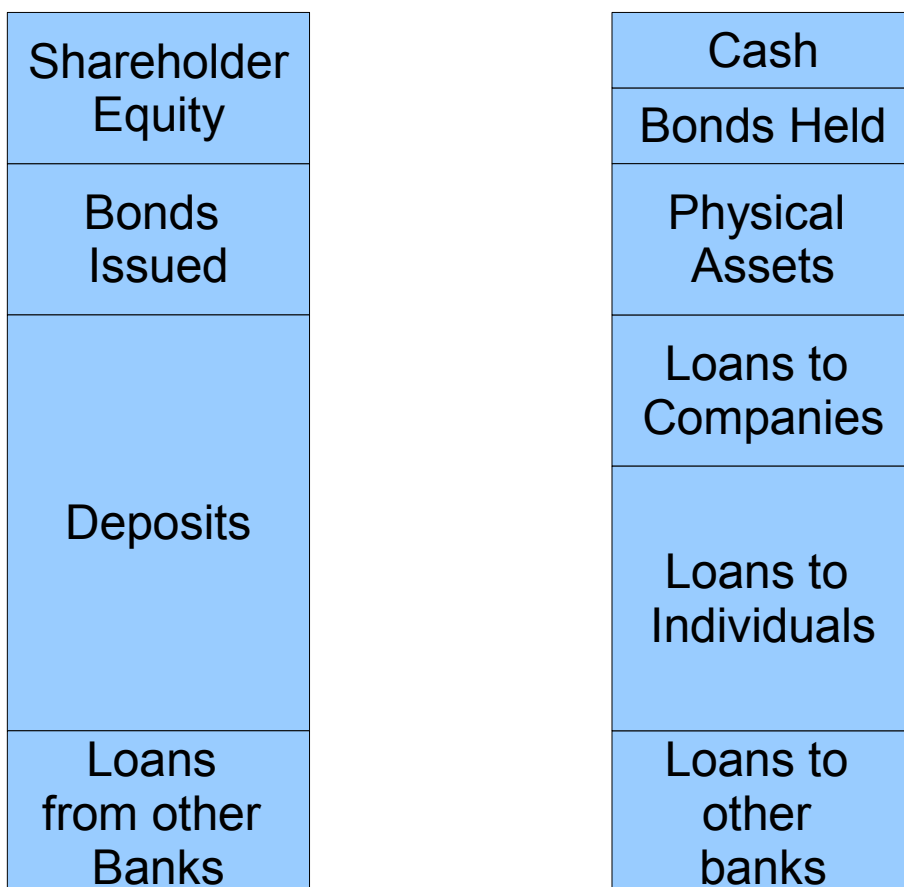
2) Make concrete implicit guarantees of private domestic & other bank deposits

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

A Bank's Balance Sheet

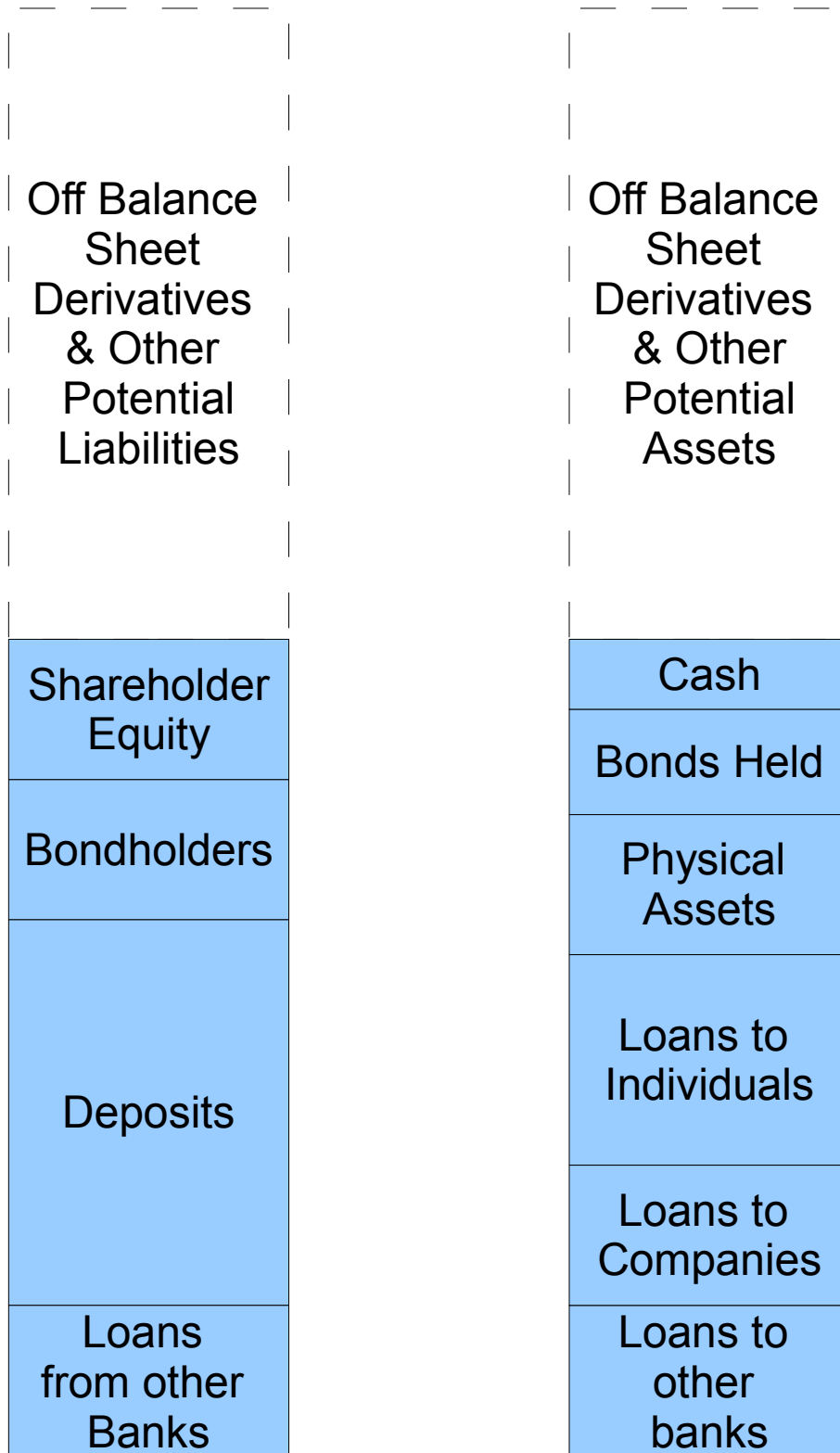


Composition of Bank's Balance Sheet



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

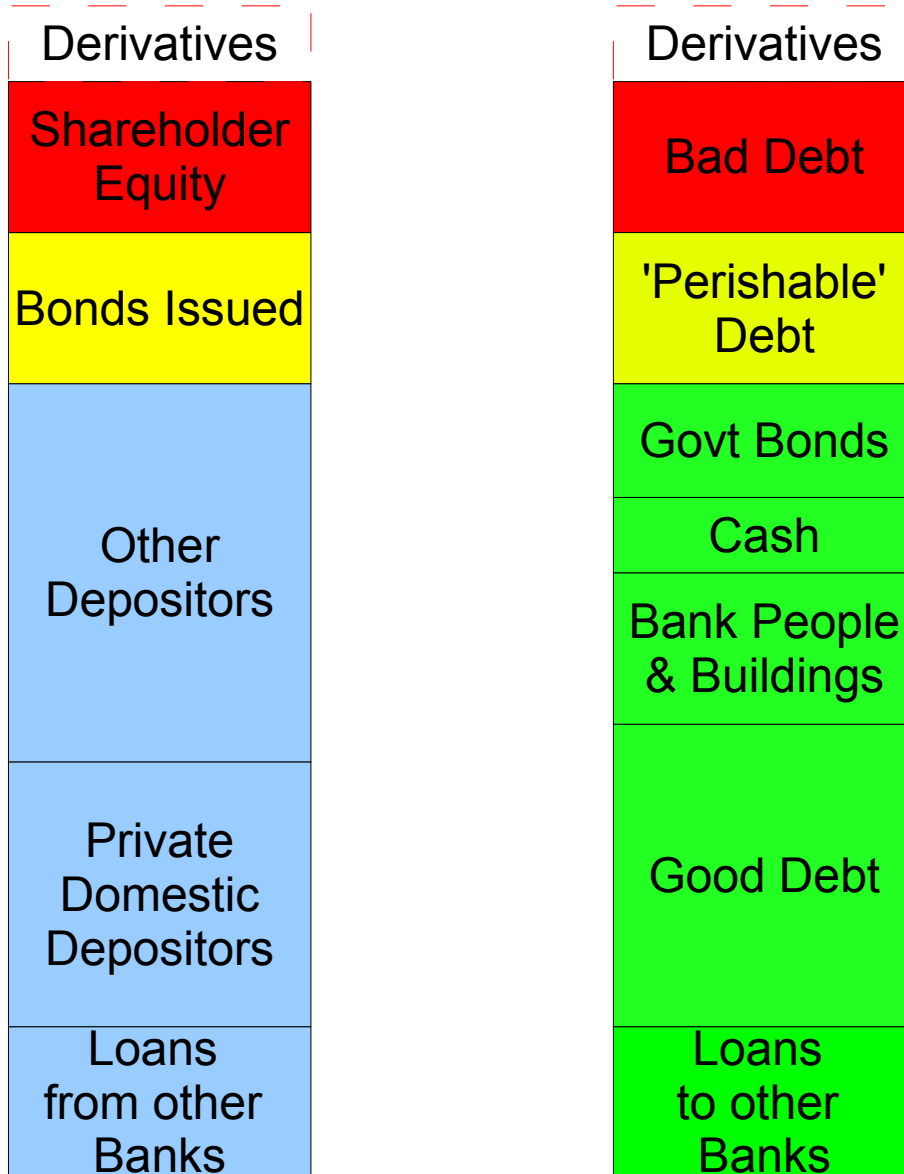
Cash

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)

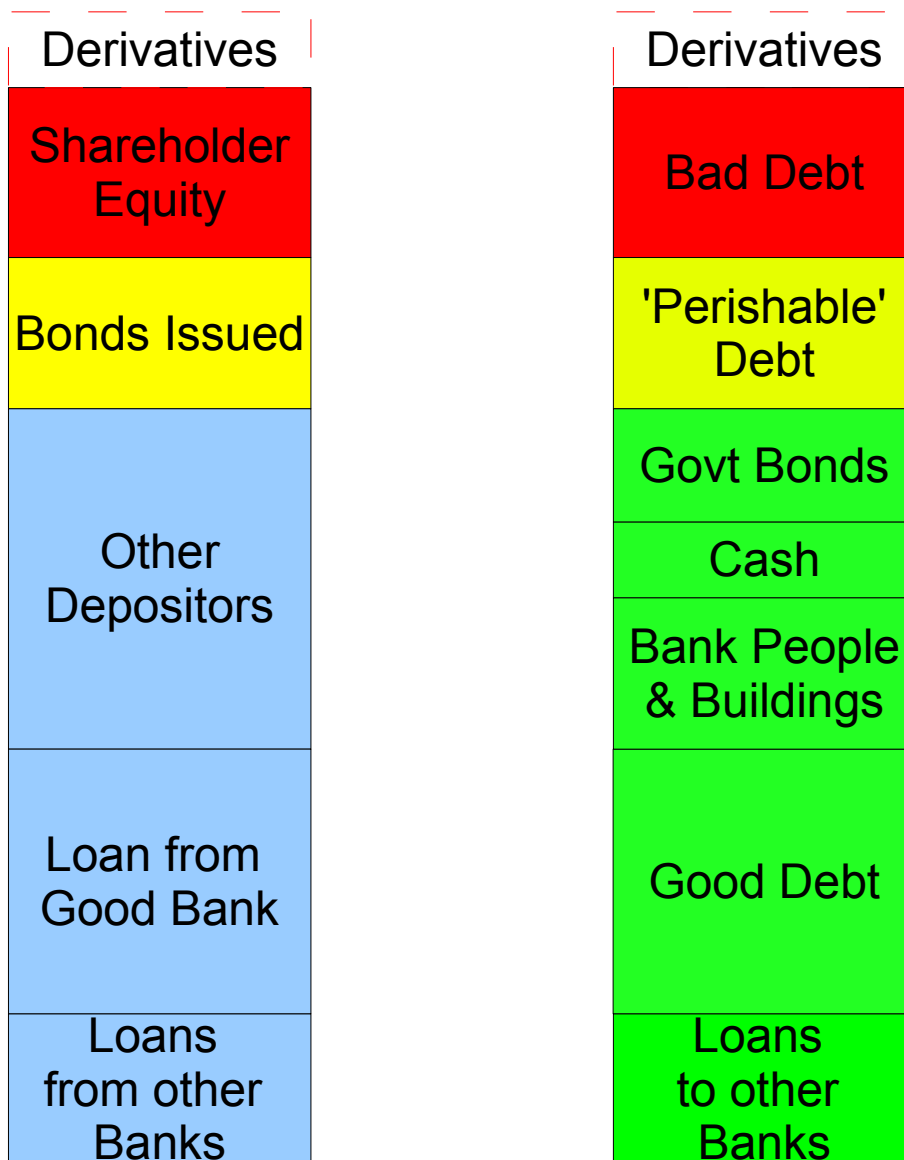
Derivatives	Derivatives
Shareholder Equity	Bad Debt
Bonds Issued	'Perishable' Debt
Other Depositors	Govt Bonds
Private Domestic Depositors	Cash
Loans from other Banks	Bank People & Buildings
	Good Debt
	Loans to other Banks

New 'Good' Bank (Initially Public)

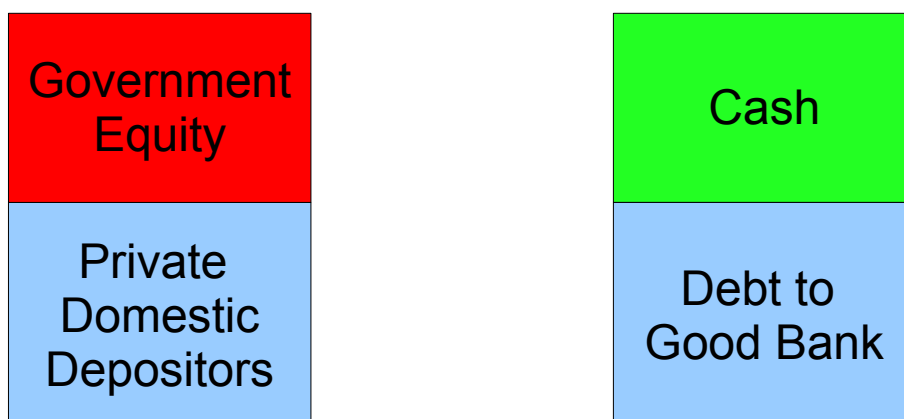
Government Equity	New Debt (Lending to Public)
Borrowed from Central Bank	
Bonds Issued	

Option B: Move Depositors to Good Bank

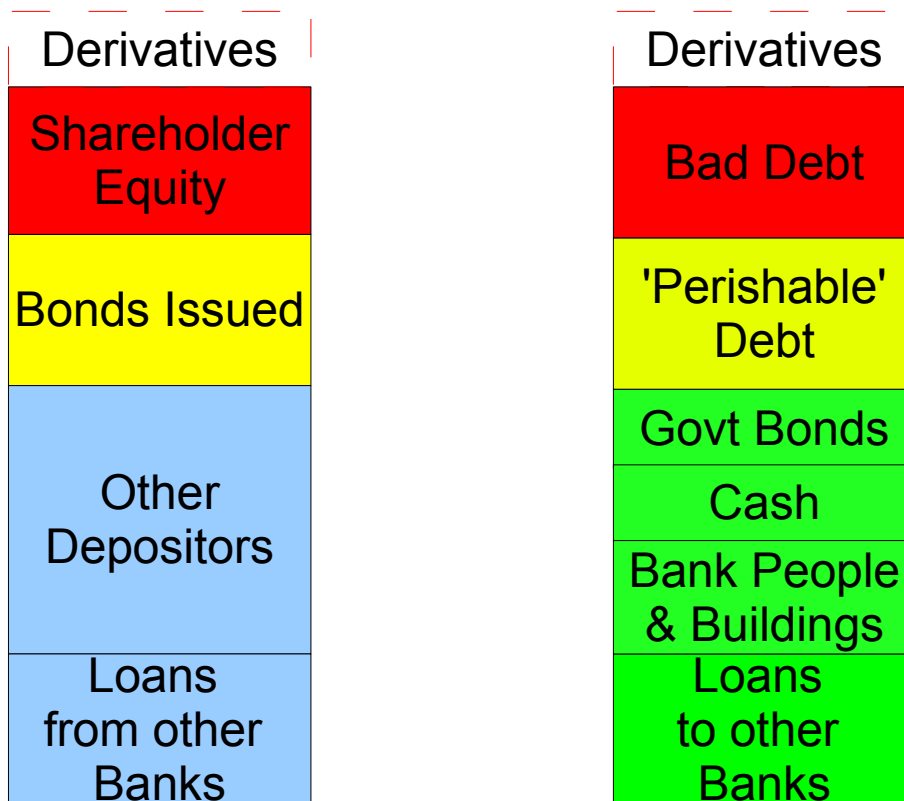
Step i: Transfer of Private Depositors to Good Bank



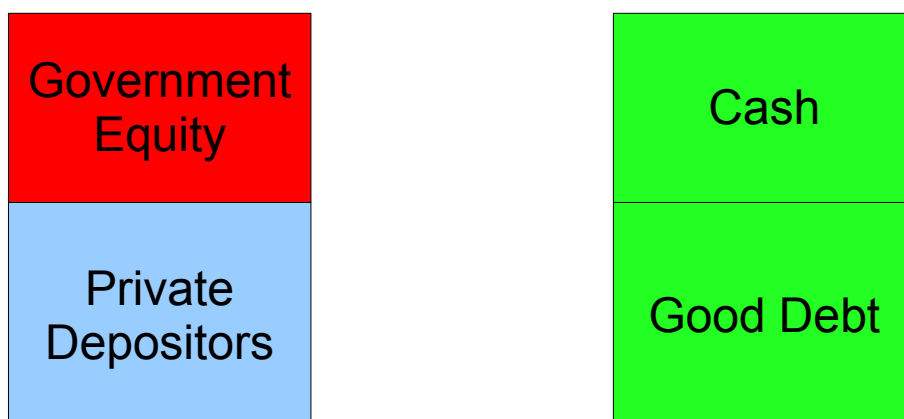
New 'Good' Bank (Initially Public)



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

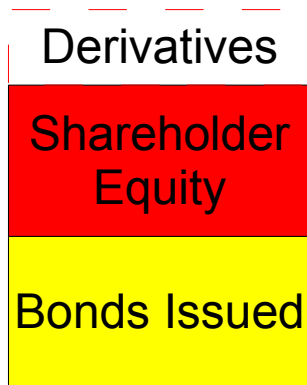
New 'Good' Bank (Initially Public)

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)

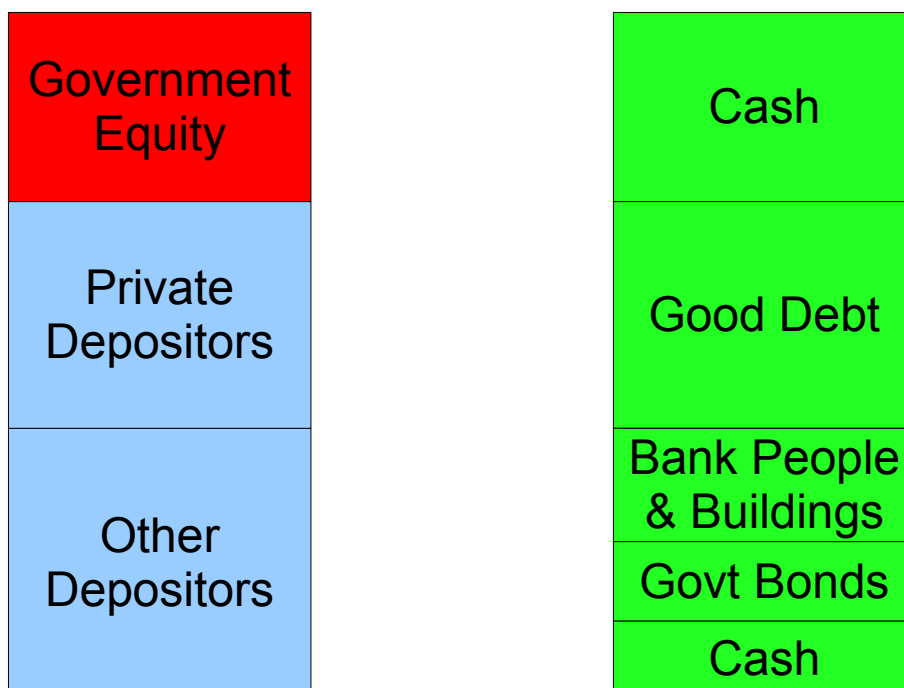


B: Step v: Restructuring Old Bank: Debt for Equity Swap

Old Bank (Private)

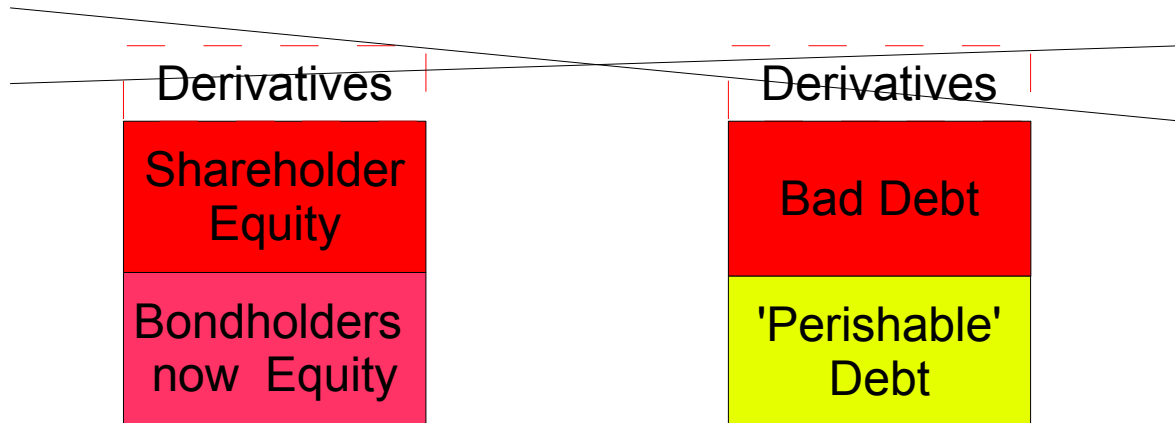


New 'Good' Bank (Initially Public)

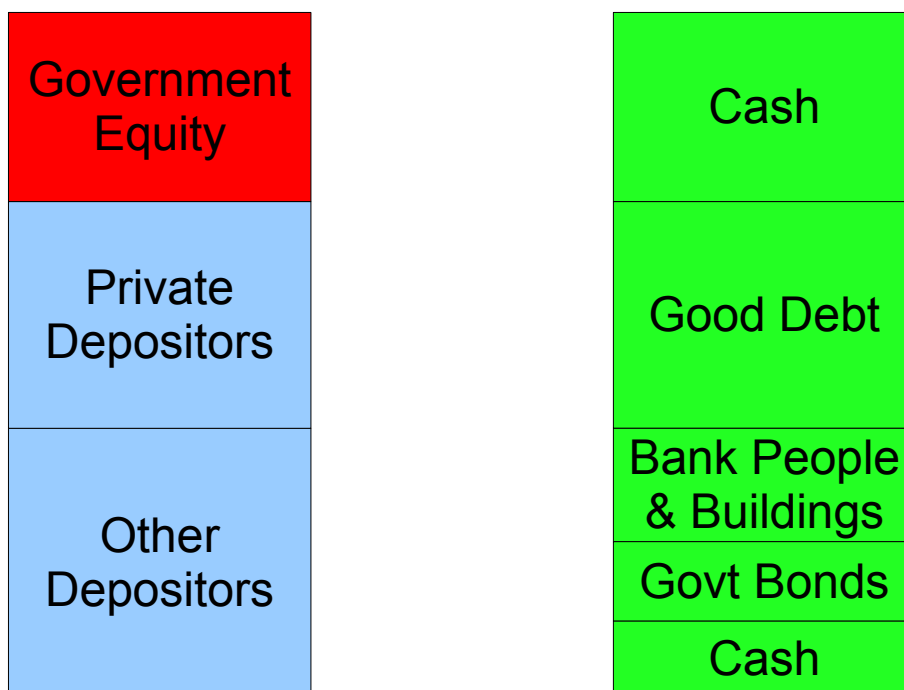


B: Step vi: Derivatives Positions Unwound

Old Bank (Private)

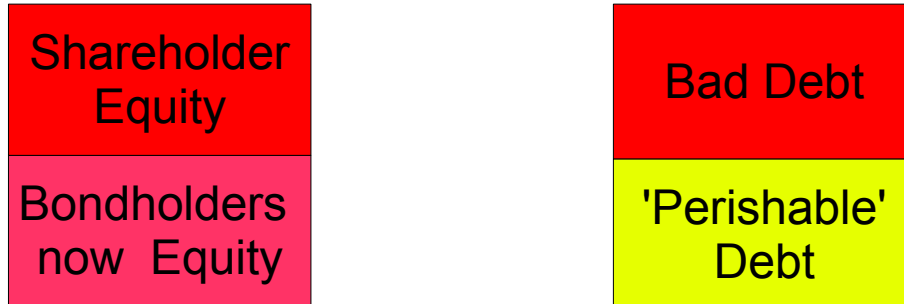


New 'Good' Bank (Initially Public)



B: New Good Bank Lends More

Old Bank (Private)



New 'Good' Bank (Initially Public)

