

"We Spent \$13 Trillion And These Banks Are STILL IN THE CRAPPER!"

Henry Blodget|Aug. 27, 2009, 2:36 PM

More from the one and only Howard Davidowitz... This time on the banks and the "crisis in commercial real estate", which Howard describes as a "catastrophe."

[Aaron Task, TechTicker](#): Since the government gave banks relief on mark-to-market accounting and the "stress tests" helped engineer a big round of capital-raising last spring, the financial sector has been on a tear.

Now a major debate is occurring over whether the sector remains attractively valued or is living on borrowed time.

On the optimistic side of the ledger, famed hedge fund manager John Paulson is upping his stake in Citigroup [The NY Post reports](#). Last month, [an SEC filing revealed](#) Paulson's fund taking big stakes in Bank of America, Goldman Sachs, JPMorgan, Capital One Financial and other financials.

On the other hand, regulators [loosened restrictions on private equity firms'](#) ability to buy failed banks, a nod to the drain on [the FDIC's insurance fund](#) given the failures of the past year - and more expected to come. (On Thursday, the FDIC said the number of banks on its problem watchlist rose to 416 in the second quarter from 305 in Q1, while its insurance fund fell 20% to \$10.4 billion. "The decrease in the fund was chiefly caused by an \$11.6 billion increase in the money the FDIC set aside for anticipated bank failures," [Reuters reports](#).)

Count Howard Davidowitz of Davidowitz & Associates among the skeptics, which shouldn't surprise anyone who's seen his often grim (albeit entertaining) [appearances on Tech Ticker](#).

"I think the banks have major problems to come," Davidowitz says. "The banks still have tons of toxic assets. [Plus] the shape of the consumer comes right back to the banks with all this credit card debt, student loans, auto loans [going bad] - all of this goes to the banks."

In addition to what he sees as a dire outlook for consumers, commercial real estate "is a catastrophe" and will add to the banks' woes, Davidowitz says.

Although REITs like Vornado and Simon Property Group have been able to get financing, many property owners are unable to renegotiate terms with their lenders to account for the new economic realities. As a result, many are under water and Davidowitz expects more commercial real estate owners to just walk away from properties, just as residential homeowners have done.

"Jingle mail" is already happening in the commercial real estate sector, with developers like New York's Harry Macklowe and California's Hines and Sterling already having returned properties to their lenders.

Davidowitz expect more of this, which means more losses for the banks, who've already been the beneficiaries of unprecedented government bailouts. "Did [regulators] do something for the banks? No question about it," Davidowitz says. "My question: when you spend \$13 trillion, what did we get? Banks are still in the crapper. I have a problem with that."

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