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Safe Banking - An excellent, early, thought leader's view.

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Safe Banking

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ABSTRACT

Capital market gurus plead for universal banking with theoretically sound but practically fragile firewalls around special purpose vehicles (SPV) like financial conduits and trusts, while regulators continue to noose banks and massive risks pile on taxpayers due to credit derivatives. Fragile firewalls destroyed Enron and MCI-WorldCom and may implode banks. The solution proposed here is to create enough safe banks to serve panic-prone depositors, and to let the rest of the banks operate as universal banks without regulation. **Safe banks invest exclusively in government securities, accept no more deposits than liquidation value of assets, and issue no liabilities (like debt) except common stock and preferred stock.**

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