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Financial Proposal Received Skeptically

By Phil Mattingly and Benton Ives, CQ Staff

Lawmakers quickly called for more details last week following the Obama administration's announcement of plans to overhaul the federal bank bailout program. The reaction was a continuation of months of skepticism from Congress about how the Treasury Department is handling the financial crisis.

Treasury Secretary Timothy F. Geithner on Feb. 10 announced the administration's intent to bolster the $700 billion bailout program with new approaches aimed at using the remaining available funds to pump as much as $2 trillion into the financial system through a combination of public and private investment.

But during the announcement and in testimony before a Senate committee later in the day, Geithner acknowledged that the plan is still a work in progress — something that put lawmakers on edge.


MORE TO COME: Geithner explained the plan to the Senate Banking Committee at a Feb. 10 hearing. (CQ / RYAN KELLY)

"It was just a broad outline," said Spencer Bachus of Alabama, the top Republican on the House Financial Services Committee. Bachus, who attended Geithner's announcement, said the new program simply isn't ready.

Although Democratic lawmakers generally welcomed Geithner's statement, they said the plan lacked specificity in several areas. The House's point man on financial issues, Financial Services Chairman Barney Frank, D-Mass., indicated he was unhappy that details of a $50 billion plan to help the housing market were left for later.

And lawmakers said they were concerned that Treasury will need billions of dollars more for the bailout to be effective.

Plan Details

The new effort — dubbed the Financial Stability Plan — will include four main elements: fresh capital injections for ailing banks; creation of a government-backed entity that would help private investors take toxic securities off bank balance sheets; the expansion of a Federal Reserve program aimed at kick-starting consumer lending; and a new plan to help reduce foreclosures, to be detailed later.

"To get credit flowing again, to restore confidence in our markets and restore the faith of the American people, we are fundamentally reshaping the government's program to repair the financial system," Geithner said in his speech outlining the plan.

But while Treasury has identified the four core elements, the specifics of how each will work remain largely unknown. The first part of the new plan — fresh capital for ailing banks — is essentially a continuation of the Bush administration's program. But Geithner said his plan will include a "comprehensive stress test" for banks getting capital to judge their financial health, as well as new requirements for those that get aid.

"The capital will come with conditions to help ensure that every dollar of assistance is used to generate a level of lending greater than what would have been possible in the absence of government support," Geithner said.

There is no start date for the new injections, and Treasury officials said it was unclear how many banks would need the new money.

In the most anticipated portion of the plan, Geithner announced his intention to entice private capital back into the financial system.

To help banks get rid of toxic securities, many of which are backed by troubled home loans, Treasury is pushing a new public-private partnership plan. "We have not settled on exactly how this will be structured," a senior Treasury official said of the private-public facility, which will start on a scale of $500 billion, with the opportunity to expand.

Even without a final plan, Treasury officials seemed confident that they could attract private capital, saying they have had "tremendous" private-sector interest in the program, although they currently have no commitments to participate.

Treasury will also boost its commitment to a Federal Reserve program aimed at increasing consumer lending, ultimately expanding the program to $1 trillion. The Fed program, introduced in November, is designed to unfreeze consumer credit markets. Treasury committed up to $80 billion more to expand the program, which began with $20 billion in seed money from the funds made available under Troubled Asset Relief Program (TARP) enacted last fall (PL 110-343).

Geithner said the final element in the plan will be a "comprehensive housing program." Goals will include driving down mortgage rates, preventing avoidable foreclosures and establishing standards and guidelines to make the various loan modification efforts more uniform. He said $50 billion will be available to deal with mortgage foreclosures, which is at the low end of earlier expectations and would be unveiled later.

Republicans questioned whether the plan Geithner outlined significantly changes the Treasury Department's widely criticized approach to the crisis.

"It appears here that your plan is offering only at this point a conceptual plan with many details yet to be filled in," Richard C. Shelby of Alabama, the top Republican on the Senate Banking Committee, told Geithner during the panel's Feb. 10 hearing.

Several lawmakers and top economists had speculated that the administration would have to come back to Congress for more money, but Geithner chose a different route. While the new plan will potentially push trillions of dollars into the economy, it will be covered — at least in the short term — by the funds allocated in the initial bailout legislation and through Federal Reserve financing.

"If it becomes clear over time that we need more capital, we will work with Congress," a senior Treasury official said. "We will be very open about why we see the need for more capital, what will we do with it, what the objective would be, but for right now we have the resources sufficient to launch our programs."

Lawmakers said they were certain that Treasury still will need more money. "See, I just don't believe that's enough money to fix housing and banking," Lindsey Graham, R-S.C., told Geithner at a Feb. 11 Senate Budget Committee hearing. "I just wish you would say that, because you're going to come up here and ask us for more money."

Senate Budget Chairman Kent Conrad, D-N.D., said Treasury must determine whether it will need more money soon.

"By all accounts, in terms of the testimony before this committee by some of the most respected economic analysts in the country," the remaining bailout money "is not going to be sufficient to deal with the financial sector," Conrad told the Treasury secretary. "It is incumbent that you very soon help us understand if additional funding is needed and what amount."

"Senator, we'll do it as quickly as we can," Geithner said.

Source: **CQ Weekly**
The definitive source for news about Congress.

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Highlights of the White House Proposal for the Financial Industry

By CQ Staff

Treasury Secretary Timothy F. Geithner on Feb. 10 laid out the Obama administration's blueprint for the federal rescue of the financial industry. Below are the major elements of the plan.

Financial Stability Trust

• Trust will manage government investments in U.S. financial institutions.

• Major financial institutions (with assets of more than $100 billion) will be required to undergo "stress test" to assess whether they have the capital necessary to continue lending and to absorb potential losses from further economic decline.

• Institutions that have undergone the test will have access to Treasury "capital buffer" to help absorb losses and serve as a bridge for increased private capital investment.

Public-Private Investment Fund ($500 billion to $1 trillion)

• New fund will use public financing to leverage private capital to remove troubled assets such as mortgage-backed securities from institutions' balance sheets.

• Private-sector buyers will be allowed to determine price for troubled and illiquid assets.

Consumer & Business Lending Initiative (up to $1 trillion)

• In a joint initiative, Treasury and Federal Reserve will support purchase of loans by providing financing to private investors to free up credit and lower interest rates for auto, small business, credit card, and other consumer and business credit.

• Purchases will be limited to newly packaged, AAA-rated loans.

• Possible program expansion to "non-agency" residential mortgage-backed securities (which have balances that may not fall within federal guidelines) and assets collateralized by corporate debt.

Transparency, Accountability, Monitoring

• Firms must submit plans for how they intend to use capital to preserve and strengthen lending capacity. Treasury will publicly release plans upon completion of federal capital investment.

• Firms required to detail in monthly reports to Treasury their lending, broken down by category, showing how many new loans they provided to businesses and consumers and how many asset-backed and mortgage-backed securities they purchased, along with descriptions of the lending environment in communities and markets they serve.

• Information disclosed or reported to Treasury and contracts under plan will be posted on the FinancialStability.gov Web site, along with data showing impact of Treasury plan on credit markets.

• Payment of quarterly common dividends will be restricted to 1 cent until government investment is repaid.

• Banks will be restricted from repurchasing privately held shares or from pursuing cash acquisitions of healthy firms until government investment is repaid.

• Annual compensation for top executives at participating banks will be capped at $500,000, and new disclosure and accountability requirements will be established for "luxury purchases."

• Participating institutions must take part in programs to curb mortgage foreclosures.

Housing Support and Foreclosure Prevention

• Details to come. Goals include committing $50 billion to prevent foreclosures, lowering overall mortgage rates, establishing loan-modification standards for government and private foreclosure mitigation programs, and building more flexibility into Hope for Homeowners and Federal Housing Administration programs.

Small Business and Community Lending Initiative

• Details to come. Goals include financing purchase of AAA-rated Small Business Administration loans to unfreeze secondary market for small-business loans, increasing guarantee on SBA loans from 75 percent to as high as 90 percent (legislation required), reducing fees for SBA loans and increasing funding for oversight and speedier processing of loans.

SOURCE: Treasury Department

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Five Questions for Steve Bartlett, President of Financial Services Roundtable

By Shawn Zeller, CQ Staff

Is it morning in American banking? Bartlett, the mayor of Dallas from 1991 to 1995 and before that a Republican House member for eight years, certainly thinks so. His group's members include Citigroup Inc. and Bank of America Corp., and he argues that the financial sector is far healthier than many people believe and that thanks are due to the Treasury's Troubled Asset Relief Program (TARP).

Q. *Bank executives have been taking a beating on Capitol Hill. Was it justified?*

A. No. They stepped up to the plate at the request of the government and used the TARP capital to strengthen their balance sheets so they could increase the liquidity in the markets. This nonsense of vilifying them is just that.

Q. *But wasn't it the bankers who got us into this mess?*

A. There were companies that made bad loans, and guess what happened to them: Goodbye. They were bad. They are gone. But to vilify the entirety of the financial services industry and its executives is just pure political posturing and it's destructive for the economy.

Q. *What about those who say banks have not increased their lending after the first phase of TARP?*

A. They are simply wrong. The first $350 billion was a dramatic success and will probably be regarded in history as one of the more successful economic foundation building programs that any government has ever done.

Q. *So are predictions of imminent bank failures wrong?*

A. TARP stabilized a very fragile situation in the markets. How many more will fail? I don't know, but it won't be catastrophic.

Q. *Do you think Treasury Secretary Timothy F. Geithner's plan for the second phase of TARP will be as successful as the first?*

A. I think it is comprehensive and is right to bring the private sector in to buy these toxic assets instead of the government. The market reacted badly because of the lack of specifics, but I am generally favorably impressed.

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