

## Blake Christian

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Here are some comments from First Tenn.'s economist, Chris Low.....

### First Thoughts on the New Geithner Plan

The following is a summary of the key points of the FSP plan. We'll follow up with commentary later. Note that both Bernanke and Geithner testify to Congress today, at 1:30 and 2:30, respectively. Hopefully they will reveal more detail when questioned.

1. Everyone "knows" the TARP plan was a failure, so it is being renamed FSP, for Financial Stability Plan, to signal a fresh start.
2. A primary goal of FSP is to jumpstart securitization, which Geithner says is needed to finance 40% of consumer lending. The FSP will expand the Fed's TALF from \$200bn to \$1,000bn by upping the capital injection from Treasury from \$20bn to \$100bn. TALF will also be renamed, perhaps because someone told the White House confusion is stimulative.  
The TALF provides loans to investors in assets backed by SBA, credit card, auto and student loans.
3. A facility of some sort, which is likely to be very much like a bad bank, but which officials insist will not be a bad bank, will be created to hold seasoned toxic assets. The not-so-bad bank will be funded by \$50bn in public funds and \$450bn in private funds. Among the details to be worked out are (1.) who will manage the assets and (2.) how easily can investors get out once they opt in. (Treasury does not want to repeat the mistakes it made in the original TARP agreements, but neither does the private sector. In particular, no one wants another "Hotel California" clause, which is what bankers call the stipulation against early repayment of TARP loans unless the loan is replaced dollar-for-dollar with private capital.)
4. The not-so-bad bank will buy nonperforming assets made up of subprime and other dubious mortgages. The FSP will allocate \$50bn (still tentative) to modify these mortgages to reduce delinquencies. The details of these loan modifications have yet to be determined, and are essential to attract private capital. After all, no one wants to own these assets now. If they did, we would not need a not-bad bank in the first place.
5. All banks will undergo "stress tests" to determine if they are adequately capitalized for potential future loan and securities losses. Undercapitalized banks will get FSP capital with strings attached, including lending requirements, restrictions on acquisitions and dividends. In the case of extraordinary bailouts, salary caps for top executives. According to the NYT, Geithner fended off tougher pay caps and other punitive provisions favored by some of his colleagues in the White House, including one Presidential advisor who wanted to wipe out shareholders.

There's not a whole lot of meat in this announcement. The 280 point drop in the Dow after the speech is most likely a reflection of the fact the Treasury Secretary did not provide any incentive for private investors to buy shares in the not-so-bad bank's troubled asset pool. Investors figured the delay in announcing the plan was so that Geithner could find investors. If he did, however, he kept the list in his pocket this morning.

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