

# TARP: A Look at What Happened From Inside the Treasury Department

Wednesday, April 29, 2009

2:30 PM - 3:45 PM

## Speakers:

### **Kevin Fromer**

Former Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury

### **David Nason**

Former Assistant Secretary for Financial Institutions, U.S. Department of the Treasury

### **Phillip Swagel**

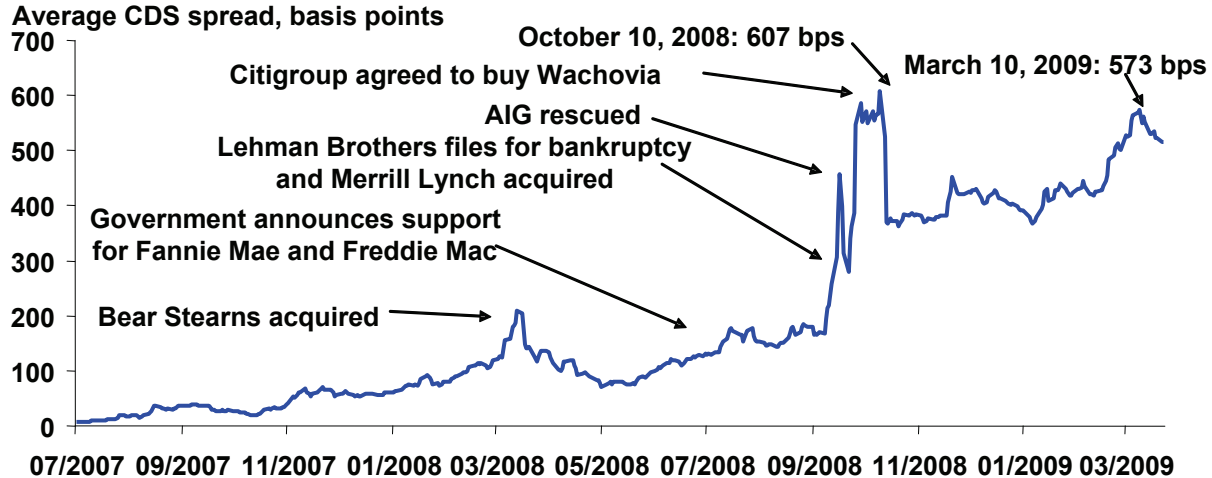
Former Assistant Secretary for Economic Policy, U.S. Department of the Treasury

## **Moderator: Rick Newman**

Chief Business Correspondent, *U.S. News & World Report*



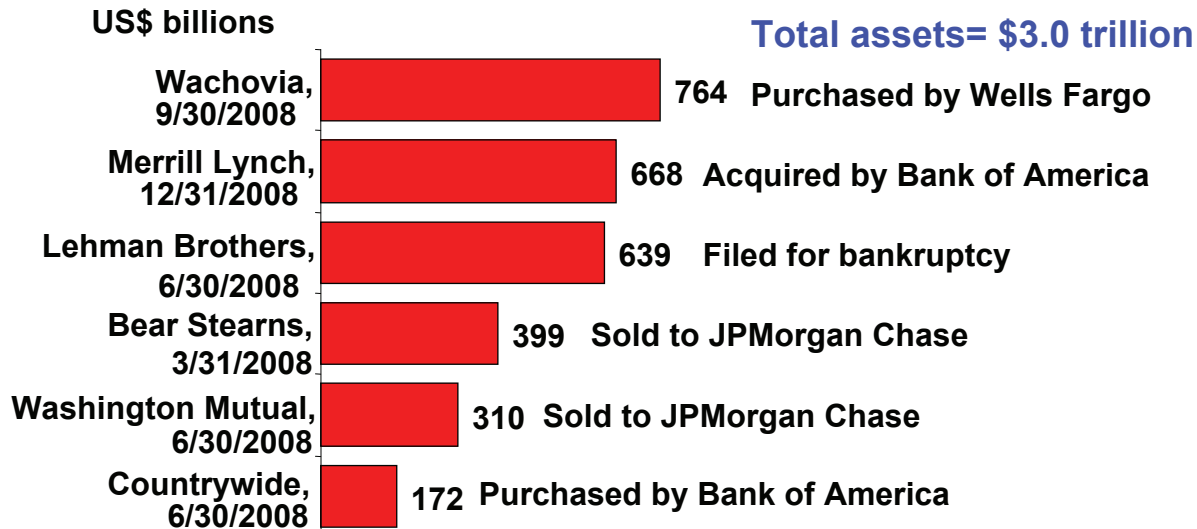
# Counterparty risk increases



Note: Counterparty Risk index averages the market spreads of the credit default swaps (CDS) of fifteen major credit derivatives dealers, including ABN Amro, Bank of America, BNP Paribas, Barclays Bank, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs Group, HSBC, Lehman Brothers, JPMorgan Chase, Merrill Lynch, Morgan Stanley, UBS, and Wachovia.

Sources: Datastream, Milken Institute.

# Total assets of selected failed or acquired financial institutions

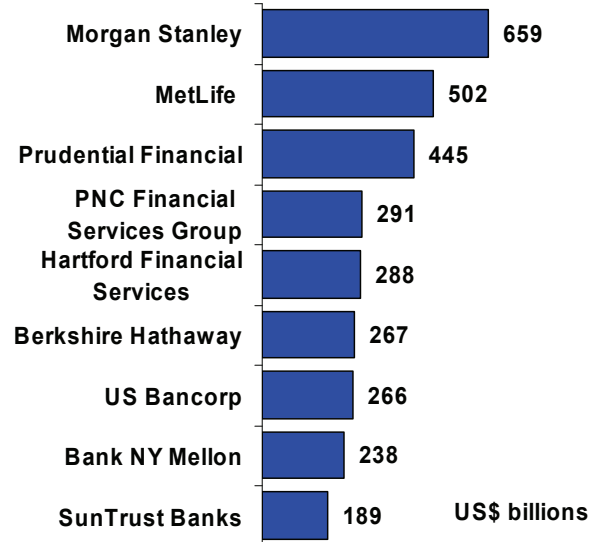
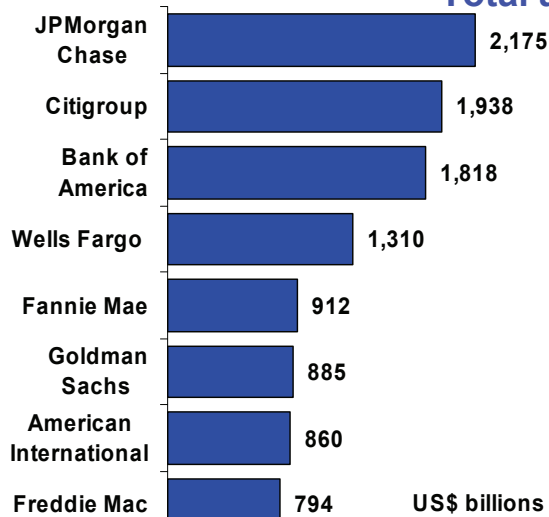


Sources: Bloomberg, Milken Institute.

# Total assets of selected financial institutions

As of December 2008

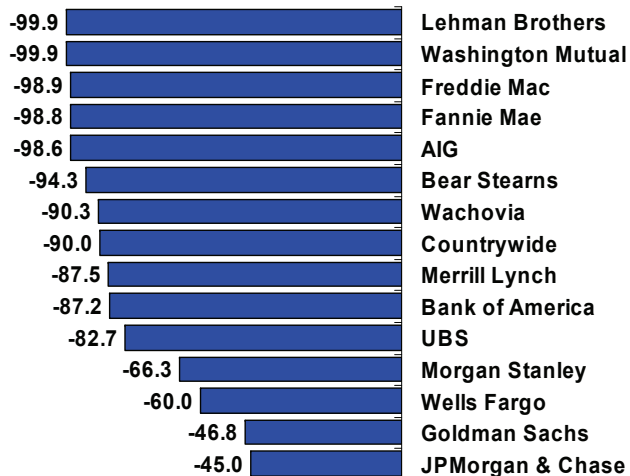
Total assets = \$13.8 trillion



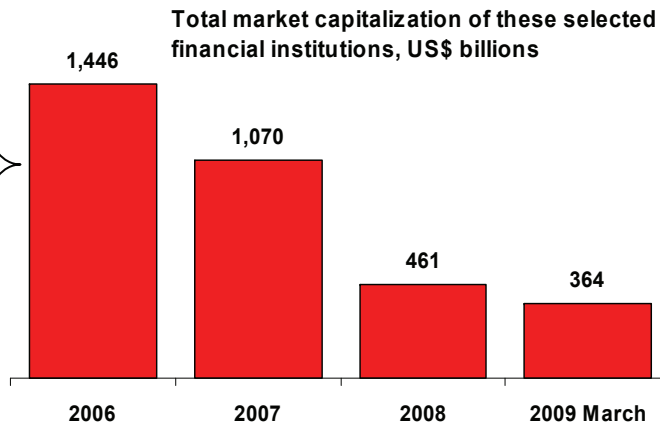
Sources: Bloomberg, Milken Institute.

# Financial stocks take big hits

Percentage change in stock price, Dec. 2006-March 2009



Total loss in market value: \$1,081 billion from December 2006 to March 2009

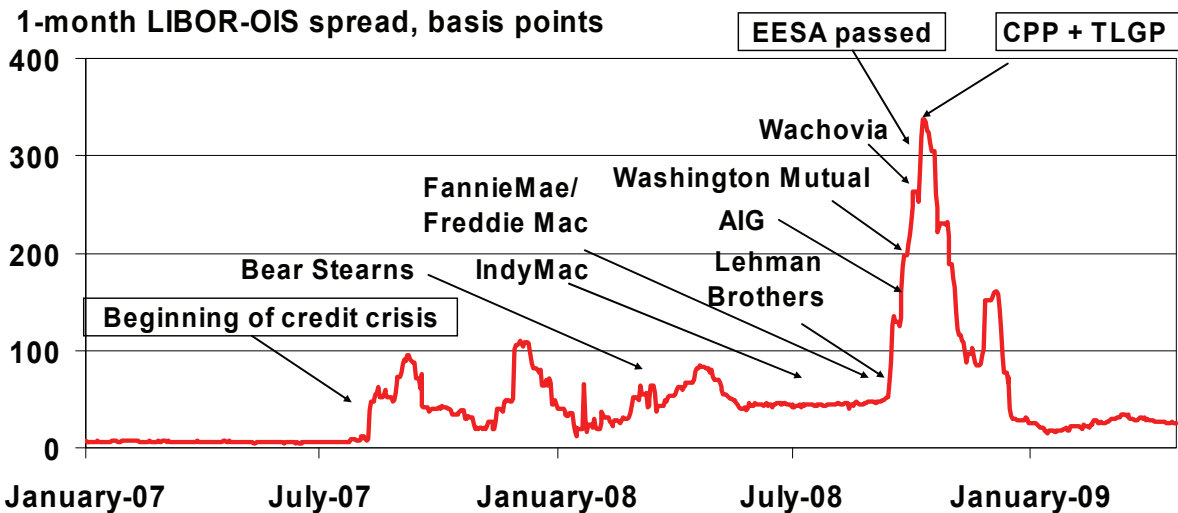


Note: Bear Stearns stock price is to May 2008. Countrywide stock price is to June 2008. Merrill Lynch and Wachovia stock prices are to December 2008.

Sources: Bloomberg, Milken Institute.

# Market for liquidity freezes

## Spread between 1-month LIBOR and OIS



Note: LIBOR: London Interbank Offered Rate; OIS: Overnight indexed swap.

Sources: Bloomberg, Milken Institute.

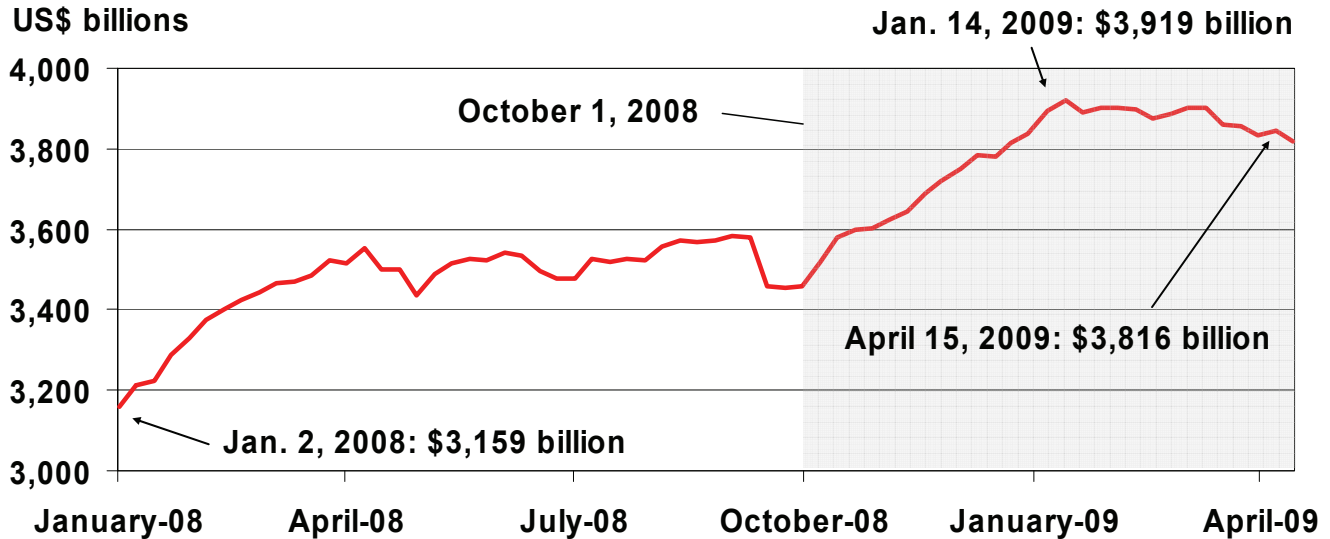
EESA:  
Emergency  
Economic  
Stabilization  
Act.

CPP:  
Capital  
Purchase  
Program

TLGP:  
Temporary  
Liquidity  
Guarantee  
Program

# Run on money market funds

*Total money market mutual funds assets, weekly*



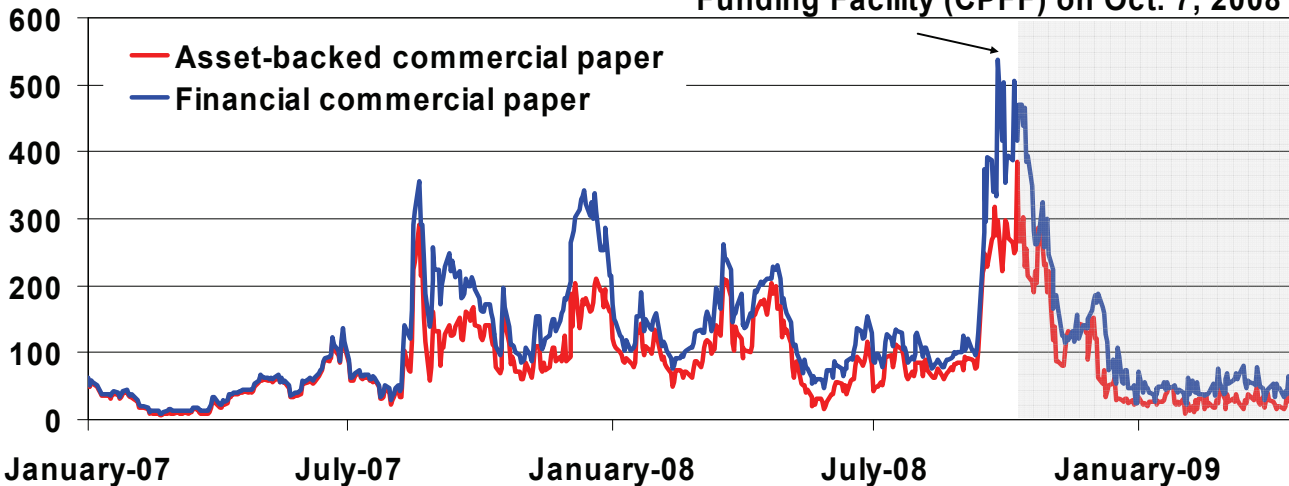
Sources: Investment Company Institute, Milken Institute.

# Market for liquidity freezes

## 30-day commercial paper yield spreads over 1-month Treasury

AA rated, daily, basis points

The Fed announced Commercial Paper Funding Facility (CPFF) on Oct. 7, 2008

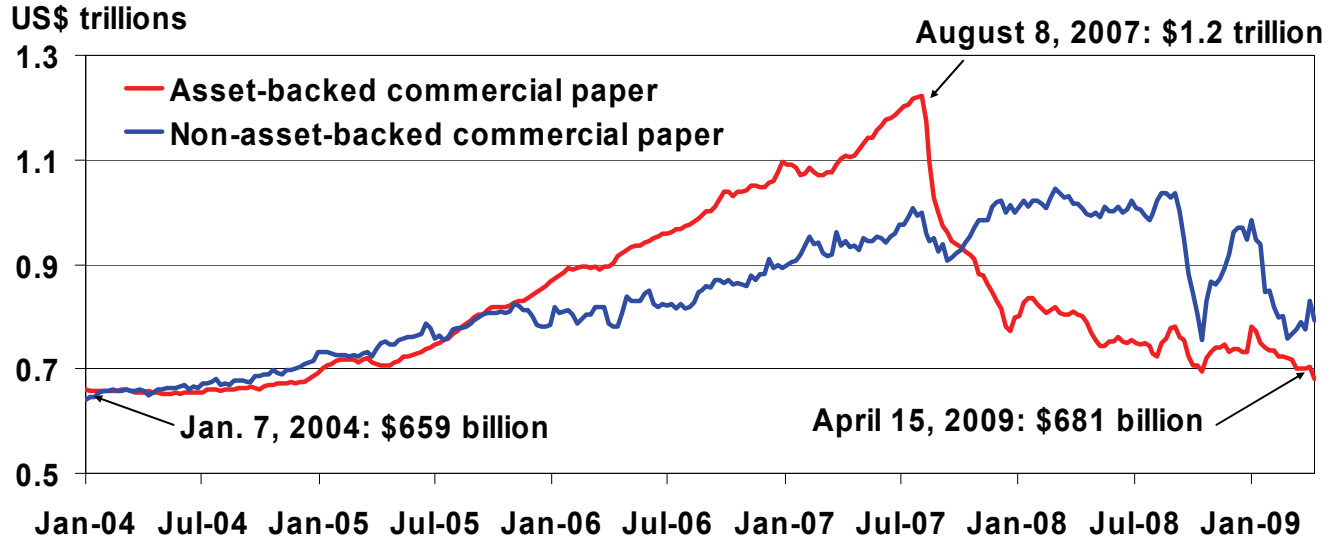


Sources: Federal Reserve, Milken Institute.



# Commercial paper outstanding declines substantially

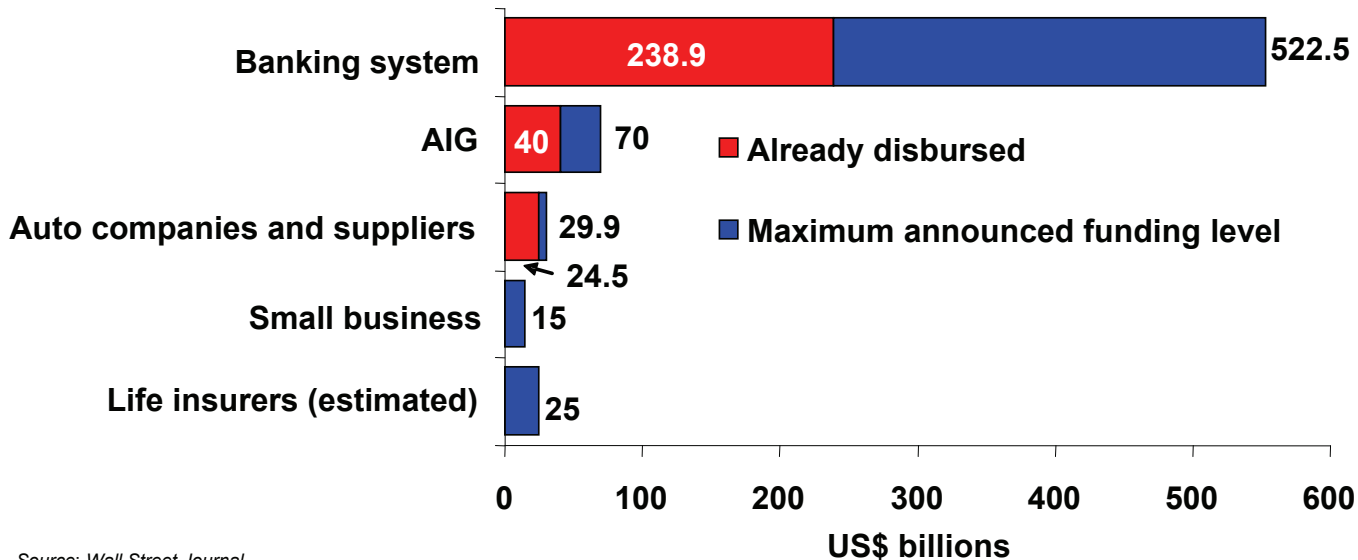
*Outstanding asset-backed and unsecured commercial paper*



Sources: Federal Reserve, Milken Institute.

# TARP allocated so far

*Status of Troubled Asset Relief Program funds as of March 27, 2009*



Source: Wall Street Journal.

# Lending less



*Loan volumes decline in the fourth quarter 2008*

US\$ billions	TARP received	Q4 2008 loans	Change from Q3 2008 loans
Bank of America	45	931.45	-1.2%
Citigroup	50	694.50	-3.1
JPMorgan Chase	25	744.90	-2.2
U.S. Bancorp	6.60	168.13	3.9
SunTrust Banks	4.85	127.00	0.2
Capital One	3.56	146.94	-0.3
Regions Financial	3.50	97.42	-1.3
Fifth Third Bancorp	3.41	85.60	-1.0
BB&T	3.13	98.67	2.1
KeyCorp	2.50	76.50	-0.3
Comerica	2.25	50.51	-2.0
Marshall&Isley	1.72	49.99	-0.9
Huntington Bancshares	1.40	41.09	-0.2
<b>Total</b>	<b>152.92</b>	<b>3,312.68</b>	<b>-1.4</b>

Source: Wall Street Journal.

# U.S. Treasury Department TARP funds

*As of April 15, 2009*



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Company	US\$ billions
Citigroup	50.0
Bank of America/Merrill Lynch	45.0
JPMorgan Chase	25.0
Wells Fargo	27.9
Goldman Sachs	10.0
Morgan Stanley	10.0
PNC Financial Services	7.6
U.S. Bancorp	6.6
Other	161.0
<b>Total</b>	<b>343.1</b>

Source: U.S. Treasury Department.

# Recipients of Treasury funds distributed to AIG

Company	US\$ billions
Goldman Sachs	12.9
Societe Generale	11.9
Deutsche Bank	11.8
Barclays	8.5
Bank of America/Merrill Lynch	12.0
UBS	5.0
BNP Paribas	4.9
HSBC	3.5
Calyon	2.3
Citigroup	2.3
Morgan Stanley	1.2
JPMorgan Chase	0.4
Other	19.0
<b>Total</b>	<b>95.7</b>

Source: AIG, March 15, 2009 .

# Public-Private Investment Program

*US\$ 75-100 billion of TARP/FSP capital*

## Legacy Loans Program

### Capital Public-Private Investment Funds

- Combines USG and private capital

### Financing Funds will raise FDIC guaranteed debt

- FDIC will guarantee debt
- Leverage up to 6.1

## Legacy Securities Program

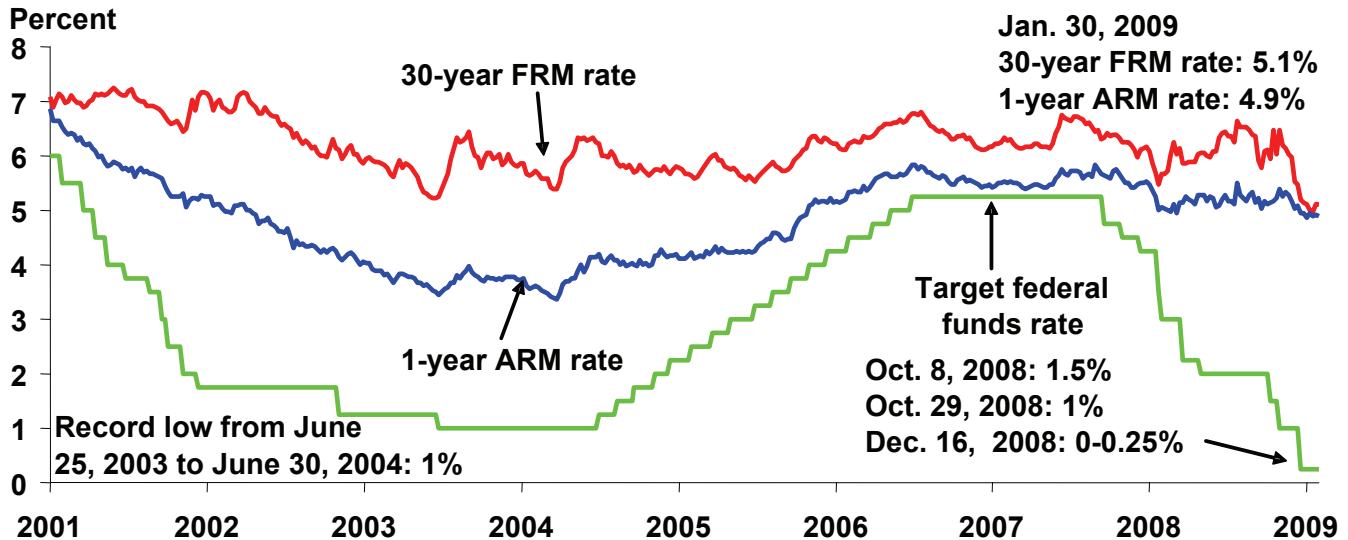
### Capital Public-Private Investment Funds

- Combines private capital with USG capital and potential USG leverage

### Financing Leverage from Federal Reserve

- Builds on existing TALF framework

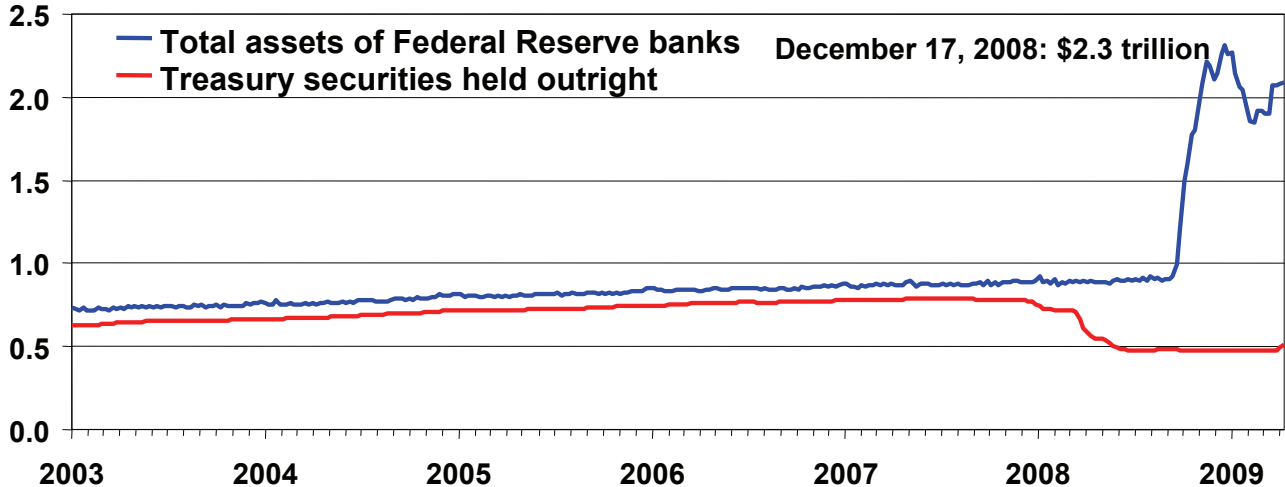
# Federal funds rate vs. rates on FRMs and ARMs



Sources: Federal Reserve, Mortgage Bankers Association, Moody's Economy.com, Milken Institute.

# Federal Reserve assets increased but asset quality deteriorated

US\$ trillions

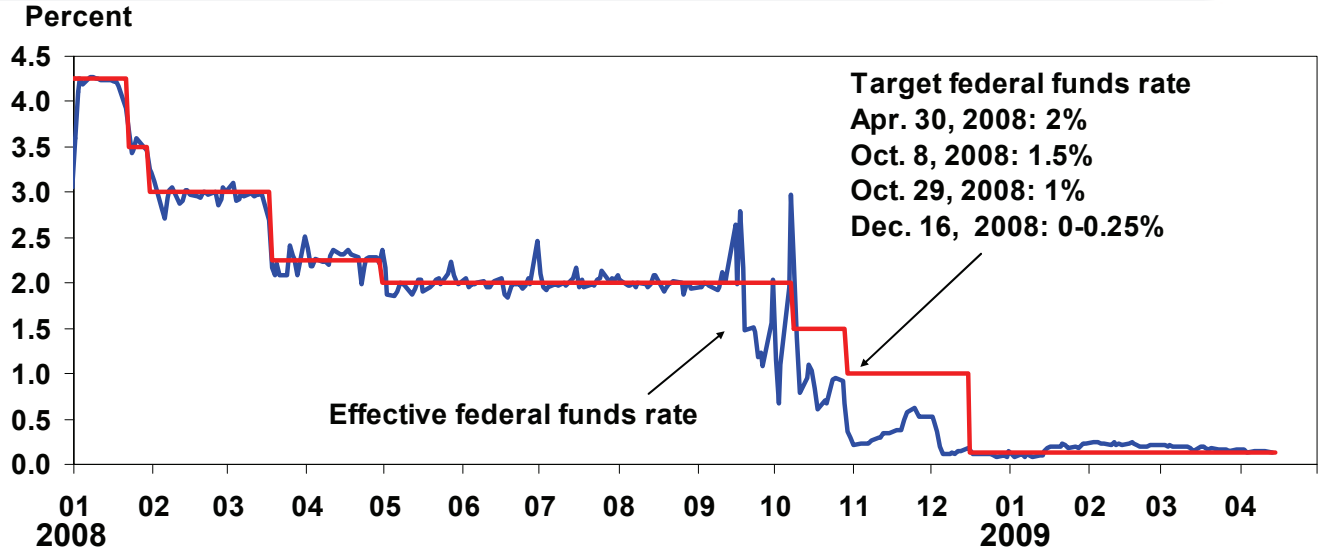


Sources: Federal Reserve, Milken Institute.





# Federal Reserve has little maneuvering room

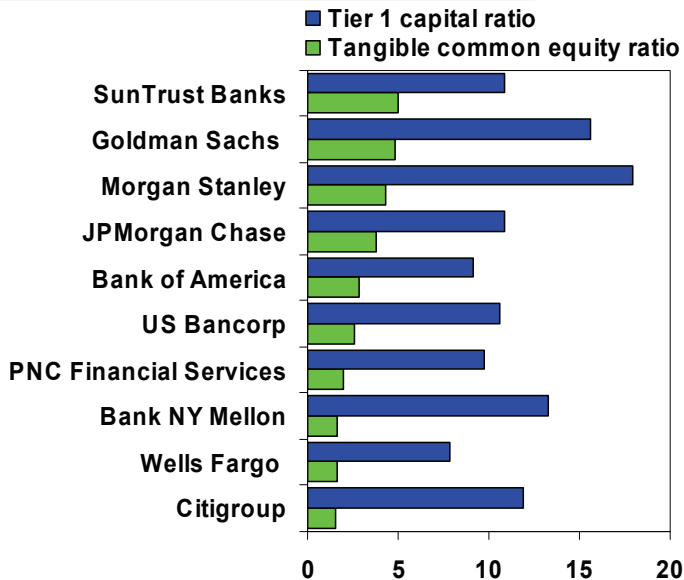


Sources: Federal Reserve, Milken Institute.

# A question of equity: Stress tests?

## U.S. regulatory capital requirements and selected equity ratios

	Tier 1 leverage	Tier 1 risk-based	Total risk-based
Well capitalized	<b>&gt;= 5%</b>	<b>&gt;= 6%</b>	<b>&gt;= 10%</b>
Adequately capitalized	<b>&gt;= 4%</b>	<b>&gt;= 4%</b>	<b>&gt;= 8%</b>
Undercapitalized	<b>&lt; 4%</b>	<b>&lt; 4%</b>	<b>&lt; 8%</b>
Significantly undercapitalized	<b>&lt; 3%</b>	<b>&lt; 3%</b>	<b>&lt; 6%</b>
Critically undercapitalized	<b>Tangible equity capital ratio that is &lt;= 2%</b>		



Sources: FDIC, Bloomberg, Milken Institute.

# Selected information for U.S. banks

*December 31, 2008*



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Name	Total assets (\$US billions)	Deposits to total assets (percent)	Short-term borrowing to total assets (percent)	Long-term borrowing to total assets (percent)	Cash and equivalents to total assets (percent)
JPMorgan Chase	2,175	46.4	18.3	11.3	1.2
Citigroup	1,938	39.8	28.0	14.0	1.5
Bank of America	1,818	48.6	25.6	12.4	1.8
Wells Fargo	1,310	59.7	12.4	16.3	1.8
Goldman Sachs	885	n.a.	38.3	21.0	1.8
Morgan Stanley	659	n.a.	43.9	21.5	11.9
PNC Financial	291	66.3	6.6	14.8	1.5
US Bancorp	266	59.9	16.7	10.5	2.6
Bank of NY Mellon	238	67.2	4.9	9.0	24.5
SunTrust Banks	189	59.9	5.0	14.2	3.0

Sources: Bloomberg, Milken Institute.

# Selected information for U.S. banks

December 31, 2008

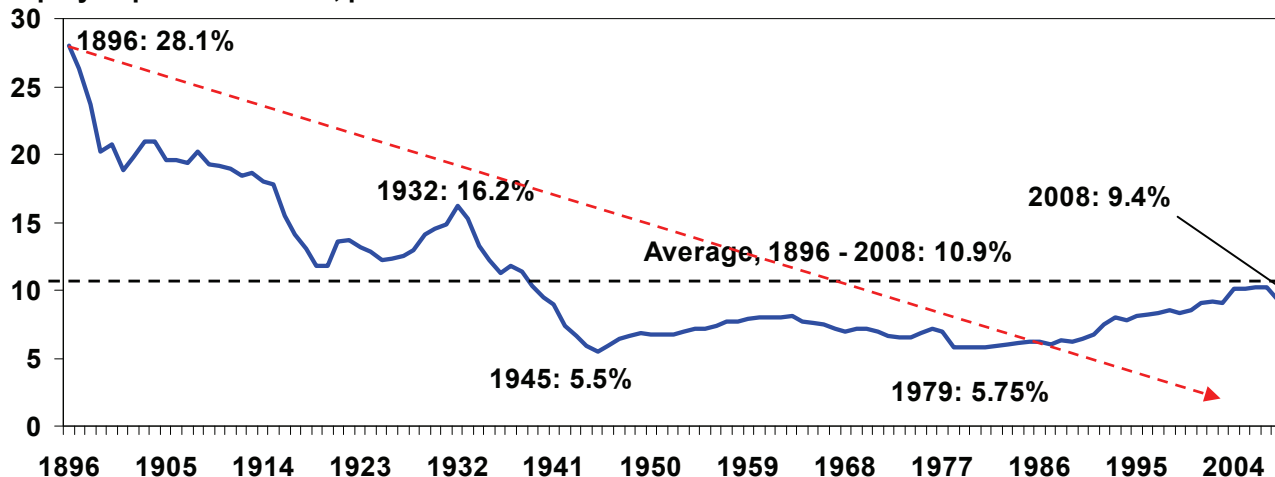
Name	Alternative capital ratios (percent)					Market value (as of 3/11/2009) to total assets (percent)
	Total risk-based capital ratio	Tier 1 risk-based capital ratio	Tier 1 risk-based capital ratio without TARP capital	Total equity to total assets ratio	Tangible common equity ratio	
JPMorgan Chase	14.8	10.9	8.9	7.7	3.8	3.8
Citigroup	15.7	11.9	9.9	7.3	1.6	0.4
Bank of America	13.0	9.2	7.9	9.7	2.8	2.0
Wells Fargo	11.8	7.8	5.6	7.6	1.6	4.1
Goldman Sachs	18.9	15.6	13.1	7.5	4.9	5.4
Morgan Stanley	26.8	17.9	14.3	7.7	4.4	3.9
PNC Financial	13.2	9.7	6.6	9.5	1.9	4.1
US Bancorp	14.3	10.6	7.7	9.9	2.6	8.5
Bank of NY Mellon	17.1	13.3	10.7	11.8	1.6	11.6
SunTrust Banks	14.0	10.9	7.9	11.8	5.0	2.3

Sources: Bloomberg, company data, Milken Institute.

# Equity capital-asset ratio for commercial banks

Quarterly, Q1 1896–Q4 2008

Equity capital/asset ratio, percent



Sources: Historical Statistics of the United States, FDIC, Milken Institute.

# U.S. securities holdings

*Percent of total holdings, June 2008*

	World	Japan	China	United Kingdom	Canada
Equity	28.8	15.9	8.3	43.5	72.7
Treasury debt	25.1	50.2	44.4	6.1	5.3
Government agency (ABS)	7.5	9.7	30.6	1.9	0.4
Government agency (other)	8.4	12.1	14.5	1.6	1.0
Corporate debt (ABS)	7.4	3.3	0.6	8.5	3.4
Corporate debt (other)	22.8	8.8	1.6	38.4	17.2
Total holdings (US\$ billions)	10,324	1,250	1,205	864	441

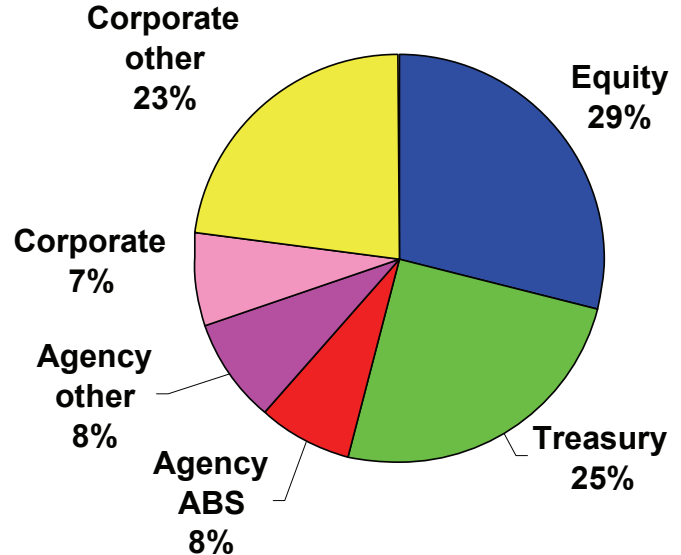
Sources: U.S. Treasury, Milken Institute.

# Top foreign holders of U.S. securities

June, 2008

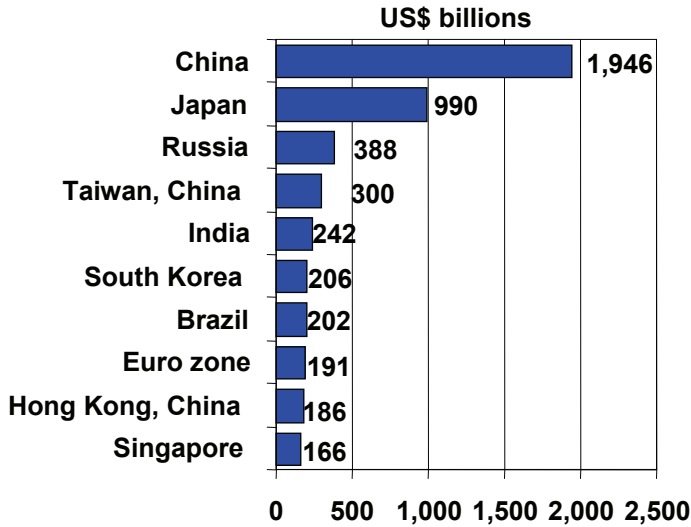
	Countries	% of world
1	Japan	12.1
2	China	11.7
3	United Kingdom	8.4
4	Cayman Islands	8.1
5	Luxembourg	6.4
6	Belgium	4.4
7	Canada	4.3
8	Ireland	3.9
9	Switzerland	3.0
10	Netherlands	3.0
	<b>Top ten countries</b>	<b>65.2</b>
	<b>All countries</b>	<b>\$10.3 trillion</b>

Sources: U.S. Treasury, Milken Institute.



# China holds 30% of foreign exchange reserves

April 7, 2009



Sources: Bloomberg, Milken Institute.

	% of world
China	29.2
Japan	14.7
Russia	5.8
Taiwan, China	4.5
India	3.6
South Korea	3.1
Euro zone	2.9
Brazil	2.8
Hong Kong, China	2.7
Singapore	2.5
Top ten countries	71.8
World total	US\$ 6.7 trillion