

Toxic-assets plan leaves local financial community optimistic but with many questions

By Becky Yerak, *Tribune* reporter
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We asked local financial industry observers what they thought about the U.S. Treasury Department's latest bank-rescue plan, which commits \$500 billion to \$1 trillion to buy troubled loans and securities from bank' balance sheets, and here's what a half a dozen of them had to say:

John Canning, chairman of Chicago-based private equity firm Madison Dearborn Partners, is waiting to learn more about the mechanics of the program, called the Public-Private Investment Program.

"But it's pretty clear that it has gotten a favorable response by enough sophisticated investors, such as Bill Gross from Pimco, that there's going to be a lot of interest in it, and that's good," Canning said.

Gross is one of the nation's most-respected bond fund managers and chief investment officer at Pimco.

The stock market also reacted positively to Treasury's plan.

The Dow Jones Industrial Average closed up 6.8 percent, or 497 points, partly due to the market's reception of the plan.

Canning, however, doubts that Madison Dearborn will participate in the plan to help get toxic assets off banks' books.

"Not that it's a bad plan, but it's probably not the kind of thing that our investors expect us to do," he said. "This is basically investing in a fixed pool of assets, and we're supposed to be investing in businesses."

It's more suitable for distressed debt funds or hedge funds, he said.

Madison Dearborn owns stakes in such companies as Great Lakes Dredge & Dock Corp., Magellan Midstream Holdings LP and Ruth's Chris Steak House Inc.

"There'll be plenty types of investors who'll be interested, but I just don't think private equity guys will be the ones that'll do it with private equity funds," Canning said.

Jack Ablin, chief investment officer for Harris Private Bank in Chicago, said bankers and private investors stand to gain the most in the program. Taxpayers do have a potential upside, but they stand to lose the most because private investors potential losses are limited, he said.

According to the Treasury, let's say a bank has been trying to sell a pool of residential mortgages with a \$100 face value. The bank would approach the Federal Deposit Insurance Corp. The FDIC would then leverage the pool at a 6-to-1 debt to equity ratio and auction it.

Let's say the highest bid were \$84. Of that, the new program would issue debt for \$72, guaranteed by the FDIC.

The Treasury and private investors would split the \$12 equity, Treasury said.

The private investor would manage the servicing of the asset pool.

"This means that private investors would be on the hook for a little more than 7 percent of the discounted purchase price of the assets," Ablin said. "Treasury is taking strong measures to ensure that private investors will come forward and snap up illiquid and troubled-bank assets that are sitting in our largest banks' digestive systems like a chimichanga fried in two-week-old oil."

One local banker agrees that the plan has an upside for banks but is questionable for taxpayers.

Treasury Secretary Timothy Geithner "wants to avoid the

Japanese banks' 'Lost Decade,' the 10 years it took for those banks to get rid of their toxic assets on their own and during which time the Japanese economy came to a halt," said Robert Gecht, chief executive of Chicago-based Albany Bank & Trust. "The Treasury plan should accelerate the 'detoxification' process for large American banks, although it is still unclear what the ultimate cost will be to taxpayers."

Another bank said it hopes that the Treasury's program will encourage lenders and borrowers alike.

"We're out in the market talking to customers and prospects, and they are naturally feeling a bit cautious about borrowing," said Mark Hoppe, chief executive of Rosemont-based Cole Taylor. "Though many institutions are now concerned about participating based on a somewhat negative experience with the TARP program, we hope that both the private and public sectors can align their interests and stay focused on the number one priority: turning the economy around."

Mike Moebis, economist for Moebis Services Inc., a Lake Bluff-based financial industry research firm, said one major unanswered question is whether FDIC-insured banks are the only ones eligible for the program.

"What about the 8,000 credit unions?" Moebis wonders, citing pressures on that sector. "We need to know more

details soon."

Another industry observer worries that the latest plan to loosen the credit markets will favor big banks as past plans have.

"I welcome the introduction of private sector capital and competitive market forces to the federal bank bailout program," said Justin Barr, president of Loan Workout Advisers LLC, a Northbrook-based bank consulting firm.

But "I remain concerned that the money will only reach larger banks, and that community banks, which make-up a disproportionate share of the banking market in the Chicago area, will continue to bear the brunt of the crisis with no help from Uncle Sam."

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