THE SIGTARP'S NUMBERS

by Steve Brown

Yesterday we discussed teen accounts and the trouble of getting teenagers out of bed. So here we are yelling, cajoling, pleading, demanding and "selling" our teenager out of bed, when a teen-experienced and astute banker from the northwest gives us this gem - use frozen marbles - bingo, problem solved. The teenager tries to escape, moving around all while the ice cold stones roll to the lowest point on the bed - it is parental poetry.

The move is not only brilliant for rousting someone out of bed; it is also effective to shake things up in Washington. Earlier this week, Special Inspector General for TARP, Neil Barofsky (called the "SIGTARP"), employed a similar tactic when he threw a bunch of cold marbles on Congress and the Treasury by releasing his 262-page Quarterly Report to Congress. In addition saying that the Treasury hasn't been transparent enough, he had this money line, "U.S. taxpayers may be on the hook for as much as $23.7 trillion to bolster the economy and bail out financial companies." Previously, most everyone was thinking about $700B for TARP and a total of $2T for all the other programs.

This statement threw a bunch of cold marbles on Congress and the public and has served to grab the media limelight. The number also caused consternation with many bank customers so much so, that we have received an inordinate amount of questions asking for our take on what the reality is regarding the programs.

While the Treasury's $700B TARP represents just a portion of Federal support to the financial system, the problem with the $23T number is it is not really a cost or a guarantee, but the some total of all support by the US Gov't. You might as well ad in Social Security, Welfare and a host of other programs if you are going to throw out that large a number, because $23T is a little misleading.

It is true that all of the SIGTARP's numbers came from the Treasury and are verifiable. What is misleading is the assumptions that go along with the implication that if things don't go well with the economy, taxpayers are going to have a whopper of a whole to get up from. We have been through the report and we highlight some obvious misleading assumptions, as to get to $23T, the following would have to occur:

- All currently outstanding TARP money doesn't get repaid back.

- Every US bank fails, the FDIC must pick up the tab for 100% of its deposit insurance to the public and all the collateral held by the Fed for discount window borrowings has no value.

- All loans held or guaranteed by Fannie and Freddie go into default and the underlying homes are worth zero.

- All guaranteed money market mutual funds fail and their holdings, including Treasury bills and notes, mature without repayment.

- The Treasury itself would have to default on its own obligations to other Federal entities, such as the FDIC, FHLB system, the GSEs and others

When we started reading the report we were working on an angle of irony that we thought the report railed on the lack of transparency, without transparency into the $23T number. In the SIGTARP's defense, the $23T number is transparent, it is just misleading. Since Barofsky is one of the smarter ones in Washington, our only guess is that he is employing the cold marble strategy. Like the teen that just hears the freezer door open and then jumps out of bed, most likely the SIGTARP is just training the general public and the Treasury to wake up and keep tabs on what is happening.

BANK NEWS

FDIC Comments

In prepared comments to be delivered today to the Senate Banking Committee, FDIC Chair Shelia Bair said Congress should create an industry supported resolution fund to provide working capital and cover losses when the Gov't steps in to prop up financial firms deemed too big to fail. The fund would also come with a special assessment on large, complex financial institutions.

Earnings

Bank of NY Mellon posted 2Q earnings of $176mm (down from $309mm in the year-ago quarter) amidst writedowns and securities losses. KeyCorp reported a $390mm net loss as loan loss reserves grew to $2.5B and nonperforming loans jumped from 2.36% to 3.09% in the 2Q. M&T's net income dropped 75% to $40.5mm due to credit losses and $138mm in net chargeoffs. The Company ended 2Q with $1.2B in non-performing assets. Morgan Stanley took a loss of $1.26B for the quarter after repaying TARP and taking a $700mm net loss largely from CRE exposure. SunTrust reported its 3rd consecutive quarterly loss, largely due to problems with home equity and construction loans. US Bancorp's net income fell over 50% to $471mm from the same period last year. Net chargeoffs jumped to 2.03%, up from 1.72% in the 1Q. Zions posted a 2Q loss of $40.7mm as the firm suffered from CRE defaults and expanded loan loss reserves to $762.7mm.