Pandora's Box And TARP Update

by Steve Brown

The first thing you need to know about Pandora of Greek mythology is that she didn't open a box. She opened a big jar, but somehow that got translated over the ages into a box. When she opened it, she released all the evils of humanity into the world.

The Pandora story is widely used today as a metaphor of how a mess can ensue from a single act--often an act that we know we shouldn't do. That is sort of like what happened to the global economy when toxic subprime mortgage bonds were released into the financial system and eventually led to the financial crisis that brought us the worst economic downturn since the Great Depression.

Like Pandora, the federal government was too late to stop the evils from getting out. So instead, the government sought to neutralize those evils after the fact, with a host of financial interventions. Actions included a bailout for both bank and automotive companies through the Troubled Asset Relief Program (TARP).

Fast forward to 2016 and the financial system is back on solid ground (as are automotive companies for that matter). After all of the hubbub and given it is political season, we wondered whatever happened to all those "bailouts" as those running for office tend to say.

It is interesting to note that Congress authorized $700B for TARP in late 2008, but only $430.7B was ultimately disbursed. Of that, Treasury doled out $245.1B to banks, $79.7B to the auto industry, $67.8B to American International Group (AIG), $46B to programs focused on helping consumers avoid foreclosure, and $27.0B to restart credit markets.

Despite the hype to the contrary, the bank portion of TARP delivered $275.0B to the Treasury vs. $245.1B originally invested. That is a total of about $29.9B or more than 12% above what was originally borrowed. Percent recovered: +112.2% to date.

The auto industry portion from the Treasury was $79.7B vs. $70.5B returned so far. That is about $9.2B less than what was borrowed. Percent recovered: +88.8% to date.

The AIG portion from the Treasury was $67.8B vs. $72.9B returned so far. That is about $5.1B more than what was borrowed. Percent recovered: +107.3% to date.

The credit market stabilization portion from the Treasury was $19.1B vs. $23.6B returned so far. That is about $4.5B more than what was borrowed or over 23% higher. Percent recovered: +126.3% to date.

Doing a deeper dive into the data, you can find information on how much the Treasury actually had to write off under TARP. Banks were $5.08B or about 2.1% of the total borrowed; AIG was $13.48B or almost 20%; and the auto industry was almost 21%. Looking closer at the auto industry, GM borrowed $49.5B and the Treasury wrote off $11.2B (22.5%); Chrysler borrowed $11.96B and the Treasury wrote off $2.93B (24.5%); and Ally/GMAC borrowed $17.17B and Treasury wrote off $2.47B (14.4%).

It looks like bankers can take solace in the fact that the facts show banks repaid in full with interest, while some in the auto industry still owe a lot to get back to zero, as does specialty insurance company AIG. Guess bankers aren't all that evil after all and it sure looks like Pandora opened her box during the crisis to flood money to some that have not yet repaid the favor in kind.

BANK NEWS

Annual Financial Metrics

Research by Meridian Compensation Partners on the banking industry finds the annual incentive plan financial metrics most used by banks in its findings are (multiple choices allowed): earnings per share (41%); net income (31%); ROA (21%); ROE (16%); deposit growth (16%); efficiency ratio (16%); loan growth (14%); net charge offs (10%); and NPA to assets ratio (9%).

Cyber Expectations

The FDIC indicates it expects banks to evaluate and manage cyber risk as it does any other business risk and to do so as an enterprise-wide initiative involving all employees.

Urban Growth

Research by Deloitte on commercial real estate (CRE) conditions for 2016 projects: urban populations are expected to grow to 66% of the global population by 2050 vs. 54% in 2014 and 30% in 1950. This will impact CRE loans in both urban and rural areas.

Data Loss

A SANS Survey of security spending and preparedness in the financial sector finds: 46% of security specialists said abuse or misuse by internal employees or contractors was their most predominant cause of data breaches.

Risk Concerns

Research by Lockheed Martin finds the top 5 risk concerns for the banking and financial services industry are: cyber risks/data breaches (80%); complying with laws (65%); legal liability (63%); broad economic uncertainty (62%) and the impact of the global economy (53%).

The Classes

Pew research finds the middle class (median income $73,400 now) has declined from 61% of adults in 1971 to 50% today. Meanwhile, the upper class (median income $174,600 now) has climbed from 14% to 21% over that period and the median lower income ($24,074 now) category has risen from 25% to 29%. Interestingly, people age 65Ys or older in the upper class increased 27% over that period and the upper class in aggregate now controls 49% of the nation's aggregate income (vs. 29% in 1970).

Cyber Training

The FDIC says it expects cybersecurity awareness programs to highlight the importance of guarding against cyber risks across all business lines and functions. It also expects banks to train employees from entry-level staff to the board and that all should participate in mandatory cybersecurity awareness training.