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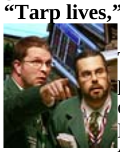
February 9, 2009, 11:46 am

The Evolution of TARP in the Struggle for Life

Posted by David Gaffen

By now investors are having a Pavlovian response to word of forthcoming action from the government to recapitalize the struggling banks. **Fresh off another round of yelling "Tarp lives," banking shares have recovered their swagger and are moving higher**.



The latest plan involves some kind of aggregator bank, that would utilize private capital and government insurance to create an aggregated shell company (suggested headquarters include Yucca Mountain, Nev., and Three Mile Island) to purchase various debt obligations that the banks find too troubling to deal with in their pursuit of big bonuses for their executives.

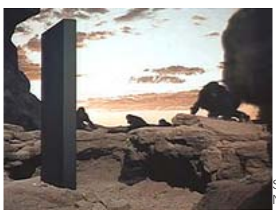
Once again, though, information is left wanting. Treasury Secretary Timothy Geithner was expected to chat about this Monday, but that has been put off until Tuesday, and one wonders if it's because they're still in the War Room drawing up plans.

"Why should we even believe what they say they will do when the game plan is constantly changing? Actually, **it is not even clear there is a comprehensive plan**," says Campbell Harvey, professor of finance at Duke University. "It smacks of make it up as you go."

Some analysts believe that the Treasury Department is delaying the inevitable, and will eventually be forced into a nationalization of the banks or some kind of closure. Opponents argue that this would inhibit private capital from investing in these institutions, but other than top executives (including the ever-confident Ken Lewis, **Bank of America's** CEO), the flows into these stocks are mostly short-term trades or those with a daredevil's mentality.

By this time, though, it's amazing that the market can even manage to put together rallies on the back of another vague pitch from the government. By MarketBeat's count, we're at the fifth iteration of the TARP plan, and it remains in a mode of planning and discussion.

The various iterations of the TARP:



The Entity, a precursor to TARP. (Warner Bros.)

- **The Pre-Cambrian Period** (2007-early 2008, a.k.a. The Entity): This plan, with **Citigroup** as its main beneficiary, would have taken the off-balance-sheet assets of various banks and fenced them off in a structure that investors could have taken shares in (in part to finance this festering pile of sludge). Citigroup attempted to prop up this idea for months, helped along by positive commentary from then-Treasury Secretary Henry Paulson — but it eventually died of its own lack of use. In a way, the newest plan isn't much different.
- **The Stone Age** (Sept. 23, 2008-Oct. 5, 2008): Mr. Paulson is given $700 billion to invest in mortgage-backed assets, designed to clean up the balance sheets of the largest institutions, which are struggling under the weight of their bad decisions. The original passage of this plan was first delayed by Republicans in the House of Representatives, but was eventually pushed through in the waning months of the Bush Administration.
- **The Iron Age** (Mid-October to early November 2008): The original Paulson plan never really happens, and instead, Mr. Paulson directs Treasury to start injecting capital into various troubled institutions. Officially, however, the plan remains to help the banks with their crumbling assets.

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STOCKS	LAST	CHANGE	%CHANGE
Dow Jones Industrials	8268.08	-12.51	-0.15
S&P 500	868.84	0.24	0.03
Nasdaq Composite	1589.49	-2.22	-0.14
Russell 2000	468.45	-2.25	-0.48
COMMODITIES		**LAST**	**CHANGE**
Gold, April		893.50	-20.80
Crude Oil		40.93	0.76
TREASURYS		**YIELD**	**CHANGE**
10-Year Note		3.0437	-13/32
CURRENCIES		**LAST**	**PRIOR DAY**
Yen (per dollar)		91.5000	92.01
Euro (in dollars)		1.3053	1.2926

Source: Reuters and Dow Jones * At close
Note: Closing quotes are preliminary

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- **The Dark Ages** (a.k.a. The Paulson Revision; Nov. 12, 2008-late December): Treasury Secretary Henry Paulson abandons the original plan to buy troubled assets from financial institutions, and now says the plan will focus on struggling consumers. The Dow responded to this by falling 4.7%, as investors went berserk over the sudden shift in momentum. Many institutions continue to receive TARP funding, but the banking institutions share prices, for the most part, continue to head lower.
- **The Age of Byzantium** (late December-mid-January 2009): The next stages of the TARP plan are unclear at this point. Expectations are for more advancement of plans that might include buying of assets, rumors of nationalization of certain banks or closures of others, and talk of a ring-fencing system of some type. This period encompasses the massive packages given to Citigroup and Bank of America to help guarantee a lot of their capital, and it includes a lot of talk about the next stages when the Obama Administration takes office. However, with concerns over the fate of Tim Geithner's nomination outstanding, little progress in this area is made.
- **Age of Exploration** (Feb 9, 2009-): This Geithner-advanced plan is a combination of several other plans. It involves a combination of government insurance matched with private capital to ring-fence certain assets in a "bad bank" shell that would presumably issue debt to finance the purchases. Meanwhile, about 10 % or so of the capital would be provided from private institutions, assuming there is anyone left to buy such things. The deal is in some ways similar to the Merrill Lynch/Lone Star Funds deal, when Merrill sold certain collateralized debt obligations and guaranteed funding to the buyer, which was Lone Star. "That's the flavor of the day today," says Dan Alpert, managing director at investment bank Westwood Capital, who supports a nationalization process. "It may not be completely out off the question if the assets are written down appropriately." The similarities to the original conception of The Entity, an aggregator that would have warehoused bad assets and let them tear each other to pieces inside steel cages for the benefit of rabid gamblers, is not lost here. **Perhaps the species is de-evolving**.

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I really like that part…
"Perhaps the species is de-evolving." Yep… just like the 1000# Gorillia at the F&F Free Steak House… give the "The latest plan involves some kind of aggregator bank (Fred and Fanny)-(You Think?) to the US Tax Payer"… you see they can "EAT" anything… especially if (*IT) is being finianced by the US Tax Payer that is already broke… Can you spell SWF's being funded by the 66.6% US Tax Payer… hum! Mark these words well in you forehead… (*IT"s) coming and the Ides of March 2009 still have (*IT)!

Comment by "Does, ZERO from -ZERO(-$3.6 Trillion)" still = "ZERO"?" - February 9, 2009 at 12:10 pm

Adressing this serious problems of the economy with sarcasm is dangerous and totally inappropriate. Does the writer have any ideas of his own?

Comment by Keith Kramer - February 9, 2009 at 12:12 pm
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