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Jumbo Rate News

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Treasury's Terminology—Learn the Lingo

It has been six months since Congress passed the **Emergency Economic Stabilization Act** which gave birth to the **Troubled Asset Relief Act (TARP)**. After the first round, when eight of the nation's largest bank holding companies sold $115 billion in preferred stock and warrants, others started getting in line. To date, nearly 600 financial institutions (mostly holding companies) have followed suit. At least four are already buying their stocks back, primarily because a new set of guidelines on executive pay makes them wonder what other changes may be lurking. They could be at a competitive disadvantage if they have to adhere to new, as yet unknown, regulations while others do not.

The government has issued a flurry of new programs and has been criticized for failing to effectively communicate them. Hopefully, this will help:

CPP—The Capital Purchase Program under TARP gives Treasury authority to purchase up to $250 billion in stocks and warrants from the financial firms.

TIP—The Targeted Investment Program was created because some of the Big Banks that received the first round of TARP money from CPP needed more help. After receiving $25 billion from CPP, Citibank got another $20 billion allocated through TIP. Bank of America received $15 billion from the CPP, then got $118 billion in loan guarantees through TIP.

SSFI—Systematically Significant Failing Institutions Program is the program that has assisted AIG (time and again). We expect we'll be hearing a lot more about this program and other "Systematically Significant Institutions" in the coming months.

AIFP—The Auto Industry Financing Program is significant not just because of the billions of dollars going to the Auto Industry, but because Treasury also loaned $1 billion to **GMAC** to help in its reorganization as a bank holding company.

TALF—Term Asset-Backed Securities Loan Facility. The Federal Reserve Bank of New York will make up to $200 billion in one-year loans, fully secured by asset- backed securities. The hope is that these loans will fill the credit needs of consumers and small businesses while also improving the overall market for asset-backed securities.

Consumer and Business Lending Initiative is part of TALF and was launched to encourage lending through the **Small Business Administration (SBA).**

And the latest (so far): **The Financial Stability Plan** is a multi-faceted plan that includes (but is not limited to) the following:

CAP—The Capital Assistance Program is the program that requires stress-testing of the 19 largest financial institutions to determine their ability to absorb losses and continue lending in a severe downturn. If approved, the institution can receive an investment of 1-2% of risk-weighted assets.

Homeowner Affordability and Stability Plan is intended to prevent avoidable foreclosures by helping reduce monthly payments as well as driving down overall mortgage rates.

Public-Private Investment Program, another part of the Financial Stability Plan, has two main parts: the Legacy Loans program and the Legacy Securities Program and is designed to attract private investment and limit taxpayer exposure.

Now, the biggest problem banks face is valuing their assets in light of the housing downturn. The **Financial Accounting Standards Board (FASB)** is trying to make that task a little easier (and hopefully more fair). The board voted on Thursday to give bankers more discretion in determining the value of their mortgage backed securities. This change was widely anticipated and it makes a certain amount of sense. Why sell an asset for peanuts if there is no market wanting to buy it? How can you determine a true market value when there is no true market? This is only to be used if the market decline is considered to be temporary and to help compensate, the FASB will require greater disclosure.

If the decline is deemed to be "other than temporary", assets will have to be written down to market value, like they are now. The banks will be required to report the decline on the balance sheet but will be able to omit it from their income statements.

The accounting change, in effect, will greatly reduce the amount of "toxic assets" the banks have on their books, thereby limiting the amount the government will buy. It's a good thing **BauerFinancial** is here to sort it out.