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Here is the lead paragraph from the Treasury Outline.

The New Financial Stability Plan (FST) consists of

- **Financial Stability Trust whose main points are**
 - **A Comprehensive Stress Test for Major Banks**
 - **Increased Balance Sheet Transparency and Disclosure**
 - **Capital Assistance Program**
- **Public-Private Investment Fund (\$500 Billion - \$1 Trillion)**
- **Consumer and Business Lending Initiative (Up to \$1 trillion)**
- **Transparency and Accountability Agenda – Including Dividend Limitation**
- **Affordable Housing Support and Foreclosure Prevention Plan**
- **A Small Business and Community Lending Initiative**

Key points that the Secretary chose to leave out or less detailed were the following.

- Which banks get the stress test and how is “failure” or “success” defined?
- What are the consequences of stress test failure for a publicly owned bank?
- What will balance sheet transparency and disclosure mean for banks in the program?
- Can a bank opt in or out? Or is balance sheet transparency only for the **FST**?
- What is the asset pricing procedure? Mark to market or historical cost or “stress tested” discounted cash flows?
- For the “capital assistance program,” what is the device by which capital is injected into the bank? Will it mean nationalization and if so under what circumstances?
- If the **FST** owns bank shares, will they be control shares?
- Which assets get sold to the **FST**? Who decides which assets are to be sold?

These are just a few of the questions that require answer if analysts are to correctly value the shares of publicly traded banks. They didn’t get these today and the market ran away from the banks as a result. Not an auspicious beginning for a media conscious administration. They can’t blame the political opposition for the market’s voting behavior today.

Clearly, the notion of private capital injections is built into the outline, but just how the program is to run is totally unclear. The goal is worthy of praise. Its lack of articulation today was not. The “size” of the program is only broadly defined. First, \$500 Billion---then a \$Trillion? Without specific dimensions, how does the Bond Market make up its mind about the impending size of Government security issues that will fund these programs?

With all of these questions still up in the air, markets were confronted with uncertainty and reacted predictably. Perhaps more clarity will revive confidence, but at this point, the market only got opacity. For an Administration that promised specificity, it was a day for the Red Queen. “A word means what I say it means” the Red Queen used to say. We need more than a Red Queen to get out of our financial mess.

The kindest words I heard today were uttered by Professor Ed Lazear, formerly Chairman of the CEA for the Bush Administration. He opined that the plan today was “not a big stumble.” He said we should look at the “track record” of where we were last fall when financial markets shut down. “Tim was part of the remedy.” He laid out a “continuation” of that process of “recapitalizing the financial sector.” “If they stay on that path, they will be doing the right thing.” All that may be true, but after the run-up to the Secretary first public policy



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pronouncement, it was a huge disappointment. Too much was left open and that was a financial vacuum into which the market could only plunge.

The financial Gordian knot remains to be cut. How big a blade will be required and who will wield the blade has yet to be answered. This effort may indeed part of a continuation of efforts that Geithner made during the last few months of the previous administration. That may be sound analysis of how this process has evolved, but for an equity market looking for boundaries and directions, much more will be needed.