

# The Distressed Debt Report

News, Information, and Analysis of Distressed Debt in the Middle Market

Volume VI, No. 13

[distresseddebt.dealflow.com](http://distresseddebt.dealflow.com)

July 13, 2010

## NEWS IN BRIEF

### MORE SUCCESS THAN FAILURE SEEN AS TARP WINDS DOWN

The Troubled Asset Relief Program, which will wind down its two-year assignment within three months, will perform better than the U.S. Treasury Department originally forecast with some investments realizing strong returns and the overall program costing taxpayers less than a third of its original target.

The program's architects and others involved say the \$700 billion government program brought confidence and stability to the financial markets and may have averted another Great Depression.

"The TARP was very successful in averting a depression and stabilizing the financial sector," said Stephen Myrow, managing director at **ACG Analytics** in Washington, D.C., who worked on developing aspects of the TARP as former chief of staff to Deputy Treasury Secretary Robert Kimmitt in the Bush administration. "It may have been unpopular on Main Street and perceived as a big bail-out program, but when you look at the numbers, it turned out to be a good investment for taxpayers."

Programs that addressed distressed debt, such as the Term Asset Backed Securities Loan Facility (TALF) and Public-Private Investment Program, may have been small by comparison to other parts of the TARP, but they had a significant

The Treasury Department said that TARP has generated \$24 billion in additional revenue to taxpayers and it adjusted its estimate of the program's overall cost to taxpayers from the original \$341 billion amount to \$105 billion that wouldn't be repaid.

Of the original \$700 billion available for investments, only \$386 billion has been spent. And the program could actually wind down earlier than its Oct. 3 sunset date if the Senate approves a proposal in the financial reform bill that has already passed the House of Representatives.

Myrow called the Capital Purchase Program and TALF, which he worked on, successes.

However, he said that the Home Affordable Modification Program (HAMP) was not a success. Figures from the Government Accountability Office say that more than half of the homeowners participating in the HAMP have not stabilized their mortgages and are still underwater. About 340,000 homeowners have been helped by the program, while another 436,000 have exited the program in default.

Myrow said the difference between the HAMP and other parts of the TARP is that the HAMP was a spending program, not an investment program.

impact on setting prices for legacy assets which had been frozen by the credit crisis.

The Capital Purchase Program, which amounted to \$200 billion of government investments in about 700 banks, helped to stabilize the financial sector by pumping capital into banks. The Treasury Department reported that 75% of the TARP funds invested in the Capital Purchase Program have been repaid. A report from investment bank **Keefe, Bruyette & Woods** said that the Capital Purchase Program generated a 10% return on investments in banks that had repaid the government.

Taxpayers will not see a positive return from the HAMP.

"The TARP was conceived as an investment program, not a spending program, primarily to stabilize the financial sector and broader economy and to minimize the cost to the taxpayer," Myrow said. "How helping Wall Street helps Main Street is sometimes difficult to try to explain."

He said TARP did help consumers and small businesses by restarting the collapsed asset-backed securities market. That helped lower financing costs for credit cards, auto loans, student

continued ...

---

loans, and other financing that has had a broader impact on the economy, he said.

Myrow said that the PPIP program was created as a safety net for the mortgage-backed securities market to increase the asset values that had fallen and to be there if values began to collapse again.

"It was a program to spur demand on the buy side," he said.

The Treasury Department earmarked a total of \$40 billion potentially for the PPIP program, but the eight private equity participants had only purchased a total of \$10 billion in residential and commercial mortgage-backed securities through the first quarter of this year.

Erik D. Klingenberg, an attorney in **Sonnenschein Nath & Rosenthal's** capital markets practice in New York, worked as counsel to the Treasury Department in connection with TALF and the PPIP. He said that TARP was necessary to prevent many banks and

other financial institutions from failing.

"TALF was definitely a success as deals were getting done in various asset classes that would not have got done absent of TALF," Klingenberg said.

He said that although only one CMBS deal was completed in the TALF, it was beneficial for market confidence to see a CMBS deal completed and to show that deals could get done.

However, it's uncertain at best if there would be support for another such program if the economy's recovery stalls.

"It's such a political issue," said Van Conway of turnaround management firm **Conway MacKenzie Inc.** in Birmingham, Mich. "Where could they draw the money today? I would like to think if there were appropriate circumstances like this to use taxpayer money, you could do it. With the wind down of the TARP, there's no vehicle to get the money today should circumstances call

for it." —KO