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For Geithner, Year of Living Dangerously

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WASHINGTON — If anyone here is happy to see 2009 in his rearview mirror, it is Treasury Secretary Tim Geithner.

Though the financial system is on sounder footing than a year ago, many of his top priorities have stalled or died altogether. His loan modification plan has failed to stem the tide of foreclosures, his program to buy up toxic assets has struggled, his push to spur lending has fallen flat and pieces of his proposal to rework the financial regulatory system have been watered down or reworked completely.

Many academics, former regulators and longtime industry observers give Geithner high marks for effort, but — policy details aside — fault his communication skills and clarity of leadership during his first year in office.

"Geithner seems a stranger to the politics of financial reform, as though he looked down on them or just didn't understand them," said Richard Carnell, an associate professor at Fordham University School of Law and a former Clinton administration Treasury official. "Voters don't usually care about financial reform. But that changes with a big crisis or scandal. Geithner squandered that advantage. He acted like a prisoner of elite conventional wisdom — too slow, too timid."

Ever since his nomination, Geithner has faced trouble. Few doubted that Geithner, as president of the Federal Reserve Bank of New York, was qualified for the Treasury job, but the confirmation process revealed that he had failed to pay income taxes during a stint at the International Monetary Fund.

After being confirmed, his first press conference, on Feb. 10, was widely panned. Though President Obama had assured the nation only an evening before that Geithner would deliver a detailed agenda, the Treasury secretary offered only a broad outline, fueling criticisms that he was not up to the job.

Observers said the press conference revealed his poor communication skills. "The Treasury secretary is a bully pulpit that people need to stand on and give direction to people watching the U.S., and I think as someone coming from the Fed to Treasury, I don't think he fully grasps that," said Doug Landy, a partner in Allen & Overy LLP and formerly a lawyer at the New York Fed.

During the press conference, Geithner also outlined the programs he intended to pursue — many of which have since failed to bear much fruit. The government planned to stress-test the 19 largest banks' capital levels, he said, create a public-private partnership to remove toxic assets from banks' balance sheets, boost lending and create a loan-modification program that would curb foreclosures. He also pledged to develop a regulatory reform plan that would be enacted by yearend.

Of that list, stress testing was the most successful. The tests required banks to forecast their condition under dire economic circumstances, using GDP and unemployment projections provided by the government. The banks that lacked enough capital to withstand such a scenario were required to raise private capital within six months. If they failed to, they would be given more government capital.

By the time the results were announced, nine banks were found to be in good condition, and 10 needed to raise capital. All of the latter were able to raise the needed capital well before the regulatory deadline.

Despite fears that the regulators' numbers were wild guesses, the stress tests appeared to soothe the markets.

"You can argue it's all smoke and mirrors, but it worked," said Paul Miller, a managing director at Friedman Billings Ramsey & Co.

Still, others saw the tests as initiating a dangerous precedent of making banks' private information public. "When Treasury got caught, that they were going to have the stress test and announce the results, that just led to an intense speculation," said Kevin Jacques, Boynton D. Murch chair in finance at Baldwin-Wallace College and a former Treasury official. "Having to make that public was a big gamble they didn't need to take. Saying we were going to publicly announce the stress tests: I see that as Russian roulette."

The other items on Geithner's agenda fared less well. The Treasury initially said its Public-Private Investment Program would have $500 billion to $1 trillion of capital to buy up troubled assets. It eventually scaled this back to up to $30 billion. Though the Treasury hired fund managers to start the program, it has been slow to get off the ground. A component of the program to buy whole loans has fizzled.

Geithner also introduced the Making Home Affordable Program, which was designed to curb foreclosures. But the plan has not achieved much. Of loans that were initially part of the administration's plan, 31,382 — or 4% — won permanent modifications.

In a recent interview with Newsweek, Geithner said the program was a victim of high expectations.

The Treasury tried to make it clear "that what we'd do to prevent foreclosure would be very targeted and limited," Geithner said, according to the magazine's report. "We wouldn't try to keep people in homes they couldn't fundamentally afford. While we thought we'd lowered expectations, we're still being hung for letting expectations get ahead of policy."

Despite several programs designed to boost lending to small businesses, credit extensions remain down across the board since Geithner took office. Outstanding loans fell 2.8% in the third quarter, to $7.4 trillion, the largest percentage decline since 1984 when the Federal Deposit Insurance Corp. began reporting such data.

Geithner unveiled an ambitious regulatory reform plan in June, but many of its key elements have been watered down. In the House bill, a proposed Consumer Financial Protection Agency — what many consider the centerpiece of the Obama plan — would be denied the power to enforce its rules against about 7,900 of the nation's 8,030 banks. Some House Democrats were agitating to limit its power even further before the chamber passed the bill this month.

Though the House bill followed Geithner's recommendation to give the Fed the power to act as a systemic-risk regulator, the Senate is very unlikely to follow suit. Senate Banking Committee Chairman Chris Dodd has proposed a bill that would take the Fed out of bank supervision altogether — a radical departure from the Treasury's reform blueprint. It would create an interagency council to monitor systemic risk, instead of giving the Fed that authority.

Legislating has also moved more slowly than he expected. Geithner repeatedly said regulatory reform could be completed by yearend — a goal most dismissed as unrealistic — but the debate is likely to drift well into 2010.

"To the extent that administrations have an agenda, one would think one goal on his list to get done this year is regulatory reform, and he hasn't done that," said Mark Calabria, the director of financial regulation studies at the Cato Institute and a former Senate Republican aide. "I would say that on a number of things. How is he handling the dollar, how is he handling the economy, how is he handling financial reform? I'm having a hard time giving him better than a C or D on these things."

The Treasury declined repeated requests to make Geithner available for comment, but it did release a report saying that, under his leadership, the economy is improving, the banking system has stabilized and the housing market is normalizing. The report noted that many of the largest recipients of Troubled Asset Relief Program funds have repaid them and that executive compensation restrictions have been placed on companies that got a high level of government support.

Some observers say Geithner deserves at least part of the credit for stabilizing the system and that he has moved as quickly as possible on regulatory reform.

"If you look at how the financial world looked 12 months ago," said Landy, "and now things seem far more stable than they did back then, it's only fair to give him part of the credit. I know a lot of people are disappointed in the pace of financial reform and certain provisions not being as tough as some wanted. The fact that they have a bill through the House within a year of taking office is light speed."

Still, the pressure has at times appeared to get to Geithner. During a private meeting with top regulators in July, he launched into an obscenity-laden critique of the officials — including FDIC Chairman Sheila Bair and Fed Chairman Ben Bernanke — for failing to endorse his reform plan.

Treasury officials said the meeting was just a chance for Geithner to speak his mind, but to many it appeared a transparent attempt to bully independent agencies.

"If I'd been chairman of the FDIC, and he'd called me in and lectured me, I'd be out the door," said William Isaac, a former FDIC chairman and now the chairman of LECG Global Financial Services in Washington. "You work with people collegially, and you don't treat them like they're subservient. These regulators are independent for a reason. That incident was highly inappropriate."

Some also blame Geithner for poor salesmanship of the reform plan, noting that its 223-to-202 victory margin in the House on Dec. 4 was narrower than expected. "If they'd done a really good job, then you'd have a greater public groundswell for the various pieces of the legislation, and it would have been easier for the Democrats to vote in favor of the bill," said Bill Longbrake, executive in residence at the University of Maryland's Robert H. Smith School of Business.

Observers also said Geithner has been hampered by a perceived lack of leadership status. Under former Treasury Secretary Henry Paulson, it was clear that the Treasury, not the White House, was running economic policy. But under Geithner, observers say, a central command is not clear between officials in the White House and the Treasury.

Bert Ely, a banking consultant in Alexandria, Va., pointed to Lawrence Summers, director of the White House's National Economic Council, as the driver of economic policy. "On reg reform, I'm not going to blame Geithner for everything because, in a way, Summers is the de facto secretary of the Treasury," Ely said. "It very much undercuts him because the problem he has is, Summers is a former secretary of Treasury; he's planted in the White House. Between Summers and [White House chief of staff] Rahm Emanuel, they may be the puppeteers, so you don't get the sense Geithner is in charge."

Geithner's difficulties have led to repeated calls for his resignation by Republicans. "The public has lost all confidence in your ability to do your job… It is time for a fresh start," Rep. Kevin Brady, R-Texas, said at a Joint Economic Committee hearing.

But so far Geithner appears to be standing his ground. "If you look at any measure of confidence … it is substantially stronger today" than when President Obama took office, Geithner responded.