The Cato Institute`s Mark Calabria On Bloomberg TV Analyst Wire July 13, 2009 Monday

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DEIRDRE BOLTON, BLOOMBERG NEWS

MICHAEL MCKEE, BLOOMBERG NEWS

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DEIRDRE BOLTON, BLOOMBERG NEWS: We continue our look at the future of CIT Group. The executives spent the weekend trying to convince investors it can work its way out of a credit crunch.

Mark Calabria joins us now. He's the director of financial regulation at the **Cato Institute.** Before he joined Cato, he spent six years as a member of the senior staff on the U.S. Senate Banking and Housing Committee, Urban Affairs as well. Very glad to have you with us, Mark.

So what is the most likely scenario here. I mean, is CIT Group going to be forced to file for bankruptcy?

MARK CALABRIA, DIRECTOR, FINANCIAL REGULATION, **CATO INSTITUTE:** I think there's a very good chance of it. It looks increasingly unlikely that the FDIC is going to provide any debt guarantees. There's a good likelihood that they may have to do that.

But they also might be able too convince their creditors to sort of do a reorganization beforehand. I don't think anything is necessarily certain at this point. It certainly -

BOLTON: On a scale of one to 10, Mark?

CALABRIA: Well I have to give it a six.

BOLTON: All right, so is this a test case - do you see this as a test case with the Obama administration's willingness to get involved with an institution or not that has been deemed - it seems like not too big to fail?

CALABRIA: Well, you do have to separate out to some degree the FDIC from the Obama administration. They certainly coordinate but they're not the same. Remember, this is the FDIC making the choice not to say we're going to let CIT issue FDIC-backed debt.

If this choice was in the hands of the Treasury Secretary, I'm not sure we would have the same outcome, but I do think there's increasing pressure and belief among some of the regulators that we need to scale down these programs, we need to wind down these programs.

For institutions that aren't truly systemic, we need to be able to draw a line here. People need to actually fail at some time.

MICHAEL MCKEE, BLOOMBERG NEWS: CIT has been struggling for quite some time, and they did get some TARP money. Would being able to sell the FDIC-backed debt actually help them?

CALABRIA: Well the first thing I think we need to keep in mind is, we need to resist the temptation to throw good money after bad. The TARP program is run separately. Some of that money will not be gotten back.

And I don't - you know, we have to really be very cautious, and this is one of the dangers about injecting money into any company is you're always going to feel that need to, well, I don't want to recognize my lost investments, so I'm going to put more money in.

So, I'm not convinced. If CIT's sole business model is going to only survive if they get subsidized funding, then it's probably not a sustainable business model anyway. I think that really needs to be looked at in terms of going to market, raising debt without a government guarantee behind it. I would rather just write off a loss from the TARP money and move on.

BOLTON: Mark, getting back to sort of if it fails, let's just say if CIT does fail, I mean, it's not a huge part of the financial system, but yet it does make loans to many small and mid-size businesses that would ordinarily have to go to banks. What will this do to the business environment?

CALABRIA: Certainly, there's going to be some adverse consequences. Every institution that fails, whether it's local community banks somewhere in a small town, people rely on that, business relationships rely on that.

So there's going to be some disruption. I think that's a given. The question is is this going to be of a magnitude to be of such a shock to the economy that we really need to support with additional taxpayer dollars on the line.

That's where I would say no. Certainly this is going to be a disruption, and suppliers and clients, they're going to have to build new business relationships, and that happens when any institution fails.

I will note, a lot of people have done a lot of empirical work, looking at how many firms fail as the result of another firm failing, and the evidence historically is pretty low. There really aren't a lot of contagion effects. So I'd be concerned about the argument that we need to bail out CIT because if we don't, then we'll have a lot of other firms that fail. I just don't think there's a very strong evidence for that.

BOLTON: Mark, we thank you very much for your time. Mark Calabria, from the **Cato Institute.**

END OF TRANSCRIPT

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