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## **Differing views on bailout emerge as manager of TARP fund resigns**

**Herbert Allison joins the Obama administration in calling the \$700-billion program a success. Critics say its losses, though less than feared, are still too large and that it failed to achieve its original goal.**

By Jim Puzzanghera, Los Angeles Times

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Reporting from Washington

As one of the most controversial chapters in U.S. economic history draws to a close, the Obama administration and its critics are writing very different obituaries of the \$700-billion fund that bailed out Wall Street and the domestic auto industry.

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Treasury Secretary Timothy F. Geithner said the much-maligned Troubled Asset Relief Program "succeeded in ways that none of us could have imagined." And Herbert M. Allison Jr., who resigned Wednesday as TARP's head, said the fund laid the foundation for the nation's recovery — "at a fraction of the cost that was originally anticipated."

The program formally ends Oct. 3, exactly two years after its enactment by a panic-stricken Congress as the swift-moving financial crisis threatened to plunge the world into another Great Depression.

After initial concerns that most if not all of the \$700 billion in taxpayer money would never be recovered, the nonpartisan Congressional Budget Office recently estimated that TARP would cost taxpayers \$66 billion.

The fund's biggest initiative, injecting \$205 billion in more than 700 banks nationwide, is now projected to make nearly \$10 billion in profit. Almost three-fourths of that money has been repaid along with dividends and the sale of stock options the government received with the cash injections.

Despite the deep anger over the bailout that has made TARP a four-letter word to many, the emerging consensus among economists is that the unprecedented program succeeded in helping stem the financial crisis.

"It's probably the best federal program that we've done that's been despised," said Douglas J. Elliott, an economics fellow at the Brookings Institution. "There's a huge disconnect between the public perception of it ...and what it actually accomplished. It was a very important part of avoiding a true financial meltdown."

But critics charge that any losses are still too large for taxpayers, and that TARP's cost can't be measured just

by dollars and cents.

They said the program has done little to remove toxic mortgage assets from bank balance sheets — its original purpose — and fallen far short of its goal to stem home foreclosures and promote jobs.

Republicans said the Obama administration has misused the program for political purposes, such as funding bankruptcy plans by General Motors and Chrysler that led to government ownership stakes, and has plowed payments back into new initiatives instead of using the money to pay down the federal debt as required under the law.

And critics said TARP has warped the free market by perpetuating the notion that the government will step in to bail out financial institutions it deems are too big to fail.

"We will be living with the consequences of this ill-advised program years after it has ended," said Rep. Jeb Hensarling (R-Texas), who served on the TARP watchdog panel though he voted against creating the fund.

TARP was approved by Congress with bipartisan support in October 2008. Most lawmakers voted for it reluctantly in the face of predictions of dire consequences by then-Treasury Secretary Henry M. Paulson and Federal Reserve Chairman Ben S. Bernanke.

The program was originally designed to purchase failed mortgage-backed securities from banks. But Paulson quickly changed course in the weeks after it was approved, injecting money directly into banks to prevent some failures and to try to get credit flowing.

"I think the American public reacted, 'You want to spend how much money ...and you're sending it to who?' " said Mark Calabria, director of financial regulation studies at the Cato Institute.

Calabria, who was a senior staff member on the Senate Banking Committee at the time of the crisis, does not believe the program was a success.

The changing tack upset many in Congress, and the anger was further fueled when President Bush, and then President Obama, tapped the fund to bail out General Motors and Chrysler.

Last fall, the Obama administration extended TARP for another year, but to help offset the cost of the recently enacted financial reform legislation, Congress this summer agreed to cut TARP to \$475 billion and prohibit any new spending initiatives.

Although the program ends Oct. 3, it could take years to sell off TARP's investments.

"We are going to largely get the taxpayers' money back," Geithner told about 150 people involved in running TARP as he congratulated Allison for his service.

Geithner acknowledged the program "was not perfect" and noted that a lot of work was still needed to repair the economy.

But the work would have been much harder without TARP, said Mark Zandi, chief economist at Moody's Analytics.

"If we had not had TARP, the financial system would have collapsed, the Great Recession would have been much deeper, the cost to taxpayers measurably greater," Zandi said.

In a July study, Zandi and Princeton economist Alan Blinder declared TARP "a substantial success, helping to restore stability to the financial system and to end the free-fall in housing and auto markets."

The Congressional Oversight Panel, set up to monitor TARP, largely agreed. In a report last week, the panel said the program "provided critical government support to the financial system" during a severe crisis.

But the report also said TARP had a "far more limited" effect on its other goals of protecting home values and retirement and other savings accounts as well as promoting jobs and economic growth.

An administration report Wednesday showed the problems TARP has had stemming foreclosures through its \$75-billion mortgage modification program. About 468,000 borrowers had their mortgage payments permanently reduced through August, but about half the 1.3 million homeowners in trial reductions have dropped out.

Perhaps worse, the panel said, TARP has been so widely unpopular that it could make it tougher for the government to respond to future crises.

"The TARP may have saved our financial system, but it leaves behind a deeply troubled economy [and] a stigma against government intervention in the economy," said Damon Silvers, one of the oversight panel members.

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