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TARP Bailout to Cost Less Than Once Anticipated

FEDERAL HOME LOAN MORTGAGE CORP, FEDERAL NATIONAL MORTGAGE ASSOCIATION, AMERICAN INTERNATIONAL GROUP INC, BUSINESS NEWS

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Even as voters rage and candidates put up ads against government bailouts, the reviled mother of them all — the $700 billion lifeline to banks, insurance and auto companies — will expire after Sunday at a fraction of that cost, and could conceivably earn taxpayers a profit.

A final accounting of the government's full range of interventions in the economy, including the bailouts of the mortgage finance giants Fannie Maeand Freddie Mac, is years off and will most likely remain controversial and potentially costly.

But the once-unthinkable possibility that the $700 billion Troubled Asset Relief Program could end up costing far less, or even nothing, became more likely on Thursday with the news that the government had negotiated a plan with the American International Groupto begin repaying taxpayers.

The rescue of the troubled insurer included $70 billion from the bailout program that was enacted two years ago, at the height of the global financial crisis late in the Bush administration, initially to prop up big banks.

At the White House on Thursday, the Treasury secretary, Timothy F. Geithner, briefed President Obama about A.I.G. and about the broader outlook for the expiring rescue program, putting the projected losses at less than $50 billion, at most. Yet neither the White House nor Congressional Democrats are likely to boast much in the month remaining before midterm elections. For most voters, TARP remains a four-letter word.

Brian A. Bethune, the chief financial economist in the United States for IHS/Global Insight, while critical of parts, called the program over all "a tremendous success. Now obviously, they can't go out on the campaign trail and say that, because certainly, for a lot of voters, it's just not going to resonate."

The "bank bailout" was the first big issue, before the Obama administration's roughly $800 billion stimulus plan and its health insurance overhaul, to stoke the rise of the Tea Party movement. After supporting TARP, several Republicans have lost elections largely because of their votes. For many Americans, TARP is more than a vote; it is a symbol of big government at its worst, intervening in private markets with taxpayers' billions to save Wall Street plutocrats while average Americans struggle through the recession those financiers spawned.

Fewer than three in 10 Americans say they believe the program was necessary "to prevent the financial industry from failing and drastically hurting the U.S. economy," according to a poll in July for Bloomberg News.

"This is the best federal program of any real size to be despised by the public like this," said Douglas J. Elliott, a former investment banker now associated with the Brookings Institution, a Washington think tank.

"It was probably the only effective method available to us to keep from having a financial meltdown much worse than we actually had. Had that happened, unemployment would be substantially higher than it is now, the deficit would have gone up even more than it has," Mr. Elliott added. "But it really cuts against the grain for a public that is so angry at banks to think that something that so plainly helped the banks could also be good for the public."

After Sunday the Treasury can no longer commit money to new initiatives or recycle repayments to other purposes.

The Treasury never tapped the full $700 billion. It committed $470 billion and has disbursed $387 billion, mostly to hundreds of banks and later to A.I.G., the car industry — **Chrysler**, **General Motors**, the G.M.

financing company and suppliers — and to what is, so far, a failed effort to help homeowners avoid foreclosures.

When Mr. Obama took office, the financial system remained so weak that his first budget indicated the Treasury might need another $750 billion for TARP. The administration soon dropped that idea as Mr. Geithner overhauled the rescue program and the banking system stabilized. Still, by mid-2009, the administration projected that TARP could lose $341 billion, a figure that reflected new commitments to A.I.G. and the auto industry.

The Congressional Budget Office, which had a slightly higher loss estimate initially, in August reduced that to $66 billion.

Now Treasury reckons that taxpayers will lose less than $50 billion at worst, but at best could break even or even make money. Its best-case assumptions, however, assume that A.I.G. and the auto companies will remain profitable and that Treasury will get a good price as it sells its corporate shares in coming years.

“We’d have to be very lucky to have both A.I.G. and the auto companies pay us back in full,” Mr. Elliott said.

Also, the best result for taxpayers could mean bad results for squeezed homeowners. Treasury has been ready to use up to $50 billion to help modify mortgages for people facing foreclosure, but its initiatives have been such a failure that little has been spent.

Whatever the final losses from housing, auto companies, A.I.G. or smaller banks, those will be offset by taxpayers’ profits from the big banks that have been the focus of their ire since 2008.

They have repaid their loans and Treasury has collected about $25 billion more from dividends and proceeds from the sale of warrants held as collateral, officials say. Many smaller banks hold on to their loans, however, reflecting their weakness and the desire of some others to keep the money given its advantageous terms. Scores are behind on dividend payments to the Treasury.

By any measure, TARP’s final tally will be less than expected amid the crisis. But the program remains a big loser politically.

On Wednesday, four days before its expiration, House Republicans nonetheless unsuccessfully forced a vote on legislation to end TARP. “We would be much better served if private institutions would either fail or be successful on their own,” said Representative Erik Paulsen of Minnesota, in an interview.

Among those who voted for the program in 2008, several Republicans have lost nominating contests for re-election or for another office, and others are on the defensive in fall races.

Senator Robert F. Bennett of Utah was “Bailout Bob” to Republicans who refused to re-nominate him for a fourth term.

“For those who were screaming at me — and screaming was the operative word — ‘You’ve just saddled our children and grandchildren with $700 billion,’ I said, ‘No, I haven’t,” Mr. Bennett said in an interview.

“My career is over,” he added. “But I do hope that we can get the word out that TARP, number one, did save the world from a financial meltdown and, number two, did so in a manner that, I believe, won’t cost the taxpayer anything. And even if it did not all get paid back, it was still the thing to do.”

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