BTB Exclusive - Show us the money

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Michael J. Pallerino, October 30, 2008

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One of the solutions at the heart of restoring confidence and credit among our nation's consumers and businesses is the current administration's $700 billion financial bailout plan, which was approved by Congress and signed by President Bush earlier this month. According to the plan, the administration is doling out $250 billion to banks in return for partial ownership. The infusion of federal money will be used to rebuild banks' battered capital reserves so that they would feel comfortable resuming more normal lending practices. The Treasury Department, which is overseeing the massive capital injection program along with the rest of the bailout, will pour $125 billion into nine of the country's largest banks, which account for 50 percent of all U.S. deposits. An additional $125 billion will start flowing to other banks will follow. As the first payments were being sent out this week, Business to Business asked Charles H. Green, president of Sunrise Bank of Atlanta, to walk us through some of the things we should expect to see as the bailout plays out.

BTB: How will U.S. banks such as SunTrust use the capital invested from the government assistance plan?
Charles Green: This capital will provide general liquidity needed by many major banks that have seen many secondary sources of funds recede over the past three to four months.

BTB: What should their priorities be? Freeing up credit? Acquiring other banks?
Green: Depending on the institution, many will cautiously meet the loan demand of the prime borrowers and ease some recent restrictions on their willingness to make lending available to residential real estate sales, home equity loans, automobile loans and student loans. Loans to small businesses should also improve.

BTB: What timeline are we looking for these changes to happen? Days? Months?
Green: We should start seeing things happen in the next 30-120 days.

BTB: Is there a fear factor with doing that right now - despite assistance efforts?
Green: Banks will be very mindful of the general recessionary pressures that have caused a collapse in consumer confidence, and is presently affecting spending on consumer goods, tourist travel, new car purchases and other categories. Likewise, the expected holiday sales season looks suspect. These conditions mean that business sales are falling and jobs are being lost. Most banks will attempt to avoid these kinds of situations, which present too much risk.

BTB: How will the Atlanta market fare during the assistance effort?
Green: Generally, it should have a positive affect, but will only make a difference based on how well our economy holds up and how long this recession continues.

BTB: Where does the Atlanta banking community stand today?
Green: Basically, an overwhelming number of banks in Georgia are well capitalized and healthy, able to weather the storm and ready for a better day. It is well known that there are some banks with serious problems to work through, and we all hope they can hang on until better economic conditions make things better for all our peers.

Other credit-loosening efforts happening

* Initiated this week, there is a Federal Reserve program to purchase the short-term debt of businesses, known as commercial paper.

* Temporary guarantees by the Federal Deposit Insurance Corp., of new issues of bank debt - fully protecting the money, for a fee, even if the institution fails.

* Emergency loans from the Fed for financial institutions and even other types of companies. The Fed has been repeatedly tapping this Depression-era authority to be a lender of last resort.

* New temporary federal guarantees to assets held in money market mutual funds, as of Sept. 19 but not since then.

* A temporary increase in the cap on deposit insurance from $100,000 to $250,000 on interest-bearing accounts, and unlimited deposit insurance for non-interest bearing accounts, which small businesses often use to cover payrolls and other expenses and which frequently exceed $250,000.

* The Fed's half-point reduction in its target interest rate on Oct. 8, done in conjunction with rate cuts by other central banks around the world.