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'Toxic asset' plan's winners and losers

Chase and Wells Fargo may look to sell soured assets from recent acquisitions; banks who were more aggressive valuing their loans may balk at program.

By David Ellis, CNNMoney.com staff writer
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NEW YORK (CNNMoney.com) -- If the government is hoping for a coordinated response from the banking sector with its latest toxic asset plan, it better not hold its breath.

A little more than a week after the ambitious program was launched, there are already signs that the industry is struggling to reach a consensus opinion on the issue.

Some institutions have publicly endorsed the so-called "Public-Private Investment Program," including Wells Fargo (WFC, Fortune 500). In a statement, the San Francisco-based bank said it supported any plan by the Treasury Department that helps financial institutions sell troubled assets.

And following last week's meeting between financial industry leaders and President Obama at the White House, Citigroup (C, Fortune 500) CEO Vikram Pandit called it "constructive."

Experts point out that JPMorgan Chase (JPM, Fortune 500) and Wells Fargo could both be big winners from the program since they may use it to ditch some of the problematic loans they inherited through their acquisitions of Washington Mutual and Wachovia respectively.

Such a move would help the pair book gains on these assets, Barclays Capital analyst Jason Goldberg wrote in a note to clients last week.

Chase did not respond to calls for comment. A Wells Fargo spokesperson said it was premature to comment on their own plans to participate in the Treasury program.

Pricing still a big issue

Still, other banks have grumbled privately about the program, particularly the thorny issue of pricing, which stalled the launch of the plan earlier this year.

All participating banks risk additional writedowns by selling chunks of their loan portfolio or existing investment securities on their books.

But banks that have already drastically written down the value of some of these assets may be particularly reluctant to sell now since there are signs the housing market and the broader economy will eventually find its footing.

"I don't see at this point that these banks have a strong motive to sell unless they think the price is right," said Gary Gorton, professor of finance at Yale School of Management.

Complicating things further is Thursday's move by the Financial Accounting Standards Board to relax the rules as to how banks value some of their assets.

That might lead bankers to think that their troubled assets may now be worth a whole lot more than they were just a few weeks ago since they are no longer required to value them at distressed prices.

Nonetheless, experts seem to agree that some banks will probably be willing to quickly sell their most complex securities -- including residential and commercial-mortgage-backed securities -- even though they may be reluctant to part with some of their loans.

But industry regulators, including the Federal Deposit Insurance Corp., have indicated that they may push banks to sell more assets on their books to help generate much-needed capital.

That decision may very likely be tied to the results of the so-called "stress test" that the Treasury Department is currently conducting on the nation's 19 largest banks, said Jess Varughese, managing partner at the New York City-based consultancy Milestone, which recently rolled out a program aimed at assisting banks shed such troubled assets.

Banks that ace their regulatory test, which may very likely include the Wall Street giants Goldman Sachs (GS, Fortune 500) and Morgan Stanley (MS, Fortune 500), may not have a big impetus to sell, he said, knowing they have the government's seal of approval. Those that don't do well on the stress test may not have a choice.

"My suspicion is for a bank on the edge of the stress test there is going to be pressure to clean up their balance sheet," he said. ■

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