



The Bottom Line

THE LATEST VIEW ON THE ECONOMY



ECONOMIC
RESEARCH

BMO  Capital Markets™

Post-Crisis Withdrawal

June 8, 2009

Dr. Sherry Cooper
Executive Vice
President,
Chief Economist

As financial markets heal, banks are shying away from government assistance, betting that they can rely fully on the markets to build capital positions. Since the completion of the Bank Stress Tests, Bank of America, Morgan Stanley, and many other TARP recipients have rushed to meet the requirements to repay TARP loans. Many financial institutions are chafing under the government leash and want out as soon as possible.

1-800-613-0205

In another example of a bank pullback from government assistance, the details of the Treasury's toxic asset plan are in doubt after the Federal Deposit Insurance Corporation (FDIC) on Wednesday said it was suspending a test run of the legacy loans program. Sheila Bair, chairman of the FDIC, said development of the program—designed to encourage investors to buy toxic, or legacy, loans from banks in order to restart the flow of credit—would continue, but a pilot sale of assets was on hold. According to Ms. Bair, *"banks have been able to raise capital without having to sell bad assets through the LLP, which reflects renewed investor confidence in our banking system."*

To be sure, that is only part of the reason banks are not selling assets. They would rather leave them on their books if they can raise capital elsewhere, rather than sell at very depressed market prices, thereby realizing their losses. With the relaxation of the mark-to-market accounting standard, U.S. banks can now "mark to model." As such, banks are not forced to write the asset value down. In so doing, banks are no longer compelled to sell at a price that would incentivize an investor to purchase.

In addition, Uncle Sam now has a reputation for changing the rules in the middle of the game. Banks and investors have misgivings over taking part in the PPIP amid fears the politically charged climate could prompt Congress to change rules on issues such as executive compensation for those firms that participated in the program.

The Bottom Line: These are positive developments. The sooner the FIs can disentangle themselves from Uncle Sam the better.

The information, opinions, estimates, projections and other materials contained herein are provided as of the date hereof and are subject to change without notice. Some of the information, opinions, estimates, projections and other materials contained herein have been obtained from numerous sources and Bank of Montreal ("BMO") and its affiliates make every effort to ensure that the contents thereof have been compiled or derived from sources believed to be reliable and to contain information and opinions which are accurate and complete. However, neither BMO nor its affiliates have independently verified or make any representation or warranty, express or implied, in respect thereof, take no responsibility for any errors and omissions which may be contained herein or accept any liability whatsoever for any loss arising from any use of or reliance on the information, opinions, estimates, projections and other materials contained herein whether relied upon by the recipient or user or any other third party (including, without limitation, any customer of the recipient or user). Information may be available to BMO and/or its affiliates that is not reflected herein. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice or as a recommendation to enter into any transaction. Additional information is available by contacting BMO or its relevant affiliate directly. BMO and/or its affiliates may make a market or deal as principal in the products (including, without limitation, any commodities, securities or other financial instruments) referenced herein. BMO, its affiliates, and/or their respective shareholders, directors, officers and/or employees may from time to time have long or short positions in any such products (including, without limitation, commodities, securities or other financial instruments). BMO Nesbitt Burns Inc. and/or BMO Capital Markets Corp., subsidiaries of BMO, may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. "BMO Capital Markets" is a trade name used by the Bank of Montreal Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal, BMO Nesbitt Burns Inc., BMO Nesbitt Burns Ltée/Ltd., BMO Capital Markets Corp. and Harris N. A., and BMO Capital Markets Limited. TO U. S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U. S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U. S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd. TO U. K. RESIDENTS: The contents hereof are not directed at investors located in the U. K., other than persons described in Part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

TM - "BMO (M-bar roundel symbol) Capital Markets" is a trade-mark of Bank of Montreal, used under licence. © Copyright Bank of Montreal.