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Treasury picks 9 managers for toxic asset program

The Treasury Department on Wednesday selected nine investment managers, including BlackRock Inc. and TCW Group, to operate funds that will buy toxic securities from troubled financial institutions.

Treasury officials said the program could buy up to $40 billion in distressed assets initially. That's far below the potential $1 trillion in assets that the government originally hoped to take off the banks' books through purchases of soured securities and a separate program that would have dealt with bad loans.

The program's goals have been scaled back partly because many banks' financial situations have improved in recent weeks, reducing their need to sell the troubled securities.

The Public-Private Investment Program, or PPIP, will leverage private capital with government subsidies so the investment firms can buy up the soured mortgage-related assets that have made banks reluctant to lend freely to businesses and consumers.

Treasury said in a statement that it would invest up $30 billion in the program, matched by $10 billion from the private sector. The nine firms chosen Wednesday will be given up to three months to raise an initial $500 million each to begin participating in the program. The other seven investment firms chosen were: AllianceBernstein LP and its sub-advisers Greenfield Partners LLC and Rialto Capital Management LLC; Angelo, Gordon & Co. LP and GE Capital Real Estate; Invesco Ltd.; Marathon Asset Management LP; Oaktree Capital Management LP; RLJ Western Asset Management LP; and Wellington Management Co. LLP.

The nine firms were among more than 100 that had expressed an interest in participating, according to Treasury. The program announced Wednesday will deal only with distressed securities, the bulk of them backed by mortgage-related assets. A separate program that would have auctioned off troubled bank loans, which was to be run by the Federal Deposit Insurance Corp., has been delayed indefinitely.

Analysts said the impact of the scaled-down program is likely to be muted.

"The real hit lies in the trillions of dollars in residential home loans and commercial loans banks hold in whole-loan form on their balance sheets," said Daniel Alpert, managing director of the investment bank Westwood Capital LLC.

Fears of a deeper recession, including rising unemployment and falling home values, raise the specter of massive defaults on consumer and commercial real estate loans, analysts said. The securities backed by mortgages and other complex assets to be targeted by PPIP are no longer as big a threat to the banking industry's stability.

Ten of the nation's biggest financial companies — including JPMorgan Chase & Co., American Express Co. and Goldman Sachs Group Inc. — last month got the go-ahead to return $68 billion in federal bailout money, a development viewed as evidence that the financial sector was beginning to stabilize after benefiting from the government's $700 billion financial rescue fund.

Billionaire investor Wilbur Ross, whose firm is now a subsidiary of Invesco, said Tuesday on CNBC that banks will never break even on many of their troubled assets, but that the government plan will get them five-to-10 percentage points closer.

Treasury is going forward with the program largely to improve confidence, said Douglas Elliott, a former investment banker now with the Brookings Institution. He expects that two-thirds of bank losses will be in categories like commercial real estate loans, commercial investment loans and credit cards.

Elliott also said there are problems in the program's design that will limit its usefulness. He said banks still want far more money for the assets than investors are willing to pay, and that the government subsidy is not enough to make up that difference.

In mid-April, Treasury announced that it was making it easier for hedge funds and other private investors to participate in the program, a move seen by analysts as an acknowledgment that investor interest had been lackluster.

A week later, JPMorgan Chase & Co. CEO Jamie Dimon said the bank did not intend to participate because it did not need to. The Treasury Department played down the concerns, saying at the time that there would be significant interest from other banks.