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October 2008 Archives

The next wave

By [Chris Carey](#) on October 27, 2008 6:55 AM | [No Comments](#) | [No TrackBacks](#)

A new group of smaller, regional banks have begun announcing their participation in the federal government's \$700 billion rescue program.

[Regions Financial Corp.](#), based in Birmingham, Ala., said in a [press release](#) that it had been approved for a \$3.5 billion preferred stock investment by the Treasury Department. [First Horizon National Corp.](#), headquartered in Memphis, Tenn., will get \$866 million.

[City National Corp.](#) in Beverly Hills, Calif., is set to receive \$395 million. The announcements come amid reports that the Treasury Department is set to disclose investments in 20 or so additional financial institutions.

Although the investment program is only a few weeks old, some bank watchers already are questioning whether the recipients of the taxpayer money will use it to make loans and ease the credit crunch, or use it for other purposes, such as acquisitions.

Regions Financial said when it released [third-quarter earnings](#) last week that its profits plunged 79.8 percent and its non-performing assets doubled as a percentage of total loans. Nevertheless, the bank's financial conditional put it above the "well capitalized" threshold set by federal standards.

"Regions believes this government program is important to restoring the flow of funds to consumers and businesses, both large and small, who are at the core of our economy," its chairman, C. Dowd Ritter, said in a prepared statement. "These funds, while still strengthening our capital base, will enable us to expand lending and step up acquisitions."

Regions said in its release that it would pay the government a 5 percent dividend on the preferred stock, or \$175 million annually, for five years, and would pay 9 percent in later years unless it redeemed the stock. The government will also get 10-year warrants for common stock, which will give the Treasury the opportunity to benefit from any increase in its share price.

Regions also was chosen by the Federal Deposit Insurance Corp. in August to take over the deposits of failed [Integrity Bank](#), which was based in Alpharetta, Ga., and had roughly \$1.1 billion in assets.

Compensation questions

By [Chris Carey](#) on October 26, 2008 7:49 AM | [No Comments](#) | [No TrackBacks](#)

Although the \$700 billion bailout package passed by Congress includes provisions aimed at holding down executive compensation at companies getting federal help, the early reviews suggest that it will have little real impact.

Under [Treasury Department](#) rules, the banks that are getting capital injections from the government can take tax deductions on only the first \$500,000 of an executive's pay, down from the standard Internal Revenue Service limit of \$1 million.

The new rules even apply to stock options and grants. But critics say that the companies covered by the new restrictions will simply pay more in taxes rather than pay less to executives. Indeed, none of the companies that has signed on for


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federal bailout money has announced plans to slash salaries and bonuses, or to substantially overhaul their executive compensation schemes.

The German government has taken a more stringent approach with banks participating in its bailout program. Companies there would have to cap salaries for top executives at 500,000 Euros, or roughly \$635,000. The German plan also would prohibit them from receiving bonuses until the debt to the government is repaid.

Other countries providing assistance to their struggling financial institutions also are imposing salary caps or restrictions.

Over the next few days, BailoutSleuth will highlight the pay packages of top executives at the nine U.S. banks that have agreed to receive federal aid by selling preferred stock to the [Treasury Department](#).

We welcome reader input on the subject, as well as tips on specific situations that deserve more scrutiny. Please send your comments to Chris Carey at chris@sharesleuth.com.

Picking winners

By [Chris Carey](#) on October 25, 2008 8:38 AM | [No Comments](#) | [No TrackBacks](#)

[PNC Financial Services Group Inc.](#) will absorb [National City Corp.](#) after federal officials turned down National City's request for new capital under the government's \$700 billion rescue program.

PNC agreed to pay \$5.6 billion for National City, an Ohio-based bank holding company that ran into trouble because of expansion and exposure to subprime mortgage loans. The price of \$2.23 a share reflects a roughly 19 percent discount to National City's closing price the day before the deal was announced.

The [Treasury Department](#) and the [Federal Deposit Insurance Corp.](#) helped arrange the takeover. The deal marked the first time that the government has intervened in picking winners and losers in the financial industry since Treasury officials announced that part of the \$700 billion in bailout money would be used to make direct investments in banks rather than to buy their troubled assets.

The Treasury Department said earlier this month that it would invest \$125 billion in nine big banks, including [Citigroup Inc.](#), [Bank of America Corp.](#) and [Goldman Sachs & Co.](#) It is taking applications from other banks for an additional \$125 billion, with requests due by Nov. 14.

PNC, which is based in Pittsburgh, will get \$7.7 billion in fresh capital through the sale of preferred shares and warrants to the government. The merger with National City will make it the fifth-largest U.S. bank in terms of deposits.

[Peter E. Raskind](#), National City's chairman and chief executive, will become a vice chairman of PNC. He and other National City officers will qualify for millions of dollars in payouts under the change-in-control provisions in their employment contracts. The packages include cash payments equal to three times their annual salary and incentive bonuses.

According to National City's [proxy filing](#) with the [Securities and Exchange Commission](#) in March, Raskind stood to receive \$19.9 million in cash, before taxes, and \$2.45 million in stock, which at the time was valued at \$16.46 a share. It pegged the after-tax value of his change-in-control package at \$8.8 million.

The proxy filing put the payouts for National City's top three executives at \$45 million, before taxes, with \$30.5 million of that in cash.

PNC said in a [press release](#) that its estimated internal return rate on the acquisition will exceed 15 percent, and that the deal should add to the company's earnings in the second year after it is completed. PNC's stock price rose \$2.00 on Friday, or 3.5 percent, to close at \$58.88.

In other banking news, the FDIC and Georgia Regulators [shut down](#) Alpha Bank & Trust of Alpharetta, Ga., on Friday. The FDIC struck a deal with Stearns Bank NA of St. Cloud, Minn., to assume Alpha Bank's more than \$340 million in insured deposits.

According to an [FDIC summary](#), Alpha Bank is the 16th bank that the agency has shut down this year.

A new appointment

By [Chris Carey](#) on October 23, 2008 6:59 AM | [No Comments](#) | [No TrackBacks](#)



From L to R: Neel Kashkari, James H. Lambright, and Henry M. Paulson, Jr.

The Treasury Department tapped [James H. Lambright](#), head of the Export-Import Bank, as the interim chief investment officer for the \$700 billion Troubled Asset Relief Program.

Under the rescue program authorized by Congress, the [Treasury Department](#) is injecting capital into banks through equity investments and is buying distressed assets, such as mortgage-backed securities, to strengthen their balance sheets.

Lambright, 38, is a former Credit Suisse Group investment banker who has been with the [Export-Import Bank](#) since 2001. He will retain his position as that institution's chairman and president.

The Export-Import Bank provides financing assistance to U.S. businesses seeking to sell products overseas.

The bailout program is being directed by [Neel Kashkari](#), who had been senior

advisor to Treasury Secretary [Henry M. Paulson Jr.](#) Both men came to the government from Goldman Sachs & Co., the New York investment bank.

The Treasury Department previously announced that [Reuben Jeffery](#), a State Department official, would fill the chief investment officer post. But [Paulson](#) and Secretary of State [Condoleezza Rice](#) decided Jeffery should remain in his current position in order to participate in the upcoming global summit on financial markets, which will include the leaders from 20 of the world's biggest economies.

BailoutSleuth is looking into Lambright's history, accomplishments and connections, and will report on what we find.

More bailout contracts contain blacked out portions

By [Chris Carey](#) on October 21, 2008 8:01 AM | [No Comments](#) | [No TrackBacks](#)

The [Treasury Department](#) has hired two big accounting firms to help keep tabs on the government's financial-industry rescue program, and once again certain basic elements of the deals are shrouded in secrecy.

[PricewaterhouseCoopers LLP](#) will provide internal controls for the government's \$700 billion bailout fund. [Ernst & Young](#) will provide general accounting and consulting. The Treasury Department said the first phase of the three-year contracts will be worth \$191,469.27 and \$492,006.95, respectively.

That sort of specific detail is lacking in the agreements themselves. The PricewaterhouseCoopers [contract](#) released by the Treasury Department on Tuesday has blacked-out text in the area covering the firm's bid, and also conceals the name of the PricewaterhouseCoopers partner who signed the deal.

Another section listing the names of the PricewaterhouseCoopers employees designated to work on the contract also is blacked out.

10/19/2008 07:57 FAX

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Department of the Treasury, DO
BPA-2009-TARP-0001

Internal Controls Support Services
GSA Contract No. GS-10F-0466N

BLANKET PURCHASE AGREEMENT
GSA FEDERAL SUPPLY SCHEDULE

Pursuant to GSA Federal Supply Schedule Contract Number GS-10F-0466N, the Contractor agrees to the following terms of a Blanket Purchase Agreement (BPA) Exclusively with the Department of the Treasury and for use by the Department of the Treasury.

(1) All services/products currently listed on your GSA schedule, to include new service/products added during the performance of this BPA can be ordered under this BPA in support of the requirements as set forth in this BPA. All orders placed against this BPA are subject to the terms and conditions of the contract, except as noted below:

See Attachment No. 1 - PWC's Price Quotation, dated October 13, 2008

See Attachment No. 2 - PWC's Technical Quotation, dated October 13, 2008

Exceptions to the aforementioned quotations:

(a) Under Attachment No. 1, Price Quotation, Deliverable(s) Approval. All deliverable approvals and timelines under this BPA will be established by the Government on a task order basis.

[REDACTED]

(2) Delivery:

DESTINATION DELIVERY SCHEDULE/DATES

Assigned upon issuance of individual task/delivery orders.

(3) This BPA does not obligate any funds. The Government is obligated only to the extent authorized by task orders issued under this BPA. The BPA is established to fill recurring requirements.

(4) Purchase limitation: There is no dollar limitation for each individual purchase. The contractor's discounted labor rates, as set forth in Attachment 1, are incorporated into the BPA. The contractor may not exceed the discounted rates set forth in Attachment 1 during performance of any task order. However, further discounts may be negotiated per task/delivery order. Regardless of the size of the task/delivery order the contractor is encouraged to offer additional discounts.

10/19/2008 07:59 FAX

007

Department of the Treasury, DO
BPA-2009-TARP-0001

Internal Controls Support Services
GSA Contract No. GS-10F-0466N

BLANKET PURCHASE AGREEMENT
GSA FEDERAL SUPPLY SCHEDULE

(6) directs, supervises or otherwise controls the actions of the contractor's employees.

(d) Technical direction may be oral or in writing. The COTR shall confirm oral direction in writing within five work days, with a copy to the contracting officer.

(e) The contractor shall proceed promptly with performance resulting from the technical direction issued by the COTR. If, in the opinion of the contractor, any direction of the COTR, or his/her designee, falls within the limitations in (c), above, the contractor shall immediately notify the contracting officer no later than the beginning of the next Government work day.

(f) Failure of the contractor and the contracting officer to agree that technical direction is within the scope of the contract shall be subject to the terms of the clause entitled Disputes."

(End of clause)

1.2.3. Key Personnel

(a) Below are the name(s) of the persons proposed to be assigned the responsibility for success of the work product(s). The below listed individuals are designated as "Key Personnel".

EMPLOYEE NAME	POSITION TITLE/FUNCTIONAL AREAS
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

(b) The individuals named above shall be recommended by the Contractor in its proposal and subject to approval by the Government prior to award. These individuals shall be in responsible positions so as to allocate and control personnel.

(c) The Contractor shall identify and propose critical or senior-level Contractor staff assigned to this BPA.

The Ernst & Young contract has no blacked-out sections, just notes saying that two parts of the agreement were redacted. Those were the firm's price quotation and technical quote.

Department of the Treasury, DO
BPA-2009-TARP-0002

Accounting Support Services
GSA Contract No. GS-23F-8152H

BLANKET PURCHASE AGREEMENT
GSA FEDERAL SUPPLY SCHEDULE

(f) Failure of the contractor and the contracting officer to agree that technical direction is within the scope of the contract shall be subject to the terms of the clause entitled Disputes."

(End of clause)

1.2.3. Key Personnel

(a) Below are the name(s) of the persons proposed to be assigned the responsibility for success of the work product(s). The below listed individuals are designated as "Key Personnel".

<u>EMPLOYEE</u> <u>NAME</u>	<u>POSITION</u> <u>TITLE/FUNCTIONAL AREAS</u>
--------------------------------	--

Names and Titles Redacted

(b) The individuals named above shall be recommended by the Contractor in its proposal and subject to approval by the Government prior to award. These individuals shall be in responsible positions so as to allocate and control personnel.

(c) The Contractor shall identify and propose critical or senior-level Contractor staff assigned to this BPA.

(d) For planned Key Personnel replacements, the Contractor shall provide the Government with a minimum of 30 calendar days advance notice. Substitutions or additions to approved key personnel under this BPA shall not be accepted unless specifically approved in writing by the Contracting Officer or a Contracting Officer Technical Representative. Any substitutions and/or additions shall be subject to the terms and conditions of this clause.

(e) All notification requests for substitutions and additions must provide a justification and detailed explanation of the circumstances necessitating the proposed substitution or addition, a

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The Treasury Department said it contacted 12 accounting firms about the contracts, and received six bids for each of the engagements.

BailoutSleuth believes that transparency is vital to the success of the taxpayer-funded bailout program. The \$700 billion allocated for the Troubled Asset Relief Program translates to roughly \$2,300 for every man, woman and child in America.

The contracts between the Treasury Department and PricewaterhouseCoopers and Ernst & Young have extensive language covering potential conflicts of interest. They include a provision allowing the firms to beg off certain assignments if they think the conflicts are too great.

PricewaterhouseCoopers and Ernst & Young have connections to at least two companies whose troubles helped ignite the financial crisis.

Ernst & Young was the auditor for Lehman Brothers Holdings Inc., which filed for bankruptcy on Sept. 15 after potential buyers walked away and federal officials declined to rescue the firm. Certain Lehman executives are the subject of at least three grand-jury investigations. According to news reports, Ernst & Young also has been subpoenaed as part of the probe.

After Lehman's collapse, Hong Kong's government hired Ernst & Young to assess the residual value of certain securities that had been guaranteed by Lehman and sold by Hong Kong banks.

PricewaterhouseCoopers became the administrator for Lehman Brothers International (Europe), the European branch of the investment company. It has been winding down that branch's operations and seeking buyers for its businesses and assets.

Both firms also worked for [American International Group Inc.](#), the big insurer that has been propped up by the Federal Reserve through more than \$120 billion in funding, which essentially makes the government the company's biggest shareholder.

PricewaterhouseCoopers is AIG's longtime outside auditor. It put pressure on AIG earlier this year to change the way it valued certain securities tied mainly to sub-prime mortgage. In February, AIG said that PricewaterhouseCoopers had found a "material weakness" in its accounting, and warned that it would have to write down the value of those investments by \$4.88 billion.

Ernst & Young last year agreed to pay \$1.6 million in penalties to settle [Securities and Exchange Commission charges](#) that it violated independent auditing standards in connection with work it did for AIG and [PNC Financial Services Group Inc.](#) in 2001.

Ernst & Young neither admitted nor denied guilt in the case, which involved a financial service developed by AIG that allowed companies to transfer volatile financial assets to so-called special purpose entities and remove them from their publicly reported financial statements.

According to the SEC, Ernst & Young helped AIG market the service. PNC was one of Ernst & Young's audit clients. PNC later was forced to restate or revise its financial results for the second, third and fourth quarters of 2001, as well as its results for the full year.

The SEC said PNC tried to hide some \$760 million in troubled loans and other assets by shifting them into special purpose entities it created with AIG.

The SEC settled charges with AIG in 2004, as part of a [deal](#) that also resolved related criminal charges. AIG neither admitted nor denied guilt, but agreed to pay \$126 million in disgorgement, penalties and interest.

The SEC issued a [cease-and-desist order](#) against PNC in connection with the case.

The End of Bailout Transparency Already?

By [Chris Carey](#) on October 17, 2008 3:35 PM | [No Comments](#) | [No TrackBacks](#)

When the Treasury Department's bailout czar provided an [update](#) this week on the government's \$700 billion plan to rescue troubled financial institutions, he vowed that it would be an "open and transparent program with appropriate oversight."

The next day, the Treasury Department put out an announcement about a major bailout-related contract with [Bank of New York Mellon Corp.](#) that fell short in the transparency department.

The copy of the agreement that was made public had blacked-out paragraphs in the section covering Bank of New York Mellon's compensation. If the Treasury Department is unwilling to disclose the particulars of that [contract](#) -- or even the general outline of the compensation scheme -- that raises questions about how it will treat disclosure of other bailout transactions.

EXHIBIT B
COMPENSATION

1. General compensation and pricing provisions

A. The Financial Agent shall receive a monthly fee [REDACTED]

B. The monthly fee will be prorated based on the actual number of days assets are in custody, if assets are in custody for a period of less than one full month. [REDACTED]

C. Compensation will be paid monthly after each month for services rendered.

D. The Financial Agent must submit an invoice prior to receiving compensation.

2. Compensation during transition periods

The Financial Agent will be compensated for services rendered during any transition period under Section 2C of this FAA at the same rate in effect on the last day before the transition period begins.

3. Methods of compensation

The Treasury retains the right to compensate the Financial Agent for services provided under this FAA in such a method or methods as the Treasury in its sole discretion deems appropriate including, but not limited to, direct payments. The Treasury and the Financial Agent may also mutually agree on other methods.

4. Probationary Status

The Treasury may withhold all or a portion of the compensation if the Financial Agent is placed on probation.

One thing that the critics and supporters of the bailout agree upon is that transparency is one of the keys to winning public trust in the taxpayer-funded program.

The Treasury Department has not returned our calls requesting more information on the blacked-out sections of text in the contracts it issued to Bank of New York Mellon and another advisor, the law firm of Simpson Thacher & Bartlett LLP.

U.S. Department of the Treasury

Task Order: 0001

B. COST/PRICE**B.1 PRICE/COST SCHEDULE**

This is a time and materials task order with a ceiling price not to exceed \$300,000. Labor categories and associated hourly rates to be used in the performance and pricing of this task order shall be the following:

Labor Category	Estimated Hours*	Hourly Labor Rate
Partner	564	
Associate	1692	
Of Counsel	376	
Legal Assistant	1128	

*The estimated hours represent 60% of the Government's estimated hours in the solicitation.

Travel shall be reimbursed only if approved in advance by the COIR and only as set forth in paragraph B.3 of the contract. The ceiling price stated above shall apply to all work performed under this task order, including travel.

Labor rates billed to the Government by the Contractor for each category above shall not exceed the highest rate stated above for each category billed.

Billing by the Contractor and payment by the Government to the Contractor shall be in accordance with the Federal Acquisition Regulation clause 52.232-7 (Payments Under Time and Materials and Labor-Hour Contracts).

B.2 CONTRACT FUNDING

(a) The Contractor shall notify the Contracting Officer in writing whenever it has reason to believe that --

The costs the Contractor expects to incur under this tasking in the next 6 months, when added to all costs previously incurred, will exceed 85 percent of the estimated cost specified in the Schedule.

(b) As part of the notification, the Contractor shall provide the Contracting Officer a revised estimate of the total cost of performing this tasking.

(c) Except as required by other provisions of this contract, specifically citing and stated to be an exception to this clause --

(1) The Government is not obligated to reimburse the Contractor for costs incurred in excess of -the cost specified in the Schedule.

Equity Legal Services

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A spokesman for Bank of New York Mellon said he did not know why the compensation information was redacted, and referred our question to the Treasury Department.

The bank has one of the biggest jobs in the federal government's \$700 billion bailout of troubled financial institutions - running the auctions used to purchase distressed assets, then holding those assets and tracking their disposition.

Its three-year contract clearly comes with a big price tag. But taxpayers have no way of knowing how big, until the Treasury Department releases a complete version of the contract.

Bank of New York Mellon's compensation is covered on the 25th page of a 28-page agreement. The section comes just after a description of the bank's duties, and just before a section in which the bank promises to safeguard the information it receives through its assignment, and to adhere to certain disclosure and conflict of interest rules.

The Treasury Department told other news organizations that the information on

the bank's compensation will be released when other details of the program, such as the hiring of subcontractors, are finalized.

Kevin Heine, a spokesman for Bank of New York Mellon, said the bank does not expect the information to be kept secret.

"I know there has to be some transparency about that at some point," he said.

The Treasury Department also blacked out the hourly rate that it was paying employees of Simpson Thacher. That firm has a one-year, \$300,000 contract to provide advice on the injection of capital into major banks in return for a government ownership stake.

The chart in the contract listed the estimated hours that would be worked by various classes of employees, from partner to legal assistant, but redacted the rate for each category.

The contract that the Treasury Department gave Simpson Thacher was awarded through competitive bidding, although only two firms made proposals. Without the information on the hourly rates, it is impossible for outside observers to say for sure whether the government got a good deal.

These are the types of transactions that BailoutSleuth intends to track to help ensure the transparency of the process. We will continue to examine the fine print of the Treasury Department's deals and report on what we find.

Blacked Out

By [Chris Carey](#) on October 16, 2008 3:09 PM | [No Comments](#) | [No TrackBacks](#)

The Treasury Department has hired three outside firms this week to help administer its \$700 billion, taxpayer-funded bailout of troubled banks. But some key details of those contracts remain a mystery.

The agreements with Bank of New York Mellon Corp. and Simpson Thacher & Bartlett LLP that the Treasury Department posted on its web site each had blacked-out paragraphs in the sections dealing with compensation.

The government's three-year contract with Bank of New York Mellon does not show how much the company will be paid to act as the master custodian of the bailout fund. The contract says that the bank will be paid a monthly fee, but that fee is blacked out.

The Treasury Department's six-month deal with Simpson Thacher for legal advice on equity purchases in U.S. banks has a value of \$300,000. But the contract posted on the Treasury Department's web site Thursday did not show the hourly rates the government will be paying the firm. The figures for all the employee classifications, from partner to legal assistant, were redacted.

One of the reasons that we created BailoutSleuth was to help ensure that the process, including the selection and compensation of contractors, is as transparent as possible.

All three of the contracts that the Treasury Department awarded this week were subject to competitive bidding. However, the legal-services deal was open only to six firms that the government sought out, and just two of them submitted

proposals.

The Treasury Department did not respond to our request for comment on the blacked-out portions of the contracts. A spokesperson told other news organizations that the particulars of Bank of New York Mellon's compensation would be revealed sometime in the next few months, when other details are finalized.

Bank of New York Mellon and Simpson Thacher did not respond to our request for comment.

The Treasury Department's third contract, with [EnnisKnupp and Associates Inc.](#), had no redactions. That [agreement](#) runs for a year and calls for \$2,495,190 in compensation -- \$2.4 million for labor and \$95,190 for travel expenses.

The Treasury Department hired EnnisKnupp to provide advice on its plan to buy distressed assets from banks and investment companies. The firm has a large contingent of employees working on the project, including President Stephen Cummings and other principals, said Harmony Watling, spokeswoman at its headquarters in Chicago.

Death Watch

By [Chris Carey](#) on October 15, 2008 3:54 PM | [No Comments](#) | [No TrackBacks](#)

The bailout drama playing out in Washington and New York has implications far beyond the banks and investment firms that were rocked by bad bets on risky investments.

Businesses small and large are having a hard time getting the credit they need to finance operations, equipment and expansion. To help track the impact of the crisis, BailoutSleuth is creating a "Death Watch" section devoted to companies that have gone out of business because of the credit squeeze or appear to be imperiled by it.

[Gainey Corp.](#), a trucking company in Grand Rapids, Mich., sought bankruptcy protection this week. The company blamed the filing on the credit crunch, saying efforts to negotiate with its lenders were met with a "series of increasingly aggressive actions."

[Wachovia Corp.](#), one of the banks hit hardest by the financial crisis, sued Gainey in late September, seeking the repayment of some \$238 million remaining on a loan the company took out in 2006. It asked that a receiver be appointed to liquidate the company, which has about 2,000 workers.

[Wells Fargo & Co.](#) agreed earlier this month to buy Wachovia for \$15 billion, after the Federal Deposit Insurance Corp. sought to broker a deal for the troubled bank.

Another company, [Linens 'n Things Inc.](#), said Tuesday that it would liquidate after a scheduled auction of its assets produced no buyers. The retailer, which is based in Clifton, N.J., was taken private in a leveraged buyout two years ago. It filed a Chapter 11 bankruptcy petition in May, in part because the slumping housing market cut into sales and exacerbated other problems.

Linens 'n Things had developed a reorganization plan. When credit became scarcer, it decided to sell its 371 remaining stores. No one beyond the original "stalking horse" bidder came forward. Analysts said it was unlikely that potential buyers would have been able to line up financing for the deal.

Linens 'n Things employed more than 17,000 people at the start of this year.

The economic upheaval claimed its first financial-services victim in Japan last week, when Yamato Life Insurance filed for bankruptcy. Yamato cited a decline in the value of its investment holdings. It listed debts of roughly \$2.6 billion.

Real estate developers across the United States have been hit hard by the credit crunch, and industry analysts say that some big commercial property companies may have to seek bankruptcy protection if they are unable to sell assets or refinance looming debts.

Car dealers also are under intense pressure, because of declining demand and the unwillingness of some lenders to extend credit for vehicle inventory and customer purchases. [Bill Heard Enterprises](#), the nation's biggest Chevrolet dealer, shut down its 13 dealerships on Sept. 24 and laid off 2,700 workers.

BailoutSleuth intends to compile a list of notable companies that have gone out of business or filed for bankruptcy as a result of the credit crisis. Our list also will include companies that have suffered significant setbacks because of a loss or decline in funding -- especially those who relied heavily on the banks or investment firms at the heart of the crisis.

If you know of any companies that should be included on the list, or considered for it, please send the details to Chris Carey at chris@sharesleuth.com.

Big Firms, Small World

By [Chris Carey](#) on October 14, 2008 3:20 PM | [No Comments](#) | [No TrackBacks](#)

Given the size and geographic scope of the banks and professional firms involved in the federal government's \$700 bailout plan, it is inevitable that some of them will have prior business relationships.

One of the reasons that we started BailoutSleuth was to monitor the process for conflicts of interest that could undermine the returns to taxpayers.

In choosing the New York law firm of [Simpson Thacher & Bartlett LLP](#) to advise it on the purchase of equity stakes in major banks, the Treasury Department picked a firm that has been busy on multiple fronts of the financial crisis.

A check by BailoutSleuth of recent deals shows that Simpson Thacher represented the bankrupt [Lehman Brothers Holdings Inc.](#) in the sale of its North American investment operations to [Barclays Capital](#). It continues to represent Lehman in matters related to its bankruptcy, one of the biggest in U.S. history.

Simpson Thacher also represented a failed savings and loan, [Washington Mutual Inc.](#), in the sale of its assets to [JPMorgan Chase & Co.](#)

JPMorgan is one of the firm's longtime clients. Simpson Thacher advised that company in its 2004 acquisition of Bank One Corp. According to a [summary on its web site](#), the firm still represents JPMorgan in numerous civil suits, including

more than 20 securities cases stemming from the collapse of Enron Corp.

JPMorgan Chase is slated to get a \$25 billion equity infusion under the government's plan to buy as much as \$250 billion of preferred stock in U.S. banks. It is one of nine banks that will receive money in the first wave of deals, totaling \$125 billion.

Those proposed investments were announced Tuesday.

Neel Kashkari, the Treasury Department official overseeing the government's broader bailout effort, said this week that Simpson Thacher was one of six law firms contacted about providing advice on the equity purchase program. He said Simpson Thacher was one of just two firms that submitted proposals.

We're not suggesting that there is any problem with Simpson Thacher's selection. But taxpayers might want to know more about the firm's past and present associations, as the details of the bailout program become clearer and as the dealmaking intensifies.

The Treasury Department developed an official conflict of interest policy in connection with the bailout program. It calls for contractors to disclose potential conflicts and offer possible solutions. Law firms typically have their own systems for avoiding conflicts between assignments.

Simpson Thacher has represented many of the other companies whose names have figured prominently in the financial crisis. The firm was involved in the sale of Bear Stearns to JPMorgan, and in the pending sale of Wachovia Corp. to Wells Fargo & Co.

The Federal Reserve Bank of New York hired Simpson Thacher to represent it earlier this year, when Bear Stearns shareholders threatened legal action over JPMorgan's \$2-a-share-offer for that investment firm. JPMorgan later increased its offer to \$10 a share.

Simpson Thacher also advised Wachovia in its proposed \$12 billion sale to Wells Fargo & Co., and in its earlier deal with Citigroup Inc. Wells Fargo is supposed to get \$25 billion in fresh equity under the government plan, as is Citigroup.

Simpson Thacher advised the board of directors of American International Group Inc. as that troubled insurance and investment company negotiated the exit of its then-chief executive, Martin J. Sullivan. He left the company in June, taking with him a \$47 million severance package.

The government agreed in September to provide AIG with \$85 billion in financing, in a deal that saved the company from bankruptcy and gave taxpayers what amounts to an 80 percent ownership stake. The total amount of credit available to AIG has since been increased by \$37.8 million, bringing the total to more than \$120 billion.

Simpson Thacher also represents two of the biggest private equity firms, Blackstone Group L.P. and Kohlberg Kravis Roberts & Co. The law firm advised Blackstone on its initial public offering, and is representing KKR as it prepares to a stock sale.

Both of those firms expressed interest in buying some of Lehman's assets, and could be potential buyers for some of the assets being sold by troubled banks participating in the bailout.

Blackstone's chief legal officer, Robert L. Friedman, is a former Simpson Thacher partner. So is KKR's general counsel, David J. Sorkin, who joined the buyout firm in 2007.

The Bailout Begins

By [Chris Carey](#) on October 13, 2008 1:44 PM | [No Comments](#) | [No TrackBacks](#)

Today, BailoutSleuth begins tracking the federal government's \$700 billion plan to rescue troubled banks and financial services companies by using public money to buy distressed assets or inject additional capital

We'll be posting daily updates on the bailout, with an emphasis on monitoring the government's deals and examining the companies and individuals involved in them.

We've decided to start by posting the remarks that the Treasury Department's newly appointed bailout czar Neel Kashkari made this morning to the [Institute of International Bankers](#), outlining key elements of the program.

Interim Assistant Secretary for Financial Stability Neel Kashkari Remarks before the Institute of International Banker'S

Washington- Good morning and thank you for that kind welcome.

I am here today to provide a comprehensive update on the Treasury Department's progress in implementing the Troubled Asset Relief Program (TARP).

As you know, our credit markets are frozen and lending has become extremely impaired. In recent months our government has taken strong and decisive actions, but a more systemic approach was needed. Secretary Paulson and Chairman Bernanke asked Congress for extraordinary authorities to address the extraordinary challenges in our financial markets. Every American depends on the flow of money through our financial system. They depend on it for car loans, home loans, student loans and their individual family needs. Congress recognized the threat frozen credit markets posed to Americans and to our economy as a whole. On Friday October 3, Congress passed and President Bush signed into law the bipartisan [Emergency Economic Stabilization Act of 2008](#).

The law gives the [Treasury Secretary](#) broad and flexible authority to purchase and insure mortgage assets, and to purchase any other financial instrument that the Secretary, in consultation with the [Federal Reserve](#) Chairman, deems necessary to stabilize our financial markets -- including equity securities. Treasury worked hard with Congress to build in this flexibility because the one constant throughout the credit crisis has been its unpredictability.

The law empowers Treasury to design and deploy numerous tools to attack the root cause of the current turmoil: the capital hole created

by illiquid troubled assets. Addressing this problem should enable our banks to begin lending again. Our nation has successfully worked through every economic challenge we have faced and we are confident this new program will help us overcome these challenges as well.

Today, I will brief you about three areas. First, I will discuss Treasury's strategy to develop multiple tools under the Troubled Asset Relief Program. Second, I will give you a detailed update on the many steps we have already taken to begin to implement the program. And finally, I will briefly discuss our next steps.

Continue reading [The Bailout Begins](#).

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