First Trust
ECONOMIC RESEARCH REPORT
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TARP Was a Mistake, Not a Success

Today marks the seventh anniversary of the market bottom in 2009. Government claims that the Troubled Asset Relief Program, TARP for short, has been a massive success, saving the economy and generating $65 billion in government profits in the process.

Let's take a closer look at this great government "success". As the table on the following page shows, the Treasury has disbursed $618 billion to 956 institutions under the premise of filling the capital "black hole" that formed back in 2008. To date, $390 billion of principal has been repaid, along with $294 billion in revenues from dividends, interest, and other fees. Add that up, and voila!...an overall profit of $65 billion. And the money keeps coming. It doesn't make headline news, but TARP handouts are still continuing. In 2015, nine new mortgage servicers received TARP money, 6.5 years into the recovery!

While the free market system doesn't have a PR agent, the government has had plenty of air-time to tell their interpretation of events. So it's not surprising that conventional wisdom formed around the government and media narrative that the panic of 2008/09 was caused by a breakdown in the capitalist system. And if the capitalist system is broken, who can fix it? If you're a Keynesian, the answer is simple, we need government intervention. Around the world, investors, voters and consumers have adopted this mindset, asking "what will the government do to boost growth?" But, this has it exactly backward. The panic of 2008 was caused by government policy mistakes, with overly strict mark-to-market accounting rules as the number one culprit. It acted as an accelerant for the crisis, turning what was probably a $400-$500 billion problem into a multi-trillion dollar catastrophe.

Banks were forced to "mark" assets to illiquid, nearly frozen, market values that were well below true cash flow value. And then, instead of fixing this seriously flawed accounting rule, the government tried to fill the hole itself – with TARP and QE. Both these programs should have added more than enough liquidity to fix the problems in sub-prime loans, but mark-to-market accounting continued to suck capital out of the system, creating an environment where private money would not come in. And, even after both programs were started, the market fell an additional 40%. The government never could have printed enough. What banks needed was time and the ability to hold their mortgage-backed securities without having to mark them down to fire sale prices in an illiquid market.

The US did not have mark-to-market accounting in the early 1980s when Savings & Loans, farm banks, oil lenders like Penn-Square (the Countrywide of oil loans), and Latin and South American bond markets collapsed. If mark-to-market accounting had been in existence during the early 1980s, every single money center bank in the US would likely have been closed.

But, seven years ago today, Congress announced a hearing on mark-to-market accounting. Investors knew this was a death blow to the accounting rule and the markets finally bottomed. After Congressman Barney Frank's banking committee held a hearing with the Chairman of the Financial Accounting Standards Board on March 12th, it became clear that the rule would change and on April 2, 2009, the rule was set right.

Once the rule was changed, private investment in banks started up again. Asset values rose, and the uncertainty surrounding bank failures subsided. We had no doubt that the government would make a profit from TARP investments – because they were made at artificially low, mark-to-market prices. Banks were never as bad off as their marked-to-market balance sheets made them out to be.

Deploying TARP and waiting until March 9, 2009 to fix mark-to-market accounting has caused the private sector to miss out on at least an extra $294 billion in dividends and interest so far that instead has filtered to the government. And like most programs the government deploys, other special interests were also given TARP funds, losing the taxpayer money. GM and Chrysler cost the tax payer $12.6 billion while mortgage servicers and state housing organizations (which are still receiving TARP money today) so far have cost the taxpayers $12.9 and $5.8 billion, respectively.

The government would like you to believe the $65 billion profit has been a great success, and if growing government was the goal then it was, but the private sector missing out on these gains is the real loss.

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TARP Payments (Billions of USD) and Disbursements to Fannie Mae and Freddie Mac					
Type	**# of Institutions**	**Disbursed**	**Returned**	**Dividends, interest & Other Fees**	**Government Profit So Far**
TALF	**1**	**$ 0.1**	**$ 0.1**	**$ 0.6**	**$ 0.6**
Banks	**758**	**$ 236.2**	**$ 230.3**	**$ 33.8**	**$ 27.9**
Financial Services	**4**	**$ 22.4**	**$ 21.8**	**$ 4.4**	**$ 3.8**
Insurance Companies	**3**	**$ 72.2**	**$ 72.2**	**$ 6.1**	**$ 6.1**
Investment Funds	**9**	**$ 18.6**	**$ 18.6**	**$ 4.4**	**$ 4.4**
Mortage Servicers	**154**	**$ 12.9**	**$ -**	**$ -**	**$ (12.9)**
State Housing Organizations	**19**	**$ 5.8**	**$ -**	**$ -**	**$ (5.8)**
SBA Security Purchases	**1**	**$ 0.4**	**$ 0.4**	**$ 0.01**	**$ 0.01**
FHA Refinance Fund	**1**	**$ 0.6**	**$ -**	**$ -**	**$ (0.6)**
Autos	**4**	**$ 61.9**	**$ 46.3**	**$ 3.0**	**$ (12.6)**
Fannie Mae	**1**	**$ 116.0**	**$ -**	**$ 144.7**	**$ 28.7**
Freddie Mac	**1**	**$ 71.3**	**$ -**	**$ 96.5**	**$ 25.2**
TOTAL	**956**	**$ 618**	**$ 390**	**$ 294**	**$ 65**

Source: FT Advisors, ProPublica data through March 2, 2016

***Term Asset-Backed Securities Loan Facility**

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