

Geithner Hands Loss to Bailout Warrant Holders: BGOV Barometer

By Maryellen Tighe

Oct. 7 (Bloomberg) - Bank of America Corp. and Citigroup Inc. warrant investors are among those who suffered losses of more than 50 percent since the government auctioned the securities to help recover bailout funds.

The BGOV Barometer shows that contracts to buy Bank of America shares for \$13.30 by mid-January 2019 plunged 67 percent since the U.S. Treasury Department sold them in March 2010. The Charlotte, North Carolina, bank's shares dropped 62 percent in that span to \$6.28 at yesterday's close.

The Treasury got the warrants so taxpayers could profit from recoveries at banks after bolstering them with preferred share investments through the Troubled Asset Relief Program. The department, led by Secretary Timothy F. Geithner, sold contracts in the largest banks from late 2009 to early this year before industry stocks plunged on concern that European borrowers, including the government of Greece, may be unable to meet debt payments, pressuring the global economy.

"The banks have been relatively beat up since when they sold the bulk of the warrants," said Clay Struve, partner at Chicago-based CSS LLC. "We've got two months of scare in us, talking about Greece."

The Treasury sold warrants in about 20 companies through auctions, according to a Sept. 28 report, and bailout recipients including Goldman Sachs Group Inc. and American Express Co. paid to redeem securities tied to their stock. Proceeds from all the transactions exceed \$7.6 billion.

Taxpayer Proceeds

"Although the central purpose of TARP was to help stabilize financial markets during a time of severe crisis, the receipt of these funds is positive news for taxpayers," Treasury Assistant Secretary for Financial Stability Tim Massad said in an Aug. 25 statement.

Warrants to buy shares of Citigroup for \$106.10 have fallen 61 percent to 39 cents since being sold in January, as stock in the New York-based bank declined 46 percent to \$26.02. The securities expire in January of 2019. Investors in PNC Financial Services Group Inc. and Comerica Inc. warrants have also lost more than 50 percent since their auctions.

Warrants to buy Capital One Financial Corp. stock at \$42.13 have outperformed contracts on larger rivals, jumping 22 percent from the December 2009 auction price as the stock advanced 10 percent to \$40.62. The contracts expire in November of 2018.

The government's ability to fully exit warrant positions contrasts favorably with its strategy of planning multiple offerings to divest General Motors Co. and American International Group Inc. stock, Struve said. AIG has dropped about 24 percent since a May 24 share sale lowered the government's stake to 77 percent from 92 percent.

"Everybody that bought is feeling the weight of subsequent sales coming" for AIG and GM stock, he said. "The TARP warrants, they're selling them off, so you're not stuck with half an issue."

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