

U.S. Is Said to Be Urging New Mergers in Banking

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WASHINGTON — In a step that could accelerate a shakeout of the nation's banks, the Treasury Department hopes to spur a new round of mergers by steering some of the money in its \$250 billion rescue package to banks that are willing to buy weaker rivals, according to government officials.

As the Treasury embarks on its unprecedented recapitalization, it is becoming clear that the government wants not only to stabilize the industry, but also to reshape it. Two senior officials said the selection criteria would include banks that need more capital to finance acquisitions.

“Treasury doesn't want to prop up weak banks,” said an official who spoke on condition of anonymity, because of the sensitivity of the matter. “One purpose of this plan is to drive consolidation.”

With bankers traumatized by the [credit crisis](#) and the loss of investor confidence, officials said, there are plenty of banks open to selling themselves. The hurdle is a lack of well-capitalized buyers.

Stable national players like [Bank of America](#), [JPMorgan Chase](#), and [Wells Fargo](#) are already digesting acquisitions. A second group of so-called super-regional banks are well positioned to take over their competitors, officials said, but have been reluctant to undertake or unable to complete deals.

By offering capital at a favorable rate, the government may encourage them to expand. In this category, industry analysts point to regional leaders, like KeyCorp of Cleveland; [Fifth Third Bancorp](#) of Cincinnati; [BB&T](#) of Winston-Salem, N.C.; and [SunTrust Banks](#) of Atlanta.

With \$125 billion left over after investing in the nine largest banks, the Treasury secretary, [Henry M. Paulson Jr.](#), said there was enough capital to invest in every qualified bank.

“We have received indications of interest from a broad group of banks of all sizes,” he said at a news conference. “This program is not being implemented on a first-come, first-served basis.”

Mr. Paulson did not address the issue of bank mergers in his remarks, but officials say it has been widely discussed within the Treasury, the [Federal Reserve](#) and the [Federal Deposit Insurance Corporation](#), which has been burdened in recent months by having to support teetering banks like [Wachovia](#).

Providing capital to help facilitate a merger, officials say, is also a way to track how the capital is used. Some analysts have questioned how much control the government can exert over its investment, when it is injected into banks in return for nonvoting preferred shares.

“We think there will be pressure behind the scenes by Treasury to push together companies that should have merged months or years ago,” said Gerard Cassidy, a banking analyst at RBC Capital Markets in Portland, Me. “If you can create stronger companies, that is a positive.”

In selecting banks, Mr. Paulson said the Treasury would also rely on advice from the quartet of regulators who oversee the banking industry: the Fed, the F.D.I.C., the comptroller of the currency and the Office of Thrift Supervision.

But Mr. Paulson made clear that the final decision of who gets federal money rests with the Treasury. And he reiterated that the government expected the banks that got money to lend it out rather than hoard it — putting in a special plea for homeowners with troubled mortgages.

“We expect all participating banks to continue to strengthen their efforts to help struggling homeowners,” he said. “Foreclosures not only hurt the families who lose their homes, they hurt neighborhoods, communities and our economy as a whole.”

The Treasury’s bank rescue comes amid a rising clamor in Washington that the government should focus on helping mortgage holders directly. But officials say it is unlikely that the Bush administration will present a new plan for homeowners between now and the election.

“There’s no inexpensive, easy way to address the terms of people’s mortgages,” said Robert J. Shapiro, an economic consultant who is chairman of the globalization initiative of NDN, a left-leaning research group in Washington. “I think that’s why they haven’t addressed it.”

Most likely, he said, the campaigns of Senator [John McCain](#) and Senator [Barack Obama](#) will hone their own proposals. Then, if Congress reconvenes after the election in a lame-duck session, the new president-elect will try to push through a bill with new measures.

Under the terms of the [\\$700 billion rescue plan](#) approved by Congress early this month, the Treasury has authority to purchase whole mortgages. Treasury officials also note that Mr. Paulson has pressed banks and loan servicers to show flexibility in modifying loans to avoid foreclosures.

Still, Treasury’s recent efforts have been almost wholly focused on stabilizing the banks — first by proposing to buy distressed assets from the banks, and later by injecting capital directly into them. There were some signs in the credit markets Monday that those efforts were paying off.

On Monday, Mr. Paulson described a process for banks to apply for government investments that is little more complicated than the one-page term sheet he handed to the chief executives of the nation’s nine largest banks at a meeting last week at the Treasury Department.

The institutions, he said, must fill out a standardized two-page form and submit it to their primary regulator by Nov. 14. The Treasury will receive the applications, with a recommendation, from the regulator. Once it decides whether to inject capital, it will announce its investment within 48 hours. It will not disclose banks that withdraw or are turned down.

The Treasury's program is open to large and small banks, as well as thrifts. Officials said they had received inquiries from other financial institutions, including insurance companies, but the plan did not provide for them.

Given the potential weakness of insurers, some analysts said the government should consider expanding the eligibility for capital injections. These analysts said \$250 billion would not be enough.

"They should see themselves as having \$700 billion to recapitalize the industry in creative ways," said Simon Johnson, a former chief economist at the [International Monetary Fund](#).

While the Treasury's offer of capital is attractive, analysts cautioned that cash alone might not be enough to reshape the industry. Recent deals, they note, have featured distressed banks sold at fire-sale prices.

"There are a lot of obstacles to mergers in the banking industry," Mr. Cassidy of RBC Capital Markets said. "I don't know how the government could persuade banks to do deals at below book value."