

# Where has the Bailout Money Gone? Good Billions After Bad

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As the Bush administration waned, the Treasury shoveled more than a quarter of a trillion dollars in tarp funds into the financial system—without restrictions, accountability, or even common sense. The authors reveal how much of it ended up in the wrong hands, doing the opposite of what was needed.

Just inside the entrance to the U.S. Treasury, on the other side of a forbidding array of guard stations and scanners that control access to the Greek Revival building, lies one of the most beautiful interior spaces in all of Washington. Ornate bronze doors open inward to a two-story-high chamber. Chandeliers line the coffered ceiling, casting a soft glow on the marble walls and richly inlaid marble floor.

In this room, starting in 1869 and for many decades thereafter, the U.S. government conducted many of its financial transactions. Bags of gold, silver, and paper currency arrived here by horse-drawn vans and were carted upstairs to the vaults. On the busy trading floor, Treasury clerks supplied commercial banks with coins and currency, exchanged old bills for new, cashed checks, redeemed savings bonds, and took in government receipts. In those days, anyone could observe all this activity firsthand—could actually witness the government and the nation's bankers doing business. The public space where this occurred became known as the Cash Room.

Today the Cash Room is used for press conferences, ceremonial functions, and departmental parties. And that's too bad. If Treasury still used the room as it once did, then perhaps we'd have more of a clue about what happened to the billions of dollars that flew out of Treasury to selected American banks in the waning days of the Bush administration.

Last October, Congress passed the Emergency Economic Stabilization Act of 2008, putting \$700 billion into the hands of the Treasury Department to bail out the nation's banks at a moment of vanishing credit and peak financial panic. Over the next three months, Treasury poured nearly \$239 billion into 296 of the nation's 8,000 banks. The money went to big banks. It went to small banks. It went to banks that desperately wanted the money. It went to banks that didn't want the money at all but had been ordered by Treasury to take it anyway. It went to banks that were quite happy to accept the windfall, and used the money simply to buy other banks. Some banks received as much as \$45 billion, others as little as \$1.5 million. Sixty-seven percent went to eight institutions; 33 percent went to the rest. And that was just the money that went to banks. Tens of billions more went to other companies, all before Barack Obama took office. It was the largest single financial intervention by Treasury into the banking system in U.S. history.

But once the money left the building, the government lost all track of it. The Treasury Department knew where it had sent the money, but nothing about what was done with it. Did the money aid the recovery? Was it spent for the purposes Congress intended? Did it save banks from collapse? Paulson's Treasury Department had no idea, and didn't seem to care. It never required the banks to explain what they did with this unprecedented infusion of capital.

Exactly one year has elapsed since the onset of the financial crisis and the passage of the bailout bill. Some measure of scrutiny and control has since been imposed by the Obama administration, but even today it's hard to walk back the cat and trace the money. Up to a point, though, it's possible to reconstruct some of what happened in the first chaotic and crucial three months of the bailout, when Treasury was still in the hands of Henry Paulson and most of the money was disbursed. Needless to say, there is no central clearinghouse for information about the tarp money. To get details of any kind means starting with the hundreds of individual recipients, then poring over S.E.C. filings, annual reports, and other documentation—in other words, performing the standard due diligence that the government itself failed to perform. In the report that follows, we have no more than dipped a toe into the morass, but one fact emerges clearly: a lot of the money wound up in the coffers of some very surprising institutions— institutions that should have been seen as “troubling” as much as “troubled.”

#### A Reverse Holdup

The intention of Congress when it passed the bailout bill could not have been more clear. The purpose was to buy up defective mortgage-backed securities and other “toxic assets” through the Troubled Asset Relief Program, better known as tarp. But the bill was in fact broad enough to give the Treasury secretary the authority to do whatever he deemed necessary to deal with the financial crisis. If tarp had been a credit card, it would have been called Carte Blanche. That authority was all Paulson needed to switch gears, within a matter of days, and change the entire thrust of the program from buying bad assets to buying stock in banks.

Why did this happen? Ostensibly, Treasury concluded that the task of buying up toxic assets would take too long to help the financial system and unlock the credit markets. So, theoretically, something more immediate was needed—hence the plan to inject billions into banks, whether or not they wanted or needed the money. To be sure, Citigroup and Bank of America were in precarious condition. So was the insurance giant A.I.G., which had already received an infusion from the Federal Reserve and ultimately would receive more tarp money—\$70 billion—than any single bank. But rather than just aiding institutions in distress, Treasury set out to disburse money in a more freewheeling way, hoping it would pass rapidly into the financial system and somehow address the system-wide credit crunch. Even at this early stage, it was hard to escape the feeling that the real strategy was less than scientific—amounting to a hope that if a massive pile of money was simply thrown at the economy, some of it would surely do something useful.

On Sunday, October 12, between 6:30 and 7 p.m., Paulson made a series of calls to the C.E.O.'s of the biggest banks—the so-called Big 9—and asked them to come to Treasury the next afternoon for a meeting on the financial crisis. He was short on details, as he would be throughout the crisis. A series of e-mails obtained by Judicial Watch, a Washington public-interest group, offers a window on the moment. The C.E.O. of Citigroup, Vikram Pandit, had

agreed to attend, but asked his staff to scope out the purpose. “Can you find out soon as possible what Paulson invite to VP [Vikram Pandit] for meeting at Treasury this afternoon is about?” a Citigroup executive in New York wrote the bank’s Washington office. When Citi’s high-powered lobbyist Nicholas Calio called Paulson’s office, he was told only that Pandit should attend.

Top Treasury staffers were likewise in the dark. Paulson’s chief of staff, James Wilkinson, sent out a 7:30 a.m. e-mail: “Can someone tell Michele Davis, [Kevin] Fromer and me who the ‘Big 9’ are?”

By midmorning, people finally had the names—Vikram Pandit, of Citigroup; Jamie Dimon, of J. P. Morgan Chase; Kenneth Lewis, of Bank of America; Richard Kovacevich, of Wells Fargo; John Thain, of Merrill Lynch; John Mack, of Morgan Stanley; Lloyd Blankfein, of Goldman Sachs; Robert Kelly, of the Bank of New York Mellon; and Ronald Logue, of State Street bank. Their destination was Room 3327, the Secretary’s Conference Room, on the third floor.

Paulson laid before them a one-page memo, “CEO Talking Points.” He wasn’t there to ask for their help, Paulson would say; he was there to tell them what he expected from them. To “arrest the stress in our financial system,” Treasury would unveil a \$250 billion plan the next day to buy preferred stock in banks. Paulson’s memo told the bankers bluntly that “your nine firms will be the initial participants.” Paulson wasn’t calling for volunteers; he made it clear the banks had no choice but to allow Treasury to buy stock in their companies. It was basically a reverse holdup, with Paulson holding the gun and forcing the banks to take the money.

Some of the C.E.O.’s had misgivings, fearing that by accepting tarp money their banks would be perceived as shaky by investors and customers. Paulson explained that opting out wasn’t an option. “If a capital infusion is not appealing,” the memo continued, “you should be aware that your regulator will require it in any circumstance.” Paulson gave the bankers until 6:30 p.m. to clear everything with their boards and sign the papers.

Treasury had prepared a form with blank spaces for the name of the bank and the amount of tarp money requested. Each C.E.O. filled in the two blanks by hand—\$10 billion, \$15 billion, \$25 billion, whatever—and then signed and dated the document. That was all it took.

“There Is No Problem Here”

But this was just the beginning. It’s one thing to call nine big banks into a room and give them what turned out to be a total of \$125 billion. That required little more than a few hours. It’s quite a different matter to look out over the landscape of 8,000 other U.S. banks and decide which ones should get slices of the tarp pie. Moreover, the guiding principle was never clear. Was it to give money to essentially sound banks, so that they could help inject more money into the credit markets? Was it to pull troubled banks into the clear? Was it both—and more?

Regardless, the mechanism to disburse all this money even more widely was an entity called the Office of Financial Stability. Unfortunately, it wasn’t a functioning office yet—it was just a name written into a piece of legislation. To lead it, Paulson picked Neel Kashkari, a 35-year-old former Goldman Sachs banker who had followed Paulson to Treasury when he became secretary, in July 2006. Kashkari was an odd choice to oversee a federal bailout of

private companies. A free-market Republican, he had downplayed the gravity of the subprime-mortgage crisis only months before his appointment, reportedly sending the message to one gathering of bankers, “There is no problem here.”

Kashkari and other Paulson aides cobbled together the Office of Financial Stability under immense time pressure. They press-ganged people from elsewhere in Treasury and from far-flung government departments. By the end of the year, there were more “detailees” on loan from other offices (52) than there were permanent staff (38). They were spread out all over Treasury, from the ground floor to the third. Some occupied space in leased offices six blocks away. It was a strange agglomeration of people—stretching from Washington to San Francisco—who had never worked together before.

There were no internal controls to gauge success or failure. The goal was simply to dispense as much money as possible, as fast as possible. When Treasury began giving billions to the banks, the department had no policies in place to ensure that the banks were using the money in ways that met the purposes of the program, however defined. One main purpose, as noted, was to free up credit, but there was no incentive to lend and nothing to stop a bank from simply sitting on the money, bolstering its balance sheet and investing in Treasury bills. Indeed, Treasury’s plan was expressly not to ask the banks what they did with the money. As the Government Accountability Office later learned, “the standard agreement between Treasury and the participating institutions does not require that these institutions track or report how they plan to use, or do use, their capital investments.” When the G.A.O. asked Treasury if it intended to ask all tarp recipients to provide such an accounting, Treasury said it did not—and would not. “There’s not a bank in this country that would lend money under [these] terms,” Elizabeth Warren, the chair of a Congressional Oversight Panel that was eventually charged by Congress with overseeing tarp activities, would tell a Senate committee.

There wasn’t even anyone within the tarp office to keep track of the money as it was being disbursed. tarp gave that job—along with a \$20 million fee—to a private contractor, Bank of New York Mellon, which also happened to be one of the Big 9. So here was a case of a beneficiary helping to oversee a process in which it was a direct participant. Most of the tarp contracts—for everything from legal services to accounting—were awarded under an expedited procedure that government watchdogs regard as “high-risk,” because it lacks a wide array of routine safeguards. In its first three months of operation, the Office of Financial Stability awarded 15 contracts worth tens of millions of dollars to law firms, fiscal agents, management consultants, and providers of various other services. There was enormous potential for conflicts of interest, and no procedure to deal with them. When the possibility of conflict of interest was raised, two of the contractors voiced vague promises to maintain an “open dialog” and “work in good faith” with Treasury, and left it at that.

When Henry Paulson unveiled the bank-rescue plan, he emphasized that it wasn’t a bailout. “This is an investment, not an expenditure, and there is no reason to expect this program will cost taxpayers anything,” he declared. For every \$100 Treasury invested in the banks, he maintained, it would receive stock and warrants valued at \$100. This claim proved optimistic. The Congressional Oversight Panel that later reviewed the 10 largest tarp transactions concluded that Treasury “paid substantially more for the assets it purchased under the tarp than their then-current market value.” For each \$100 spent, Treasury received assets worth about \$66.

## Ask and You Shall Receive

In those first few weeks, money gushed out of Treasury and into the tarp pipeline at a torrential rate. After giving \$125 billion to the big banks, Treasury moved on to the second round, wiring \$33.6 billion to 21 other banks on November 14 in exchange for preferred stock. A week later it sent \$2.9 billion to 23 more banks. As noted, by the time Barack Obama took office, the tarp tab totaled more than a quarter of a trillion dollars. In its first six months, the new administration disbursed an additional \$125 billion to banks, mortgage companies, A.I.G., and the big auto manufacturers.

To the public, the bailout looked like a gold rush by banks competing for tarp money. It was indeed partly that, but the reality is more complex. While some banks lobbied aggressively for tarp money, many others that had no interest in the money were pressured to take it. Treasury's explanation is that regulators knew which banks were strongest and wanted to get more capital into their hands in order to free up credit. But it's also true that spreading the money around to a large number of small and medium-size banks helped create the impression that the bailout wasn't just for a few big boys on Wall Street.

It's impossible to overstate how casual the process was, or how little Treasury asked of the banks it targeted. Like most bankers, Ray Davis, the C.E.O. of Umpqua Bank, a solid, respectable local bank in Portland, Oregon, followed with great interest all the news out of Washington last fall. But he didn't see that tarp had much relevance to his own bank. Umpqua was well run. It wasn't bogged down by a portfolio of bad loans. It had healthy reserves.

Then he got a call from a Treasury Department representative asking if Umpqua would like to participate in the Treasury program and suggesting it would be a good thing for Umpqua to do. Davis listened politely, but the fact was, he says, that Umpqua "didn't need the funds. Our capital resources were very high."

The next day, Davis was in his office when another call came through from the same Treasury representative. "Basically what he said was that the secretary of the Treasury would like to have your application on his desk by five o'clock tomorrow afternoon," Davis recalls.

The "application" was the paperwork for a capital infusion, and Davis was told it would be faxed over right away. By now he was sold on participating. "Here was somebody from the secretary of the Treasury calling," Davis says, "and complimenting us on the strength of our company and saying you need to do this, to help the government, to be a good American citizen—all that stuff—and I'm saying, 'That's good. You've got me. I'm in.'"

The most urgent task was to complete the application and get it back to Treasury the next day, and this had Davis in a sweat: "I pictured this 200-page fax that would take me three weeks of work crammed into one evening." Imagine Davis's surprise when a staff member walked in soon afterward with the official "Application for tarp Capital Purchase Program." It consisted of two pages, most of it white space.

If tarp accomplishes nothing else, it has struck a mighty blow for simplicity in government. The application was only 24 lines long, and asked such tough questions as the name and address of the bank, the name of the primary contact, the amount of its common and preferred stock, and how much money the bank wanted. Anyone who has filled out the

voluminous federal forms required in order to be eligible for a college loan would die for such an application. Davis recalls that, when the two faxed pages were brought to him, all he could say was “Really?” As soon as Umpqua’s application was approved, Treasury wired \$214 million to Umpqua’s account.

What happened in Portland happened elsewhere across the country. Peter Skillern, who heads the Community Reinvestment Association, a nonprofit group in North Carolina, describes a conference he attended where bankers explained that they had been “contacted by their regulators and told by them that they would be taking tarp.”

One policy that tarp did decide to adopt was to keep confidential the name of any bank that was denied tarp funds—but it never had to invoke this rule. In those early months, with billions being wired all across the country, no financial institution that asked for tarp money was turned away.

### Small Bank, Sharp Teeth

With few restrictions or controls in place, bailout money found its way not only to banks that didn’t really need it but also to banks whose business practices left much to be desired. On November 21, \$180 million in tarp money wound up in the affluent seaside community of Santa Barbara, California. The tarp dollars flowed mostly into the coffers of a beige, Spanish-style building on Carrillo Street, home to the Santa Barbara Bank & Trust.

This might appear to be just the kind of regional bank that Treasury had in mind as an ideal beneficiary of tarp. The bank has been a fixture in Santa Barbara for decades, serving small businesses as well as wealthy individuals. It sponsors Little League teams, funds scholarships to send local kids to college, and takes an active role in community groups. It plays up its “longstanding commitment to giving back to the communities we serve.”

How much tarp money made its way through S.B.B.&T. and into the local community is not known. But, as it happens, the bank also operates a little-known and controversial program far from the lush enclaves of Santa Barbara. Like an absentee landlord, the community bank with the “give back” philosophy in Santa Barbara turns out to be a big player in poor neighborhoods throughout the country. And not in a nice way. Outside Santa Barbara, S.B.B.&T. peddles what are known as refund-anticipation loans (rals)—high-interest loans to the poor that are among the most predatory around.

A ral is a short-term loan to taxpayers who have filed for a tax refund. Rather than waiting one or two weeks for their refund from the I.R.S., they take out a bank loan for an amount equal to their refund, minus interest, fees, and other charges. Banks operate in concert with tax preparers who complete the paperwork, and then the banks write the taxpayer a check. The loan is secured by the taxpayer’s expected refund. rals are theoretically available to everyone, but they are used overwhelmingly by the working poor. Ordinarily, the loans have a term of only a few weeks—the time it takes the I.R.S. to process the return and send out a check—but the interest charges and fees are so steep that borrowers can lose as much as 20 percent of the value of their tax refund. A recent study estimated that annual rates on some rals run as high as 700 percent.

Santa Barbara is one of three banks that dominate this obscure corner of the banking market—the other two being J. P. Morgan Chase and HSBC. But unlike the two big banks, for which rals are but one facet of a broad-based business, Santa Barbara has come to rely

heavily for its financial well-being on these high-interest loans to poor people. Interest earned from rals accounted for 24 percent of the banking company's interest earnings in 2008, second only to income generated by commercial-real-estate loans. Under pressure from consumer groups, some banks, including J. P. Morgan Chase, have lowered their ral fees. Not Santa Barbara. Chi Chi Wu, of the National Consumer Law Center, in Boston, calls Santa Barbara Bank & Trust "a small bank with sharp teeth."

The U.S. Department of Justice and state authorities in California, New Jersey, and New York have taken action against tax preparers with whom S.B.B.&T. works, charging them with deceptive advertising and with preparing fraudulent returns. Santa Barbara later took a \$22 million hit on its books because of unpaid refund-anticipation loans.

The bank insists that its tarp money didn't go to finance ral. "The capital received by Santa Barbara Bank & Trust under the U.S. Treasury Department's Capital Purchase Program was not intended nor is it being used to fund or provide liquidity for any Refund Anticipation Loans," according to Deborah L. Whiteley, an executive vice president of Pacific Capital Bancorp, Santa Barbara's parent company. Other banks that have received tarp money have made similar statements, contending that money received from Washington simply became part of their capital base and was not earmarked for any specific purpose. But in a conference call with analysts on November 21, Stephen Masterson, the chief financial officer of Pacific Capital Bancorp, admitted that tarp "obviously helps us .... We didn't take the tarp money to increase our ral program or to build our ral program, but it certainly helps our capital ratios."

Indeed, the infusion from Treasury may well have been a lifeline for Santa Barbara. The Community Reinvestment Association of North Carolina, which has been tracking S.B.B.&T.'s finances and its ral program for years, concluded in 2008 that S.B.B.&T. would be losing money if it weren't putting the squeeze on poor people around the country.

### Gouging Needy Students

KeyBank of Cleveland is another institution that was given the nod by Treasury officials—and another bank whose lending practices prompt the question: What were they thinking?

Last fall KeyBank received \$2.5 billion in tarp money. Its parent company is KeyCorp, a major bank holding company headquartered in Cleveland. With 989 full-service branches spread across 14 states, KeyCorp describes itself as "one of the nation's largest bank-based financial services companies," with assets of \$98 billion. It also ranks as the nation's seventh-largest education lender. In the summer of 2008, as banks and Wall Street firms were unraveling faster than they could count up their losses, KeyCorp delivered a decidedly upbeat report on its condition to investors. "Our costs are well controlled," the company stated. "Our fee revenue is strong....Our reserves are strong....We remain well capitalized."

What the report did not mention was a host of other problems. KeyCorp was in the midst of negotiations with the I.R.S. over questionable tax-leasing deals, and had had to deposit \$2 billion in escrow with the government—forcing it to raise emergency capital and slash dividends after 43 consecutive years of annual growth. Meanwhile, consumer advocates had KeyBank in their sights because of the way it conducted its student-loan business, which they described as nakedly predatory. The Salt Lake Tribune reported that "KeyBank not only funds unscrupulous schools, it seeks them out, strikes up lucrative partnerships, and, in the

process, suckers students into thinking the schools are legitimate.”

Over the years, thousands of students have secured education loans from KeyBank to attend a broad range of career-training schools—schools offering instruction in how to use or repair computers, how to become an electronics technician or even a nurse. One of the schools was Silver State Helicopters, which was based in Las Vegas and operated flight schools in a half-dozen states. During high-pressure sales pitches, people looking to change careers were encouraged to simultaneously sign up for flight school and complete a loan application that would be forwarded to KeyBank. Once approved, KeyBank, in keeping with long-standing practice, would give all the tuition money up front directly to Silver State. If a student dropped out, Silver State kept the tuition and the student remained on the hook for the full amount of the loan, at a hefty interest rate.

The same rule applied if Silver State shut itself down, which it did without warning on February 3, 2008. “Because the monthly operating expenses, even at the recently streamlined levels, continue to exceed cash flow,” an e-mail to employees explained, “the board has elected to suspend all operations effective at 5 p.m. today.” More than 750 employees in 18 states were out of work. More than 2,500 students had their training (for which they had paid as much as \$70,000) cut short.

Silver State Helicopters was a flight school, but it might more accurately be thought of as a Ponzi scheme, according to critics. As long as there was a continual source of loan money, keeping the scheme afloat, all was well. KeyBank bundled the loans into securities, just as the subprime-mortgage marketers had done, and sold them on Wall Street. But when Wall Street failed to buy at an adequate interest rate, the money supply evaporated. As KeyBank dryly put it, “In 2007, Key was unable to securitize its student loan portfolio at cost-effective rates.” Without the loans—in other words, without the cooperation of Wall Street—the school had no income.

In February 2009, Fitch Ratings service, which rates the ability of debt issuers to meet their commitments, placed 16 classes of KeyCorp student-loan transactions totaling \$1.75 billion on “Ratings Watch Negative,” signaling the possibility of a future downgrade in their creditworthiness.

### Predator to the Rescue

The credit-card behemoth Capital One, an institution that many Americans probably don’t even realize is a bank, maintains its headquarters in McLean, in northern Virginia. Over the years, Capital One’s phenomenally successful marketing strategy has made the company the fifth-largest credit-card issuer in the U.S., and it has used its profits to expand into retail banking, home-equity loans, and other kinds of lending.

Capital One never revealed what it planned to do with the \$3.5 billion tarp check it received from the U.S. Treasury on November 14, 2008, but three weeks later, the company bought one of Washington’s premier financial institutions, Chevy Chase Bank. To Washingtonians, Chevy Chase was a model corporate citizen. But outside Washington, it had a different reputation. The company’s mortgage subsidiary had engaged in practices that were at the core of the nation’s mortgage meltdown—risky loans with teaser interest rates that later went bad. The bank’s portfolio of mortgages from around the country was stuffed with a high percentage of so-called option arm—adjustable-rate mortgages with many different payment options. One of the most common kept a homeowner’s monthly payment the same

for years, but the interest rate rose almost immediately. When the interest exceeded the amount of the monthly payment, the excess was tacked onto the principal, pushing homeowners ever deeper into debt. Having been lured by what a federal judge would call the “siren call” of this kind of mortgage, many Chevy Chase mortgage holders were on the brink of foreclosure, or had already fallen over the edge. By mid-2008, Chevy Chase’s “nonperforming” assets had tripled to \$490 million since the previous September.

With Chevy Chase rapidly deteriorating, along came Capital One. Flush with tarp money, Capital One became a bailout czar of its own. It bought Chevy Chase for \$520 million and assumed \$1.75 billion of its bad loans. The purchase price was a fraction of what Chevy Chase would have brought before it wandered off into the wilderness of exotic mortgages and risky lending.

Meanwhile, even as it was bailing out Chevy Chase, Capital One was putting the squeeze on many thousands of its own credit-card holders, sharply raising their interest rates and imposing other conditions that made credit far more expensive and difficult to obtain. For many cardholders, rates jumped overnight from 7.9 percent to as much as 22.9 percent. Rather than using its multi-billion-dollar government infusion to prime the credit pump, Capital One in fact began turning off the spigot.

Capital One’s actions enraged its customers, many of whom had been cardholders for decades. The bank was engulfed with complaints. “The last I checked you were given money from the government for the specific purpose of freeing up credit to stimulate spending and help move the economy out of recession,” wrote a woman in Holland, Michigan. This was “just the opposite of what you did.” But other credit-card companies that received federal bailout money, such as Bank of America, J. P. Morgan Chase, and Citibank, would take the same route as Capital One, sharply raising interest rates, cutting off credit to millions of people, and frustrating the stated rationale for Treasury’s bailout.

#### After the Earthquake

Because all dollar bills are alike, and because follow-up tracking by the government has been so minimal, it’s often impossible to determine if any bank or other financial institution used tarp money for any particular, discernible purpose. Only A.I.G., Bank of America, and Citigroup were subject to any reporting requirements at all, and the reporting has been spotty. But what is possible to say is that tarp allowed many recipients to spend money in ways they would have been unable to do otherwise. It’s also the case that recipients of tarp money continued to behave as if a financial earthquake hadn’t just shaken the world economy.

The Riviera Country Club is about a mile from the Pacific Ocean, in a scenic canyon north of Los Angeles. Riviera is home to one of the most storied tournaments on the P.G.A. Tour. This year the tournament was sponsored by a tarp recipient, the Northern Trust Company of Chicago. Northern was founded more than a century ago to cater to wealthy Chicagoans, and not much about its clientele has changed since then, except that now the company caters to the wealthy not just in Chicago but everywhere. According to the bank, its wealth-management group caters to those “with assets typically exceeding \$200 million.” The company manages \$559 billion in assets—a sum nearly as great as what has so far been spent on the tarp program itself.

When Northern Trust received \$1.6 billion in tarp funds, a spokesman for the bank said that

it was “too soon to say specifically” how the money would be used. But the company’s president and C.E.O., Frederick Waddell, noted that “the program will provide us with additional capital to maximize growth opportunities.” Three months later, the bank sponsored the Northern Trust Open, flying in wealthy clients from around the country. To entertain them, the bank brought in Sheryl Crow, Chicago, and Earth, Wind & Fire. A Northern Trust spokesman declined to say how much all this cost, but explained that it was really just a business decision “to show appreciation for clients.”

Northern Trust was acting no differently from many other tarp recipients. One of the most blatant examples was Citigroup’s plan to buy a \$50 million private jet to fly executives around the country. A public outcry forced Citigroup to abandon that scheme, but the bank quietly went ahead with a \$10 million renovation of its executive offices on Park Avenue, in New York. Given that Citigroup had already gone to the government three times for tarp assistance totaling \$45 billion, and was not a paragon of public trust, retrofitting the windows with “Safety Shield 800” blastproof window film may have just been common sense.

The excesses weren’t confined to big-city banks. A subsidiary of North Carolina-based B.B.&T., after accepting \$3.1 billion in tarp money, sent dozens of employees to a training session at the Ritz-Carlton hotel in Sarasota, Florida. TCF Financial Corp., based in Wayzata, Minnesota, sent 40 “high-performing” managers, lenders, and other employees on a junket in February to Cancún, soon after receiving more than \$360 million in tarp funds.

But let’s face it: episodes like these, infuriating as they may be, aren’t the real issue. The real issue is tarp itself, one of the most questionable ventures the U.S. government has ever pursued. Adopted as a plan to buy up toxic assets—one that was quickly deemed impractical even by those who first proposed it—it evolved into something more closely resembling an all-purpose slush fund flowing out to hundreds of institutions with their own interests and goals, and no incentive to deploy the money toward any clearly defined public purpose.

By and large, the cash that went to the Big 9 simply became part of their capital base, and most of the big banks declined to indicate where the money actually went. Because of the sheer size of these institutions, it’s simply impossible to trace. Bank of America no doubt used a portion of its \$25 billion in tarp funds to help it absorb Merrill Lynch. Citigroup revealed in its first quarterly report after receiving \$45 billion in tarp funds that it had used \$36.5 billion to buy up mortgages and to make new loans, including home loans.

A.I.G., the largest single tarp beneficiary, wasn’t even a bank. The insurance company used its \$70 billion in tarp funds to pay off a previous government infusion from the Federal Reserve. The original bailout money had flowed through A.I.G. to Wall Street firms and foreign banks that had incurred big losses on credit-default swaps and other exotic obligations. These were basically the casino-style wagers made by A.I.G. and the counterparties—wagers they lost. The government justified the help by saying it was necessary to prevent disruption to the economy that would be caused by a “disorderly wind-down” of A.I.G. The collapse of Lehman Brothers had occurred just days before the Fed took action, and the shock waves on Wall Street from yet another implosion might have been catastrophic. Bankruptcy court, where troubled corporations routinely wind down their disorderly affairs, would have been another option, though that prospect might not have quickly enough addressed the gathering sense of urgency and doom. We’ll never know. Certainly bankruptcy court would not have allowed A.I.G.’s clients to get full value for their

bad investments.

Instead, A.I.G. was able to pay off its counterparties 100 cents on the dollar. The largest payout—\$12.9 billion—went to Goldman Sachs, the Wall Street investment house presided over by Paulson before he moved into his Treasury job. Merrill Lynch, the world's largest brokerage—then in the process of being taken over by Bank of America—received \$6.8 billion. Bank of America itself received \$5.2 billion. Citigroup, the nation's largest bank, received \$2.3 billion. But it wasn't just Wall Street that benefitted. A.I.G. also funneled tens of billions of tarp dollars to banks on the other side of the Atlantic.

Some banks receiving tarp funds bristle at the notion that the taxpayer-funded program is a bailout. They say it is an investment in banks by the federal government, one that requires them to pay interest and ultimately pay back the money or face a financial penalty. In fact, many banks are making their scheduled payments to Treasury, and others have paid off billions of dollars in tarp funds (as well as interest). To tarp supporters, this is evidence of a sound investment. But at this stage it isn't clear that every institution will be able to make the interest payments and buy back the government's holdings. As of this writing, some banks, including Pacific Capital Bancorp, the parent of Santa Barbara Bank & Trust, have not been able to make their scheduled payments. No one can predict how many banks will ultimately come up short. But in the meantime tarp has been a very good deal for banks, because it gave them, courtesy of the taxpayers, access to capital that would have cost them substantially more in the private market, while exacting nothing from the beneficiaries in the form of a quid pro quo.

Based on the reluctance of many banks to take the money in the first place, and the swiftness with which other banks have repaid tarp funds, the main conclusion to be drawn is that relatively few were actually endangered. Rather than targeting the weak for relief—or allowing them to fail, as the government allowed millions of ordinary Americans to fail—Paulson and Treasury pumped hundreds of billions of dollars into the financial system without prior design and without prospective accountability. What was this all about? A case of panic by Treasury and the Federal Reserve? A financial over-reaction of cosmic proportions? A smoke screen to take care of a small number of Wall Street institutions that received 100 cents on the dollar for some of the worst investments they ever made?

More than five months after the bulk of the bailout money had been distributed into bank coffers, Elizabeth Warren plaintively raised the central and as yet unanswered question: "What is the strategy that Treasury is pursuing?" And she basically threw up her hands. As far as she could see, Warren went on, Treasury's strategy was essentially "Take the money and do what you want with it."

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