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U.S. Clears Path to Bank Takeovers

Obama's Revised Plan for Industry Aid Could Result in Nationalization

By [Binyamin Appelbaum and David Cho](#)
Washington Post Staff Writers
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The Obama administration yesterday revamped the terms of its emergency aid to troubled financial firms, setting a course that could culminate with the government nationalizing some of the country's largest banks by taking a controlling ownership stake.

Administration officials said the change, which allows banks to repay the government with common stock rather than cash, is intended to give banks more capital to withstand a continued deterioration of the economy, and not to nationalize the banking system.

But in seeking to bolster investor confidence in troubled companies such as [Citigroup](#), the government said it is willing to acquire large chunks of their shares. .

The move is a significant gamble. The magnitude of the effort could underscore the severity of the crisis, further alarming investors. The government could also forego billions of dollars in dividend payments.

Some investors welcomed the announcement. Even as the [Dow Jones industrial average](#) fell 251 points to its lowest close since 1997, shares of Citigroup climbed 10 percent. Shares of another troubled firm, [Bank of America](#), rose about 3 percent.

The change paves a road toward nationalization for the most troubled large banks. The government this week will begin a series of "stress tests" on 20 of the largest banks with \$100 billion in assets to determine how much more capital these firms need to withstand an extreme recession.

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Companies deemed to need more money will be required to raise it from private sources, or else accept additional government investments. If those investments are converted into common shares, even a relatively modest infusion of taxpayer money could give the government majority control of many banks because their stock prices have plummeted in recent months. The total value of Citigroup's outstanding shares, for instance, is less than \$12 billion.

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Administration officials said the goal of the revised program is to give banks a short-term boost that avoids the need for a more dramatic federal intervention.

What Treasury Secretary Timothy F. Geithner and his team want to avoid is an explicit takeover that would put the government in charge of running banks. But some senior officials have said that, as a last resort, they would consider taking temporary control of large banks. The government also could take a majority ownership stake in a company without attempting to

manage its daily operations.

A wide range of prominent economists and public figures have called for the government to take this step. But a backlash is building against government ownership.

Sen. Charles E. Grassley (Iowa), ranking Republican on the Senate Finance Committee, sent Geithner a letter yesterday demanding details of the administration's plans. "Common stock is riskier than preferred stock. The American taxpayers are already shouldering a lot of risk these days," Grassley said in a statement. "This move could expose taxpayers to even more risk."

Even within the government, some senior officials say they are worried that Geithner's approach has left investors unsettled because of ambiguity over the administration's intentions.

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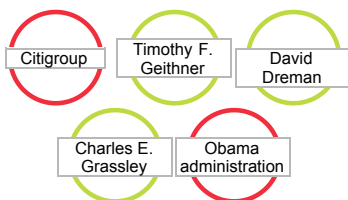
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